

IINO KAIUN KAISHA, LTD. (9119 JP)

FY22 EARNINGS HIT A RECORD EARNINGS, THANKS TO STRONG SHIPPING MARKET. WHAT'S NEXT?

FY22 RESULTS SUMMARY

IINO Kaiun Kaisha, Ltd. (hereafter IINO) reported record FY22 (March year-end) earnings that overshot the revised forecasts (OP of ¥14,700mil on sales of ¥138,000mil) at the time of 3Q results, coming in with OP of ¥19,835mil (+163.6% YoY) on sales of ¥141,324mil (+35.8% YoY). Overall FY22 OPM improved by +6.8ppt YoY to 14.0%.

Of the +¥12,311mil (+163.6% YoY) YoY increase in FY22 OP, approx. ¥6,890mil is due to a robust performance in IINO's core Chemical Tanker business. In addition to the stable contract of affreightment (COA) businesses, which comprises approx. 75% of the Chemical Tanker business, IINO proactively won spot cargo business to ship from Asia.

VLGCs also enjoyed strong market conditions, contributing +¥1,670mil of the YoY increase in FY22 OP. Moreover, reduced docking costs from a year ago (FY21), also helped contribute to the OP growth.

Forex gains due to the sharp depreciation of the yen since FY22 also added ¥3,200mil to FY22 OP.

Based on the firm's dividend policy of a 30% pay-out ratio, the annual dividend was revised to ¥65.00/share along with stronger-than-expected results from the previous forecast of ¥62.00/share – a sharp increase from FY21's ¥36.00/share.

Earnings Summary: IINO KAIUN (9119 JP)						
(¥mil)	FY20	FY21		FY22		
	FY	1H	FY	1H	FY	YoY (%)
Sales	88,916	48,981	104,100	70,474	141,324	35.8
OP	6,831	1,821	7,524	10,482	19,835	163.6
RP	6,810	1,540	9,431	11,835	20,677	119.2
NP*	7,655	4,166	12,526	14,421	22,681	81.1
Avg. FOREX ¥/\$	105.79	109.9	112.06	131.56	135.07	N/A
Avg. bunker price (\$/MT,)	346	514	558	910	802	N/A

Source: Nippon-IBR based on IINO Kaiun FY21 and FY22 Results Presentation Material

* NP attributed to the parent's shareholders

EXECUTIVE SUMMARY

- IINO Kaiun Kaisha, Ltd. (hereafter IINO) reported record FY22 (March year-end) earnings with OP of ¥19,835mil (+163.6% YoY) on sales of ¥141,324mil (+35.8% YoY). The results overshot the firm's revised guidance made at the time of the 1H release for OP of ¥14,700mil on sales of ¥138,000mil. The robust performance of the core Chemical Tanker business led to the better-than-expected FY22 results.
- For FY23, IINO is guiding for 1H OP of ¥6,100mil (-41.8% YoY) on sales of ¥61,000mil (-13.4% YoY) and full year OP of ¥11,700mil (-41.0% YoY) on sales of ¥123,000mil (-13.0% YoY). Compared to FY22, during which IINO revised up its guidance to reflect the surging freight market and the rise in spot business, the FY23 outlook is based on the view that the surge in shipping business will have run its course.
- Based on IINO's dividend pay-out ratio of approx. 30%, the FY22 DPS was ¥65.00. With the firm now guiding for a decline in FY23 earnings, DPS will more than halve, falling to ¥29/share.
- The new Medium-term Plan was announced with the final year target as below:
 - RP of ¥13,000~14,000mil
 - ROIC of 4~5%, IINO aims to improve ROIC by promoting strategies per each segment.
 - ROE of 9~10%
 - D/E ratio of max. 1.5x

FY22 REVIEW BY SEGMENT

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

Shipping Segment

Here, IINO 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 2023, IINO Group's fleet consisted of 93 vessels (48 self-owned and 45 chartered). The Shipping segment earned FY22 OP of ¥16,034mil (+4.8x YoY) on sales of ¥128,471mil (+39.7% YoY) and is largely comprised of the following two sub-segments:

1. 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, and the chemical tanker, 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 OP of ¥15,440mil (5.4x YoY) on sales of ¥117,968mil (+43.2% YoY).

By type of operation, the performance is as follows:

▪ **The Chemical Tanker Business**

This business enjoyed a significant improvement in profitability thanks to (1) the steady transfer of goods in IINO's core 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 +¥6,890mil increase in FY22 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 25% of the firm's Chemical Tanker business is exposed to the spot market.

