

# Yinson Holdings (YNS MK)

# Invests in a 20% stake in Sterling PBES (SPBES)

## Maintain BUY and MYR10.90 TP

Yinson's latest strategic green investment in SPBES: (i) is a synergistic fit to its existing marine operations and (ii) accelerates its transition to a net zero carbon entity. Electrifying marine vessels is a clear alignment with its sustainability and climate goals. SPBES is debt-free, EBITDAgenerating and its product/ technology is market-proven. Our TP is SOP-based.

## Latest green energy investment - ESS technology

Yinson has invested in Sterling PBES Energy Solutions Ltd (SPBES), a Canada-based energy storage solutions (ESS) provider (design, build, commission and service ESS systems-based solutions), which is focused on the marine sector that has operations in 10 countries and installation partners in 26 countries. SPBES brings ready to market zero emission turnkey solutions (electrifying vessels via fixed battery and battery swaps solutions) for the shipping/ marine transportation that can reduce emissions by 20%-100% (hybrid/ electric vessels). Apart from Yinson (20%), the major shareholders of SPBES are: (i) Shapoorji Pallonji Intl (29%)/ Sterling & Wilson (21%) and (ii) the founders (TTB Holdings); Brent Perry; CEO and Paul Hughes; President (30%).

## Marine ESS = A big market, a growth epicentre

The global marine ESS market is a growing market worth about USD150b. Competition-wise, SPBES is ranked 3<sup>rd</sup> in this category (by projects deployed, in estimated >21MWh) after Corvus Energy (Norway; >300MWh) and Leclanche (Switzerland; >57MWh). CEO Brent was the founder of Corvus. SPBES has 829MWh in pipeline capacity for 365 projects spanning over 400 vessels with combined contract value of USD576m.

## Has enormous growth potential, if rightly executed

SPBES has a capital light business model, with revenue break-even point at USD20m. It is EBITDA positive (USD2m in FY21; YE Mar), a positive and is projected to grow to USD33m/ USD125m/ USD245m/ USD354m in FY22/ 23/ 24/ 25 respectively. We estimate that Yinson is acquiring its 20% stake at SPBES at 3x FY22 EV/EBITDA. Its order backlog is at USD31m.

FYE Jan (MYR m)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue	2,519	4,849	3,066	2,242	2,425
EBITDA	789	1,393	1,470	1,460	1,763
Core net profit	229	474	578	524	537
Core EPS (sen)	21.1	44.2	53.9	49.0	50.2
Core EPS growth (%)	(13.9)	109.3	22.0	(9.2)	2.5
Net DPS (sen)	6.0	6.0	6.0	6.0	6.0
Core P/E (x)	29.4	11.8	11.5	12.6	12.3
P/BV (x)	4.1	3.0	2.8	2.4	2.0
Net dividend yield (%)	1.0	1.2	1.0	1.0	1.0
ROAE (%)	12.4	18.1	27.6	20.3	17.6
ROAA (%)	2.6	4.4	4.6	3.9	3.9
EV/EBITDA (x)	12.1	7.3	7.6	7.7	6.3
Net gearing (%) (incl perps)	67.7	106.5	89.2	79.2	64.0
Consensus net profit	-	-	452	429	572
MKE vs. Consensus (%)	-	-	27.8	22.2	(6.0)

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# **BUY**

Share Price MYR 6.18

12m Price Target MYR 10.90 (+76%)

Previous Price Target MYR 10.90

#### **Company Description**

Yinson is the 6th largest independent FPSO leasing entity worldwide in terms of fleet size. OSV is its complementary business.

#### **Statistics**

52w high/low (MYR)	6.18/4.45
3m avg turnover (USDm)	1.8
Free float (%)	50.9
Issued shares (m)	1,100
Market capitalisation	MYR6.8B
·	USD1.6B

#### Major shareholders:

-	
Yinson Legacy Sdn. Bhd.	17.8%
Employees Provident Fund	17.0%
Kumpulan Wang Persaraan	9.4%

#### Price Performance



	-1M	-3M	-12M
Absolute (%)	26	23	13
Relative to index (%)	30	23	11

- Yinson Holdings / Kuala Lumpur Composite Index - (RHS, %)

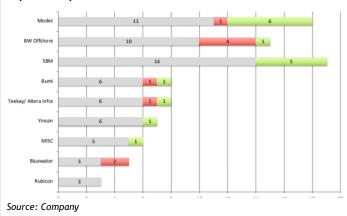
Source: FactSet



## Value Proposition

- Arguably one of the most profitable FPSO operators globally (in terms of ROE). The 6<sup>th</sup> largest independent FPSO leasing entity worldwide in terms of fleet size (with operating presence in Asia and Africa). OSV is its complementary business.
- Unlike its peers, Yinson's FPSO contracts are generally more bankable (strong counterparties), providing steady visibility (long-term charters, termination protection) with reasonable project IRRs.
- Has an experienced, lean management team with strong execution capabilities - proven track record in consistently delivering projects on budget, on time.

