

## Yinson Holdings (YNS MK)

# Gets FPSO Helang's 8+10 year O&M contract

### O&M contract value is valued at USD578m

Yinson's O&M contract announcement for FPSO Helang was a positive surprise. The value was better than we expected, which marginally lifted our SOP-based TP to MYR4.58 (+2sen). We remain positive on Yinson, which is well entrenched to continue riding on the FPSO boom. Securing closure for: (i) the much delayed FPSO FEP job is an immediate catalyst and (ii) any of the 4 firm tenders with capex size of USD1b-1.5b each by 2019 will be viewed positively. Maintain BUY.

### Salient details of FPSO Helang O&M charter

Pursuant to the award of the FPSO Layang (renamed to Helang) bareboat charter (BBC) contract (8+10 year period for USD860m) in May 2018, Yinson has now secured the O&M contract from JX Nippon worth USD578m (MYR2,357m) with matching charter tenure. Based on the combined contract value for FPSO Helang (USD1.4b), the BBC: O&M split for this contract is at 60:40 vs. our projected 67:33.

### O&M charter with escalation clauses likely

Our analysis suggests that the O&M contract value is 38% higher than our expectation. While the O&M rate, which equates to an average rate of USD88k/day, appears to be on the high side, we understand that the contract is structured with escalation clauses (i.e. a step-up in rates), with much of the value back-loaded to the extension period (Year 9-18). As such, the initial O&M rate on firm charter will be more market compatible (at e.USD60k+ level), similar to our initial estimate, which reflects a flat O&M rate across the charter tenure.

### SOP-based TP marginally raised to MYR4.58

Our FY19-21 estimates are unchanged with a nominal upward revision to TP (+2sen/shr to MYR4.58). This is mainly due to the 15% increase to our NPV valuation (+MYR24m) on FPSO Helang's O&M job. We estimate that the O&M rate was 12%/ 59% higher than our initial estimate, on firm (Year 1-8)/ extension (Year 9-18) charter periods respectively.

FYE Jan (MYR m)	FY17A	FY18A	FY19E	FY20E	FY21E
Revenue	764	910	1,113	907	1,207
EBITDA	284	645	771	693	836
Core net profit	219	342	265	193	243
Core EPS (sen)	20.6	31.4	24.3	17.6	22.3
Core EPS growth (%)	26.8	52.6	(22.7)	(27.4)	26.4
Net DPS (sen)	16.8	10.0	10.0	10.0	10.0
Core P/E (x)	15.1	13.4	16.8	23.2	18.3
P/BV (x)	1.4	1.7	1.6	1.6	1.5
Net dividend yield (%)	5.4	2.4	2.5	2.5	2.5
ROAE (%)	8.5	11.6	9.8	6.8	8.3
ROAA (%)	3.9	5.3	4.0	2.8	3.2
EV/EBITDA (x)	21.4	10.8	8.5	9.2	7.3
Net gearing (%) (incl perps)	114.7	90.1	74.0	62.7	47.7
Consensus net profit	-	-	268	239	357
MKE vs. Consensus (%)	-	-	(1.2)	(19.5)	(31.8)

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# BUY

Share Price MYR 4.08  
12m Price Target MYR 4.58 (+12%)  
Previous Price Target MYR 4.56

#### Statistics

52w high/low (MYR)	4.91/3.69
3m avg turnover (USDm)	0.7
Free float (%)	53.1
Issued shares (m)	1,093
Market capitalisation	MYR4.5B USD1.1B

