

23 August 2024

## Bumi Armada (BAB MK)

### Another Strong Quarter; Keep BUY

- **Keep BUY and MYR0.70 TP, 33% upside.** Bumi Armada's 1H24 results beat estimates on stronger margins and lower tax expenses. Its valuation remains fairly attractive, at 4.3x FY25F P/E – assuming the charter for Armada Kraken is extended at a lower rate. The continuous strengthening of its balance sheet and solid operating cash flow allows the group to bid for new projects and expand into other new ventures.
- **Above expectations.** At 60% of our and Street full-year estimates, 1H24 core earnings of MYR506m (+97% YoY) came in above expectations, due to lower-than-expected tax expenses and better margins. No dividends were declared for the quarter, as expected.
- **BAB recorded a core profit of MYR256m (+3% QoQ, +3.7x YoY)** after stripping off a MYR7m fair value gain on financial assets and MYR3m unrealised FX gain. The slight QoQ improvement was largely led by strong JV & associates contribution and additional engineering services charged to JV entities masking the absence of the bump-up from Armada Olombendo due to the finalisation of the daily operating fee escalation. Cumulatively, 1H24 core earnings almost doubled thanks to higher contribution from Armada Kraken, following the resolution of an outstanding issue with the charterer as well as higher Armada Olombendo contribution, as mentioned earlier.
- **Outlook.** Armada Kraken has been extended by one year to Apr 2026 at lower rates. It was highlighted that there is a possibility of potential impairment by year end if the value-in-use (VIU) remains lower than the net book value. Recall that BAB impaired the vessel by MYR514m in 4Q23. Meanwhile, BAB repaid USD59m in borrowings in 2Q24, lowering its net gearing to 0.44x (0.56x in 1Q24). The MYR1.5bn *Sukuk Murabahah* has been refinanced with a new six-year financing facility of USD400m in August at a higher interest rate. Meanwhile, the Armada Sterling V FPSO has achieved final acceptance in July and management is confident to secure charter extension for Armada TGT beyond Nov 2024. Also, in July, BAB's JV Bluestreak CO2 signed a MoU with Uniper, an international energy company, to explore the feasibility of implementing a jetty-moored floating liquid CO2 storage facility and liquid CO2 carrier solution, for the export of CO2 from Uniper's proposed Grain Carbon Capture project in the UK. Construction will only begin at the soonest by the end of 2026.
- **Keep BUY.** We lift FY24F-26F earnings by 11%, 13% and 13% to factor in stronger margins and lower tax expenses. As such, our DCF-based TP is lifted to MYR0.70 with a 6% ESG discount imputed, based on our ESG score of 2.7. Downside risks: Contract cancellations, failure to win new contracts, and a deterioration in the Kraken operations.

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)	4.24	9.36	3.26	4.56	4.71
P/B (x)	0.6	0.5	0.5	0.4	0.4
P/CF (x)	2.79	3.94	2.75	3.28	3.53
Dividend Yield (%)	na	na	na	na	na
EV/EBITDA (x)	2.46	2.72	0.83	0.24	(0.50)
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

Energy & Petrochemicals | Offshore & Marine

**Buy** (Maintained)

Target Price (Return):	MYR0.70 (+33%)
Price (Market Cap):	MYR0.53 (USD711m)
ESG score:	2.7 (out of 4)
Avg Daily Turnover (MYR/USD)	12.0m/2.57m

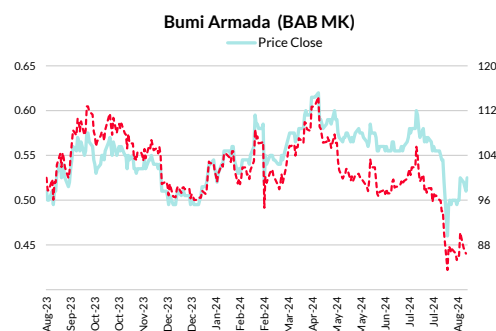
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#### Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	6.1	(7.1)	(8.7)	(10.3)	4.0
Relative	(6.3)	(7.9)	(9.5)	(16.1)	(8.7)
52-wk Price low/high (MYR)	0.46 – 0.62				



