
# IINO KAIUN KAISHA, LTD. (9119 JP)

Initiation Report

## A CENTENARY FIRM THAT SUPPORTS ESSENCIAL SOCIAL INFRASTRUCTURES

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Nippon Investment Bespoke Research UK Ltd

## Contents

## Introduction – IINO Kaiun Kaisha a company that supports essential social infrastructure

The history of IINO Kaiun Kaisha (hereinafter IINO) dates as far back as the late 19th century. Today, the IINO Group comprises 59 consolidated subsidiaries, five equity method companies and ten non-consolidated affiliated companies that together operate the Shipping and the Real Estate businesses. The firm has been engaging with the shipping business for more than 120 years, specialised in liquid cargo tankers, oil tankers and dry bulk carriers. Its flagship building in Tokyo, the IINO Building, built back in 1960 - was the start of IINO's Real Estate business. IINO has never been a member of Japan's Zaibatsu (conglomerate) groups, remaining independent.

While Shipping and Real Estate present as two different businesses, IINO views them as essential social infrastructure and services. The company's core philosophy is to provide infrastructure safely and stably, which is central to both the Shipping and the Real Estate businesses. Cargoes that the firm transports are essential items for day-to-day economic activities. The same principle of providing safe and stable infrastructure is applied in the Real Estate business.

Current President, Mr. Tosha, has been in the position since June 2016. Since the beginning of his tenure, the firm completed the previous three-year medium-term management plan (FY17~FY19), which primarily focused on stabilising the IINO's revenue model. Prior to FY17, one of IINO's core shipping operations, the Chemical Tanker business, had suffered a prolonged weak market. In the Real Estate business, the IINO Building had seen a temporary fall in utilisation rate due to tenants' terminating their leases. However, over the past three years, the firm has addressed these issues by (1) raising the contract of affreightment [COA] ratio to stabilise the earnings in the Chemical Tanker business, and (2) for the Real Estate Business, establishing more favourable rent agreements for new tenants. Despite these efforts, the final year results fell short of the plan's targets with operating profit [OP] of ¥9,000mil missing by ¥5,024mil, and EBITDA/ total asset ratio lower by 1.9ppt to 8%.

Through the current medium-term plan launched in May 2020, management's goal is to engage in something more innovative that it has ever done during its 100-year+ history. Not only is the aim to establish a unique business model (IINO MODEL) through which the firm can provide high quality services (IINO QUALITY), IINO plans to proactively engage in sustainability initiatives which include protective measures for the environment – in line with the environmental commitment of the marine shipping industry. Management defines its sustainability goal as "creating shared value while creating economic value", advocated by Michael Porter, an American academic known for his theories on economics, business strategy and social causes, such as "Porter's five principles". The challenge management faces is in sharing its vision with the Group's 659 employees as well as 1,600 crew members that work on its vessels. IINO's long-term goal (to 2030) is to become a globally competitive company, and to respond to various challenges presented in its businesses.

**Primary target under the medium-term plan (FY20~FY22)**

**Strengthening of competitiveness to promote a global system**

- Initiatives in the chemical tanker market
  - -Strengthening measures to advance on routes outside existing Middle East routes
  - -Achieving further efficiencies in allocation of vessels through amalgamation on Middle East routes
- Initiatives in gas tankers and dry bulk carriers
  - -Strengthening measures for new cargoes and new routes
  - -Accelerate business development for overseas customers

**Strengthening organizational capability to support a global system**

- Increase headcount at overseas offices, strengthen functions, expand networks
- JVs and initiatives to secure professionals using overseas local hiring, training
- Further enhancement of sales and specialist knowledge such as ship management throughout the IINO Group.

*Source: IINO Kaiun "Be Innovative and Be Unique. : The Next Stage" presentation material*

## Business Model

IINO has two key business pillars: (1) Shipping segment and (2) Real Estate segment. Both operate asset-based businesses in which IINO invests on and operates essential social infrastructures. For the Shipping business, earnings can be volatile due to variables such as shipping market conditions, FOREX, interest rate, and the trend in the global macroeconomy. On the other hand, the Real Estate business is less affected by external factors and enjoys stable earnings. Free cash flow may exhibit some volatility depending on the investment cycle.

***The Shipping Business***

The Shipping business mainly provides (1) liquid cargo transportation via oil tankers, LNG and LPG tankers and chemical tankers, and (2) the transportation of bulk shipping by dry bulk carriers. As of March 2021, IINO operates total of 109 vessels (56 self-owned and 53 chartered). In FY20, OP grew by 143.1% YoY to ¥2,968mil on sales of ¥77,866mil (+0.3% YoY). The segment is largely comprised of two subsegments, Oceangoing and Shortsea / Domestic segments:

1. Oceangoing includes the oil tanker business, chemical tanker business, large gas carrier and dry bulk shipping operations.
2. Shortsea/Domestic includes small gas carrier operation run by the firm's 100%-owned subsidiary IINO Gas Transport [IGT] which operates inter-plant transportation of liquified gases in the domestic waters.

Apart from tramp services in the dry bulk carrier and the chemical tanker operations, the firm essentially engages in medium- to long-term contracts in the Shipping Business so as to limit the impact from volatility in shipping market conditions on its earnings. Unlike some of the larger Japanese shipping companies that hold significant market strength in container ship operations, IINO does not engage in that business. Instead, its primary focus is to provide a stable and safe seaborne infrastructure, historically an essential part of the economy in an island country like Japan.