#### Major shareholders:

LIM HAN WENG	16.0%
Employees Provident Fund	13.6%
Kumpulan Wang Persaraan	12.7%

#### Price Performance



	-1M	-3M	-12M
Absolute (%)	(3)	(8)	(1)
Relative to index (%)	(3)	(8)	8

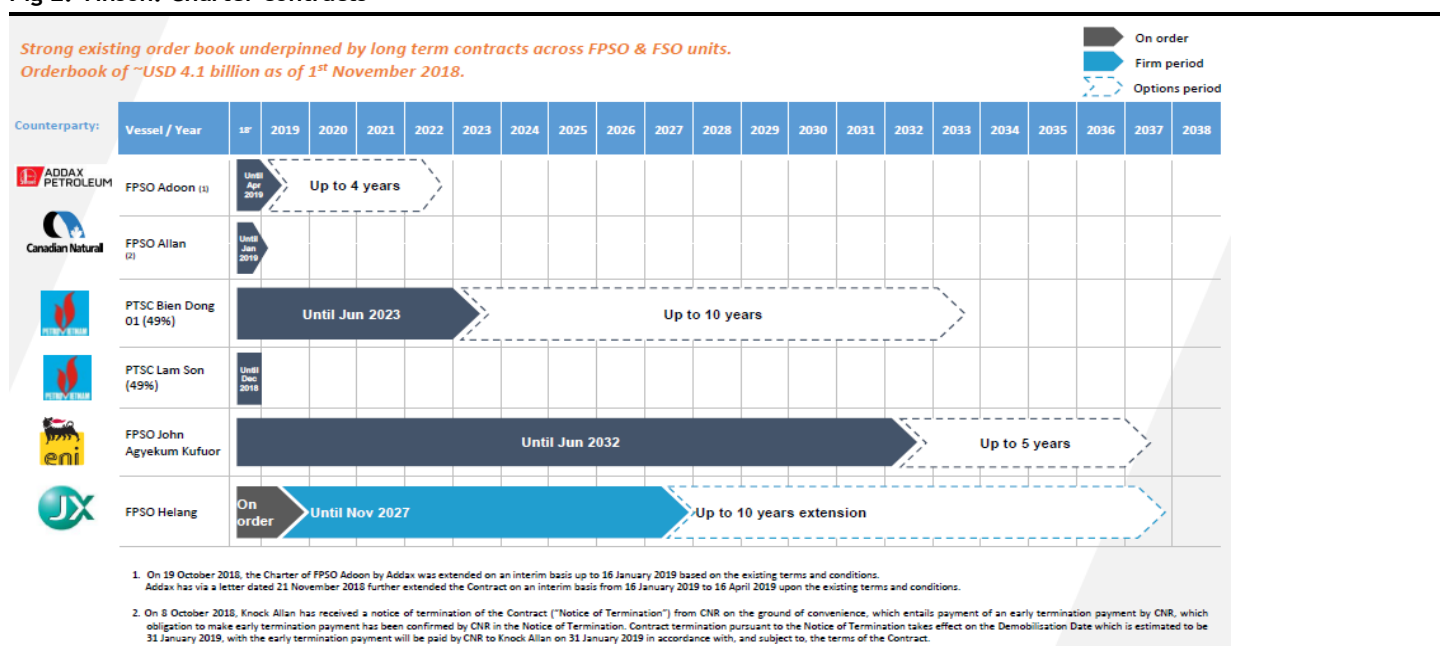
Source: FactSet

Fig 1: Status of floaters

Asset	Stake	Details
FSO Bien Dong	49%	<ul style="list-style-type: none"> <li>On operations. Secured a 9+10 year bare-boat charter since Aug 2013.</li> </ul>
FPSO Lam Son	49%	<ul style="list-style-type: none"> <li>Remains on an interim extension, from 1 Jul 2017 to 31 Dec 2018 (#1 extension) and 1 Jan 2019 to 30 Jun 2019 (#2 extension), at an unchanged bare-boat rate of USD50k.</li> <li>Recall that the initial 7+3 year contract worth USD737m (from Jul 2014) was terminated (on convenience), effective 30 Jun 2017 by its client; Lam Son Joint Operating Company (a 50:50 JV of PetroVietnam E&amp;P and PETRONAS Vietnam) due to the field's low production.</li> <li>The asset is now debt-free (fully paid from the USD209m termination fees received in Jan 2018) and has minimal depreciation charges.</li> </ul>
FPSO Allan	100%	<ul style="list-style-type: none"> <li>Received a notice of termination of convenience from CNR (chartered since May 2009 on a 10+10 year charter for the Olowi block, Gabon). The non-extension beyond its firm charter was inevitable due to the under-performance of the reservoir. While the initial projected performance was about 20k bpd, output is below that, at around 5k bpd.</li> <li>The termination is effective 31 Jan 2019, 3 months ahead of its firm charter expiry (i.e. 30 Apr 2019). Under the notice, despite the early demobilisation, CNR will still pay Yinson in full (i.e. up to 30 Apr 2019).</li> <li>It is free of debt, offers strong re-deployment prospects (i.e. Asia and Africa). However, securing a charter for FPSO Allan will take time, (i.e. about 1 year). Following the impairment of this asset (MYR66m in 3QFY1/19), Yinson will incur a lower depreciation charges (e.MYR40m p.a.; less MYR10m) with zero income.</li> </ul>
FPSO Adoon	100%	<ul style="list-style-type: none"> <li>Secured contract extension from Addax Petroleum Development on an interim basis from 16 Jan 2019-16 Apr 2019.</li> <li>This is the 3<sup>rd</sup> extension secured. The original contract was awarded on 17 Oct 2006 for an 8+8 year charter. The firm charter expired on 16 Oct 2014 and was extended for a year to 16 Oct 2015. Thereafter, it was extended for another 3 years, up to 16 Oct 2018.</li> </ul>
