

25 November 2024

Energy & Petrochemicals | Offshore & Marine

Bumi Armada (BAB MK)

Buy (Maintained)

Stable Cash Flow; Keep BUY

- **Keep BUY and MYR0.73 TP, 33% upside.** Bumi Armada continues to deliver sturdy results, and a final impairment on Kraken has been widely guided for. The stock is still trading at a fairly attractive 4.7x FY25F P/E – assuming the charter for Armada Kraken is extended at a lower rate. Its potential merger with MISC's (MISC MK, BUY, TP: MYR9.27) offshore businesses could improve its own financing access and tender win rate but, ultimately, the structure and pricing of the deal would be crucial determining factors.
- **Within expectations.** At 80% and 82% of our and Street full-year estimates, BAB 9M24 core earnings of MYR761m (+70% YoY) are in line with expectations. No dividends were declared for the quarter, as expected.
- **BAB recorded a 3Q24 core profit of MYR255m (flat QoQ, +34% YoY)** after stripping off MYR44m in unrealised FX losses. The QoQ performance was flat as the lower variation order from Alombendo, weakening USD vs MYR, and softer JV & associates contribution was largely offset by lower finance costs as well as lower depreciation charges. Its 9M24 core earnings strengthened by 70%, thanks to higher contributions from Armada Kraken following the resolution of an outstanding issue with the charterer, as well as higher Armada Olombendo contributions, as mentioned earlier.
- **Outlook.** Armada Kraken's charter has been extended by one year to Apr 2026, at lower rates. Management expects to book a final impairment on the vessel by the year-end at a smaller magnitude, as Armada Kraken's value-in-use or VIU remains lower than its net book value. Recall that BAB impaired the vessel by MYR514m in 4Q23. Meanwhile, the group repaid USD45m in borrowings in 3Q24, while USD400m in corporate syndicated facilities were drawn down to redeem the *sukuk murabahah*. 3Q24 net gearing ticked up to 0.45x (2Q24: 0.44x). Meanwhile, the Armada Sterling V FPSO was in the red in 3Q, due to aggressive depreciation policies (depreciating by 80% of its book value over the next nine years), and is expected to turn profitable by 2H25. The charter extension for Armada TGT has been extended for another two years with a <10% reduction in daily charter rate. We are also generally positive on BAB's potential merger with MISC's offshore businesses which could strategically expand its project portfolio and operational footprint – thereby addressing its limited recent tender wins, which have likely been constrained by financing challenges. This merger could boost BAB's financing access but, ultimately, its structure and pricing are crucial factors.
- **Keep BUY.** We maintain our earnings estimates and DCF-based TP of MYR0.73. Our TP has a 2% ESG discount imputed, based on our ESG score of 2.9. Downside risks: Contract cancellations, failure to win new contracts, and a deterioration in the Kraken operations.

Target Price (Return):

MYR0.73 (+33%)

Price (Market Cap):

MYR0.55 (USD723m)

ESG score:

2.9 (out of 4)

Avg Daily Turnover (MYR/USD)

8.41m/1.94m

Analyst

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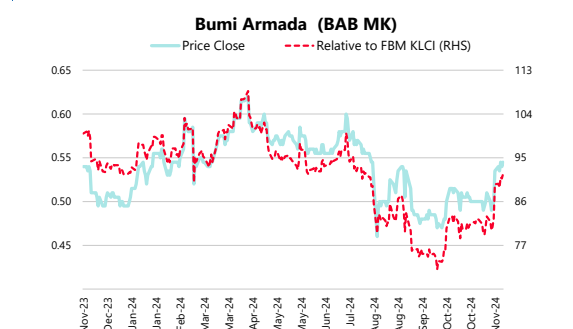
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Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	10.1	6.9	3.8	(5.2)	(0.9)
Relative	0.8	10.1	7.0	(3.2)	(10.1)
52-wk Price low/high (MYR)				0.46	–0.62



Source: Bloomberg

Overall ESG Score: 2.9 (out of 4)

E: GOOD

BAB is exposed to environmental risks like high GHG emissions. It has a few initiatives – providing cleaner, more reliable energy solutions via adopting green technology – to prevent pollution and minimise environmental impact. Total GHG emissions decreased by 0.2% to 985.5k tonnes of CO2e in FY23. BAB recorded zero oil spills by its fleets.

S: GOOD

BAB has policies and initiatives to promote a good health & safety culture. It has increased health and safety environment-related training, awareness programmes as well as senior management visits to all vessels, resulting in a lower lost time injury rate of 0 (for FY34), from FY22's 0.49. BAB is actively involved with local communities, investing in community projects, education, and healthcare.

G: EXCELLENT

The Board meets Bursa Malaysia requirements. Directors are skilled and experienced, meeting the requirements of the Malaysian Code on Corporate Governance regarding independent director representation. However, female representation is only at 16.7%. The group provides timely, reliable, and accurate information to shareholders, and ensures shareholder rights are protected.