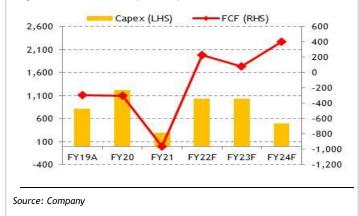
#### Top FPSO operators in the world



## **Financial Metrics**

- Key earnings drivers are Yinson's bare-boat & O&M charters, as well as utilisation and opex. Variations in any of these parameters will impact profitability.
- With low oil prices, cost management and capital discipline are key emphases in this cycle.
- Despite its heavy capex, net gearing has been manageable, reflective of prudent financial management and cashflow generation from its FPSO operations.

### Capex and FCF trend (MYR'm)



## **Price Drivers**



Source: Company, Maybank Kim Eng

- 1. Bags FPSO Helang's 8+10 year O&M contract.
- Secured FPSO Abigail-Joseph Head of Terms (HOT) contract.
- 3. The plan; to take control of Ezion.
- 4. Bags Petrobras' Marlim 2 USD5.4b contract.
- 5. OPEC+ alliance breaks-up in Mar-20; oil price war.

# Swing Factors

## Upside

- Rebound in crude oil price will be the most dominant near-term share price driver.
- New job wins (prospecting for 2-3 firm tenders) will contribute to a significant jump in earnings.
- M&A is not entirely ruled out as values are undemanding following the recent steep drop in asset prices.

## **Downside**

- Further weakness in oil price will affect share price performance.
- Poor execution capabilities and/or contract(s) termination related to its FPSO operations and inferior cost management would have a detrimental effect on earnings and market perception.

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Risk Rating & Score <sup>1</sup>	Medium & 29.7
Score Momentum <sup>2</sup>	+0.0
Last Updated	1 Jun 2021
Controversy Score <sup>3</sup> (Updated: 1 Jun 2021)	1

## **Business Model & Industry Issues**

- Advanced its 'E' initiatives in FY22 (having established a baseline data for natural capitals reporting in FY21), by setting: (i) climate goals. Aims to be: (a) carbon neutral by 2030 and (b) net zero by 2050 and (ii) set carbon emission reduction targets: (a) remove regular flaring on 2/3 of operating FPSOs by 2030, (b) reduce CO<sup>2e</sup>/ boe-intensity by 30% to 11.4 by 2030 and (c) reduce CO<sup>2e</sup>/ MWh-intensity by 50% to 136.8 by 2030. Vastly improved its disclosures in FY21 (vs. FY20).
- Developed the Zero-Emissions FPSO concept, for clean and responsible production of hydrocarbons.
- Started to embark on its energy transition program, ahead of its peers in the world: (i) Targets to build a 3/ 10GW capacity of RE portfolio by 2023/29 respectively. Established strong development projects pipeline with collaborations with Verano for RE opportunities in Latin America (800MW greenfield pipeline).
- Invests in green technology and accelerates its low carbon, e-mobility adoption agenda by investing in these start-ups: (i) Oyika (e-bike & swappable batteries), (ii) Moovita (autonomous systems for EVs), (iii) Lift Ocean AS (advanced hydrofoil system for electric vessels) and (iv) Sterling PBES Energy Solutions Ltd (energy storage solutions).
- We are positive on Yinson, given its improving record across ESG parameters and compliance with international standards.

