

17 November 2023

Energy & Petrochemicals | Offshore & Marine

Bumi Armada (BAB MK)

Buy (Maintained)

A Strong Recovery; Keep BUY

- **Keep BUY and SOP-based MYR0.73 TP, 33% upside.** There were no surprises in Bumi Armada's 9M23 results, as its Kraken operation was restored to pre-shutdown levels in early August. We continue to like BAB for its undemanding valuation and strengthening balance sheet, led by stable FPSO operations.
- **Within expectations.** At 75% of our and Street's full-year estimates, BAB's 9M23 core earnings of MYR448m (-27% YoY) came in within expectations. No dividends were declared for the quarter, as expected.
- **3Q23 core profit surged by 2.6x QoQ to MYR191m** as the operational performance of its Kraken asset had been restored to pre-shutdown levels in early August. Its core profit performance was also further led by stronger JV & associate contributions. 9M23 core earnings contracted by 27% YoY to MYR448m, as a result of an exceptionally weak 2Q23 performance – no thanks to the shutdown of Kraken.
- **Outlook.** Root-cause assessment or RCA for Kraken is still on-going and an additional new transformer has yet to be installed. Its firm contract is expiring in 2025 and BAB has begun negotiating the extension option with its client. The group repaid USD37m in borrowings in 3Q23, lowering its net gearing to 0.66x in 3Q23 (0.72x in 2Q23). The Armada Sterling V FPSO, which is under India's Oil and Natural Gas' or ONGC KG-DWN 98/2 project, is targeting to achieve first oil in the near term and final acceptance subsequently. BAB has been recognising the standby rate at its associate level since March this year. Moving forward, it intends to work with strategic partners on any sizeable FPSO project bids. Meanwhile, we were guided that the 51%-owned consortium will acquire new 3D seismic data on the Tulip discovery (estimated recoverable resource of 860bcf of gas and 60mmbbl of oil and condensate) to evaluate the potential for a fast-track development under the Akia Production Sharing Contract. Such a development could bring an opportunity for BAB to provide and operate a FPSO and an FLNG or gas pipeline. We are also positive on the long term over the signing of the non-binding agreement to develop floating LNG facilities and carriers, as well as engineer a carbon capture injection system for a gas field – both projects are in Indonesia. However, the earnings impact remains unclear, as the capacity and capex remain unknown – depending on the field development approach and complexity.
- **Keep BUY.** With no changes in earnings estimates, our TP remains at MYR0.73 with a 6% ESG discount imputed based on our ESG score of 2.7. Our TP also implies FY24F P/E and P/BV of 5.4x (below its 5-year mean of 6x) and 0.6x (below +1SD from its 5-year mean).
- **Downside risks:** Contract cancellations, failure to win new contracts, and a deterioration in the Kraken operation.

Target Price (Return): MYR0.73 (+33%)
 Price (Market Cap): MYR0.55 (USD691m)
 ESG score: 2.7 (out of 4)
 Avg Daily Turnover (MYR/USD) 13.3m/2.83m

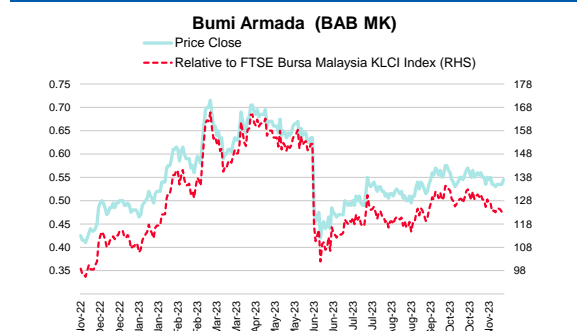
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Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	13.5	(3.5)	3.8	(14.9)	28.2
Relative	15.4	(5.4)	3.6	(17.9)	26.9
52-wk Price low/high (MYR)				0.41 – 0.72	



Source: Bloomberg

Overall ESG Score: 2.7 (out of 4)

E: MODERATE

BAB is exposed to environmental risks, eg high greenhouse gas (GHG) emissions. It began initiatives like providing cleaner and more reliable energy solutions via green technology, to prevent pollution and minimize the environmental impact. Total GHG emissions rose by 2.3% to 987.7k tonnes CO₂e in FY22. BAB recorded zero oil spills last year.

S: GOOD

BAB has policies and initiatives to promote a good health & safety culture. It increased HSE-related training, held awareness programmes and senior management visits to all vessels. This led to a lower lost time injury rate (LTIR) of 0.53 (FY21: 0.55). Nevertheless, its LTIR is still above the industry average. BAB also participates in CSR activities like donating computers, planting mangrove forests and turtle conservation.

G: EXCELLENT

The board meets Bursa Malaysia requirements. Directors are skilled and experienced, and the Board meets the requirements of the Malaysian Code on Corporate Governance in terms of female and independent director representation. The group provides timely, reliable, and accurate information to shareholders, and ensures shareholder rights are protected.

