

26 September 2019

Yinson Holdings Bhd

2Q20 Deemed Below Expectations

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While there were no surprises operationally during the quarter, we deem its 2Q20 results as below expectation given FPSO Abigail-Joseph's slightly later commencement date of 1Q21, from 4Q20 as earlier projected. Nonetheless, the unexpectedly weaker YoY numbers this quarter was due to the cessation of FPSO Allan in end-FY19. Maintain OP and TP of RM7.75, with catalyst from upcoming new contract wins, as our valuations have already priced in two new wins.

Deemed slightly below expectation. 1H20 core net profit of RM102.6m (arrived after stripping-off non-core items e.g. forex, impairments etc) came in at 42%/41% of our/consensus full-year earnings forecasts. While there were no surprises operationally during the quarter, we deem this as below expectation, given a slight delay in the commencement of FPSO Abigail-Joseph to 1Q21 from 4Q20, thereby indicating slightly weaker numbers for upcoming quarters than earlier anticipated. Nonetheless, the announced dividend of 4.0 sen per share (flat YoY) is deemed to be within expectation.

Expectedly weaker set of earnings. 1H20 core earnings were 18% poorer YoY, mainly due to the cessation of FPSO Allan's charter contract in end-FY19. The FPSO is currently undergoing conversion works, and is set to be redeployed as FPSO Abigail-Joseph at the Anyala and Madu fields, Nigeria. For 2Q20, core net profit of RM50.3m was similarly poorer YoY by 23%, due to the aforementioned cessation of FPSO Allan's charter contract. Meanwhile, sequentially, 2Q20 fell slightly QoQ by 4%, dragged by the higher finance costs (+11%).

Contract wins in the pipelines. YINSON is reportedly close to clinching one of the two Marlim FPSO contracts in Brazil, with Modec expected to land the other one. Once materialised, this would represent YINSON's debut into the Brazilian market. We understand that Petrobras is expected to offer a 25-year charter contract, with commencement anticipated in 2022-2023. Elsewhere, YINSON is also understood to be one of the front-runners for Aker Energy's Pecan FPSO off Ghana (against SBM Offshore), and may also still be involved in tenders for Parque das Baleias FPSO in Brazil. Locally, YINSON (in partnership with MISC) is also reported to have submitted bid for the Limbayong FPSO. We reckon the overseas projects to roughly have a net capex size of ~USD1b, while the Limbayong FPSO could be smaller at roughly ~USD700m capex. Meanwhile, expected strong earnings growth in FY21 will be underpinned by the commencement of FPSO Helang (4Q20) and FPSO Abigail-Joseph (1Q21).

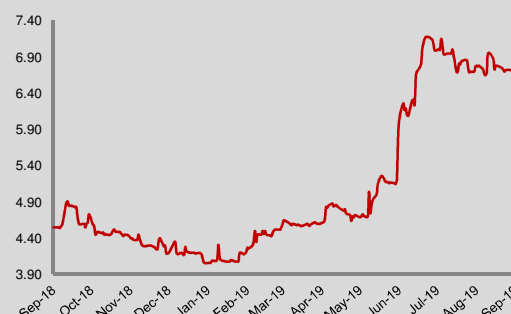
Maintain OUTPERFORM, with unchanged SoP-TP of RM7.75 – implying FY21E PER of 23x, which is at +2SD from its 5-year mean. Post-results, we trimmed our FY20-21E earnings by 12-5%, after assuming a later commencement date for FPSO Abigail-Joseph to 1Q21, from previous assumption of 4Q20. Our valuations have already priced-in two new contract wins, based on these assumptions; (i) 15% IRR, and (ii) 8% discounting rate. Nonetheless, we continue to like YINSON for its aggressive management, strong project execution and contract winning potential.

Risks to our call include: (i) project execution risk, and (ii) weaker-than-expected margins, (iii) termination of contracts, and (iv) failure to land new contracts.