Source: Bloomberg

#### Overall ESG Score: 2.7 (out of 4)

##### E: MODERATE

As an offshore energy facilities and service provider, BAB is exposed to a number of environmental risks, eg high GHG emissions. The group has started a few initiatives including the provision of cleaner and more reliable energy solutions through the adoption of green technology – to meet its objective to prevent pollution and minimise environmental impacts. The group's total GHG emissions decreased by 0.2% to 985.5k tonnes CO2e in FY23. On its spill incidents, BAB recorded zero oil spills by its FPSO, FSU and SC fleets.

##### S: GOOD

BAB prioritises employee health & safety, and has policies and initiatives aimed to promote good health & safety culture. In the year, the group increased HSE related trainings, awareness program, as well as the number of senior management visits to all the vessels resulting in a decreased Lost Time Injury Rate (LTIR) of 0.00 from FY22's 0.49. Notably, BAB is actively involved with local communities, investing in community development projects, education, and healthcare to enhance local well-being.

##### G: EXCELLENT

BAB's 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 through processes within Bursa Malaysia guidelines.

## Financial Exhibits

<b>Asia</b>	<b>Financial summary (MYR)</b>	<b>Dec-22</b>	<b>Dec-23</b>	<b>Dec-24F</b>	<b>Dec-25F</b>	<b>Dec-26F</b>
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
<b>Bumi Armada</b>	Return on average equity (%)	16.1	6.1	15.5	9.8	8.6
BAB MK						
Buy						
<b>Valuation basis</b>	<b>Valuation metrics</b>	<b>Dec-22</b>	<b>Dec-23</b>	<b>Dec-24F</b>	<b>Dec-25F</b>	<b>Dec-26F</b>
SOP	Recurring P/E (x)	4.24	9.36	3.26	4.56	4.71
	P/B (x)	0.6	0.5	0.5	0.4	0.4
	FCF Yield (%)	35.8	25.4	31.9	25.9	23.8
	EV/EBITDA (x)	2.46	2.72	0.83	0.24	(0.50)
	EV/EBIT (x)	3.29	4.30	1.12	0.35	(0.74)
<b>Key drivers</b>	<b>Income statement (MYRm)</b>	<b>Dec-22</b>	<b>Dec-23</b>	<b>Dec-24F</b>	<b>Dec-25F</b>	<b>Dec-26F</b>
i. Improvement in the Kraken operations;	Total turnover	2,406	2,133	2,289	1,997	1,880
ii. Better offshore marine asset utilisation rates.	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
<b>Key risks</b>	<b>Cash flow (MYRm)</b>	<b>Dec-22</b>	<b>Dec-23</b>	<b>Dec-24F</b>	<b>Dec-25F</b>	<b>Dec-26F</b>
i. Deterioration in the Kraken operations;	Change in working capital	96	226	(30)	38	(3)
ii. Contract cancellations.	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
<b>Company Profile</b>	<b>Balance sheet (MYRm)</b>	<b>Dec-22</b>	<b>Dec-23</b>	<b>Dec-24F</b>	<b>Dec-25F</b>	<b>Dec-26F</b>
Bumi Armada is a Malaysia-based international offshore oilfield services provider. It is also a global FPSO player.	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
	<b>Key metrics</b>	<b>Dec-22</b>	<b>Dec-23</b>	<b>Dec-24F</b>	<b>Dec-25F</b>	<b>Dec-26F</b>
	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