FPSO JAK	74%	<ul style="list-style-type: none"> <li>Sold a 26% stake to Sumitomo Corp-K Line-JGC Development bank of Japan for USD117m, concluded in 1QCY18.</li> </ul>
FPSO Helang	100%	<ul style="list-style-type: none"> <li>Yinson paid THHE (RH MK; Not Rated) USD374m for the novation of this project.</li> <li>An 8+10 year bare-boat charter worth USD860m, to commence operations by end-2019. To re-deploy FPSO Rainbow for this job. Project capex is about USD400m.</li> <li>Secured the 8+10 year O&amp;M contract worth USD578m.</li> </ul>
FPSO FEP	100%	<ul style="list-style-type: none"> <li>Had earlier signed a Heads of Terms (HOT) with First Exploration and Petroleum Development Company Ltd (FEP).</li> <li>Apart from the 7+8 year charter announcement, the finer contract details are yet to be disclosed, pending the finalization of the bank/ corporate guarantees.</li> </ul>

Source: Company data, Maybank Kim Eng

Fig 2: Yinson: Charter contracts



Source: Company data, Maybank Kim Eng

Fig 3: SOP valuation (pre-FEP FPSO)

Operations	Value (MYR'm)	Stake (%)	Effective value (MYR'm)	Details
FSO Bien Dong	394.2	49%	193.1	NPV (firm + extension), 49% stake, 13% project IRR, 5.3% WACC.
FPSO Lam Son	192.4	49%	94.3	NPV (3-year firm, estimate), 49% stake, 5.3% WACC
FPSO Allan	38.2	100%	38.2	Early termination of convenience compensation
FPSO Adoon	380.6	100%	380.6	NPV (firm + extension), on 5.3% WACC.
MOPU Marc Lorenceau	84.9	100%	84.9	5x PER (vs. 6x previously), in tangent with the O/S contract period for FPSO Adoon (up to 2022).
FPSO JAK	3,880.4	74%	2,871.5	NPV (firm + extension), on 11.2% project IRR, 7.4% WACC
FPSO Helang	179.0	100%	179.0	NPV (firm), on 10.1% project IRR, 7.4% WACC
Residual value	621.0		621.0	(i) 49% stakes in FSO Bien Dong & FPSO Lam Son, (ii) 74% in FPSO JAK and (iii) 100% in FPSO Knock Allan, Knock Adoon & Layang.
OSV	80.0		80.0	Based on replacement value (vs. 12x FY18 PER previously).
Cash	468.0		468.0	Proceeds from sale of 26% equity of FPSO JAK
<b>Total</b>			<b>5,010.5</b>	Based on MYR4.00:USD1.00
Share base			1,093	
<b>SOP/ share (MYR)</b>			<b>4.58</b>	MYR5.08, based on firm charter. Could elevate to MYR5.84, should NPV (extension) for FPSO FEP is taken into consideration

