IINO KAIUN KAISHA (9119 JP)

DESPITE GEOPOLITICAL RISKS LIKELY AFFECTING SHIPPING MARKETS, FY22 EARNINGS WILL REMAIN STABLE.

FY21 RESULTS SUMMARY

IINO reported FY21 (March year-end) operating profit [OP] of ¥7,524mil (+10.1% YoY) on sales of ¥104,100mil (+17.1% YoY). The firmed revised up its original guidance (OP of ¥5,900mil on sales of ¥103,000mil) prior to the results announcement due to:

1. A stronger than expected chemical tanker market, which led to an upward revision in OP,
2. An increase in dividends received (¥2,122mil) from business investments, boosting RP up from ¥6,810mil to ¥9,431mil (+38.5% YoY), and
3. FOREX gains (¥780mil) due to the weaker yen.

As a result, the annual dividend was also revised from the original ¥29/share to ¥36, in line *with* the firm's dividend pay-out policy of 30%.

Earnings Summary: IINO KAIUN (9119 JP)

(¥mil)	FY20	FY21	YoY (%)
Sales	88,916	104,100	17.1
OP	6,831	7,524	10.1
RP	6,810	9,431	38.5
NP	7,655	12,526	63.6
Avg. ¥/$	105.79	112.06	
Avg. Bunker Price ($/MT, High sulphur)	269	423	
Avg. bunker price ($/MT, super low sulphur)	346	558	

Source: Nippon-IBR based on IINO Kaiun FY21 Results Presentation Material

FY21 REVIEW BY SEGMENTS

IINO's business is largely divided into two businesses, 1) Shipping Segment and 2) Real Estate Segment. Both businesses commonly provide essential social infrastructure.

Shipping Segment

In the Shipping Segment, IINO Kaiun operates (a) liquid cargo transportation via oil tankers, chemical tankers, and LNG and LPG tankers, and (b) bulk shipping by dry bulk carriers. Unlike some of the larger Japanese shipping companies that hold significant exposure to the container ship market, IINO does not engage in that business. As of March 2022, IINO Group operates a total of 92 vessels (47 self-owned and 45 chartered). The Segment earned FY21 OP of ¥3,373mil (+13.6% YoY) on sales of ¥91,943mil (+18.1% YoY) and is largely comprised of the following two subsegments:

1) The Oceangoing business includes the oil tankers, chemical tankers, large gas carriers and dry bulk shipping operations. Apart from tramp services (spot contract) in the dry bulker and the chemical tanker operations, IINO essentially engages in contract of affreightment (COA) and medium- to long-term contracts so as to limit the impact from the shipping market volatility to the segment earnings. The segment generated FY21 OP of ¥2,860mil (+16.1% YoY / +¥397mil YoY) on sales of ¥82,408mil (+18.3% YoY).

EXECUTIVE SUMMARY

- IINO reported FY21 (March year-end) operating profit [OP] of ¥7,524mil (+10.1% YoY) on sales of ¥104,100mil (+17.1% YoY). The market's better-than-expected conditions were due to: 1) a stronger chemical tanker market, 2) an increase in dividends received, and 3) FOREX gains.
- The Shipping Segment earned FY21 OP of ¥3,373mil (+13.6% YoY) on sales of ¥91,943mil (+18.1% YoY), while the Oceangoing business, comprising dry bulker, chemical and Oil & LPG tanker operations, earned FY21 OP of ¥2,860mil (+16.1% YoY) on sales of ¥82,408mil (+18.3% YoY). The Real Estate Segment continued to generate stable earnings with FY21 OP of ¥4,150mil (+7.4% YoY) on sales of ¥12,158mil (+10.0% YoY).
- IINO is guiding for FY22 OP of ¥7,000mil (-7.0% YoY) on sales of ¥112,000mil (+7.6% YoY).
- FY21 OP of ¥7,000mil will be split into ¥2,900mil from the Shipping segment with assumptions of 1) FOREX ¥120.00/$, 2) bunker rates of $760/MT, 3) Panamax freight of $20,000/day, and 4) Small Handy freight of $19,000/day. The Real Estate segment will earn ¥4,100mil (-2.4% YoY).
- The renewal of a poison pill policy put in place to counter a potential take-over bid [TOB] will be put to a vote at the June 2022 AGM. The policy targets those who attempt to buy more than 20% of the voting rights and is within CGC guidelines. In the event of this being triggered, consultation with an independent special committee or an approval resolution at a general meeting to confirm shareholders' intentions is required before any resolution can be passed by the board of directors.