OUTPERFORM ↔

Price : **RM6.70**
Target Price : **RM7.75** ↔

Share Price Performance



KLCI	1,589.58
YTD KLCI chg	-6.0%
YTD stock price chg	59.5%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	YNS MK Equity
Market Cap (RM m)	7,239.5
Shares Outstanding	1,080.5
52-week range (H)	7.23
52-week range (L)	4.03
3-mth avg daily vol:	2,068,057
Free Float	42%
Beta	1.0

Major Shareholders

Employees Provident Fund	12.2%
Kumpulan Wang Persaraan	9.7%
Lim Han Weng	8.8%

Summary Earnings Table

FY Jan (RM'm)	2019A	2020E	2021E
Revenue	1034.9	1036.1	1762.6
EBIT	516.6	483.9	706.3
PBT	343.9	327.4	513.8
Net Profit (NP)	234.9	218.5	364.4
Core Net Profit	266.3	218.5	364.4
Consensus (NP)		249.7	384.4
Earnings Revision (%)		-11.5	-5.4
Core EPS (sen)	24.4	20.0	33.3
CNP growth (%)	-22.7	-18.0	66.8
DPS (sen)	6.0	6.0	6.0
BV/Share (RM)	1.60	1.74	2.01
Core PER	27.5	33.5	20.1
Price/BV (x)	4.2	3.9	3.3
Gearing (x)	1.1	1.1	1.2
Dividend Yield (%)	0.9	0.9	0.9

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Income Statement								
	2Q	1Q	Q-o-Q	2Q	Y-o-Y	1H	1H	Y-o-Y
FY Jan (RM' mil)	FY20	FY20	Chg	FY19	Chg	FY20	FY19	Chg
Revenue	213.4	209.0	2.1%	246.5	-13.4%	422.4	481.7	-12.3%
Direct expenses	(81.3)	(88.5)	-8.2%	(105.2)	-22.7%	(169.8)	(206.3)	-17.7%
Gross profit	132.2	120.5	9.7%	141.4	-6.5%	252.6	275.4	-8.3%
Other operating income	2.5	14.1	-82.2%	18.5	-86.4%	16.6	20.2	-17.8%
Administrative expenses	(20.8)	(17.0)	22.4%	(16.3)	27.5%	(37.8)	(31.1)	21.7%
Profit from operations	113.9	117.6	-3.2%	143.5	-20.7%	231.4	264.5	-12.5%
Finance costs	(48.5)	(43.5)	11.4%	(46.8)	3.6%	(92.0)	(93.3)	-1.5%
JV	6.2	5.6	9.7%	4.7	31.0%	11.8	5.9	101.1%
Associate	0.0	0.0	N.M.	(0.1)	N.M.	0.0	(0.2)	N.M.
Profit before tax	71.5	79.7	-10.2%	101.4	-29.4%	151.2	176.9	-14.5%
Income tax expense	(16.6)	(18.0)	-7.7%	(21.1)	-21.2%	(34.6)	(36.0)	-3.9%
Non-controlling interests	(13.8)	(11.8)	16.6%	(6.6)	108.0%	(25.6)	(6.8)	275.4%
Net profit	41.1	49.9	-17.5%	73.7	-44.2%	91.0	134.1	-32.1%
Core Net profit	50.3	52.3	-3.8%	65.3	-23.0%	102.6	125.7	-18.3%
Gross margin	61.9%	57.6%		57.3%		59.8%	57.2%	
Operating margin	53.3%	56.3%		58.2%		54.8%	54.9%	
PBT margin	33.5%	38.1%		41.1%		35.8%	36.7%	
Net margin	19.3%	23.9%		29.9%		21.5%	27.8%	
Core net margin	23.6%	25.0%		26.5%		24.3%	26.1%	

Source: Company, Kenanga Research

Sum-of-Parts valuations		
	RM m	Valuation basics
FPSO Adoon	531.4	Based on discounting rate of 5.0%
FPSO PTSC Lam Son (49%)	449.3	Based on discounting rate of 6.0%
FSO PTSC Bien Dong 01 (49%)	249.4	Based on discounting rate of 5.1%
FPSO John Agyekum Kufour	4,380.6	Based on discounting rate of 6.2%
FPSO Helang	626.6	Based on discounting rate of 5.3%
FPSO Abigail-Joseph	1,305.6	Based on discounting rate of 5.0%
Marlim FPSO win	1,819.3	Based on discounting rate of 8.0%
New win assumption	1,591.9	Based on discounting rate of 8.0%
Expected net debt	(2,502.1)	
Total	8,452.0	
Number of shares	1,093.0	
SoP value per share (RM)	7.75	