## Material E issues

- Its climate goals are based on 3-pronged framework:
  - (i) <u>carbon reduction:</u> GHG emissions from Scope 1, 2 & 3, limit FPSOs carbon intensity & replace usage of grid electricity with RE,
  - (ii) <u>carbon compensation:</u> invest in zero/ low-carbon technologies & increase RE generation and
  - (iii) <u>Carbon removal:</u> invests into solutions, such as afforestation & reforestation, utilise tech-based removal solutions (direct air capture (CAC) & CCUS.
- Its carbon emissions in FY21 for Scope: (i) 1: 623,929t (+117% YoY), (ii) 2: 273t (+34% YoY) & (iii) 3: 1,137t. Carbon intensity: 16.3 kg/boe. Zero oil spill.
- Vented 183mmscfd of gas (from cargo tanks) and flared 1,829 mmscf of gas (under equity approach) in FY21.
- Energy consumption in FY21: (i) FPSO: 2,426,253 MWh, (ii)
   OSV: 176,366 MWh and (iii) Office 517,710 kWh.
- Air emissions (non-GHG), on non-methane volatile organic compounds (tonnes) in FY21: (i) FPSO: 91.7, (ii) OSV: 29.6.
- Waste produced (t) in FY21: (i) FPSO: 532, (ii) OSV: 231.
- Maintained a strong HSE performance in FY21: (i) zero LTI,
   (ii) zero fatality, (iii) 1 medical treatment case (FY20: 3),
   (iv) 2 restricted work cases (2) & (v) 2 first aid cases (3).

## Material S issues

- Has a diversified workforce, spanning 8 countries with over 20 nationalities. 32% of its workforce is below 35 years old in FY21, with female employees making up 22% of the Group's workforce.
- An advocate in hiring of local workforce at places it operates at.
- Continued to maintain a good and safety records aboard, with: (i) zero Loss-Time injury (LTI) across divisions (i) and 0.44 Total Recordable Injury (TRI) Frequency in FY21, on the back of 6.8m total man-hours worked.

## Key G metrics and issues

- Yinson's board comprised 10 directors 5 Independent Directors (IDs), 2 Non-Executive Independent Directors (NEIDs) and 3 Executive Directors (EDs).
- A very experienced and gender-diversified board 80% are above 50 years old and 40% are female.
- The Lim family founder/ major shareholder of Yinson (26.4%) has 4 board seats and holds the Chairman, CEO and 2 Directors positions.
- The CEO's total remuneration package for FY21 accounted for 0.8% of the Group's pretax profit.
- Yinson has been audited by PWC, the world's 2<sup>nd</sup> largest network of professional firms since 2018.
- Its Audit Committee is made up of 1 senior INED (chairman) and 3 INEDs.
- Its Board Risk Management Committee is made up of 4 INEDs and 1 ED.
- It has nominal (<0.1% of revenue) but recurring related party transactions (RPTs), which mainly comprised of advances, management fees and dividend income.
- Continuously structures its report based on International Integrated Reporting Council's <IR> Framework since FY20. Aligns its indicators with GRI standards.
- Yinson walked away from the Ezion in 2020 and forfeited its USD20m deposit.
- While some may see the venture into RE as a change of business direction, both its FPSO and RE models share many similar traits and competencies - i.e. long-term contracts, recurring cashflows, project, management & delivery, financing and project reliability.
- Its corporate governance performance has been acknowledged through several recognitions: (i) 2019 ASEAN Corporate Governance Scorecard Award, (ii) placement among the Top 30% of Sustainalytic's ESG RISK Ratings Energy Services Group (iii) maintenance on the FTSE4Good Index Series.

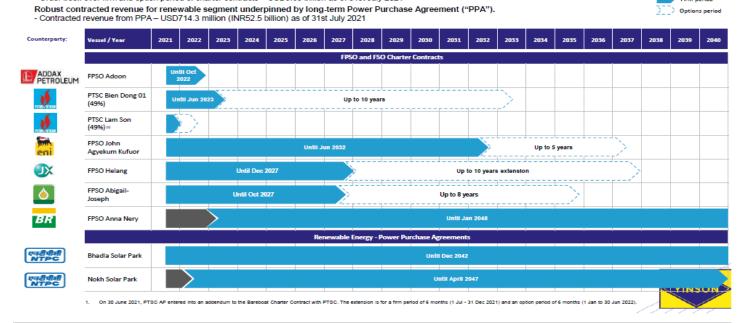
<u>¹Risk Rating & Score</u> - derived by Sustainalytics and assesses the company's exposure to unmanaged ESG risks. Scores range between 0 - 50 in order of increasing severity with low/high scores & ratings representing negligible/significant risk to the company's enterprise value, respectively, from ESG-driven financial impacts. <u>²Score Momentum</u> - indicates changes to the company's score since the last update - a <u>negative</u> integer indicates a company's improving risk score; a <u>positive</u> integer indicates a deterioration. <u>³Controversy Score</u> - reported periodically by Sustainalytics in the event of material ESG-related incident(s), with the impact severity scores of these events ranging from Category 0-5 (0 - no reports; 1 - negligible risks; ...; 5 - poses serious risks & indicative of potential structural deficiencies at the company).