Each of the shipping operations' activities are as follows:

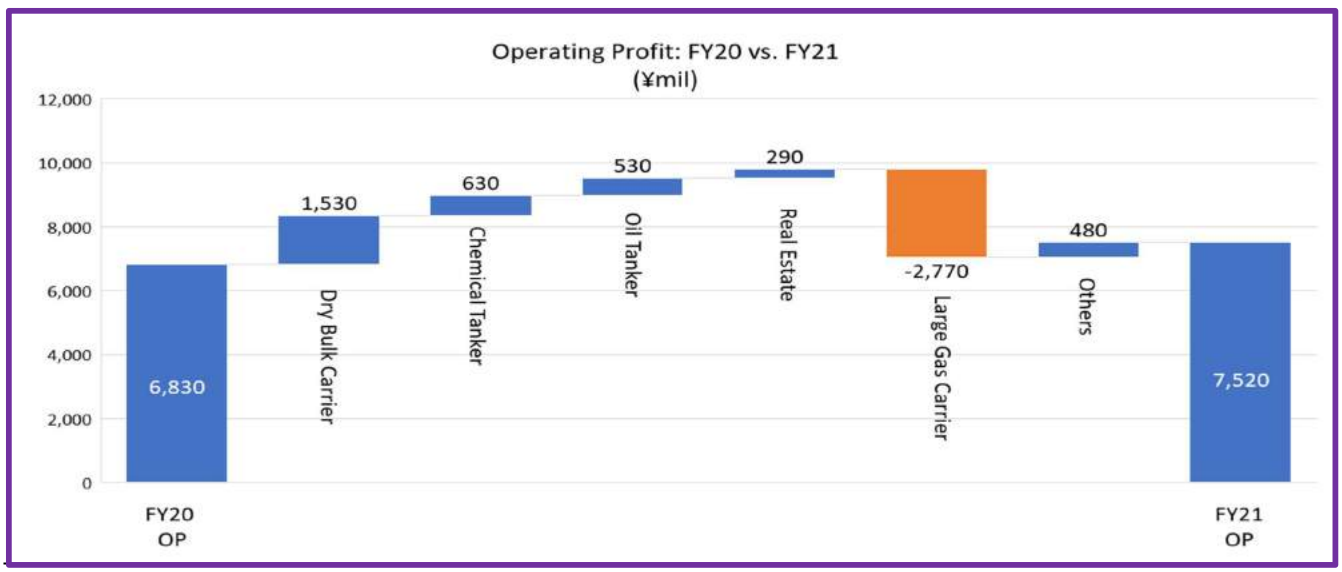
- The Dry Bulker Business contributed ¥1,530mil to the increase in FY21 OP thanks to stable demand in Q4. During FY21, crude steel production in China declined on the back of the rapid surge in prices of raw materials and fuel, which improved port congestion. In addition, the market was buoyed by improved economic activities after the Lunar New Year, especially in the Pacific region, which lasted throughout Q4.
- The Chemical Tanker Business spot market was stronger than expected – some 30% of the firm's chemical tanker business is exposed to this market. The supply-demand balance of the chemical tanker market remained tight in 2H, on the back of tightened quarantine restrictions at ports in China.

