IINO KAIUN KAISHA, LTD. (9119 JP)

FY22 EARNINGS LIKELY HIT A RECORD EARNINGS, THANKS TO STRONG SHIPPING MARKET.

FY22 1H RESULTS SUMMARY

IINO Kaiun Kaisha, Ltd. (hereafter IINO) revised up its FY22 (March year-end) guidance on the back of stronger-than-expected 1H results, an improved outlook for the chemical tanker market, a solid dry bulker market, and the weaker yen. The firm reported FY22 1H operating profit [OP] of ¥10,482mil (+475.6% YoY) on sales of ¥70,474mil (+43.9% YoY), which overshot the forecast revised on 2 August, which was for FY22 1H OP of ¥7,900mil (+333.8%) on sales of ¥65,000mil (+32.7% YoY), thanks primarily to:

- Continued strength in chemical tanker market, which led to an upward revision in OP. Of the ¥8,661mil (+475.6%) YoY increase in FY22 1H OP, approx. ¥4,040mil is due to the chemical tanker business. In addition to the stable contract of affreightment (COA) businesses, which comprises approx. 77% of the chemical tanker business, IINO proactively gained spot cargo business shipped from Asia. As a result, profitability of the chemical tanker business improved.
- The dry bulk business also enjoyed strong demand, contributing ¥1,410mil of the YoY increase in 1H OP.
- Forex gains due to the sharp depreciation of the yen in Q2 is included in ¥1,520mil of the ¥8,661mil YoY increase in FY22 1H OP. Separately, the firm reported a FOREX gain of ¥1,362mil as a non-operating item, which led to 668.3% YoY increase in FY22 1H recurring profit [RP].

Based on the firm's dividend policy of a 30% pay-out ratio, the semi-annual dividend is fixed at ¥27.00/share, compared to ¥11.00/share in FY21 1H.

Earnings Summary: IINO Kaiun (9119 JP)

(¥mil / March year-end)	FY20	FY21		FY22	
	FY	1H	FY21	1H	YoY (%)
Sales	88,916	48,981	104,100	70,474	43.9
OP	6,831	1,821	7,524	10,482	475.6
RP	6,810	1,540	9,431	11,835	668.3
NP*	7,655	4,166	12,526	14,421	246.1
Avg. ¥/$	105.79	109.9	112.06	131.56	N/A
Avg. bunker price ($/MT, low sulphur)	346	514	558	910	N/A

Source: Nippon-IBR based on IINO Kaiun FY21 and FY22 1H Results Presentation Material
* NP attributed to the parent's shareholders

FY22 1H REVIEW BY SEGMENTS

IINO's business is 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 operates (a) liquid cargo transportation via oil tankers, chemical tankers, and LNG and LPG tankers, and (b) bulk shipping

EXECUTIVE SUMMARY

- IINO revised up its FY22 forecasts thanks to the stronger-than-expected 1H results, the weaker yen, and an improved outlook for the chemical tanker market. FY22 1H OP soared 475.6% YoY to ¥10,482mil on sales of ¥70,474mil (+43.9% YoY) – a significant beat from the 2 Aug revision.
- The FY22 1H performance was much improved from a year ago with OP of ¥8,399mil (vs FY21 1H operating loss of ¥163mil) on a 48.4% YoY rise in sales to ¥64,106mil. The Oceangoing business – comprising dry bulker, chemical and Oil & LPG tanker operations – generated FY22 1H OP of ¥8,153mil (vs FY21 1H operating loss of ¥271mil) on sales of ¥58,781mil (+51.9% YoY). The Real Estate Segment continued to see stable earnings with FY22 1H OP of ¥2,084mil (+5.0% YoY) on sales of ¥6,368mil (+10.3% YoY).
- Given the stronger-than-expected 1H earnings and continued strength in the chemical tanker market, IINO revised its FY22 guidance from OP of ¥11,800mil (+56.8% YoY) on sales of ¥123,000mil (+18.2% YoY) to OP of ¥14,700mil (+95.4% YoY) on sales of ¥138,000mil (+32.6% YoY). Consequently, in keeping with the firm's 30% payout ratio, the FY22 annual DPS was also revised up from ¥47.00 to ¥53.00 (+47.2% YoY), vs FY21's DPS of ¥36.00.
- FY22 is the final year of the Mid-term Management Plan. While the Plan's numerical targets were already achieved in FY21, it is subject to the market volatility of the Shipping Business. The Real Estate Business, which provides stability to IINO's business portfolio, however, fell short of the Plan's target due to extra repair cost incurred. Management reckons that the Tokyo's office leasing market is facing tough times ahead amid a rapid shift to remote working.