Forecasts and Valuation	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
Total turnover (MYRm)	2,406	2,133	2,289	1,997	1,880
Recurring net profit (MYRm)	732	332	953	682	661
Recurring net profit growth (%)	8.2	(54.7)	187.0	(28.4)	(3.2)
Recurring P/E (x)	4.41	9.72	3.39	4.73	4.89
P/B (x)	0.6	0.6	0.5	0.4	0.4
P/CF (x)	2.90	4.09	2.85	3.41	3.67
Dividend Yield (%)	na	na	na	na	na
EV/EBITDA (x)	2.55	2.85	0.91	0.34	0.40
Return on average equity (%)	16.1	6.1	15.5	9.8	8.6
Net debt to equity (%)	91.6	65.4	38.5	21.8	8.6

Source: Company data, RHB

Financial Exhibits

Asia	Financial summary (MYR)	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
Malaysia	Recurring EPS	0.12	0.06	0.16	0.12	0.11
Energy & Petrochemicals	BVPS	0.87	0.96	1.12	1.23	1.35
Bumi Armada	Return on average equity (%)	16.1	6.1	15.5	9.8	8.6
BAB MK						
Buy						
	Valuation metrics	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
	Recurring P/E (x)	4.41	9.72	3.39	4.73	4.89
	P/B (x)	0.6	0.6	0.5	0.4	0.4
	FCF Yield (%)	34.5	24.4	30.7	25.0	22.9
	EV/EBITDA (x)	2.55	2.85	0.91	0.34 -	0.40
	EV/EBIT (x)	3.40	4.51	1.22	0.49 -	0.59
Valuation basis						
SOP						
Key drivers						
i. Improvement in its Kraken operations;						
ii. Better offshore marine asset utilisation rates.						
Key risks						
i. Deterioration in the Kraken operation;						
ii. Contract cancellations.						
Company Profile						
Bumi Armada is a Malaysia-based international offshore oilfield services provider. It is also a global FPSO player.						
	Income statement (MYRm)	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
	Total turnover	2,406	2,133	2,289	1,997	1,880
	Gross profit	1,130	3,224	927	849	883
	EBITDA	1,369	905	1,541	1,261	1,227
	Depreciation and amortisation	(343)	(333)	(393)	(397)	(400)
	Operating profit	1,027	572	1,148	865	827
	Net interest	(367)	(338)	(319)	(312)	(304)
	Pre-tax profit	709	296	982	694	671
	Taxation	16	(3)	(59)	(42)	(40)
	Reported net profit	732	332	953	682	661
	Recurring net profit	732	332	953	682	661
	Cash flow (MYRm)	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
	Change in working capital	96	226	(30)	38	(3)
	Cash flow from operations	1,114	790	1,132	946	880
	Capex	(1)	(1)	(140)	(140)	(140)
	Cash flow from investing activities	58	(125)	(140)	(140)	(140)
	Cash flow from financing activities	(1,296)	(1,643)	(130)	(130)	(130)
	Cash at beginning of period	795	839	705	1,751	2,598
	Net change in cash	(124)	(978)	862	676	609
	Ending balance cash	671	(139)	1,567	2,427	3,207
	Balance sheet (MYRm)	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
	Total cash and equivalents	839	705	1,751	2,598	3,385
	Tangible fixed assets	4,012	3,256	3,003	2,746	2,487
	Total investments	4,351	4,206	4,206	4,206	4,206
	Total assets	11,726	11,116	12,040	12,528	13,013
	Short-term debt	1,018	2,273	2,173	2,073	1,973
	Total long-term debt	4,486	2,081	2,081	2,081	2,081
	Total liabilities	6,630	5,536	5,538	5,373	5,227
	Total equity	5,096	5,580	6,503	7,155	7,786
	Total liabilities & equity	11,726	11,116	12,040	12,528	13,013
	Key metrics	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
	Revenue growth (%)	11.2	(11.3)	7.3	(12.8)	(5.9)
	Recurrent EPS growth (%)	8.2	(54.7)	187.0	(28.4)	(3.2)
	Gross margin (%)	47.0	151.1	40.5	42.5	47.0
	Operating EBITDA margin (%)	56.9	42.4	67.3	63.2	65.3
	Net profit margin (%)	30.4	15.6	41.6	34.2	35.1
	Capex/sales (%)	0.1	0.1	6.1	7.0	7.5
	Interest cover (x)	2.80	1.69	3.60	2.77	2.72

Source: Company data, RHB

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Figure 1: 9M24 results review