Source: Maybank Kim Eng

## FPSO FEP to provide immediate upside

The tender pipeline for FPSOs remains strong over the next 12 months, with Yinson prospecting for: (i) 4 key bids (three in Brazil and one in Ghana with capex size of USD1b-USD1.5b each).

That said, it is crucial for Yinson to finalise the FPSO FEP job soon. This impasse has somewhat dented its prospects. The setback has not gone unnoticed, for the Heads of Terms (HOT) agreement was announced back in Jun 2018. Nonetheless, the CFO of FEP was recently quoted in an Upstream article stating that talks for the FPSO are progressing well and a deal is imminent.

Based on our scenario analysis, we expect FPSO FEP to add: (i) MYR80m-150m p.a. to Yinson's net profit from FY21 and (ii) 30-52sen in TP to MYR4.88-5.10/shr on a firm charter basis, and MYR1.00-1.28/shr in TP to MYR5.58-5.86/shr including an extension charter.

Fig 4: Scenario analysis 1: Estimates based on USD300m capex for FEP FPSO

DCR (USD'k)	Total Value (USD'm)	Firm charter (7 years)					Extension charter (8 years)				
		Value (USD'm)	Proj. IRR (%)	EBITDA (MYR'm)	Net profit (MYR'm)	NPV/ shr (MYR)	Value (USD'm)	Proj. IRR (%)	EBITDA (MYR'm)	Net profit (MYR'm)	NPV/ shr (MYR)
230	1,235	576	9%	200-220	115-145	0.49	659	18	200-220	115-150	1.22
236	1,265	590	10%	200-220	120-150	0.52	659	19	200-220	120-156	1.28

Source: Maybank KE

Fig 5: Scenario analysis 2: Estimates based on USD400m capex or FEP FPSO

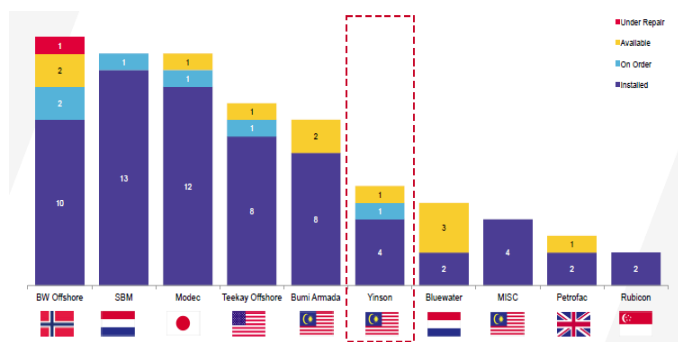
DCR (USD'k)	Total Value (USD'm)	Firm charter (7 years)					Extension charter (8 years)				
		Value (USD'm)	Proj. IRR (%)	EBITDA (MYR'm)	Net profit (MYR'm)	NPV/ shr (MYR)	Value (USD'm)	Proj. IRR (%)	EBITDA (MYR'm)	Net profit (MYR'm)	NPV/ shr (MYR)
230	1,235	576	9%	200-220	80-120	0.30	659	18	200-220	80-124	1.00
236	1,265	590	10%	200-220	85-130	0.32	675	19	200-220	80-130	1.10

Source: Maybank KE

## Value Proposition

- Arguably one of the most profitable (in terms of ROE) FPSO operators globally. 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, its 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.