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 September 2022, IINO Group operates a total of 97 vessels (47 self-owned and 50 chartered). The Shipping segment earned FY22 1H OP of ¥8,399mil (vs FY21 1H operating loss of ¥163mil) on sales of ¥64,106mil (+48.4% YoY) and is largely comprised of the following two sub-segments:

The Oceangoing Business

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, the chemical tanker and the LPG carrier operations, IINO essentially engages in contract of affreightment (COA) and medium- to long-term contracts so as to limit the impact from the volatility in the shipping market on earnings. The segment generated FY22 1H OP of ¥8,153mil (vs FY21 1H operating loss of ¥271mil / +¥8,424mil YoY) on sales of ¥58,781milmil (+51.9% YoY).

By type of operation, the performance is as follows:

- The Chemical Tanker Business
  The Chemical Tanker Business enjoyed a significant improvement in profitability thanks to (1) the steady transfer of goods in IINO's core cruise routes between the Middle East to Europe and Asia in COA, and (2) proactively obtaining spot cargo business shipped from Asia, which resulted in a ¥4,040mil increase in FY22 1H OP. Other contributing factors include:
  I. The withdrawal of product tankers – for gasoline, naphtha, and other derivatives of crude oil – from the chemical tanker market, as the strong crude oil market led to a tighter supply of cargo space.
  II. A stronger-than-expected spot market. Due to the situation in Ukraine, spot cargo demand from Asia, the Middle East and the US to Europe remained strong. Here too, cargo space tightened. Approx 23% of the firm's chemical tanker business is exposed to the spot market.
  III. The supply-demand balance in the chemical tanker market also remained tight in 2H, on the back of the strict quarantine restrictions at ports in China.
- The Dry Bulker Business
  Dry Bulker contributed ¥1,410mil to the increase in FY22 1H OP thanks to improved profitability on the back of stable operations of dedicated carriers as well as efficient allocation and operations of bulkers. High utilisation of tramper also led to improved profitability. Although cruise routes were altered on the back of the conflicts in Ukraine, which had supported demand for freight, the market peaked in Q2 due to (1) a slowdown in the US economy as monetary policy tightened, and (2) a decline in cargo volume to China due to the Zero COVID policy.
- Oil and Large Gas (LPG/LNG) Tankers
  The Gas Tanker business contributed ¥910mil to FY22 1H OP growth, thanks to the solid VLGC market and a decline in dockage costs compared to the same period a year ago. The LPG market remained firm thanks to a recovery in demand in Asia amid the completion of regular maintenance and servicing at PDH (propane dehydration) plants in China. Moreover, a rise in exports of LPG from North America and a tighter supply of tanker space due to the congestion in Panama supported the global LPG market. Some 16% of IINO's LPG tanker business is exposed to the spot market.