- Oil tanker business

  IINO owns five VLCCs (very large crude carriers) in ca. 1.5mil DWT (dead-weight tonnage), most of which are engaged in the medium to long-term charter contracts, therefore, are not overly influenced by the oil tanker market volatility. Regarding measures to avoid spillage-related accidents so as to prevent damage to the ocean and surrounding environments, the entire VLCC fleet was fitted with double-layered outer hulls since 2002 – fully meeting industry guidelines. Furthermore, to meet the January 2020 regulations that limits the sulphur content in bunker fuel (from 3.50% to 0.50%), vessels with scrubbers – an exhaust gas cleaning system that removes SOx– were introduced in the shipping industry. This proved less costly than having to build an entire ship from scratch.

  In March 2020, IINO fitted its first VLCC with scrubbers. Moreover, the firm took delivery of two brand new VLCCs equipped with the latest technology, to improve emissions and reduce fuel consumption, one in September 2020 and the other in January 2021.

- Chemical tanker business

  IINO is a leading company in the chemical tanker business. As of March 2021, the firm operates a total of 42 chemical tankers (15 owned and 27 chartered). Approximately 70% of chemical tanker cargo transported by IINO is for petrochemical products (e.g., methanol and ethanol), and the remaining 30% is for non-petrochemical products (e.g., vegetable oils). According to *World's Top Chemical Tanker Operators Ranking 2020* by SHIPSFOCUS, IINO is one of the top five chemical tanker operators (in volume terms) of petrochemical products between the Middle East, one of the largest petrochemical producers, and the Far East that includes China, the largest consumer, and Europe.

- Gas carrier business

  IINO transports liquified gases, such as liquified petroleum gas [LPG] and liquified natural gas [LNG] via large gas carriers equipped with refrigerated tanks and compressors. The firm has operated its LPG carrier business for nearly 60 years, focusing essentially on medium- to long-term contracts in major LPG importing countries – Japan, Korea, and China.

Furthermore, due to the increasing requirements for environmental protection globally, LNG projects and LNG shipping have been rapidly surging. In LNG carrier business, the firm started a joint LNG carrier operation with a domestic power company. In the large gas carrier business, IINO operates total of 17 vessels (11 LNG and six LPG), all of which are self-owned except for one chartered LPG carrier.

The small gas carrier business (1,000~10,000 DWT) is operated by a wholly-owned subsidiary IINO Gas Transport [IGT], which operates inter-plant transportation in the domestic waters. IGT has a leading market share by shipping volume for the transportation of LPG and petrochemical gasses in the domestic waters. In the small gas carrier business, the firm not only transports LPG and petrochemical gases but also ethylene, LNG, and molten sulphur as well. IGT operates 26 small gas carriers (one LNG carrier, 24 LPG carrier of which two are owned by an overseas subsidiary, and one molten sulphur carrier), including 9 chartered LPG carrier.

- Dry bulk carrier business
  IINO offers both tramp (no fixed route) and dedicated services. Cargoes include coal for EPCOs, fertilisers, and wood chips. In the dry bulk carrier business, IINO operates total of 19 vessels (3 owned and 16 chartered). Of those chartered vessels, two are dedicated wood chip carriers. Due to a wide variety of cargoes, the firm operates a wide range in fleet of ships and sizes.

**Tonnage in Operation**

| | Total | | Owned※1 | | | Chartered※2 | | |
|---|---|---|---|---|---|---|---|---|
| As of end of Mar. 2021 | No. | DWT | No. | DWT | % | No. | DWT | % |
| Oil Tanker | 5 | 1,538,396 | 5 | 1,538,396 | 100% | 0 | 0 | 0% |
| Chemical Tanker | 42 | 1,435,054 | 15 | 537,046 | 37% | 27 | 898,008 | 63% |
| Large Gas Carrier | 17 | 1,123,657 | 16 | 1,068,523 | 95% | 1 | 55,134 | 5% |
| LNG Carrier | 11 | 798,884 | 11 | 798,884 | 100% | 0 | 0 | 0% |
| LPG Carrier | 6 | 324,773 | 5 | 269,639 | 83% | 1 | 55,134 | 17% |
| Dry Bulk Carrier | 19 | 1,026,950 | 3 | 255,785 | 25% | 16 | 771,165 | 75% |
| Dry Bulk Carrier | 17 | 930,051 | 3 | 255,785 | 28% | 14 | 674,266 | 72% |
| Woodchip Carrier | 2 | 96,899 | 0 | 0 | 0% | 2 | 96,899 | 100% |
| Small Gas Carrier | 26 | 60,266 | 17 | 28,461 | 47% | 9 | 31,805 | 53% |
| LNG Carrier | 1 | 1,938 | 1 | 1,938 | 100% | 0 | 0 | 0% |
| LPG Carrier | 24 | 56,541 | 15 | 24,736 | 44% | 9 | 31,805 | 56% |
| Molten Sulfer Carrier | 1 | 1,787 | 1 | 1,787 | 100% | 0 | 0 | 0% |
| Total | 109 | 5,184,323 | 56 | 3,428,211 | 66% | 53 | 1,756,112 | 34% |

※1 Includes tonnage owned by IINO LINES and affiliate companies or ownership partner's share.
※2 Includes short-term chartered vessels.

*Source: IINO Kaiun FY20 earnings results material*

## *The Real Estate Business*

IINO's Real Estate Business owns a wide range of properties. The firm undertakes the planning, operation and management of its portfolio which comprises office buildings, hall and conference centres, professional-use photo studios, commercial properties, and warehouses. All of its properties are in premium locations, most of which are in Tokyo.