▪ **The Dry Bulker Business**

Dry Bulker contributed +¥770mil to the increase in FY22 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 trampers also led to improved profitability. Although marine transport 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 and a slower than expected post-COVID economic recovery in China.

▪ **Large Gas (LPG/LNG) and Oil Tankers**

The Gas Tanker business contributed +¥1,670mil to FY22 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 14% of IINO's LPG tanker business is exposed to the spot market. Furthermore, LNG tanker freight surged in the Autumn thanks to surge in demand for LNG shipment to Europe due to the situation in Ukraine and movement to secure the ship space prior to the high demand season of the winter. However, LNG inventory rose due to the warm winter in Europe, which subsequently hit freight demand.

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, North America, and West Africa. As a result, the Oil Tanker business contributed approx. +¥130mil to FY22 OP. Neither the LNG nor the Oil Tanker businesses have exposure to the spot market. In FY22, IINO sold one large-scale crude oil tanker to improve asset efficiency.

2. The Shortsea / Domestic Operations

The Shortsea / Domestic operations are run by IINO Gas Transport and other, a 100%-owned subsidiary, which transport liquified gases in the domestic waters and shortsea. The business earned FY22 OP of ¥594mil (+15.8% YoY) on sales of ¥10,503mil (+10.2% YoY).

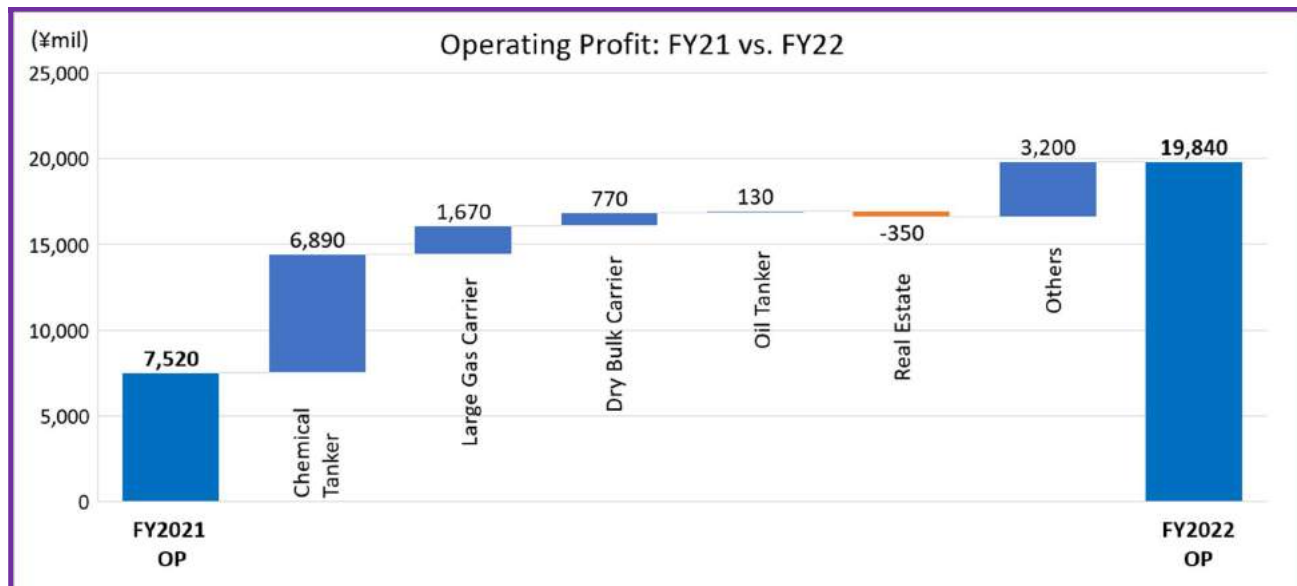
Real Estate Segment

IINO owns and manages seven office buildings, including the flagship IINO Building, and it has part ownership in Hibiya Fort Tower (opened in June 2021), and Bracton House in London, UK. FY22 segment OP declined -8.4% YoY to ¥3,801mil on sales of ¥12,853mil (+5.7% YoY). The negative YoY growth in segment OP was primarily due to increases in energy costs. On the other hand, IINO has decided to participate in investment projects in the U.S., such as a redevelopment project in Portland, Oregon (to be completed in August 2025) and a wooden office building development project in Dallas, Texas (to be completed in October 2023).