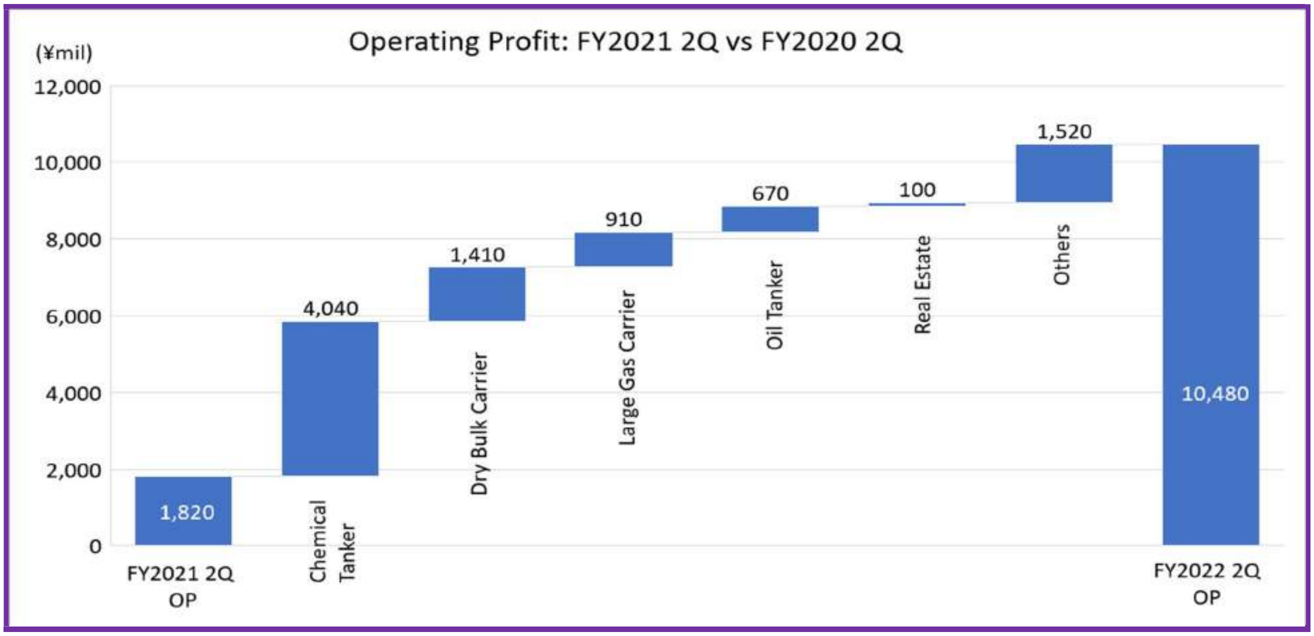
  The Oil Tanker market started rising from July as shipments of Russian crude oil were replaced with a rise in cargo to Europe from the Middle East and North America. As a result, the Oil Tanker business contributed approx. ¥670mil to FY22 1H OP. Neither the LNG nor the Oil Tanker businesses have exposure to the spot market. IINO sold one large-scale crude oil tanker to improve asset efficiency.

The Shortsea / Domestic Operations

The Shortsea / Domestic operations are run by IINO Gas Transport and other, a 100%-owned subsidiary, which operates inter-plant transportation of liquified gases in the domestic waters. The business earned FY22 1H OP of ¥246mil (+127.8% YoY) on sales of ¥5,325mil (+18.1% YoY).

Real Estate Segment

IINO owns and manages seven office buildings, including the flagship IINO Building, and it has part ownership in Hibiya Fort Tower (opened in July 2021), and Bracton House in London, UK. FY22 1H segment OP rose 5.0% YoY to ¥2,084mil on sales of ¥6,368mil (+10.3% YoY). The office building rental market in Central Tokyo continued to see a relatively high vacancy rate of 6% level during 1H. Although new demand to consolidate offices to a larger space was observed during 1H, corporates, especially large companies, promoted remote working which led to the cancellation of demand for office space. As a result, the level of rent in Central London remained sluggish. Nonetheless, 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. The flagship IINO Building remains fully occupied.