As of end of June 2021, the firm has a total of seven office buildings on its books – six in Tokyo and one in London, UK. Founded in 1960, its flagship building, the IINO Building which is based in Uchisaiwaicho – a premium location in Tokyo close to the Imperial Palace – went through a major redevelopment which was completed in October 2011. While the building's office space is currently fully occupied, the commercial tenancy sites, such as restaurants and shop spaces, have been affected by closures related to COVID.

In addition to the above portfolio, IINO has been participating in the Shinbashi Tamuracho Project, now named Hibiya Fort Tower, which was completed on 30 June 2021. Of the 27 floors of office and commercial space developed, ca. 80% is filled, and it is just a block away from the IINO Building. The building is equipped with renewable and saving energy features such as solar panels, rooftop greening, low heat storage pavement, and various measures to shade from the direct sunlight. To cover some of the development cost, IINO has secured ¥8,500mil in funding in the form of green bonds and green loans. Prior to the financing, the Hibiya Fort Tower project was rated "Green1" – top of the environment-based credit rating awarded by the Japan Credit Research [JCR]. IINO was also awarded a positive environmental rating by Development Bank of Japan [DBJ] for "being progressive on considerations for environment". The benefits of these ratings are that they allow for reductions on the interest rate level paid on the loan.

In 2019, the firm acquired its first overseas property, Bracton House, in London, UK in a move to expand the business portfolio in Europe, not only in Real Estate business but also in Shipping. IINO reckons that European customers are more environmentally conscious and by engaging in business with such customers, it will gain the expertise required to meet the rising environmental demands in the shipping industry. The acquisition of the London property reflects the firm's aim to stay close to potential shipping customers in Europe and understand their environmental requirements.

As of the end of FY20 (a year to March 2021), IINO had ¥113,820mil estimated unrealised value on its real estate portfolio.

**Leasing Real Estate Value**

| (¥mil) | FY18 | FY19 | FY20 |
|---|---|---|---|
| Real estate for rent at the beginning of the year | 79,261 | 71,632 | 79,073 |
| change during the year | -7,629 | 7,440 | 4,254 |
| Real Estate for Rent at the end of the year | 71,632 | 79,073 | 83,326 |
| Market Value at the end of the year | 166,806 | 187,766 | 197,146 |
| Unrealised value at the year-end | 95,174 | 108,693 | 113,820 |

*Source: Nippon-IBR based on IINO Kaiun Yukashoken Hokokusho [YUHO] (FY18 ~ 20)*

## FY20 Earnings Results

IINO reported FY20 operating profit [OP] of ¥6,831mil (+71.8% YoY) on sales of ¥88,916mil (-0.3% YoY). FY20 is the first year of the new 3-year medium-term plan, *"Be Unique and Innovative.: The Next Stage - Towards 2030"*. FY20 sales were in line with company guidance of ¥88,000mil (-1.3% YoY) but OP overshot the plan's target of ¥3,800mil (-5.0% YoY) thanks to the stronger than expected Shipping segment, especially the Oceangoing business. The Shipping segment FY20 OP rose 143.1% YoY to ¥2,968mil, a vast improvement on the original guidance of ¥500mil (-59.0% YoY). Within the segment, Oceangoing FY20 OP surged 278.3% YoY to ¥2,463mil. The plan's guidance assumed that the negative impact to the global economy from COVID be evident over the course of the year and therefore would affect cargo flow.

***Shipping Segment***

- Oil tanker business
  During the 1H, a rapid drop in the crude oil price in May triggered speculative commodity traders to hire oil tankers as an offshore oil storage solution. Consequently, that led to a shortage in oil tanker carriers and a sharp rise in freight rates for naphtha and kerosene, but that dissipated in the 2H. Despite this volatility, IINO continued to service its long-term contracts which resulted in the firm enjoying stable earnings in the oil

tanker business throughout the year. The completion of two new VLCCs also improved the utilisation rate of the oil tanker business. As a result, segment FY20 OP increased by ¥100mil from a year ago.

- Chemical tanker business
  The firm operates 42 chemical tankers, of which ca. 10 vessels are on long-term charter. The remaining ca. 30 vessels transport total of ca. 6mil tonnes of cargo per year. Ca. 70% of the cargo is under contract of affreightment [COA] and the remaining 30% tends to correlate with the overall spot market conditions. COA is with a one-year fixed freight and is reviewed every year based on the current spot market. Factors such as reviewed COA freight, spot market conditions, and how to efficiently operate the vessels by combining COA and spot cargoes have a significant impact on profitability. Unlike oil and gas tankers which transport commodities between specified locations, chemical tanker needs are diverse and flexible service in that operators are required to promptly allocate vessels when and where the transportation demand arises. Because of the operational complexity, there is less than a handful of operators in the market capable of providing this level of service. During FY20 Q1, the chemical tanker market saw a tightening in the supply / demand balance which led to the subsequent rise in freight rates as product tanker capacity was being used as a storage solution for petrochemical products globally under lockdowns and subsequent slow-down of the global economic activities. This peaked out in Q2, but IINO remained profitable as it continued to operate vessels in its core routes (the Middle East to the Far East or to Europe), as well as handling spot cargo such as phosphoric acid solution from North Africa to various destinations. In FY20, the chemical tanker business contribution to segment OP improved ¥460mil YoY.