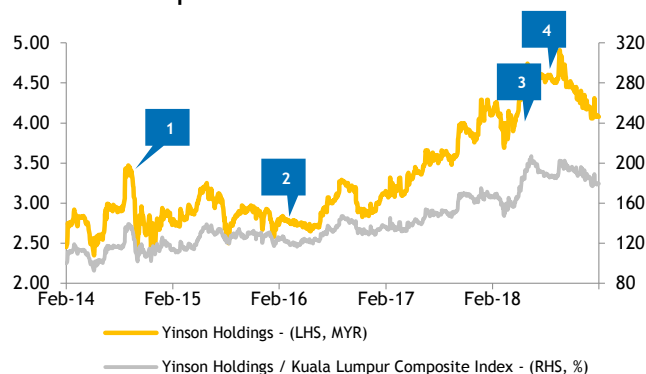
### Top FPSO operators in the world



Source: Company

## Price Drivers

### Historical share price trend



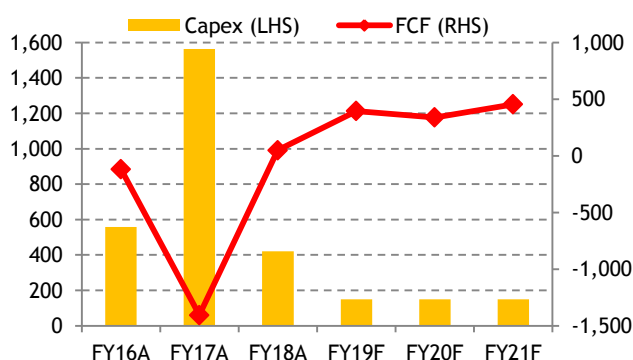
Source: Company, Maybank Kim Eng

- The beginning of the fall in crude oil price to sub-USD100/bbl.
- Secured 2<sup>nd</sup> extension for FPSO Adoon.
- Took over THHE's Layang FPSO job.
- Secured FPSO FEP contract.