Source: IINO Kaiun FY2022 Q2 earnings results supplementary presentation

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

(¥mil)		FY19		FY20		FY21		FY22	
		1H	FY	1H	FY	1H	FY	1H	YoY (%)
Ocean-going	Sales	34,707	68,891	33,874	69,641	38,698	82,408	58,781	51.9
	OP	-18	651	1,813	2,463	-271	2,860	8,153	N/A
	OPM (%)	N/A	0.9	5.4	3.5	N/A	3.5	13.9	N/A
Short-sea / domestic	Sales	4,331	8,717	4,019	8,225	4,509	9,535	5,325	18.1
	OP	228	570	217	505	108	513	246	127.8
	OPM (%)	5.3	6.5	5.4	6.1	2.4	5.4	4.6	+2.2ppt
Shipping Total	Sales	39,038	77,608	37,893	77,866	43,207	91,943	64,106	48.4
	OP	210	1,221	2,030	2,968	-163	3,373	8,399	N/A
	OPM (%)	0.5	1.6	5.4	3.8	N/A	3.7	13.1	N/A
Real estate	Sales	5,911	11,571	5,345	11,049	5,774	12,158	6,368	10.3
	OP	901	2,755	1,894	3,863	1,984	4,150	2,084	5.0
	OPM (%)	15.2	23.8	35.4	35.0	34.4	34.1	32.7	-1.7ppt
Total	Sales	44,949	89,179	43,238	88,916	48,981	104,100	70,474	43.9
	OP	1,111	3,976	3,923	6,831	1,821	7,524	10,482	475.6
	OPM (%)	2.5	4.5	9.1	7.7	3.7	7.2	14.9	+11.2ppt

Source: Nippon-IBR based on IINO Kaiun Yukashokenhokokusho (YUHO) and FY21 & FY22 1H Tanshin

FY22 OUTLOOK

IINO revised up its full year guidance for a second time, following the first one announced on 2 August, from FY22 OP of ¥11,800mil (+56.8% YoY) on sales of ¥123,000mil (+18.2% YoY) to OP of ¥14,700mil (+96% YoY) on sales of ¥138,000mil (+32.6% YoY). In addition to 1H earnings landing higher than expected, the firm assumes continued strength in the Chemical Tanker market despite the softening Dry Bulk market and dockage costs being pushed back from 1H. On the back of earnings revision, and the firm's dividend pay-out policy of 30%, the annual dividend was also revised up from ¥40.00/share to ¥53.00/share (+47.2% YoY), compared to FY21's ¥36.00/share.

FY22 is the final year of the Mid-term Plan, which called for 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 had already achieved the final year's target range in FY21, thanks to the relatively strong shipping market.

Under the Plan, IINO assumed FY22 Panamax freight rates of $11,500~12,500/day and Small Handy freight rates of $9,500~10,000/day (both for the Pacific Round) but the actual freight rates came in higher in FY22 1H at $20,146 for Panamax and $20,159 for Small Handy. The full year FY22 assumption of $17,823 and $16,955, respectively, will boost the Plan's Shipping segment OP substantially above the target range of ¥2,500~¥3,500mil. However, while bunker rates also came in ahead in 1H (estimated at $650/MT vs actual rate was $910/MT) and is forecast at $800/MT in FY22 2H and $855/MT in FY22 changes in bunker rates has a minimum impact on the firm's earnings because, in most cases, any rapid price change can be transferred onto customers and the firm has relatively high exposure to COA.

Management reckons that the firm has sufficiently achieved the Mid-term Management Plan's target, despite the fact that more than half of the three-year period was affected by COVID. The Shipping Business enjoyed tail winds such as the change in cargo movement under COVID and by the situation in Ukraine. As a result, IINO expects to achieve record earnings in FY22. Management views the following successes on the Plan:

1. Management's strategy to focus on the Chemical Tanker business, in particular, has borne fruit.
2. New initiatives such as establishing the new Business Strategy Department – part of IINO's future growth strategy – has also had a good start. For example, the company has begun collaborating with a Silicon Valley startup on sustainability initiatives.
3. In the gas carrier division, IINO signed a long-term charter contract with a UK-headquartered chemical company INEOS (a private limited company) for two 99,000m³ very large ethane carriers (VLECs), scheduled for delivery in 2025 and 2026, respectively. The acquisition cost of those carriers will likely be equivalent to approx. 30% of IINO's consolidated net assets, (¥91,333mil as of the end of FY21).