  In other regions, however, the market was rather sluggish. The inflow of product tankers in the chemical tanker market, and reduced demand affected by the bad weather in the southern part of US which led to the temporary closure of chemical plants. Usually, the winter is the high season for the business. Shipping demand from the US picked up as chemical plants resumed operation. Furthermore, due to the situation in Ukraine, shipping demand for petroleum and chemical products from the US and the Middle East to Europe increased. As a result, product tankers were withdrawn from the chemical tanker market and demand for chemical tanker freight subsequently recovered, contributing ¥630mil to segment OP growth.
- Oil and Large Gas (LPG/LNG) Tankers
  The Oil Tanker business contributed ¥530mil to segment OP growth, thanks to the delivery of two new vessels in FY20. Earnings from the operation of those two new vessels offset the rise in dockage costs. However, the LPG tanker business saw a drop in OP by ¥2,770mil as the sale of one ship led to lower utilisation. At the same time, the VLGC market softened compared to the soaring market in FY20 – 16% of the LPG tanker business is exposed to the spot market. Dockage costs for LNG tankers also negatively affected segment earnings.

2) The Shortsea / Domestic operations are run by IINO Gas Transport, a 100%-owned subsidiary, which operates inter-plant transportation of liquified gases in the domestic waters. The business earned FY21 OP of ¥513mil (+1.6% YoY) on sales of ¥9,535 (+15.9% YoY).

Real Estate Segment

IINO owns and manages seven office buildings, including the flagship IINO Building, the firm has part ownership in Hibiya Fort Tower (opened in July 2021), and Bracton House in London, UK. Segment FY21 OP rose 7.4% YoY to ¥4,150mil on sales of ¥12,158mil (+10.0% YoY). Not only did the new Hibiya Fort Tower contribute to segment earnings, the improved utilisation of Bracton House and a recovery in the utilisation of IINO HALL and Photo Studio, both of which were affected by the COVID closures, also bolstered growth.



Source: Nippon-IBR based on IINO Kaiun's FY21 earnings presentation material

IINO Kaiun (9119): Segment Financial Summary

(¥mil)		FY16	FY17	FY18	FY19	FY20	FY21	
		FY	FY	FY	FY	FY	FY	YoY (%)
Ocean-going	Sales	63,012	62,391	65,296	68,891	69,641	82,408	18.3
	OP	2,626	1,713	583	651	2,463	2,860	16.1
	OPM (%)	4.2	2.7	0.9	0.9	3.5	3.5	+0.0pp
	Assets	84,781	89,569	102,882	112,844	118,070	114,004	-3.4
	CAPEX	16,447	15,582	20,598	15,144	22,580	5,329	-76.4
	Depreciation	5,787	5,809	6,205	7,165	8,354	8,676	3.9
Short-sea / domestic	Sales	8,059	8,471	8,975	8,717	8,225	9,535	15.9
	OP	180	700	926	570	505	513	1.6
	OPM (%)	2.2	8.3	10.3	6.5	6.1	5.4	-0.7pp
	Assets	9,475	6,295	11,362	10,254	10,849	15,719	44.9
	CAPEX	1,849	44	290	1,977	1,976	3,941	99.4
	Depreciation	603	656	642	583	749	795	6.1
Shipping Total	Sales	71,071	70,862	74,271	77,608	77,866	91,943	18.1
	OP	2,806	2,413	1,509	1,221	2,968	3,373	13.6
	OPM (%)	3.9	3.4	2.0	1.6	3.8	3.7	-0.1pp
	Assets	94,256	95,864	114,244	123,098	128,919	129,723	0.6
	CAPEX	18,296	15,626	20,888	17,121	24,556	9,270	-62.2
	Depreciation	6,390	6,465	6,847	7,748	9,103	9,471	4.0
Real estate	Sales	12,249	10,472	10,572	11,571	11,049	12,158	10.0
	OP	3,786	3,238	3,273	2,755	3,863	4,150	7.4
	OPM (%)	30.9	30.9	31.0	23.8	35.0	34.1	-0.9pp
	Assets	84,496	87,073	87,615	90,059	90,799	93,481	3.0
	CAPEX	187	5,184	2,839	274	5,967	2,967	-50.3
	Depreciation	2,158	2,043	2,070	1,992	1,979	2,257	14.0
Total	Sales	83,320	81,334	84,843	89,179	88,916	104,100	17.1
	OP	6,591	5,651	4,782	3,976	6,831	7,524	10.1
	OPM (%)	7.9	6.9	5.6	4.5	7.7	7.2	-0.5pp
	Assets	203,969	210,237	222,435	231,088	245,611	247,130	0.6
	CAPEX	18,624	20,842	23,760	17,410	30,567	12,423	-59.4
	Depreciation	8,548	8,509	8,918	9,740	11,083	11,728	5.8