Source: Company, Kenanga Research

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Peer Comparison

Name	Last Price	Market	Shariah	Current	Revenue Growth		Core Earnings Growth		PER (x) - Core Earnings			PBV (x)		ROE (%)	Net Div. Yld. (%)	Target	Rating
	(RM)	Cap	Compliant	FYE	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	Hist.	1-Yr. Fwd.	2-Yr. Fwd.	Hist.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	Price (RM)	
BUMI ARMADA BERHAD	0.340	1,998.0	N	12/2019	-15.9%	0.0%	34.4%	2.3%	8.8	6.6	6.4	0.6	0.6	9.0%	0.0%	0.200	UP
DAYANG ENTERPRISE HLDGS BHD	1.59	1,534.0	Y	12/2019	22.2%	4.4%	-33.9%	9.1%	9.3	14.1	13.0	1.4	1.3	9.5%	0.0%	1.45	MP
DIALOG GROUP BHD	3.39	19,113.9	Y	06/2020	17.7%	6.1%	4.5%	9.7%	35.7	34.1	31.1	5.0	4.8	14.4%	1.2%	4.15	OP
MALAYSIA MARINE AND HEAVY EN	0.830	1,328.0	Y	12/2019	-10.1%	43.0%	845.5%	139.3%	N.A.	91.6	38.3	0.6	0.5	0.6%	0.0%	1.05	OP
MISC BHD	7.72	34,460.1	Y	12/2019	3.1%	-2.9%	30.2%	5.3%	26.1	20.0	19.0	1.0	1.0	4.9%	3.9%	8.80	OP
PANTECH GROUP HOLDINGS BHD	0.495	371.2	Y	02/2020	1.3%	5.9%	1.3%	6.4%	8.5	8.4	7.9	0.7	0.6	7.6%	3.2%	0.690	OP
PETRONAS CHEMICALS GROUP BHD	7.52	60,160.0	Y	12/2019	-13.9%	4.8%	-30.3%	14.5%	12.1	17.3	15.1	2.0	1.9	11.1%	2.9%	7.70	MP
PETRONAS DAGANGAN BHD	23.48	23,326.3	Y	12/2019	-5.6%	2.0%	12.9%	7.7%	27.9	24.7	22.9	4.0	3.8	15.6%	2.8%	22.45	MP
SAPURA ENERGY BHD	0.285	4,542.7	Y	01/2020	5.9%	20.7%	1875.6%	258.5%	N.A.	94.1	26.2	0.3	0.3	0.4%	0.0%	0.430	OP
SERBA DINAMIK HOLDINGS	4.27	6,270.5	Y	12/2019	23.2%	14.3%	17.2%	13.3%	16.3	14.0	12.3	3.0	2.6	20.2%	2.2%	5.25	OP
UZMA BHD	0.835	267.2	Y	06/2020	-7.6%	-0.1%	117.5%	44.1%	27.5	12.7	8.8	0.6	0.5	4.2%	0.0%	0.610	MP
VELESTO ENERGY BHD	0.325	2,670.1	Y	12/2019	5.3%	6.2%	119.7%	152.0%	N.A.	175.7	69.7	1.0	0.9	0.5%	0.0%	0.350	OP
WAH SEONG CORP BHD	0.625	481.5	Y	12/2019	-47.7%	-7.7%	-18.8%	-18.1%	7.7	9.4	11.5	0.5	0.5	5.4%	0.0%	0.620	MP
YINSON HOLDINGS BHD	6.70	7,240.3	Y	01/2020	0.1%	70.1%	-17.9%	66.8%	27.5	33.5	20.1	4.2	3.8	11.9%	0.9%	7.75	OP

Source: Bloomberg, Kenanga Research

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Stock Ratings are defined as follows:**Stock Recommendations**

OUTPERFORM	: A particular stock's Expected Total Return is MORE than 10%
MARKET PERFORM	: A particular stock's Expected Total Return is WITHIN the range of -5% to 10%
UNDERPERFORM	: A particular stock's Expected Total Return is LESS than -5%

Sector Recommendations***

OVERWEIGHT	: A particular sector's Expected Total Return is MORE than 10%
NEUTRAL	: A particular sector's Expected Total Return is WITHIN the range of -5% to 10%
UNDERWEIGHT	: A particular sector's Expected Total Return is LESS than -5%

*****Sector recommendations are defined based on market capitalisation weighted average expected total return for stocks under our coverage.**

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