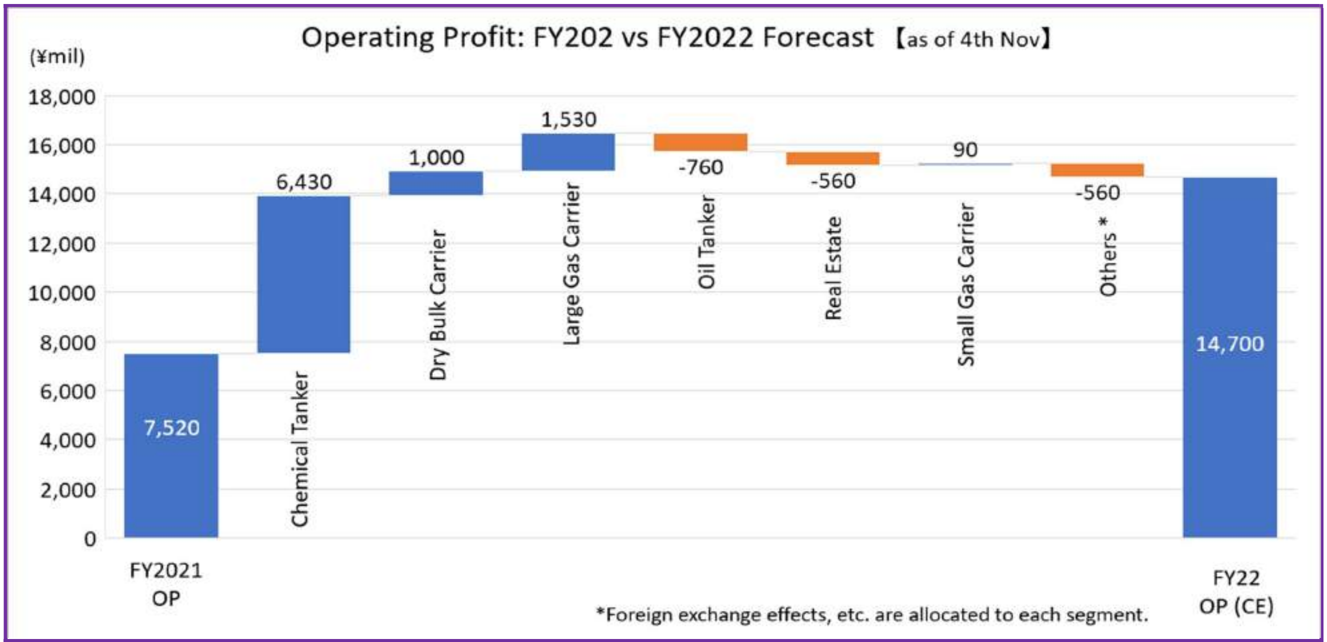
On the other hand, management is less satisfied with the Real Estate business, whose FY22 OP target was revised down from ¥5,000mil to ¥3,600mil, due to an increase in repair costs. IINO reckons that the shift to remote working will structurally change Tokyo's prime office market demand and might negatively impact office rents. IINO recently announced its participation in the "Press Block Project," the largest redevelopment project in Portland, Oregon with Takenaka, (JP, private), Chuo-Nittochi Co., Ltd (JP, private), Nomura Real Estate Holdings (3231 JP) and two local developers. The project is IINO's second overseas project. Through overseas real estate ownership and projects, IINO aims to gain expertise in overseas real estate business.