Fig 1: Yinson's order backlog

# Long-Term Charter Contracts and Power Purchase Agreements

Strong existing order book underpinned by long-term contracts across FPSO and FSO units. - Order book over firm and option period of charter contracts – USD9.65 billion as of 31st July 2021





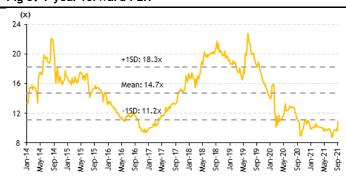
Source: Company

Fig 2: Valuations

Floating assets	Stake	Firm	Firm + Extension	Maybank-IB	Details
	(%)	(MYR'm)	(MYR'm)	(MYR'm)	
FSO Bien Dong	49	40.0	161.7	40.0	NPV (firm), 12% project IRR, 5.3% WACC; debt-free
FPSO Lam Son	49	33.0	78.1	33.0	NPV (firm; on yearly renewal), 5.3% WACC; debt-free
FPSO Adoon	100	239.8	239.8	239.8	NPV (firm + extension; on yearly renewal), 5.3% WACC; debt-free
FPSO JAK	74	1,890.0	2,628.5	2,628.5	NPV (firm + extension), 6.7% WACC
FPSO Helang	100	312.7	1,421.9	1,421.9	NPV (firm + extension), 7.4% WACC
FPSO Abigail Joseph	100	663.2	1,229.7	663.2	NPV (firm; redeployment of FPSO Allan); 10.5% WACC
FPSO Marlim 2	75	2,634.0	2,634.0	2,634.0	NPV (firm), 9.5% WACC
FPSO Enauta	100	1,600.0	1,600.0	1,600.0	NPV (firm), 10% WACC; USD500m capex
FPSO (large-scale)	100	3,500.0	3,500.0	3,500.0	NPV (firm), 10% WACC; USD1b capex
Sub-total		10,912.8	13,493.7	12,760.5	
Bhadla Solar Park	95	122.3	122.3	122.3	140MW (25 year PPA: 2017-42); INR4.35/ kWh
Nokh Solar Park	80	85.0	85.0	85.0	190MW (25 year PPA: Apr 2022-47); INR2.25/ kWh
Residual value		813.3	813.3	813.3	7 assets @ 10% of capex
OSV		20.0	20.0	20.0	50% of BV
Corp exercise		-1,000.0	-1,000.0	-1,000.0	Estimated MYR1b planned rights issue & dilution impact
Cash/ (debt)		-1,133.6	-1,133.6	-1,133.6	Holding co. cash; adjusted for associate & perps
Total	=	9,819.9	12,400.8	11,667.5	
Share base (m)		1,071.0	1,071.0	1,071.0	1,017.4m shares
SOP/ shr Source: Maybank Kim Eng		9.17	11.58	10.89	Based on MYR 4.00: USD1.00