Source: Nippon-IBR based on IINO Kaiun Yukashoken Hokokusho (YUHO) and FY21 Tanshin

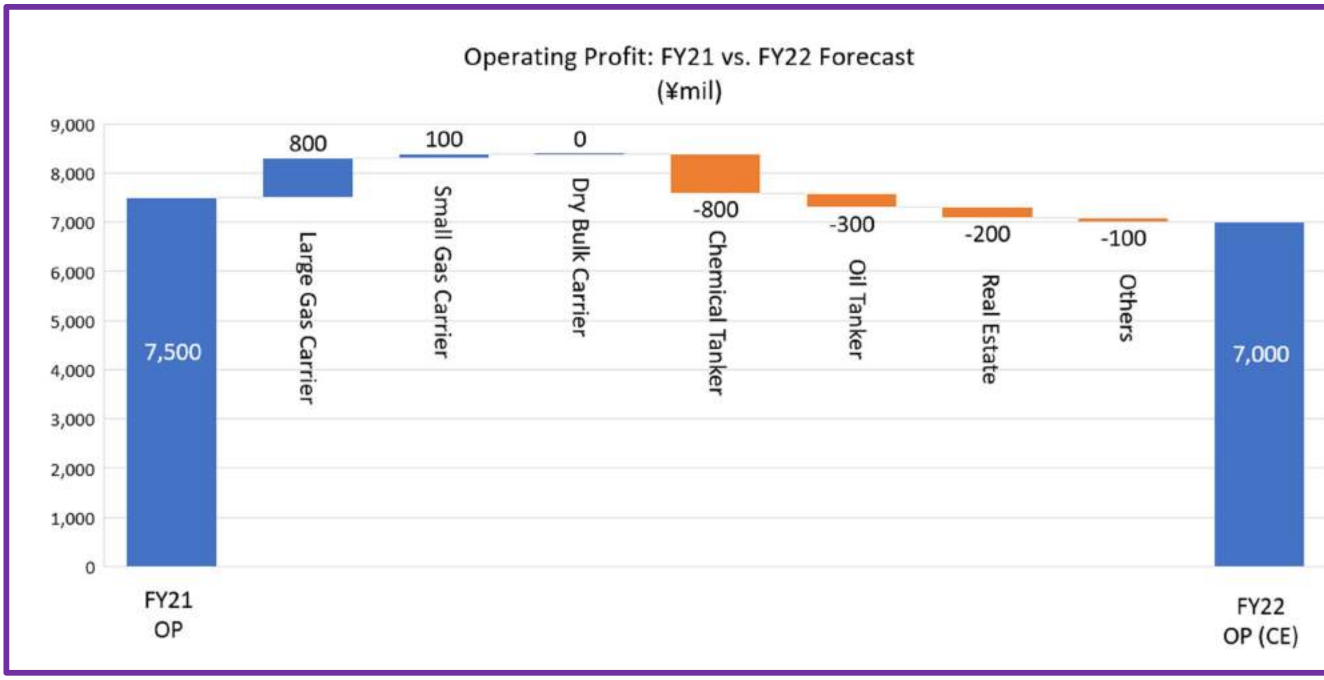
FY22 OUTLOOK

IINO is guiding for FY22 1H OP of ¥3,600mil (+97.7%% YoY) on sales of ¥56,000mil (+14.3% YoY) and FY22 full-year OP of ¥7,000mil (-7.0% YoY) on sales of ¥112,000mil (+7.6% YoY). The full-year guidance is the same as targets set under the Mid-term Management Plan. The FY22 annual dividend is ¥20.00/share based on a 30.0% pay-out ratio of the estimated EPS of ¥66.16, down 44% from FY21's annual dividend of ¥36.00.