- Large gas carrier business
  The large gas carrier business contributed the most to the gain in the Oceangoing segment OP. The ¥1,120mil YoY increase in OP was partly due to the strong spot market as well as its existing long-term contracts. The supply of VLGC – very large gas carriers – is limited globally. LPG demand in China has been surging rapidly amid stricter environmental regulations enforced by the Chinese government. LPG shipments from the US to China will likely increase to 30mil tons in 2022, compared to the estimated 20mil tons shipped in 2019. IINO reckons that demand for VLGCs will remain solid, hence it has ordered two new VLGCs equipped with dual-fuel engines that can use both compliant fuel and LPG. As noted above, IINO is focusing on cultivating customers for its Shipping business in Europe. The firm's new hybrid VLGCs, which can be fuelled with LPG as well as other ecologically compatible oils, are to be delivered in FY21 and FY22. These vessels are reported to be able to not only reduce carbon dioxide [$CO_2$] by 20% but can cut sulphur oxide [SOx] by more than 90% and nitrogen oxide [NOx] emissions by 10~15% compared to vessels that are fuelled with non-compliant conventional bunker oil so should be well received by environmentally conscious cargo owners. The two VLGCs are already under contract with Equinor (DNQA: FRA), a Norwegian energy company, and Borealis (unlisted), an Austrian subsidiary of International Petroleum Investment Company specialising in polyolefins, base chemicals, and fertilisers.

- Dry bulk carrier business
  In the dry bulk market, demand in China rapidly recovered after the first wave of the pandemic, while other areas entered lockdown. Iron ore imports by China remained solid after Q2, offsetting the weak Q1. The business contributed a ¥340mil YoY increase in the segment OP.

***Real Estate Segment***

Real Estate FY20 OP rose 40.2% YoY to ¥3,863mil on sales of ¥11,049mil (-4.5% YoY). Not only did the flagship IINO Building sign a contract with a new tenant with higher than pre-COVID rent, earnings from Bracton House fully contributed to segment earnings. While the office leasing business remained stable, IINO Hall and Photo Studio saw a fall in usage due to COVID. The segment OP overshot the company guidance under the medium-term plan by ca. ¥600mil.

## *CAPEX and Depreciation*

IINO invested total CAPEX of ¥30,522mil in FY20, the majority of which was for two VLCCs in Oceangoing segment totalling ¥22,580mil. Real Estate CAPEX was ¥5,967mil which includes maintenance CAPEX and a part of Hibiya Fort Tower investment. Depreciation cost increased 13.8% YoY to ¥11,083mil. IINO categorises CAPEX as investment for the future stable income. In the Shipping business, increasingly rigid environmental regulations require large scale investment in vessels. FY20 Free cash flow was negative for the fourth consecutive year at -¥3,709mil.

Management views the FY20 CAPEX of ¥30,567mil (¥24,556mil in Shipping and ¥5,967mil in Real Estate) is likely to be the peak. The planned CAPEX for FY21 is for one 84,000m³ size large gas tanker and one 1,520m³ small gas tanker, and final costs related to the June 2021 completion of Hibiya Fort Tower.

**IINO Kaiun (9119): Segment Financial Summary (Quarterly Cumulative)**

| (¥mil / March year-end) | | FY16 | FY17 | FY18 | FY19 | FY20 | |
|---|---|---|---|---|---|---|---|
| | | Q4 | Q4 | Q4 | Q4 | Q4 | YoY (%) |
| Oceangoing | Sales | 63,012 | 62,391 | 65,296 | 68,891 | 69,641 | 1.1 |
| | OP | 2,626 | 1,713 | 583 | 651 | 2,463 | 278.3 |
| | OPM (%) | 4.2 | 2.7 | 0.9 | 0.9 | 3.5 | +2.6pp |
| | Asset | 84,781 | 89,569 | 102,882 | 112,844 | 118,070 | 4.6 |
| | CAPEX | 16,447 | 15,582 | 20,598 | 15,144 | 22,580 | 49.1 |
| | Depreciation | 5,787 | 5,809 | 6,205 | 7,165 | 8,354 | 16.6 |
| Short-sea / domestic | Sales | 8,059 | 8,471 | 8,975 | 8,717 | 8,225 | -5.6 |
| | OP | 180 | 700 | 926 | 570 | 505 | -11.4 |
| | OPM (%) | 2.2 | 8.3 | 10.3 | 6.5 | 6.1 | -0.4pp |
| | Asset | 9,475 | 6,295 | 11,362 | 10,254 | 10,849 | 5.8 |
| | CAPEX | 1,849 | 44 | 290 | 1,977 | 1,976 | -0.1 |
| | Depreciation | 603 | 656 | 642 | 583 | 749 | 28.5 |
| Shipping Total | Sales | 71,071 | 70,862 | 74,271 | 77,608 | 77,866 | 0.3 |
| | OP | 2,806 | 2,413 | 1,509 | 1,221 | 2,968 | 143.1 |
| | OPM (%) | 3.9 | 3.4 | 2.0 | 1.6 | 3.8 | +2.2pp |
| | Asset | 94,256 | 95,864 | 114,244 | 123,098 | 128,919 | 4.7 |
| | CAPEX | 18,296 | 15,626 | 20,888 | 17,121 | 24,556 | 43.4 |
| | Depreciation | 6,390 | 6,465 | 6,847 | 7,748 | 9,103 | 28.5 |
| Real estate | Sales | 12,249 | 10,472 | 10,572 | 11,571 | 11,049 | -4.5 |
| | OP | 3,786 | 3,238 | 3,273 | 2,755 | 3,863 | 40.2 |
| | OPM (%) | 30.9 | 30.9 | 31.0 | 23.8 | 35.0 | +11.2pp |
| | Asset | 84,496 | 87,073 | 87,615 | 90,059 | 90,799 | 0.8 |
| | CAPEX | 187 | 5,184 | 2,839 | 274 | 5,967 | 2077.7 |
| | Depreciation | 2,158 | 2,043.0 | 2,070 | 1,992 | 1,979 | -0.7 |
| Total | Sales | 83,320 | 81,334 | 84,843 | 89,179 | 88,916 | -0.3 |
| | OP | 6,591 | 5,651 | 4,782 | 3,976 | 6,831 | 71.8 |
| | OPM (%) | 7.9 | 6.9 | 5.6 | 4.5 | 7.7 | +3.2pp |
| | Asset | 203,969 | 210,237 | 222,435 | 231,088 | 245,611 | 6.3 |
| | CAPEX | 18,483 | 20,810 | 23,737 | 17,395 | 30,522 | 75.5 |
| | Depreciation | 8,548 | 8,509 | 8,918 | 9,740 | 11,083 | 13.8 |