Source: Maybank Kim Eng

Fig 3: 1-year forward PER



Source: Company, Maybank KE

Fig 4: 1-year forward PBV



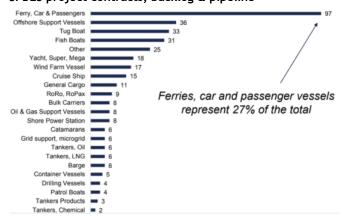
Source: Company, Maybank KE

Fig 5: 1-year forward EV/ EBITDA



Source: Company, Maybank KE

## SPBES project contracts, backlog & pipeline



Source: Company

## Peers comparison in the ESS market

Competitors	Country	Types of Energy Storage Systems and Certifications	Projects (Est MWh) Deployed	ESS Technology
Corvus Energy	Norway	Marine Energy Storage Systems (Obtained DNV GL, Lloyds Register, ABS & BV Product Type Approvals)	Estimated >300MWh	<ul> <li>Patented single cell thermal isolation for safety features with passive air cool technology</li> <li>Received award of excellence in Product innovation at Technology impact awards for its Orca ESS which is best in class for its safety, reliability and cost effectiveness</li> </ul>
Siemens	Germany	Marine Energy Storage Systems (DNV GL Type Approved)	Estimated >8MWh	<ul> <li>Individual battery cells are equipped with propagation protection to prevent large-scale thermal runaway</li> <li>Freshwater cooling system regulates the temperature in the batteries</li> <li>Individual battery cells are equipped with WIFI feature</li> </ul>
Leclanche	Switzerland	Energy Storage Systems for Marine & Land Transport and Stationary Energy Storage Systems (DNV GL Certifled)	Estimated >57MWh	<ul> <li>Electrodes in battery cells are made using proprietary water based production technology for its own graphite and/NMC and LTO (Lithium titanate oxide) batteries</li> </ul>
SPBES	Canada	Marine Energy Storage Systems (DNV GL Classification Approval), Microgrid, Containerised Systems	Estimated >21MWh	Cell Swap Technology     Patented systems for cooling, gas venting and BMS

Source: Company

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FYE 31 Jan	FY20A	FY21A	FY22E	FY23E	FY24E
Key Metrics					
P/E (reported) (x)	30.4	19.4	11.5	12.6	12.3
Core P/E (x)	29.4	11.8	11.5	12.6	12.3
P/BV (x)	4.1	3.0	2.8	2.4	2.0
P/NTA (x)	5.4	3.7	3.3	2.7	2.2
Net dividend yield (%)	1.0	1.2	1.0	1.0	1.0
FCF yield (%)	nm	nm	3.4	1.3	6.1
EV/EBITDA (x)	12.1	7.3	7.6	7.7	6.3
EV/EBIT (x)	17.8	9.4	9.9	10.2	8.6
INCOME STATEMENT (MYR m)					
Revenue	2,519.0	4,849.0	3,065.6	2,241.6	2,424.8
EBITDA	789.3	1,392.6	1,470.1	1,459.7	1,763.3
Depreciation	(251.1)	(306.0)	(338.8)	(359.6)	(467.3)
Amortisation	0.0	0.0	0.0	0.0	0.0
EBIT	538.2	1,086.6	1,131.3	1,100.2	1,296.1
Net interest income /(exp)	(198.0)	(319.0)	(322.9)	(336.1)	(345.2)
Associates & JV	10.0	(29.0)	18.1	16.3	3.9
Exceptionals	(19.2)	(158.6)	0.0	0.0	0.0
Other pretax income	0.0	0.0	0.0	0.0	0.0
Pretax profit	331.0	580.0	826.5	780.3	954.8
Income tax	(70.0)	(168.0)	(165.3)	(156.1)	(191.0)
Minorities	(51.0)	(97.0)	(83.5)	(99.8)	(226.5)
Discontinued operations	0.0	0.0	0.0	0.0	0.0
Reported net profit	210.0	315.0	577.6	524.4	537.3
Core net profit	229.2	473.6	577.6	524.4	537.3
BALANCE SHEET (MYR m)					
Cash & Short Term Investments	1,276.0	1,821.0	2,454.5	2,594.6	2,637.0
Accounts receivable	322.0	333.0	210.5	153.9	166.5
Inventory	22.0	3.0	1.9	1.4	1.5
Reinsurance assets	0.0	0.0	0.0	0.0	0.0
Property, Plant & Equip (net)	4,844.0	4,002.0	4,703.2	5,383.6	5,416.3
Intangible assets	395.0	338.0	338.0	338.0	338.0
Investment in Associates & JVs	481.0	429.0	447.1	463.4	467.3
Other assets	2,175.0	4,960.0	4,960.0	4,960.0	4,960.0
Total assets	9,515.0	11,886.0	13,115.2	13,894.9	13,986.6
ST interest bearing debt	476.0	794.0	794.0	794.0	794.0
Accounts payable	493.0	862.0	1,021.9	1,120.8	808.3
LT interest bearing debt	3,354.0	5,312.0	5,784.4	5,905.2	5,609.9
Other liabilities	1,418.0	893.0	893.0	893.0	893.0
Total Liabilities	5,741.0	7,861.0	8,493.3	8,713.0	8,105.2
Shareholders Equity	1,636.3	1,838.3	2,351.7	2,811.8	3,284.9
Minority Interest	290.0	339.0	422.5	522.4	748.9
Total shareholder equity	1,926.3	2,177.3	2,774.2	3,334.2	4,033.8
Perpetual securities	1,847.7	1,847.7	1,847.7	1,847.7	1,847.7
Total liabilities and equity	9,515.0	11,886.0	13,115.2	13,894.9	13,986.6
CASH FLOW (MYR m)					
Pretax profit	331.0	580.0	826.5	780.3	954.8
Depreciation & amortisation	251.1	306.0	338.8	359.6	467.3
Adj net interest (income)/exp	0.0	0.0	0.0	0.0	0.0
Change in working capital	233.0	(1,620.0)	283.4	156.0	(325.2)
Cash taxes paid		, , , ,			(323.2)
·	(70.0)	(168.0)	(165.3)	(156.1)	
Other operating cash flow	(16.0)	25.0	(20.1)	(16.3)	(3.9)
Cash flow from operations	917.0	(663.0)	1,265.4	1,123.6	902.0
Capex	(1,215.0)	(301.0)	(1,040.0)	(1,040.0)	(500.0)
Free cash flow	(298.0)	(964.0)	225.4	83.6	402.0
Dividends paid	(108.0)	(168.0)	(64.3)	(64.3)	(64.3)
Equity raised / (purchased)	0.0	0.0	0.0	0.0	0.0
Change in Debt	708.7	2,276.0	472.4	120.8	(295.3)
Other invest/financing cash flow	(244.0)	(599.0)	0.0	0.0	0.0
Effect of exch rate changes	0.0	0.0	0.0	0.0	0.0
Net cash flow	58.7	545.0	633.5	140.1	42.4