## 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 the 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)



Source: Company

## 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 action 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.

FYE 31 Jan	FY17A	FY18A	FY19E	FY20E	FY21E
<b>Key Metrics</b>					
P/E (reported) (x)	15.7	13.3	16.8	23.2	18.3
Core P/E (x)	15.1	13.4	16.8	23.2	18.3
P/BV (x)	1.4	1.7	1.6	1.6	1.5
P/NTA (x)	1.4	1.8	1.6	1.6	1.5
Net dividend yield (%)	5.4	2.4	2.5	2.5	2.5
FCF yield (%)	nm	1.1	8.7	8.0	10.2
EV/EBITDA (x)	21.4	10.8	8.5	9.2	7.3
EV/EBIT (x)	34.7	14.7	13.4	15.4	12.7
<b>INCOME STATEMENT (MYR m)</b>					
Revenue	764.2	910.2	1,113.4	907.3	1,207.0
Gross profit	325.6	546.4	612.4	499.0	682.1
EBITDA	283.8	645.0	771.4	693.0	836.5
Depreciation	(108.4)	(219.5)	(279.0)	(279.0)	(359.0)
Amortisation	0.0	0.0	0.0	0.0	0.0
EBIT	175.4	474.9	492.4	414.0	477.5
Net interest income / (exp)	(32.3)	(107.5)	(192.1)	(184.7)	(188.8)
Associates & JV	83.3	43.8	20.5	27.0	23.9
Exceptionals	(22.4)	(49.4)	0.0	0.0	0.0
Other pretax income	0.0	0.0	0.0	0.0	0.0
Pretax profit	204.0	361.8	320.8	256.4	312.6
Income tax	(7.2)	(69.7)	(26.3)	(17.9)	(21.9)
Minorities	0.3	0.1	(29.3)	(45.9)	(47.3)
Discontinued operations	0.0	0.0	0.0	0.0	0.0
Reported net profit	197.0	292.2	265.2	192.6	243.4
Core net profit	219.5	341.6	265.2	192.6	243.4
<b>BALANCE SHEET (MYR m)</b>					
Cash & Short Term Investments	633.9	637.1	1,059.8	1,298.8	2,773.7
Accounts receivable	231.4	384.9	470.9	383.8	510.5
Inventory	5.3	4.4	5.4	4.4	5.8
Reinsurance assets	0.0	0.0	0.0	0.0	0.0
Property, Plant & Equip (net)	4,609.7	4,535.2	4,406.2	4,277.2	4,068.2
Intangible assets	27.6	23.7	23.7	23.7	23.7
Investment in Associates & JVs	728.1	596.9	617.4	644.4	668.3
Other assets	198.3	290.9	290.9	290.9	290.9
<b>Total assets</b>	<b>6,434.4</b>	<b>6,473.1</b>	<b>6,874.2</b>	<b>6,923.1</b>	<b>8,341.1</b>
ST interest bearing debt	222.4	363.1	363.1	363.1	363.1
Accounts payable	443.9	354.3	433.4	353.2	469.9
LT interest bearing debt	3,170.8	2,647.1	2,783.4	2,783.4	3,903.4
Other liabilities	191.0	475.0	475.0	475.0	475.0
<b>Total Liabilities</b>	<b>4,028.3</b>	<b>3,839.9</b>	<b>4,055.4</b>	<b>3,975.1</b>	<b>5,211.8</b>
Shareholders Equity	2,406.2	2,632.6	2,788.9	2,872.2	3,006.3
Minority Interest	0.0	0.6	29.9	75.8	123.1
<b>Total shareholder equity</b>	<b>2,406.2</b>	<b>2,633.2</b>	<b>2,818.8</b>	<b>2,947.9</b>	<b>3,129.3</b>
<b>Total liabilities and equity</b>	<b>6,434.4</b>	<b>6,473.1</b>	<b>6,874.2</b>	<b>6,923.1</b>	<b>8,341.1</b>
<b>CASH FLOW (MYR m)</b>					
Pretax profit	204.0	361.8	320.8	256.4	312.6
Depreciation & amortisation	108.4	219.5	279.0	279.0	359.0
Adj net interest (income)/exp	0.0	0.0	0.0	0.0	0.0
Change in working capital	90.1	(333.7)	(7.8)	7.9	(11.5)
Cash taxes paid	(7.2)	(69.7)	(26.3)	(17.9)	(21.9)
Other operating cash flow	(147.8)	(41.6)	(28.3)	(19.1)	(35.4)
Cash flow from operations	92.9	472.2	537.3	506.3	602.7
Capex	(1,563.5)	(420.2)	(150.0)	(150.0)	(150.0)
Free cash flow	(1,470.6)	52.0	387.3	356.3	452.7
Dividends paid	(180.9)	(65.3)	(108.8)	(109.3)	(109.3)
Equity raised / (purchased)	0.0	0.0	0.0	0.0	0.0
Change in Debt	1,739.0	(383.0)	136.3	0.0	1,120.0
Other invest/financing cash flow	(4.7)	401.7	0.0	0.0	0.0
Effect of exch rate changes	0.0	0.0	0.0	0.0	0.0
<b>Net cash flow</b>	<b>82.9</b>	<b>5.4</b>	<b>414.8</b>	<b>246.9</b>	<b>1,463.4</b>