FY22 Earnings Guidance

(¥mil)	FY21		FY22CE			
	1H	FY	1H	YoY (%)	FY	YoY (%)
Sales	48,981	104,100	56,000	14.3	112,000	7.6
OP	1,821	7,524	3,600	97.7	7,000	-7.0
RP	1,540	9,431	3,200	107.8	7,000	-25.8
NP	4,166	12,526	3,500	-16.0	7,000	-44.1
Avg. FOREX (¥/$)	109.90	112.06	120.00	n/a	120.00	n/a
AVG Bunker Rate ($/MT)	514	558	860	n/a	760	n/a
Panamax ($)	29,492	27,416	n/a	n/a	20,000	n/a
Small Handy ($)	23,783	23,029	n/a	n/a	19,000	n/a

Source: Nippon-IBR based on IINO Kaiun's FY21 1H & FY21 Tanshin and Earnings Presentation Material



Source: Nippon-IBR based on IINO Kaiun's FY21 earnings presentation material

Shipping Segment

IINO is guiding for FY22 Shipping Segment OP of ¥2,500~3,500mil (-26.5% YoY~+2.9% YoY) on sales of approx. ¥99,000~100,000mil (Nippon-IBR estimate). The firm assumes FOREX rates of ¥120.00/US$, average bunker rates of $860/MT in 1H and $760/MT for the full-year, as well as Panamax and Small Handy freight rates of $20,000/day and $19,000/day, respectively.

IINO remains cautious on the situation in Ukraine and the subsequent impact on tanker and dry bulk markets over the longer term to global shipping market conditions. However, management expects the impact from sanctions on Russia and the ensuing declines in exports from the region over the short-term will be limited.

Assumptions for the company estimate on the segment are as follows:

1. Dry Bulker Market: The tight supply-demand balance will likely continue, although the impact to cargo movement, especially grain, and other may be affected by the ongoing conflicts in Ukraine. In the short-term, cargo movements to/from the Black Sea are expected to decline, though there is the potential positive impact from an increase in tonne-miles due to a change in cargo routes.
2. Chemical Tanker Market: On the back of economic sanctions against Russia, the logistics for petroleum products changed, resulting in product tankers exiting the chemical tanker market which saw the chemical tanker market tighten. The movement of chemical tanker freight will likely continue its uptrend thanks to an increase in shipping demand from the Middle East, the US and Asia to Europe instead of the export from Russia. The market will continue to be influenced by the global economy, product tanker trends and COVID restrictions, however, given the supply of ships will be limited, market conditions will likely remain tight.
3. LPG Market: Little direct impact from the sanctions against Russia is expected due to Russia's small presence in the LPG market. While 25 new VLGCs launched are expected to be launched in FY22, there are not many old vessels to be scrapped, therefore having a direct impact on the supply-demand balance. On the other hand, LPG demand remains solid thanks to relative price competitiveness of LPG compared to crude oil. Furthermore, additional construction of PDH (propane dehydrogenation) plants in China and the increase in household demand in the Southeast Asia will further boost demand for LPG. Temporarily, the congestion in the Panama Canal will also support the supply-demand balance.

Real Estate Segment

The firm is guiding for FY22 Real Estate Segment OP of ¥4,100mil (-2.4% YoY). Assuming there is no major change in the real estate portfolio, FY22 segment sales will likely be the same level as in FY21 (¥12,000~13,000mil) based on the following assumptions:

1. Utilisation rates will remain high which will bring in a steady revenue flow.
2. Higher maintenance cost at some properties.
3. Gradual recovery in commercial properties such as IINO HALL and Photo Studio as COVID restrictions are lifted.