23 August 2024

Energy &amp; Petrochemicals | Offshore &amp; Marine

Figure 1: 1H24 results review

FYE Dec (MYRm)	2Q23	1Q24	2Q24	QoQ	YoY	6MFY23	6MFY24	YoY	Comments
Turnover	441.3	635.5	578.9	(8.9)	31.2	985.3	1214.4	23.3	QoQ; Absence of additional revenue from Armada Olombendo
EBITDA	259.7	421.7	400.5	(5.0)	54.2	605.3	822.1	35.8	
Depreciation & amortisation	(85.4)	(76.4)	(85.4)	11.7	0.0	(167.5)	(161.8)	(3.4)	
Operating profit/(loss)	174.3	345.2	315.1	(8.7)	80.8	437.7	660.3	50.9	
Others	(7.9)	12.8	(48.6)	(480.7)	516.7	(12.2)	(35.8)	193.5	
Finance cost	(83.6)	(79.1)	(77.5)	(2.1)	(7.3)	(175.4)	(156.6)	(10.7)	
Share of results of JVs	13.8	3.2	32.0	913.9	131.2	40.9	35.1	(14.1)	
Exceptional items	66.1	(9.3)	10.0	(208.1)	(84.9)	62.7	0.7	(98.8)	2Q24 excluded: MYR7m fair value gain on financial assets and MYR3m unrealised FX gain
PBT	105.9	270.2	270.2	0.0	155.2	305.9	540.5	76.7	
Taxation	1.2	(7.1)	(1.8)	(75.0)	(243.6)	(2.9)	(8.9)	209.3	
Minority interest	11.6	(22.6)	(2.5)	(88.9)	(121.5)	16.7	(25.1)	(249.8)	
Net profit	118.8	240.5	266.0	10.6	(627.2)	319.8	506.5	58.4	
Core net profit	52.7	249.8	256.0	2.5	385.6	257.0	505.8	96.8	Beat expectations
EBITDA margin	58.8	66.3	69.2			61.4	67.7		
Operating margin	39.5	54.3	54.4			44.4	54.4		
Pre-tax margin	24.0	42.5	46.7			31.0	44.5		
Net margin	11.9	39.3	44.2			26.1	41.6		

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)	(6%)	Based on ESG score of 2.7
<b>TP (MYR)</b>	<b>0.70</b>	

Source: RHB

## Emissions And ESG

### Trend analysis

'Bumi Armada's FY23b total GHG emissions decreased by 0.2% YoY to 985.52 thousand tCO<sub>2</sub>e with lower buker fuel consumption.

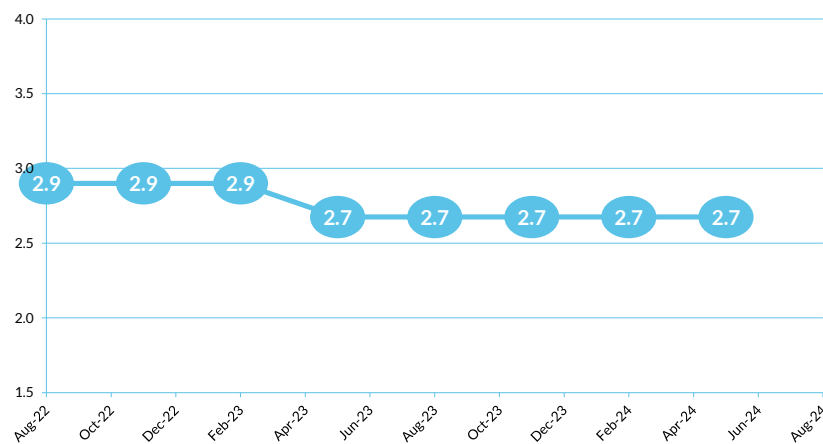
Emissions (tCO <sub>2</sub> e)	Dec-21	Dec-22	Dec-23
Scope 1	18,140	12,290	1,850
Scope 2	340	340	400
Scope 3	946,910	975,130	983,270
Total emissions	965,390	987,760	985,520

Source: Company data, RHB

## Latest ESG-Related Developments

- The group improves its disclosure to include data on flaring into Scope 1 emissions as well as Scope 3 emissions on business air travel category and other environmental data including total oil discharge and volume of produced water discharge.
- Its supply chain is in the process of implementing a plan for evaluating ESG guidelines/statistics of all the new suppliers and subcontractors.
- Bumi Armada 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
2024-05-30	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
2021-08-30	Buy	0.57	0.45
2021-05-27	Buy	0.51	0.44

Source: RHB, Bloomberg

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