FYE 31 Jan	FY17A	FY18A	FY19E	FY20E	FY21E
<b>Key Ratios</b>					
<b>Growth ratios (%)</b>					
Revenue growth	(26.4)	19.1	22.3	(18.5)	33.0
EBITDA growth	8.7	127.3	19.6	(10.2)	20.7
EBIT growth	16.8	170.8	3.7	(15.9)	15.3
Pretax growth	(19.2)	77.4	(11.3)	(20.1)	21.9
Reported net profit growth	(11.2)	48.3	(9.2)	(27.4)	26.4
Core net profit growth	26.8	55.6	(22.4)	(27.4)	26.4
<b>Profitability ratios (%)</b>					
EBITDA margin	37.1	70.9	69.3	76.4	69.3
EBIT margin	22.9	52.2	44.2	45.6	39.6
Pretax profit margin	26.7	39.7	28.8	28.3	25.9
Payout ratio	90.8	37.2	41.2	56.8	44.9
<b>DuPont analysis</b>					
Net profit margin (%)	25.8	32.1	23.8	21.2	20.2
Revenue/Assets (x)	0.1	0.1	0.2	0.1	0.1
Assets/Equity (x)	2.7	2.5	2.5	2.4	2.8
ROAE (%)	8.5	11.6	9.8	6.8	8.3
ROAA (%)	3.9	5.3	4.0	2.8	3.2
<b>Liquidity &amp; Efficiency</b>					
Cash conversion cycle	(250.6)	(268.2)	(141.1)	(173.0)	(145.4)
Days receivable outstanding	99.2	121.9	138.4	169.6	133.4
Days inventory outstanding	3.6	4.8	3.5	4.3	3.5
Days payables outstanding	353.4	394.9	283.0	346.8	282.2
Dividend cover (x)	1.1	2.7	2.4	1.8	2.2
Current ratio (x)	1.4	1.6	2.1	2.5	3.9
<b>Leverage &amp; Expense Analysis</b>					
Asset/Liability (x)	1.6	1.7	1.7	1.7	1.6
Net gearing (%) (incl perps)	114.7	90.1	74.0	62.7	47.7
Net gearing (%) (excl. perps)	114.7	90.1	74.0	62.7	47.7
Net interest cover (x)	5.4	4.4	2.6	2.2	2.5
Debt/EBITDA (x)	12.0	4.7	4.1	4.5	5.1
Capex/revenue (%)	204.6	46.2	13.5	16.5	12.4
Net debt/ (net cash)	2,759.3	2,373.0	2,086.7	1,847.7	1,492.7

Source: Company; Maybank



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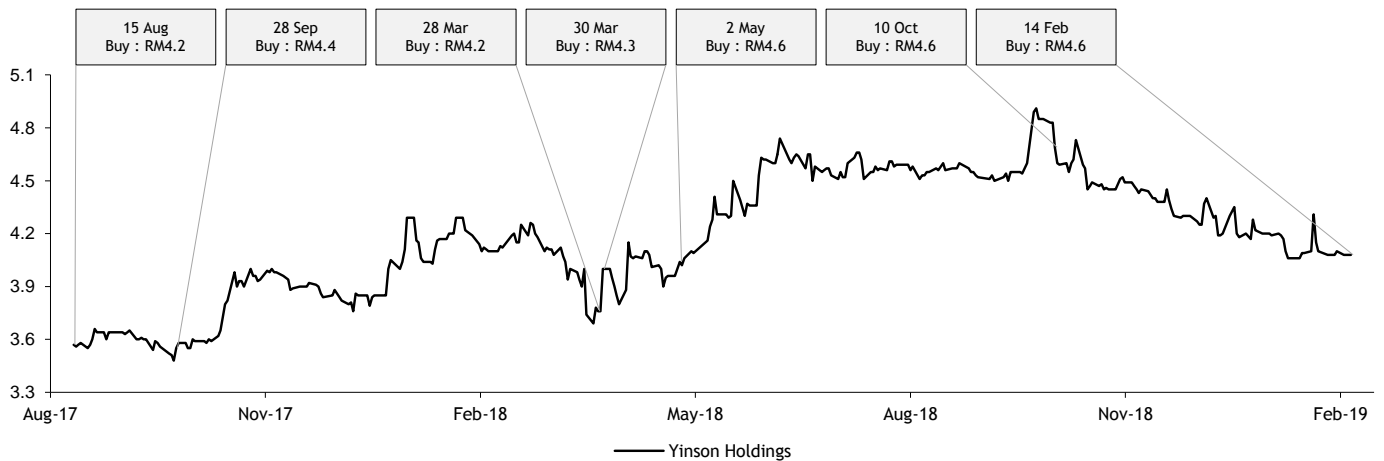
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