*Source: IINO Kaiun Yukashoken Hokokusho (YUHO) and Financial Report Summary*

## FY21 Outlook

IINO is guiding for FY21 1H OP of ¥1,200mil (-69.4% YoY) on sales of ¥44,000mil (+1.8% YoY) and FY21 full-year OP of ¥4,100mil (-40.0% YoY) on sales of ¥88,000mil (-1.0% YoY). IINO plans to report an extraordinary profit of ca. ¥2,900mil in Q2 from the sale of a large gas carrier occurred during Q1. Therefore, net profit [NP] is estimated at ¥2,700mil in 1H and ¥6,000mil for the full year. FY21 guidance is short of the medium-term plan target, which is OP of ¥7,000~¥8,000mil on sales of ¥90,000~¥11,000mil.

### *Shipping Segment*

IINO is guiding for FY21 Shipping OP of ¥300mil (-90% YoY), which is ca. ¥2,200mil~¥3,200mil short compared to the plan due to:

- An increase in provisions for potential repair costs in the Oil Tanker business
- Likely decline of ca. ¥2,000mil in profit in the Chemical Tanker business due to the prolonged impact of COVID on seaborne trade and a delay in the market recovery. Improving the profitability of the Chemical Tanker business will be a primary focus for IINO during FY21.
- A decline in capacity and, therefore, volumes on the back of the disposal of a large gas carrier is likely to reduce segment profit by ca. ¥500mil. VLGC freight rates hit near nine-month lows at $27/MT on 3 March 2021 but have since recovered to close to $60/MT thanks to an increase in dry docks. According to *the Clarkson Ship Type Orderbook Monitor* published in April 2021, there are 319 VLGCs (larger than 65,000c $m^3$) globally as of March 2021 – a rise of 53 vessels since the end of 2017.
- Higher expenses associated with crew changes due to COVID-related restrictions, such as tighter border control, stringent measures on infection control and deviation from the normal sailing routes to pick up crews from different ports. Increase in costs is estimated to push up costs by ca. ¥500mil.
- A recovery in the dry bulk carrier market is expected, however, it will unlikely offset aforementioned negative factors. The firm has already completed restructuring of the business to balance ship space and cargo volume.

### *Real Estate Segment*

Real Estate segment profit will likely fall short of the medium-term plan target by ¥700mil to ¥3,800mil due to:

- Steady revenue flow.
- A partial increase in maintenance costs.
- Slow revenue recovery from commercial tenants, IINO Hall, and Photo Studios due to the prolonged COVID impact.

The new Hibiya Fort Tower was completed in June 2021; hence the firm expects an earnings contribution from the Hibiya Fort Tower from Q2 onwards.

### *Shareholder Return*

IINO plans to pay an annual cash dividend of ¥17.00/share (-22.7% YoY), based on its principal shareholder return of 30% dividend pay-out ratio.

## Medium-term Plan (FY2020~2022)

Over the next three years, management plan is to take the firm out of its comfort zone to grow while still maintaining existing business model. Compared to the previous medium-term management plan in which IINO aimed to create a business model that generated stable earnings, the new plan will focus on the followings:

1. Further solidify stable earnings
2. Further promote global business potential
3. Work on sustainability initiatives

From June 2021, the newly established Business Strategy Department will aim to capture global business opportunities and needs in sustainability. DX (digital shift) Taskforce started working on support work-life balance of employees from August 2020. The firm aligned investment plan to the aforementioned three focus areas.

The current medium-term plan runs for three years, from FY20 to FY22. In the final year, IINO aims to achieve OP of ¥7,500~8,500mil (3-year CAGR of 23.6%~28.8%) on sales of ¥90,000~¥110,000mil (3-year CAGR of 0.3%~7.2%). For FY22 OP, the Shipping Segment is expected to reach ¥2,500~3,500mil (3-year CAGR of 27.0%~42.1%) and ¥5,000mil (3-year CAGR of 22.0%) will come from the Real Estate Segment. FY22 EBITDA (adding back depreciation cost and dividends received from investment including equity method) target is ¥19,500~20,500mil, almost 1.5 times that of FY19 (¥13,900mil). The ROE target is 8~9%. The firm already achieved 10% ROE in FY20 thanks to the unexpectedly strong shipping market. The medium-term aim is to sustainably return above 8% on equity.

***ESG & SDGs Focus***

IINO takes sustainability initiatives seriously and has separately set up the IINO Environment Management Taskforce to address environmental issues on the cross-organisational basis, to formulate a roadmap, and to provide periodic data reporting to President and Representative Director.