MID-TERM MANAGEMENT PLAN (FY2020~2022)

The ongoing Mid-term Management Plan has entered its final year (FY22). At the beginning of the Plan, IINO's management aimed to take the firm out of its comfort zone, to grow while still maintaining existing business model. Compared to the previous Mid-term Management Plan in which IINO looked to create a business model that generated stable earnings, the ongoing plan focuses on the following:

1. To further solidify stable earnings
2. Further promote its 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. The team teamed up with a Silicon Valley start-up to jointly work on sustainability projects. While unlikely to generate any financial return, through these projects the firm aims to create a culture that encourages working with outside parties – particularly those with expertise that IINO does not have.

The final year target of the Plan is 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%). The firm already achieved the final year target range in sales and OP in FY21, thanks to the relatively strong shipping market. Under the Plan, IINO assumed FY21 Panamax freight rates of $10,000~11,000/day and Small Handy freight rates of $8,500~9,000/day (both for the Pacific Round) but the actual freight rates came in substantially higher at $27,416 for Panamax and $23,029 for Small Handy, boosting the Shipping segment OP in the Plan's higher in the target range of ¥2,500~¥3,500mil. However, bunker rates were estimated at $650/MT, but the actual rate was $558/MT. Nevertheless, the bunker price change least affects the firm's earnings because in most cases, any rapid price change can be transferred onto to customers.

On the back of a ¥2,122mil rise in dividend payments received from affiliated companies and a ¥4,428mil gain from the sale of a ship, IINO achieved a ROE of 14.6% in FY21 vs. the target 8%.

The numerical target of the Mid-term Plan for the final year (FY22) is unchanged but IINO is guiding for FY22 OP of ¥7,000mil (¥2,900mil in Shipping and ¥4,100mil in Real Estate), in short of the Plan's target OP of ¥7,500~8,500mil (¥2,500~3,500mil in Shipping and ¥5,000mil in Real Estate), primarily due to lower shipping freights. The firm assumes Panamax freight rates of $20,000/day and Small Handy rates of $19,000/day and expects the chemical tanker to remain stable but that both the LPG tanker and dry bulker markets are likely to remain in tight supply-demand.

ESG & SDGs Focus

IINO takes sustainability initiatives seriously and separately set up the IINO Environment Management Taskforce in 2020 to address environmental issues on the cross-organisational basis, to formulate a roadmap, and to provide periodic data reporting to President and Representative Director. IINO will promote The IINO Environmental Task Force to the Sustainability Promotion Department, which will be formed with the Task Force and teams in the firm's Business Administration Department and Office Leasing and Operation Department. The newly established department will further strengthen the management focus on sustainability.

The shipping business requires not only fleet maintenance but safe and sophisticated quality control management, especially given 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 with the new rule, retrofitting scrubbers to existing vessels, and/or switching to LNG-fuelled vessels.

IINO undertakes the following measures to reduce its environmental burden in the Shipping business.

1. Control CO_2 emissions by reducing usage of fuel oil through efficient operations. IINO also implements a fuel consumption result 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 (2021).

4. IINO signed a time charter contract with Mitsui & Co in October 2021 which will likely be the first ammonia-fuelled vessel operation by the firm. The vessel (scheduled for delivery in December 2023) will be fuelled with bunker oil until the ammonia-fuelled engine, which is under development and will likely be launched after 2025, can replace. IINO reckons that such a charter contract with the first ammonia-fuelled vessel will gain traction as a zero-emission fuel operation.

5. IINO aims to reduce greenhouse gases [GHGs] from its 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 and next-generation fuel vessels, larger sized vessels, slower cruise speeds, switching to EEDI engines and further technological innovation. Two new VLGCs (One vessel was completed in February 2022 and another is scheduled for completion in 2023) equipped with dual-fuel engines are able to use both compliant fuel, methanol, and LPG, reducing GHGs by ca. 20%. The progress rate of GHG emission reduction target was 33.7% in the Shipping Segment and 9.3% in the Real Estate Segment, respectively, as in FY20.