The office building rental market in Central Tokyo continued to see a relatively high vacancy rate of 6% during FY22. Although new demand to consolidate offices into larger spaces was observed during FY22, 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.

IINO Kaiun (9119): Segment Financial Summary (Cumulative)										
(¥mil)		FY19		FY20		FY21		FY22		
		1H	FY	1H	FY	1H	FY	1H	FY	YoY (%)
Ocean-going	Sales	34,707	68,891	33,874	69,641	38,698	82,408	58,781	117,968	43.2
	OP	-18	651	1,813	2,463	-271	2,860	8,153	15,440	439.9
	OPM (%)	N/A	0.9	5.4	3.5	n/a	3.5	13.9	13.1	+9.6ppt
Short-sea / domestic	Sales	4,331	8,717	4,019	8,225	4,509	9,535	5,325	10,503	10.2
	OP	228	570	217	505	108	513	246	594	15.8
	OPM (%)	5.3	6.5	5.4	6.1	2.4	5.4	4.6	5.7	+0.3ppt
Shipping Total	Sales	39,038	77,608	37,893	77,866	43,207	91,943	64,106	128,471	39.7
	OP	210	1,221	2,030	2,968	-163	3,373	8,399	16,034	375.4
	OPM (%)	0.5	1.6	5.4	3.8	n/a	3.7	13.1	12.5	+8.8ppt
Real estate	Sales	5,911	11,571	5,345	11,049	5,774	12,158	6,368	12,853	5.7
	OP	901	2,755	1,894	3,863	1,984	4,150	2,084	3,801	-8.4
	OPM (%)	15.2	23.8	35.4	35.0	34.4	34.1	32.7	29.6	-4.5ppt
Total	Sales	44,949	89,179	43,238	88,916	48,981	104,100	70,474	141,324	35.8
	OP	1,111	3,976	3,923	6,831	1,821	7,524	10,482	19,835	163.6
	OPM (%)	2.5	4.5	9.1	7.7	3.7	7.2	14.9	14.0	+6.8ppt

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



Source: IINO Kaiun FY2022 earnings results supplementary presentation

FY23 OUTLOOK

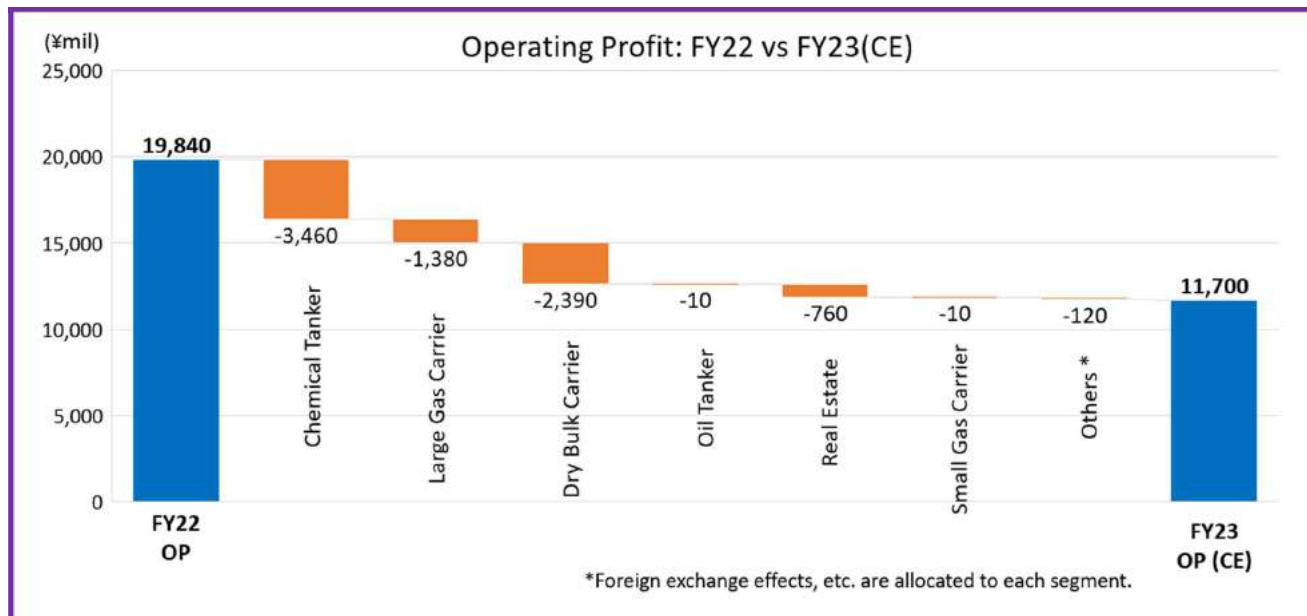
IINO guides for FY23 1H OP of ¥6,100mil (-41.8% YoY) on sales of ¥61,000mil (-13.4% YoY) and FY23 OP of ¥11,700mil (-41.0% YoY) on sales of ¥123,000mil (-13.0% YoY). Compared to FY22, during which the firm revised up its guidance thanks to the surging freight market and increases in spot business, IINO's FY23 outlook reflects the view that the sharp rise in the shipping business will have run its course.