The shipping business requires not only fleet maintenance but safe and sophisticated quality control management, especially under the growing pressure for the industry to reduce any negative impact it has on the environment. The International Maritime Organisation's [IMO] role is to establish globally uniform rules and regulations to protect the marine environment. It has 174 member countries. Air pollutant emissions from vessels such as sulphur oxides [SOx] and nitrogen oxides [NOx] are regulated under Appendix VI of the Marine Pollution Prevention Treaty [MARPOL]. The most recent regulation (Jan 2020) has been to limit the sulphur content in bunker fuel from 3.50% to 0.50%. To meet these tighter SOx regulations, the shipping industry is switching to bunker fuel in compliance to the new rule, retrofitting scrubbers to existing vessels, and/or replacing to LNG-fuelled vessels.

IINO undertakes various measures to reduce environmental burdens in the Shipping business. For example,

1. Control $CO_2$ emissions by reducing usage of fuel oil through efficient operations. IINO also implements a fuel consumption results reporting system (DCS: Data Collection System).
2. In preparation for the event of a lubrication oil leak, IINO is adopting an environmentally conscious lubricating oil that quickly dissolves naturally in the ocean.
3. The company was rated management level "B-", in research analysing climate change data through CDP, an international non-governmental organization (2020).
4. To use methanol fuel-run vessels to reduce SOx emissions.
5. IINO aims to reduce greenhouse gas from the vessels by 40% per unit of transportation in 2030 and by 50% of total emissions in 2050 vs. 2008 through the introducing dual-fuel ships, larger vessel size, slower cruise speed, switching to EEDI engines and further technological innovation. Two new VLGCs equipped with dual-fuel engine that can use both compliant fuel and LPG can reduce GHG by ca. 20%.

In the Real Estate segment, the firm's properties have achieved the low carbon emission rate in the domestic standard. Through energy management, switching to higher energy efficiency equipment, renewable energy etc., IINO aims to reduce $CO_2$ emission per $m^2$ by 40% in 2030 and 50% in 2050 from that of 2008.

**IINO Kaiun (9119) : Results and Medium-term Plan Target (FY20~22)**

| (¥mil) | FY19 Actual | FY20 Target | FY20 Actual | FY21 Target | FY21 Guidance | FY22 Target | FY22 3-yr CAGR (%) | FY30 Target | FY30 10-yr CAGR (%) |
|---|---|---|---|---|---|---|---|---|---|
| Sales | 89,179 | 88,000 | 88,916 | 90,000~ 110,000 | 88,000 | 90,000~ 110,000 | 0.3~7.2 | 160,000 | 6.1 |
| OP | 3,976 | 3,800 | 6,831 | 7,000~ 8,000 | 4,100 | 7,500~ 8,500 | 23.6~28.8 | 12,000 | 5.8 |
| Shipping | 1,221 | 500 | 2,968 | 2,500~ 3,500 | 300 | 2,500~ 3,500 | 27.0~42.1 | 6,000 | 7.3 |
| Real Estate | 2,755 | 3,300 | 3,863 | 4,500 | 3,800 | 5,000 | 22.0 | 6,000 | 4.5 |
| RP | 3,455 | 3,600 | 6,810 | 6,500~ 7,500 | 3,900 | 7,000~ 8,000 | 26.5~32.3 | 10,000 | 3.9 |
| NP | 3,788 | 4,500 | 7,655 | 6,000~ 7,000 | 6,000 | 7,000~ 8,000 | 22.7~28.3 | 10,000 | 2.7 |
| EBITDA | 13,900 | 15,600 | 18,800 | 19,000~ 20,000 | n/a | 19,500~ 20,500 | 11.9~13.8 | 25,000 | 2.9 |
| ROE (%) | 5.2 | 6.0 | 10.0 | 7.0~8.0 | n/a | 8.0~9.0 | | 10.0 | |
| D/E Ratio (x) | 1.72 | max 2.0 | 1.65 | max 2.0 | n/a | max 2.0 | | max 2.0 | |
| FOREX Assumption (¥/US$) | 109.13 | 105.00 | 105.79 | 105.00 | 105.00 | 105.00 | | n/a | |
| AVG bunker (C Heavy Oil, US$/MT) | 412 | 1H: 300 | 346 | 650 | 500 | 650 | | n/a | |
| AVG bunker (Compliant Fuel, US$/MT) | 598 | 2H: 500 | | | | | | | |

*Source: Nippon-IBR based on IINO Kaiun Medium-term Management Plan and FY20 earnings results presentation materials*

## Corporate Governance Issues

IINO's Board of Directors is made up of eight directors including three external directors. It has a board of four auditors, three of which are external auditors. The Board of Directors and Auditors together have total of 12 members of which six or 50% are external members. A proposal to appoint a female external auditor was voted for at the AGM held on 25 June 2021.

There are two issues concerning the firm's corporate governance.

1. Investment Securities

   IINO had a total of ¥18,743mil in investment securities on the balance sheet as of March 2021 and it holds shares in 36 listed companies in its portfolio and is valued at ca. 1/3 of IINO's current market cap. Out of those 36, 17 are crossholdings and, in line with the Corporate Governance Code [CGC] implemented as of 11 June 2021, management periodically reviews the relationship and significance of those holdings to its business.

   Given IINO's daily volume traded is ca. ¥150mil (ca. US$1.4mil) per day on the 22-day average basis, by unwinding its crossholdings it might possibly improve liquidity or at least make the extra fund available for the firm to enhance shareholder return or reinvest for the future growth.