In the Real Estate segment, the firm's properties have achieved a low carbon emission rate in the domestic standard. Through energy management such as switching to higher energy efficiency equipment, using renewable energy etc., IINO aims to reduce its GHG emission per m^2 by 50% in 2050 from that of 2013 GHG emission levels

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

(¥mil)	FY20	FY21		FY22			FY30	
	Results	Target	Results	Target	3-yr CAGR (%)	CE	Target	10-yr CAGR (%)
Sales	88,916	90,000~110,000	104,100	90,000~110,000	0.3~7.2	112,000	160,000	6.1
OP	6,831	7,000~8,000	7,524	7,500~8,500	23.6~28.8	7,000	12,000	5.8
Shipping	2,968	2,500~ 3,500	3,373	2,500~ 3,500	27.0~42.1	2,900	6,000	7.3
Real Estate	3,863	4,500	4,150	5,000	22.0	4,100	6,000	4.5
RP	6,810	6,500~7,500	9,431	7,000~8,000	26.5~32.3	7,000	10,000	3.9
NP	7,655	6,000~7,000	12,526	7,000~8,000	22.7~28.3	7,000	10,000	2.7
EBITDA	18,800	19,000~20,000	21,100	19,500~20,500	11.9~13.8	n/a	25,000	2.9
ROE (%)	10.0	7.0~8.0	14.6	8.0~9.0	n/a	n/a	10.0	n/a
D/E Ratio (x)	1.65	max 2.0	1.32	max 2.0	n/a	n/a	max 2.0	n/a
FOREX (¥/US$)	105.79	105.00	112.06	105.00	n/a	120.00	n/a	n/a
Avg bunker (C Heavy Oil, US$/MT) AVG bunker (Compliant Fuel, US$/MT)	346	650	558	650	n/a	760	n/a	n/a
Panamax ($/day)	10,024	10,000~11,000	27,416	11,500~12,500	n/a	20,000	n/a	n/a
Small handy ($/day)	7,623	8,500~9,000	23,029	9,500~10,000	n/a	19,000	n/a	n/a

Source: Nippon-IBR based on IINO Kaiun Medium-term Management Plan, FY20 and FY21 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 three auditors, two of which are external auditors. The Board of Directors and Auditors together have total of 12 members of which six are external members. At the Annual General Meeting for Shareholders [AGM] to be held in June 2022, there are two proposals for voting: 1) an appointment of a female outside director, and 2) a reducing the tenure of directorship from the current two years to one year. IINO makes those proposals to improve the functionality of the Board.

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

1. Investment Securities
   IINO had a total of ¥18,675mil in investment securities on the balance sheet as of March 2022, the value of which is equivalent to approx. 25% of IINO's current market cap. According to the most recent Yukashoken Hokokusho (Annual Securities Report) published on 25 June 2021, IINO held shares in 36 listed companies in its portfolio as of March 2021. Out of those 36, 17 were crossholdings. 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. By unwinding its crossholdings, it might possibly improve liquidity or at least make the extra funds available for the firm to enhance shareholder returns or reinvest for the future growth.

2. Continued Poison Pill
   The renewal of a poison pill policy put in place to counter a potential take-over bid [TOB] is on the agenda to be voted on at the June 2022 AGM. The policy targets those who attempt to buy more than 20% of the voting rights and is within CGC guidelines.

   IINO explains the principal reasons for the poison pill policy as follows:
   - To secure sufficient time for shareholders to make informed decisions on whether to accept a TOB proposal or not.

- To enable the firm to counter a hostile takeover for the sole purpose of the purchaser's own short-term interests and where such 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 a conflict of interest. That is, in the event of a poison pill being triggered, 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.

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