Forecasts and Valuation	Dec-21	Dec-22	Dec-23F	Dec-24F	Dec-25F
Total turnover (MYRm)	2,163	2,406	1,282	2,245	1,909
Recurring net profit (MYRm)	677	811	604	791	745
Recurring net profit growth (%)	42.3	19.8	(25.5)	31.0	(5.8)
Recurring P/E (x)	4.73	3.95	5.30	4.05	4.29
P/B (x)	0.8	0.6	0.6	0.5	0.4
P/CF (x)	3.34	2.87	4.88	3.74	2.97
Dividend Yield (%)	na	na	na	na	na
EV/EBITDA (x)	3.43	2.53	2.32	1.34	0.62
Return on average equity (%)	19.0	17.8	11.1	12.9	10.8
Net debt to equity (%)	156.1	91.6	70.4	48.6	29.1

Source: Company data, RHB

See important disclosures at the end of this report

Market Dateline / PP 19489/05/2019 (035080)

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Financial Exhibits

Asia	Financial summary (MYR)	Dec-21	Dec-22	Dec-23F	Dec-24F	Dec-25F
Malaysia	Recurring EPS	0.12	0.14	0.10	0.13	0.13
Energy & Petrochemicals	BVPS	0.67	0.88	0.98	1.11	1.24
Bumi Armada	Return on average equity (%)	19.0	17.8	11.1	12.9	10.8
BAB MK						
Buy						
Valuation basis	Valuation metrics	Dec-21	Dec-22	Dec-23F	Dec-24F	Dec-25F
SOP	Recurring P/E (x)	4.73	3.95	5.30	4.05	4.29
	P/B (x)	0.8	0.6	0.6	0.5	0.4
	FCF Yield (%)	29.5	34.8	16.1	22.4	29.3
	EV/EBITDA (x)	3.43	2.53	2.32	1.34	0.62
	EV/EBIT (x)	5.09	3.38	3.42	1.83	0.86
Key drivers	Income statement (MYRm)	Dec-21	Dec-22	Dec-23F	Dec-24F	Dec-25F
i. Improvement in Kraken operations;	Total turnover	2,163	2,406	1,282	2,245	1,909
ii. Better offshore marine asset utilisation rates.	Gross profit	920	1,130	458	909	812
	EBITDA	1,424	1,369	1,209	1,453	1,433
	Depreciation and amortisation	(466)	(343)	(390)	(393)	(397)
	Operating profit	958	1,027	820	1,060	1,037
	Net interest	(397)	(367)	(313)	(308)	(302)
	Pre-tax profit	686	788	646	896	846
	Taxation	(25)	16	(45)	(108)	(101)
	Reported net profit	677	811	604	791	745
	Recurring net profit	677	811	604	791	745
Key risks	Cash flow (MYRm)	Dec-21	Dec-22	Dec-23F	Dec-24F	Dec-25F
i. Deterioration in Kraken operation;	Change in working capital	(43)	96	(195)	(182)	46
ii. Cancellation of contracts.	Cash flow from operations	959	1,114	656	855	1,076
	Capex	(13)	(1)	(140)	(140)	(140)
	Cash flow from investing activities	(102)	58	(140)	(140)	(140)
	Cash flow from financing activities	(1,515)	(1,375)	(103)	(102)	(101)
	Cash at beginning of period	895	795	839	1,395	2,154
	Net change in cash	(659)	(203)	413	613	835
	Ending balance cash	236	592	1,252	2,008	2,989
Company Profile	Balance sheet (MYRm)	Dec-21	Dec-22	Dec-23F	Dec-24F	Dec-25F
Bumi Armada is a Malaysia-based international offshore oilfield services provider. It is also a global FPSO player.	Total cash and equivalents	795	839	1,395	2,154	3,101
	Tangible fixed assets	4,213	4,012	3,762	3,509	3,252
	Total investments	4,403	4,351	4,351	4,351	4,351
	Total assets	12,070	11,726	11,975	12,819	13,391
	Short-term debt	1,404	1,018	918	818	718
	Total long-term debt	5,514	4,486	4,486	4,486	4,486
	Total liabilities	8,149	6,630	6,279	6,334	6,162
	Total equity	3,922	5,096	5,696	6,485	7,229
	Total liabilities & equity	12,070	11,726	11,975	12,819	13,391
	Key metrics	Dec-21	Dec-22	Dec-23F	Dec-24F	Dec-25F
	Revenue growth (%)	(3.3)	11.2	(46.7)	75.2	(15.0)
	Recurrent EPS growth (%)	42.3	19.8	(25.5)	31.0	(5.8)
	Gross margin (%)	42.5	47.0	35.8	40.5	42.5
	Operating EBITDA margin (%)	65.9	56.9	94.4	64.7	75.1
	Net profit margin (%)	31.3	33.7	47.1	35.2	39.0
	Capex/sales (%)	0.6	0.1	10.9	6.2	7.3
	Interest cover (x)	2.41	2.80	2.61	3.44	3.43

Source: Company data, RHB

Emissions And ESG

Trend analysis

Bumi Armada's total greenhouse gas (GHG) emissions increased by 2.3% YoY to 987.7 thousand tCO₂e in 2022, from 965.3 thousand tCO₂e in 2021, as its Scope 1 emissions increased 2.2% YoY due to an increase in fuel consumption. The increase, in turn, was the result of higher production rates and new projects in the subsea construction business. The group also started tracking its Scope 3 emissions.