2. Continued Poison Pill

   A poison pill policy was put in place to counter a potential take-over bid [TOB] was voted for the June 2019 AGM and will remain until 2022. The policy targets those who attempt to buy more than 20% of the voting rights and is within CGC guidelines. Poison pills are not often favoured by investors, and they tend to support companies that strengthen their governance in connection with capital allocation policies, that ultimately enhance their enterprise value.

   IINO explains the principal reasons for the poison pill policy, in summary, as follows:

   - To secure sufficient time for shareholders to make informed decisions to accept the TOB proposal or not.
   - To enable the firm to counteract against TOB in a situation that the hostile corporate acquisition could take place for the sole purpose of the purchaser's own short-term interests and such an action may materially damage the firm's corporate value and common interests of its shareholders.

The current policy specifies criteria under which the policy can be exercised to avoid conflict of interest. That is, in the event of actually triggering the counteraction, the system requires either consultation with an independent special committee or an approval resolution at a general meeting to confirm shareholders' intentions before a resolution is passed by the board of directors. It is not that the company unconditionally denies large-scale acquisition of its shares if it could lead to the medium and long-term enhancement of the Company’s corporate value and the common interests of its shareholders.

## Financial Summary

**P&L Summary**

| (¥mil) | FY12 | FY13 | FY14 | FY15 | FY16 | FY17 | FY18 | FY19 | FY20 | FY21CE |
|---|---|---|---|---|---|---|---|---|---|---|
| Accounting Standard (Japan) | Consol | Consol | Consol | Consol | Consol | Consol | Consol | Consol | Consol | Consol |
| Sales | 86,021 | 96,701 | 100,177 | 94,843 | 83,320 | 81,334 | 84,843 | 89,179 | 88,916 | 88,000 |
| YoY (%) | 10.3 | 12.4 | 3.5 | -5.4 | -12.2 | -2.4 | 4.3 | 5.1 | -0.3 | -1.1 |
| COGS | 75,234 | 83,621 | 85,799 | 79,974 | 69,880 | 68,816 | 73,160 | 78,074 | 75,589 | |
| Gross Profit (GP) | 10,787 | 13,079 | 14,378 | 14,869 | 13,440 | 12,518 | 11,683 | 11,105 | 13,326 | |
| GPM (%) | 12.5 | 13.5 | 14.4 | 15.7 | 16.1 | 15.4 | 13.8 | 12.5 | 15.0 | |
| SG&A | 5,908 | 6,234 | 6,392 | 6,754 | 6,848 | 6,867 | 6,901 | 7,129 | 6,495 | |
| Operating Profit (OP) | 4,879 | 6,846 | 7,986 | 8,115 | 6,591 | 5,651 | 4,782 | 3,976 | 6,831 | 4,100 |
| YoY (%) | 207.4 | 40.3 | 16.6 | 1.6 | -18.8 | -14.3 | -15.4 | -16.9 | 71.8 | -40.0 |
| OPM (%) | 5.6 | 7.0 | 7.9 | 8.5 | 7.9 | 6.9 | 5.6 | 4.4 | 7.6 | 4.6 |
| Interest & dividend received | 914 | 1,145 | 1,256 | 904 | 348 | 931 | 1,324 | 820 | 905 | |
| Interest payment | 2,754 | 2,774 | 2,566 | 2,368 | 2,018 | 1,704 | 1,608 | 1,463 | 1,256 | |
| Investment gains & losses | -1,058 | 373 | 241 | 1,715 | 309 | 176 | -71 | 311 | 324 | |
| Recurring Profit (RP) | 2,259 | 5,953 | 7,194 | 7,655 | 5,105 | 4,631 | 4,701 | 3,455 | 6,810 | 3,900 |
| YoY (%) | n/a | 163.5 | 20.8 | 6.4 | -33.4 | -9.3 | 1.5 | -26.6 | 97.1 | -42.8 |
| RPM (%) | 2.6 | 6.2 | 7.2 | 8.1 | 6.1 | 5.7 | 5.5 | 3.9 | 7.7 | 4.4 |
| Pre-tax Profit | 1,412 | 5,265 | 5,302 | 4,267 | 3,854 | 4,609 | 5,257 | 4,193 | 8,158 | |
| Tax costs | 243 | 273 | 93 | 602 | -19 | 344 | 467 | 414 | 513 | |
| Minority shareholder interest | -3 | -72 | 4 | -6 | 12 | -22 | -105 | 8 | 10 | |
| Net Profit (NP) | 1,166 | 4,920 | 5,213 | 3,659 | 3,885 | 4,243 | 4,685 | 3,788 | 7,655 | 600 |
| YoY (%) | n/a | 321.9 | 5.9 | -29.9 | 6.1 | 9.2 | 10.4 | -19.2 | 102.0 | -92.2 |
| Comprehensive Profit | 1,653 | 6,051 | 8,446 | 497 | 4,607 | 4,780 | 4,814 | 1,939 | 7,782 | |

*Source: Nippon-IBR based on IINO Kaiun's presentation materials, YUHOs and Toyo Keizai estimate*