The FY22 DPS was ¥65.00, based on a dividend pay-out ratio of approx. 30%. With the firm now guiding for a decline in FY23 earnings, DPS will more than halve, falling to ¥29/share – which is also below FY21's DPS of ¥36.00.

FY23 Earnings Guidance									
(¥mil)	FY21		FY22			FY23 CE			
	1H	FY	1H	FY	YoY (%)	1H	2H	FY	FY YoY (%)
Sales	48,981	104,100	70,474	141,324	35.8	61,000	62,000	123,000	-13.0
OP	1,821	7,524	10,482	19,835	163.6	6,100	5,600	11,700	-41.0
RP	1,540	9,431	11,835	20,677	119.2	5,500	5,600	11,100	-46.3
NP*	4,166	12,526	14,421	22,681	81.1	5,000	5,000	10,000	-55.9
Avg. FOREX (¥/\$)	109.90	112.06	131.56	135.07	N/A	125.00	125.00	125.00	N/A
AVG Bunker Rate (\$/MT)	383	558	910	802	N/A	700	700	700	N/A
Panamax (\$)	29,492	27,416	20,146	16,274	N/A	N/A	N/A	14,750	N/A
Small Handy (\$)	23,783	23,029	20,159	14,647	N/A	N/A	N/A	13,550	N/A

Source: Nippon-IBR based on IINO Kaiun's FY22 Tanshin and Earnings Presentation Material

* NP attributed to the parent's shareholders



Source: IINO Kaiun FY2022 earnings results supplementary presentation

Shipping Segment

IINO is guiding for FY23 Shipping Segment OP of ¥8,600mil (-46.4% YoY) on sales of approx. ¥110,000mil (Nippon-IBR estimate). The full year guidance is based on the following assumptions:

- FOREX rates of ¥125/US\$ vs. FY22 FOREX of ¥135.07
IINO estimates that ¥1 change per US\$ will give approx. ¥136mil impact to RP in FY23.
- Average bunker rates of \$700/MT vs. \$802/MT in FY22,
- Panamax freight of \$14,750 vs. \$16,274, and
- Small Handy freight of \$13,500 / \$14,647 in FY22.

Assumptions by segment are as follows:

IINO estimates FY23 OP to decline by approx. -¥8,135mil / -41.0% YoY, of which approx. -¥7,250mil will be from the Shipping Segment. Details are as follows:

1. Chemical Tanker Business

While IINO assumes that the chemical tanker market continues to remain solid, the firm also assumes that the stale global economy will negatively impact the Chemical Tanker business OP by -¥3,460mil. Thanks to limited new supply entering the chemical tanker market, the market will likely remain well-balanced. Due to rapid changes in environmental regulations and surging steel products prices, the order backlog of new chemical tanker is currently limited – the potential increase vs. current chemical tanker capacity is only 6%. Due to the situation in Ukraine, ton-miles in the Chemical Tanker business have been extended in routes between Asia, UK and the Middle East to Europe. Furthermore, new launch of a petrochemical plant in US and Middle East will also likely boost demand for the chemical tanker.

2. Dry Bulker Market

The dry bulker market will likely continue to exhibit the most uncertainty in FY23. Due to the macroeconomic slowdown on the back of inflation, the global demand will likely be weak until FY23 1H. IINO assumes that the global economy will bounce back in the latter half of FY23, and should lead to recovery in cargo volumes. In addition, the supply of ship space will be tight, as new ships launched to the dry bulker market is also limited. Therefore, the firm assumes the dry bulker freight will start recovering in 2H.

3. VLGC Market

The LPG market is expected to remain stable. Although cargo space supply is set to increase as some 39 new VLGCs are completed and a few old vessels are 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 FY23 Real Estate Segment OP of ¥3,100mil (-18.4% YoY). Assuming there is no major change in the real estate portfolio, FY23 sales will likely be the same level as in FY22 (¥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 (energy cost, etc.) compared to FY22.
3. A gradual recovery in commercial properties such as IINO HALL and Photo Studio after COVID restrictions were lifted.