FYE Dec (MYRm)	3Q23	2Q24	3Q24	QoQ	YoY	9MFY23	9MFY24	YoY	Comments
Turnover	524.8	578.9	551.9	(4.7)	5.2	1510.1	1766.3	17.0	QoQ; Absence of additional revenue from Armada Olombendo and the USD weakening against the MYR
EBITDA	309.9	391.6	332.7	(15.0)	7.4	915.1	1146.0	25.2	
Depreciation & amortisation	(87.4)	(76.5)	(72.0)	(5.9)	(17.6)	(254.9)	(225.0)	(11.7)	
Operating profit/(loss)	222.5	315.1	260.7	(17.3)	17.2	660.2	921.0	39.5	
Others	(50.5)	(48.6)	(48.3)	(0.6)	(4.5)	(62.7)	(84.1)	34.1	
Finance cost	(83.0)	(77.5)	(75.1)	(3.0)	(9.5)	(258.4)	(231.7)	(10.3)	3Q24 excluded a MYR44m unrealised FX loss
Share of results of JVs	25.1	32.0	15.0	(53.1)	(40.2)	66.0	50.1	(24.0)	
Exceptional items	(13.4)	10.0	(43.8)	(537.8)	227.8	49.4	(43.1)	(187.2)	
PBT	165.0	270.2	200.5	(25.8)	21.5	471.0	741.0	57.3	
Taxation	(0.3)	(1.8)	0.3	(116.4)	(200.0)	(3.2)	(8.6)	171.6	
Minority interest	13.0	(2.5)	10.5	(520.3)	(19.4)	29.7	(14.6)	(149.0)	Within expectations
Net profit	177.8	266.0	211.3	(20.5)	(780.2)	497.5	717.8	44.3	
Core net profit	191.1	256.0	255.1	(0.3)	33.5	448.2	760.9	69.8	
EBITDA margin	59.0	67.6	60.3			60.6	64.9		
Operating margin	42.4	54.4	47.2			43.7	52.1		
Pre-tax margin	31.4	46.7	36.3			31.2	42.0		
Net margin	36.4	44.2	46.2			29.7	43.1		

Source: Company data, RHB

Figure 2: SOP valuation

Segments	FY25F (MYRm)	Remarks
FPSO	6,907.8	Discounted FCF-to-firm at 6.1-6.5% WACC
Net cash/(debt)	-2,503.9	End-FY24 net debt
Equity value	4,403.9	
Shares outstanding (m)	5,922.0	
ESG premium/(discount)	(2%)	Based on its ESG score of 2.9
TP (MYR)	0.73	

Source: RHB

Emissions And ESG

Trend analysis

FY23bn total GHG emissions decreased by 0.2% YoY to 985.52k CO₂e, due to lower bunker fuel consumption.

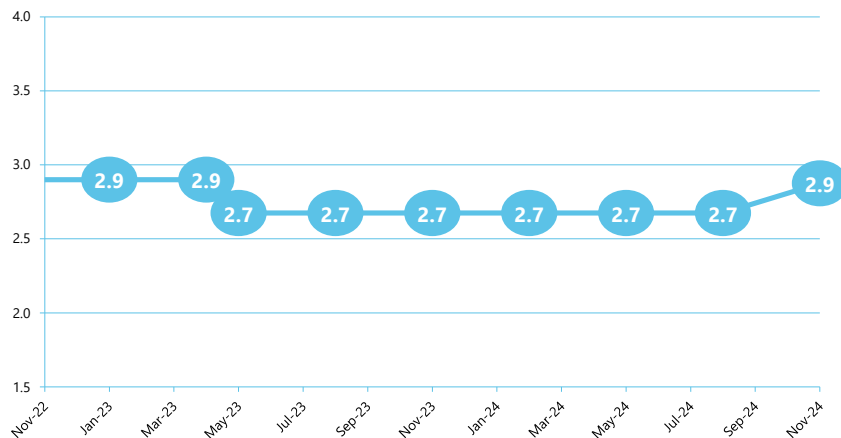
Emissions (tCO ₂ e)	Dec-21	Dec-22	Dec-23
Scope 1	18,140	12,290	1,850
Scope 2	340	340	400
Scope 3	946,910	975,130	983,270
Total emissions	965,390	987,760	985,520

Source: Company data, RHB

Latest ESG-Related Developments

- The group has improved disclosures to include data on flaring into Scope 1 emissions, as well as Scope 3 emissions (business air travel and other environmental data including total oil discharge and volume of produced water discharge).
- Its supply chain is implementing a plan to evaluate the ESG guidelines for and statistics of all the new suppliers and subcontractors.
- BAB entered into a non-binding agreement to engineer a carbon capture injection system for a gas field in Indonesia.
- The group won two awards at the 8th Global Good Governance (3G) Awards 2023 held in Dubai – the 3G Excellence in ESG Practices and the 3G Leadership in Sustainability Reporting Awards 2023.

ESG Rating History



Source: RHB

Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2024-11-17	Buy	0.73	0.54
2024-08-22	Buy	0.70	0.53
2024-05-30	Buy	0.68	0.59
2024-02-28	Buy	0.68	0.52
2023-11-16	Buy	0.73	0.55
2023-08-28	Buy	0.73	0.51
2023-06-05	Buy	0.73	0.64
2023-05-25	Buy	0.80	0.66
2023-02-26	Buy	0.70	0.60
2022-11-25	Buy	0.61	0.44
2022-08-28	Buy	0.59	0.41
2022-05-25	Buy	0.58	0.44
2022-02-28	Buy	0.65	0.48
2022-01-19	Buy	0.62	0.53
2021-11-22	Buy	0.62	0.49

Source: RHB, Bloomberg

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