**Balance Sheet Summary**

| (¥mil) | FY12 | FY13 | FY14 | FY15 | FY16 | FY17 | FY18 | FY19 | FY20 |
|---|---|---|---|---|---|---|---|---|---|
| Accounting Standard (Japan) | Consol | Consol | Consol | Consol | Consol | Consol | Consol | Consol | Consol |
| Current Asset | 25,810 | 36,496 | 31,455 | 29,125 | 25,145 | 24,758 | 24,365 | 29,884 | 29,818 |
| Fixed Asset | 186,914 | 188,816 | 197,238 | 201,153 | 178,824 | 185,480 | 198,070 | 201,204 | 215,793 |
| Tangible | 171,114 | 171,338 | 174,779 | 181,113 | 157,234 | 163,209 | 175,326 | 182,056 | 194,244 |
| Intangible | 604 | 552 | 560 | 578 | 634 | 594 | 579 | 551 | 529 |
| Investment and others | 15,195 | 16,925 | 21,899 | 19,463 | 20,956 | 21,677 | 22,165 | 18,597 | 21,019 |
| Total Asset | 212,724 | 225,312 | 228,693 | 230,278 | 203,969 | 210,238 | 222,435 | 231,088 | 245,611 |
| Current Liability | 38,684 | 46,306 | 36,416 | 35,342 | 38,039 | 41,709 | 51,607 | 47,563 | 44,345 |
| Fixed Liability | 126,812 | 120,439 | 126,369 | 129,651 | 97,156 | 99,291 | 97,752 | 110,097 | 121,430 |
| Net Asset | 47,228 | 58,568 | 65,907 | 65,285 | 68,774 | 69,237 | 73,077 | 73,428 | 79,835 |
| Capital | 13,092 | 13,092 | 13,092 | 13,092 | 13,092 | 13,092 | 13,092 | 13,092 | 13,092 |
| Capital Surplus | 6,431 | 7,613 | 7,613 | 7,613 | 7,613 | 7,613 | 7,613 | 7,613 | 6,275 |
| Retained Earnings | 29,820 | 34,007 | 38,111 | 40,667 | 43,443 | 46,576 | 50,341 | 52,542 | 58,822 |
| Treasury Shares | -4,910 | -48 | -49 | -49 | -50 | -3,244 | -3,245 | -3,245 | -1,907 |
| Minority Interest | 346 | 263 | 22 | 89 | 65 | 113 | 149 | 143 | 105 |
| Shareholders' Equity | 46,881 | 58,304 | 65,885 | 65,196 | 68,710 | 69,124 | 72,928 | 73,285 | 79,730 |
| Shareholders' Equity Ratio (%) | 22.0 | 25.8 | 28.8 | 28.3 | 33.6 | 32.8 | 32.7 | 31.7 | 32.4 |
| Interest-bearing Debt | 135,768 | 130,189 | 126,353 | 130,383 | 107,796 | 115,112 | 117,971 | 126,327 | 126,744 |

*Source: Nippon-IBR based on IINO Kaiun's presentation materials, YUHOs and Toyo Keizai estimate*

**Cash Flow Summary**

| (¥mil) | FY12 | FY13 | FY14 | FY15 | FY16 | FY17 | FY18 | FY19 | FY20 |
|---|---|---|---|---|---|---|---|---|---|
| Accounting Standard (Japan) | Consol | Consol | Consol | Consol | Consol | Consol | Consol | Consol | Consol |
| Operating Cash Flow | 11,311 | 13,785 | 16,107 | 18,804 | 11,075 | 12,117 | 14,549 | 13,079 | 19,282 |
| Depreciation | 10,515 | 8,529 | 8,678 | 8,867 | 8,548 | 8,509 | 8,918 | 9,740 | 11,083 |
| Goodwill Amortisation | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Change in Sales Receivables | -2,398 | -1,766 | 1,458 | 1,760 | 746 | 103 | 209 | -471 | -531 |
| Change in inventories | 0 | 0 | 1,051 | 697 | -412 | -333 | -503 | 161 | -215 |
| Change in Accounts Payable | 211 | 858 | -1,006 | -89 | -1,086 | 180 | 259 | -237 | 635 |
| Investment Cash Flow | -11,567 | -2,224 | -13,022 | -18,551 | 12,788 | -15,399 | -21,202 | -14,840 | -22,991 |
| Free Cash Flow | -256 | 11,561 | 3,085 | 253 | 23,863 | -3,282 | -6,653 | -1,761 | -3,709 |
| Finance Cash Flow | -3,056 | -3,862 | -8,594 | 2,475 | -27,242 | 3,350 | 5,826 | 6,234 | 2,894 |
| Cash and Cash Equivalent | 8,670 | 16,906 | 11,965 | 14,326 | 10,719 | 10,536 | 9,826 | 14,208 | 13,301 |

*Source: Nippon-IBR based on IINO Kaiun's presentation materials, YUHOs and Toyo Keizai estimate*

**Per-share indicators**

| (¥mil) | FY12 | FY13 | FY14 | FY15 | FY16 | FY17 | FY18 | FY19 | FY20 | FY21CE |
|---|---|---|---|---|---|---|---|---|---|---|
| EPS | 11.66 | 45.77 | 46.98 | 32.97 | 35.01 | 38.53 | 44.28 | 35.80 | 72.35 | 56.71 |
| BPS | 468.86 | 525.39 | 593.72 | 587.51 | 619.18 | 653.29 | 689.25 | 692.63 | 753.55 | |
| Dividend | 4.00 | 8.00 | 10.00 | 10.00 | 10.00 | 10.00 | 15.00 | 12.00 | 22.00 | 17.00 |

*Source: Nippon-IBR based on IINO Kaiun's presentation materials, YUHOs and Toyo Keizai estimate*

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For further enquiry, please contact:
Yumi Yamamoto-Tyrrell
Nippon Investment Bespoke Research UK Ltd
118 Pall Mall
London SW1Y 5EA
TEL: +44 (0)20 7993 2583
Email: enquiries@nippon-ibr.com

Research Beyond Horizons
Japanese Equity Specialist

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