MEDIUM-TERM PLAN (FY23~FY25)

The new Medium-term Plan starts its first year (FY23) with YoY decline in earnings as it comes off an extremely strong shipping market in FY22 – the level of which IINO had never experienced. During the last Medium-term Plan, IINO managed to 1) establish a solid and stable base of earnings, 2) expand its global businesses, and 3) work on sustainability initiatives.

Thanks to the stronger-than-expected Shipping Segment, the final year (FY22) earnings overshot the medium-term target and ROE hit 22.5% vs. the target of 8~9%. The new Plan will likely focus on rebuilding the business portfolio from scratch to meet the rapidly changing external environment, deal with more restrictions on emissions and other environmental regulations, and rising costs – this has even squeezed the Real Estate segment which was considered to be stable prior to COVID.

The new Plan aims to achieve the followings in FY25:

- RP of ¥13,000~14,000mil
- ROIC of 4~5%: IINO sets ROIC as a new indicator and aims to improve ROIC by promoting strategies for each segment.
- ROE of 9~10%
- D/E ratio of max. 1.5x

Over the three years, IINO expects total cash inflow of ¥113,000mil (¥77,000 from operating cash flow, and ¥36,000mil from finance cash flow, primarily debt financing), of which ¥100,000mil has allocated for business investments, which can be further split into:

1. Investment for growth and new businesses (¥50,000mil) - ¥40,000mil out of the ¥50,000mil will be invested on the Large Gas Carrier business which is considered as one of the new core businesses.
2. Core businesses (¥20,000mil), Chemical Tankers and Dry bulk Carriers
3. Stable and matured businesses (¥30,000mil), Real Estate, Oil Tankers and Short-sea/Domestic Carriers

Also, of aforementioned investments amounted to ¥100,000mil, total of ¥60,000mil will be allocated to environment-related investments. In its efforts to realize a decarbonized society, IINO has developed a new roadmap to achieve carbon neutrality by 2050. Furthermore, the firm commits to strengthen the human capital and respect the human rights as part of its sustainability efforts. The remaining ¥13,000mil will be allocated to shareholder return. Use of other assets such as realised gain on real estate portfolio, investment securities and retained cash is not mentioned in the current Medium-term plan. Also, the firm renewed the poison pill at the last AGM which will be revised in June, 2025 (every three years).

IINO Kaiun (9119): Results and Medium-term Plan Target (FY23~25)						
(¥mil)	FY22	FY23	FY24	FY25	FY30	
	Results	Target	Target	Target	Target	10-yr CAGR (%)
Sales	141,324	123,000	120,000 ~ 130,000	125,000 ~ 135,000	190,000	7.9
OP	19,835	11,700	12,000 ~ 13,000	13,000 ~ 14,000	21,000	11.9
Shipping	16,034	8,600	8,500 ~ 9,300	9,300 ~ 10,000	15,000	17.6
Real Estate	3,801	3,100	3,500 ~ 3,700	3,700 ~ 4,000	6,000	4.5
RP	20,677	11,100	11,500 ~ 12,500	13,000 ~ 14,000	20,000	11.4
NP*	22,681	10,000	11,000 ~ 12,000	12,000 ~ 13,000	18,000	8.9
EBITDA	34,100	25,500	27,000 ~ 28,000	28,000 ~ 29,000	44,000	8.9
ROE (%)	22.5	9.0	9.0 ~ 10.0	9.0 ~ 10.0	10.0 or more	N/A
D/E Ratio (x)	1.04	max 1.5	max 1.5	max 1.5	max 2.0	N/A
FOREX (¥/US\$)	135.07	N/A	N/A	N/A	N/A	N/A
Avg bunker (C Heavy Oil, US\$/MT)	802	N/A	N/A	N/A	N/A	N/A
Avg bunker (Compliant Fuel, US\$/MT)		N/A	N/A	N/A	N/A	N/A
Panamax (\$/day)	16,274	N/A	N/A	N/A	N/A	N/A
Smallhandy (\$/day)	14,647	N/A	N/A	N/A	N/A	N/A

Source: Nippon-IBR based on IINO Kaiun Medium-term Management Plan, FY20, FY21 and FY22 earnings results presentation materials
* NP attributed to the parent's shareholders

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