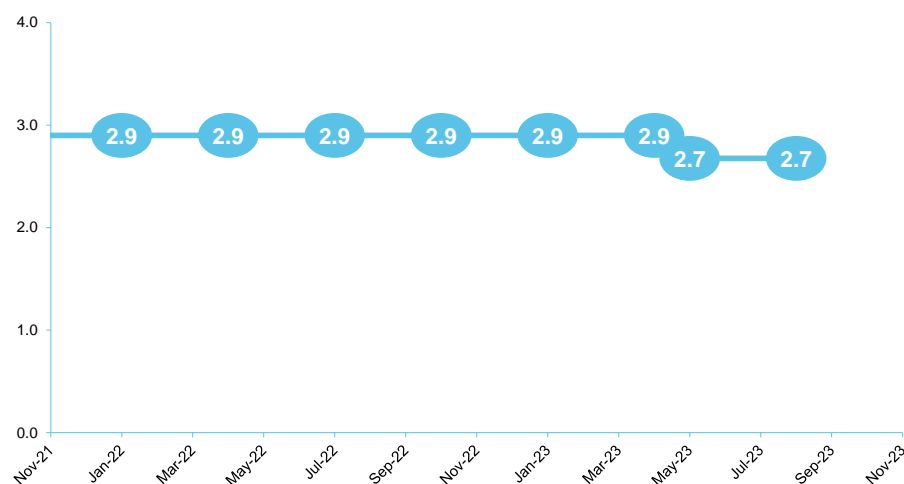
Emissions (tCO ₂ e)	Dec-20	Dec-21	Dec-22
Scope 1	1,111,800	965,000	986,700
Scope 2	400	300	300
Scope 3	na	na	675
Total emissions	1,112,200	965,300	987,675

Source: Company data, RHB

Latest ESG-Related Developments

- The group has improved on its disclosure to include data on flaring into Scope 1 emissions, as well as data on its Scope 3 emissions in the 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 the 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

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Figure 1: 3Q23 results review

FYE Dec (MYRm)	3Q22	2Q23	3Q23	QoQ	YoY	9M22	9M23	YoY	Comments
Turnover	653.1	441.3	524.8	18.9	(19.6)	1800.5	1510.1	(16.1)	QoQ; Higher availability of Kraken.
EBITDA	368.3	259.7	309.9	19.3	(15.9)	1033.6	915.1	(11.5)	
Depreciation & amortisation	(87.4)	(85.4)	(87.4)	2.3	0.0	(256.1)	(254.9)	(0.4)	
Operating profit/(loss)	281.0	174.3	222.5	27.7	(20.8)	777.6	660.2	(15.1)	
Others	(69.4)	(7.9)	(50.5)	541.4	(27.2)	(97.4)	(62.7)	(35.6)	3Q23 excluded: MYR1m insurance claim and MYR15m unrealised FX loss.
Finance cost	(94.9)	(83.6)	(83.0)	(0.7)	(12.5)	(267.3)	(258.4)	(3.3)	
Share of results of JVs	(43.2)	13.8	25.1	81.5	(158.1)	9.6	66.0	588.7	
Exceptional items	(60.2)	66.1	(13.4)	(120.2)	(77.8)	(89.5)	49.4	(155.2)	
PBT	138.4	105.9	165.0	55.9	19.2	516.9	471.0	(8.9)	Within expectations.
Taxation	0.8	1.2	(0.3)	(123.6)	(137.6)	(4.1)	(3.2)	(22.2)	
Minority interest	10.5	11.6	13.0	11.9	23.5	8.9	29.7	235.1	
Net profit	149.7	118.8	177.8	49.7	(424.7)	521.7	497.5	(4.6)	
Core net profit	210.0	52.7	191.1	262.6	(9.0)	611.2	448.2	(26.7)	
EBITDA margin	56.4	58.8	59.0			57.4	60.6		
Operating margin	43.0	39.5	42.4			43.2	43.7		
Pre-tax margin	21.2	24.0	31.4			28.7	31.2		
Net margin	32.2	11.9	36.4			33.9	29.7		

Source: Company data, RHB

Figure 2: SOP valuation

Segments	FY23F (MYRm)	Remarks
FPSO	8,551.8	Discounted FCF to firm at 6.1-6.5% WACC
Net cash/(debt)	(4,010.1)	End FY23F net debt
Equity value	4,541.7	
Shares outstanding (m)	5,873.0	
ESG (discount)/ premium	(6%)	Based on ESG score of 2.7
TP (MYR)	0.73	

Source: RHB

Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
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
2021-02-28	Buy	0.47	0.40
2021-01-03	Buy	0.43	0.35
2020-09-28	Buy	0.38	0.27

Source: RHB, Bloomberg

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Trading Buy:	Share price may exceed 15% over the next 3 months, however longer-term outlook remains uncertain
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