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FYE 31 Jan	FY20A	FY21A	FY22E	FY23E	FY24E
Key Ratios					
Growth ratios (%)					
Revenue growth	143.4	92.5	(36.8)	(26.9)	8.2
EBITDA growth	(5.4)	76.4	5.6	(0.7)	20.8
EBIT growth	(2.2)	101.9	4.1	(2.7)	17.8
Pretax growth	(3.7)	75.2	42.5	(5.6)	22.4
Reported net profit growth	(10.6)	50.0	83.4	(9.2)	2.5
Core net profit growth	(14.6)	106.6	22.0	(9.2)	2.5
Profitability ratios (%)					
EBITDA margin	31.3	28.7	48.0	65.1	72.7
EBIT margin	21.4	22.4	36.9	49.1	53.5
Pretax profit margin	13.1	12.0	27.0	34.8	39.4
Payout ratio	31.0	20.4	11.1	12.3	12.0
DuPont analysis					
Net profit margin (%)	8.3	6.5	18.8	23.4	22.2
Revenue/Assets (x)	0.3	0.4	0.2	0.2	0.2
Assets/Equity (x)	5.8	6.5	5.6	4.9	4.3
ROAE (%)	12.4	18.1	27.6	20.3	17.6
ROAA (%)	2.6	4.4	4.6	3.9	3.9
Liquidity & Efficiency					
Cash conversion cycle	(48.7)	(49.5)	(245.7)	(922.0)	nm
Days receivable outstanding	43.2	24.3	31.9	29.3	23.8
Days inventory outstanding	3.4	1.4	0.7	1.5	1.8
Days payables outstanding	95.2	75.2	278.3	952.7	nm
Dividend cover (x)	3.2	4.9	9.0	8.2	8.4
Current ratio (x)	1.4	1.4	1.6	1.5	1.8
Leverage & Expense Analysis					
Asset/Liability (x)	1.7	1.5	1.5	1.6	1.7
Net gearing (%) (incl perps)	67.7	106.5	89.2	79.2	64.0
Net gearing (%) (excl. perps)	132.6	196.8	148.7	123.1	93.4
Net interest cover (x)	2.7	3.4	3.5	3.3	3.8
Debt/EBITDA (x)	4.9	4.4	4.5	4.6	3.6
Capex/revenue (%)	48.2	6.2	33.9	46.4	20.6
Net debt/ (net cash)	2,554.0	4,285.0	4,123.9	4,104.6	3,766.9

Source: Company; Maybank

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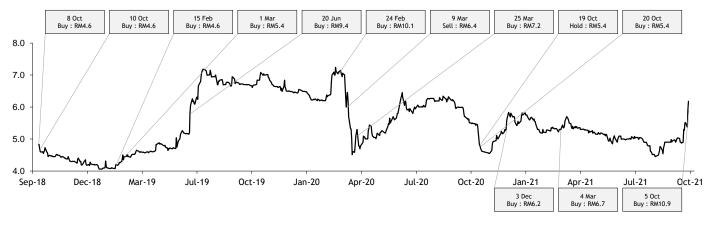
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----- Yinson Holdings

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