FY22 Earnings Guidance (Revised)

(¥mil)	FY21			FY22				
	1H	2H	FY	1H	YoY (%)	2HCE	FYCE	YoY (%)
Sales	48,981	55,119	104,100	70,474	43.9	67,526	138,000	32.6
OP	1,821	5,703	7,524	10,482	475.6	4,218	14,700	95.4
RP	1,540	7,891	9,431	11,835	668.3	4,365	16,200	71.8
NP*	4,166	8,360	12,526	14,421	246.1	4,179	18,600	48.5
Avg. FOREX (¥/$)	109.90	114.22	112.06	131.56	N/A	140.00	135.78	N/A
AVG Bunker Rate ($/MT)	383	733	558	910	N/A	800	855	N/A
Panamax ($)	29,492	25,340	27,416	20,146	N/A	15,500	17,823	N/A
Small Handy ($)	23,783	22,275	23,029	20,159	N/A	13,750	16,955	N/A

Source: Nippon-IBR based on IINO Kaiun FY22 1H Tanshin and Earnings Presentation Material

** NP attributed to the parent's shareholders*



Source: IINO Kaiun FY2022 Q2 earnings results supplementary presentation

Shipping Segment

IINO is guiding for FY22 Shipping Segment OP of ¥11,100mil (+229.1% YoY) on sales of approx. ¥120,000~125,000mil (Nippon-IBR estimate). The full year guidance is based on the following 2H / annualised FY22 assumptions:

1) FOREX rates of ¥140.00/US$ / ¥135.78

   IINO estimates that ¥1 change per US$ will give approx. ¥4,500mil impact to OP in 2H.

2) average bunker rates of $800/MT / $855/MT,

3) Panamax freight of $15,500 / $17,823, and

4) Small Handy freight of $13,750 / $16,955.

Assumptions by segment are as follows:

1. **Chemical Tanker Market:** On the back of limited inflow of new vessels, the market will likely remain solid. Order for new vessels is low because of high raw materials cost and a rise in construction costs. Pending new environmental restrictions also deters orders. Withdrawal of product tankers from the market will also likely tightens the supply of cargo space. However, risk remains with the slowdown of the global economy.

   Due to the situation in Ukraine, the movement of chemical tanker freight will likely continue its uptrend thanks to an increase in shipping demand and longer cruising distances from the Middle East, the US and Asia to Europe instead of exports from Russia to Europe.

While the market will likely continue to be influenced by concerns of slower global economy activity given tighter monetary policies, lagging demand due to inflation, and product tanker trends, given the limited supply of ships, market conditions should remain tight. Longer cruise distances and the commencement of new petrochemical plants will also lead to solid demand for freight.

2. **Dry Bulker Market:** The dry bulker market will likely exhibit the most uncertainty in 2H. The market will likely soften due to the slowdown in the global economy, especially in China. In addition, clogged logistics chains have been gradually resolved; hence the supply of cargo space is increasing. However, changes in the cargo movement of coal and grains due to the situation in Ukraine will not be enough to offset the weakening demand and increase in ship supply.

3. **VLGC Market:** The LPG market is expected to remain stable. Although cargo space supply will likely increase due to the inflow of approx. 20 new VLGCs and a few old vessels taken out of service, solid demand for LPG will support the VLGC market, thanks to (1) an increase in capacity in PDH plants in China, (2) a rise in household demand in India and Southeast Asia, and (3) relative price competitiveness of LPG compared to crude oil. 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 ¥3,600mil (-13.3% YoY). Assuming there is no major change in the real estate portfolio, FY22 sales will likely be the same level as in FY21 (¥12,000~13,000mil – Nippon-IBR estimate) based on the following assumptions:

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

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

(¥mil / March Year-end)	FY20	FY21		FY22				FY30	
	Results	Target	Results	Target	3-yr CAGR (%)	CE (New)	YoY (%)	Target	10-yr CAGR (%)
Sales	88,916	90,000~ 110,000	104,100	90,000~ 110,000	0.3~7.2	138,000	32.6	160,000	6.1
OP	6,831	7,000~ 8,000	7,524	7,500~ 8,500	23.6~28.8	14,700	95.4	12,000	5.8
Shipping	2,968	2,500~ 3,500	3,373	2,500~ 3,500	27.0~42.1	11,100	229.1	6,000	7.3
Real Estate	3,863	4,500	4,150	5,000	22.0	3,600	-13.3	6,000	4.5
RP	6,810	6,500~ 7,500	9,431	7,000~ 8,000	26.5~32.3	16,200	71.8	10,000	3.9
NP	7,655	6,000~ 7,000	12,526	7,000~ 8,000	22.7~28.3	18,600	48.5	10,000	2.7
EBITDA	18,800	19,000~ 20,000	21,100	19,500~ 20,500	11.9~13.8	N/A	N/A	25,000	2.9
ROE (%)	10.0	7.0~8.0	14.6	8.0~9.0	N/A	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	N/A	max 2.0	N/A
FOREX (¥/US$)	105.79	105.00	112.06	105.00	N/A	140.00	N/A	N/A	N/A
AVG bunker (C Heavy Oil, US$/MT)	346	650	558	650	N/A	800	N/A	N/A	N/A
AVG bunker (Compliant Fuel, US$/MT)							N/A		
Panamax ($/day)	10,024	10,000~ 11,000	27,416	11,500~ 12,500	N/A	15,500	N/A	N/A	N/A
Smallhandy ($/day)	7,623	8,500~ 9,000	23,029	9,500~ 10,000	N/A	13,750	N/A	N/A	N/A

Source: Nippon-IBR based on IINO Kaiun Medium-term Management Plan, FY20, FY21 and FY22 1H earnings results presentation materials

GENERAL DISCLAIMER AND COPYRIGHT

This report has been commissioned by IINO KAIUN KAISHA, LTD. (the Sponsor) and prepared and issued by Nippon Investment Bespoke Research UK Ltd (Nippon-IBR), in consideration of a fee payable by IINO KAIUN. Fees are paid on delivery of the report in cash without recourse. Nippon-IBR may seek additional fees for the provision of follow-up research reports and associated IR services for the Sponsor but does not get remunerated for any investment banking services. We never take payment in stock, options, or warrants for any of our services.

Accuracy of content: *All information used in the publication of this report has been compiled from publicly available sources that are believed to be reliable, however Nippon-IBR does not guarantee the accuracy or completeness of this report and has not sought for this information to be independently verified. Opinions contained in this report represent those of the Nippon-IBR analyst at the time of publication. Forward-looking information or statements in this report contain information that is based on assumptions, forecasts of future results, estimates of amounts not yet determinable, and therefore involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance, or achievements of their subject matter to be materially different from current expectations.*

Exclusion of Liability: *To the fullest extent allowed by law, Nippon-IBR shall not be liable for any direct, indirect, or consequential losses, loss of profits, damages, costs, or expenses incurred or suffered by you arising out or in connection with the access to, use of or reliance on any information contained on this note.*

No personalised advice: *The information that we provide should not be construed in any manner whatsoever as, personalised advice. Also, the information provided by us should not be construed by any subscriber or prospective subscriber as Nippon-IBR's solicitation to effect, or attempt to effect, any transaction in a security. The securities described in the report may not be eligible for sale in all jurisdictions or to certain categories of investors.*

Investment in securities mentioned: *Nippon-IBR has a restrictive policy relating to personal dealing and conflicts of interest. It does not conduct any investment business and, accordingly, does not itself hold any positions in the securities mentioned in this report. However, the respective directors, officers, employees, and contractors of Nippon-IBR may have a position in any or related securities mentioned in this report, subject to its policies on personal dealing and conflicts of interest.*

For further enquiry, please contact:

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

Nippon Investment Bespoke Research UK Ltd (formerly known as NIB Research UK Ltd.) is registered in England and Wales (9100028) and is authorised and regulated by the Financial Conduct Authority (FRN: 928332).