

25 November 2022

Energy & Petrochemicals | Offshore & Marine

Bumi Armada (BAB MK)

Buy (Maintained)

Another Solid Quarter; Keep BUY

Target Price (Return):	MYR0.61 (+39%)
Price (Market Cap):	MYR0.44 (USD579m)
ESG score:	2.90 (out of 4)
Avg Daily Turnover (MYR/USD)	4.81m/1.05m

- **Keep BUY, with new SOP-based MYR0.61 TP from MYR0.59, 39% upside.** Bumi Armada's 9M22 results surpassed our expectations, with core profit surging 16% YoY on better Kraken availability, lower depreciation and finance costs. The group is still actively bidding for new projects while Armada Sterling V has sailed away from the yard. BAB remains our sector Top Pick for its undemanding valuation (3.5x FY23F P/E) and strengthening balance sheet, led by stable FPSO operations and continuous asset monetisation.

- **Results are above expectations.** At 88% of our and Street full-year estimates, 9M22 earnings of MYR613m (+16% YoY) came in above expectations, due to lower tax expenses and stronger-than-expected preliminary front end engineering and design (pre-FEED) works being recognised. No dividends were declared for the quarter, as expected.

- **3Q22 core profit declined by 7% QoQ** due to weaker JV & associate, the absence of a reversal of tax liabilities from JVs after stripping off MYR74m downward revision of residual value of vessels, MYR8m unrealised FX gain and etc. This is partially cushioned by higher subsea construction work orders in the Caspian Sea and pre-FEED contribution. Cumulatively, 9M22 core earnings improved by 16% on better Kraken availability, lower depreciation charges (-31%), and finance costs (-12%) as a result of debt repayment.

- **Outlook.** There are currently only three OSVs remaining, and one has been classified as an asset held for sale. BAB repaid USD75m in borrowings in 3Q22 to reduce interest costs, while its net gearing also dipped to 1.03x in 3Q22 (1.19x in 2Q22). Armada Sterling V FPSO, which is under India's Oil and Natural Gas (ONGC) KG-DWN 98/2 project, has sailed away from the construction yard in Singapore and is expected to arrive at offshore India to kickstart its hook up and commissioning work in December. On the other hand, BAB has submitted tenders for new FPSO projects predominantly. Some of the projects, as reported by several articles in Upstream, are located in Indonesia, Brazil, Angola and Mexico. We think BAB could secure up to two new projects, and upfront payment from clients is essential to reduce initial equity outlay.

- **Keep BUY.** We increase FY22F-24F earnings by 6-10% after lowering tax expenses and imputing additional pre-FEED works. Our TP, which rises slightly to MYR0.61 from MYR0.59 after an earnings adjustment, incorporates a 2% ESG discount, based on our ESG score of 2.9, as per our proprietary methodology. Our TP also implies FY23F P/E and P/BV of 4.8x (below its 5-year mean of 6x) and 0.7x (slightly above +1SD from its 5-year mean). Downside risks: Contract cancellations, failure to win new contracts, and a deterioration in Armada Kraken's operations.

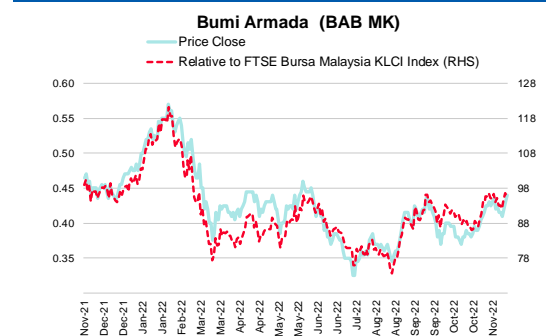
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Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(6.4)	14.3	17.3	4.8	(5.4)
Relative	(2.2)	10.5	14.9	6.7	(4.1)
52-wk Price low/high (MYR)	0.33 – 0.57				



Source: Bloomberg

Overall ESG Score: 2.90 (out of 4)

E: MODERATE

As an offshore energy facilities and service provider, Bumi Armada is exposed to a number of environmental risks, eg high greenhouse gas (GHG) emissions. With its objective to prevent pollution and minimise environmental impacts, the group achieved a 7.8% reduction in GHG emissions in FY21. Furthermore, energy consumption based on electricity and bunker fuel consumption decreased by 42.8% and 13.5% respectively from FY20. However, Bumi Armada also recorded two minor oil spill incidents during the year. We maintain our ESG score on this pillar due to this matter.

S: GOOD

Bumi Armada prioritises employee health & safety, and has policies and initiatives aimed to promote good health & safety culture. The group has also been recognised by AON UK with a rating of "EXCELLENT", through their independent COVID-19 Energy Risk Framework assessment. Nevertheless, the group reported two Lost Time Injury ("LTI") cases, both related to hand injury in FY21. Notably, Bumi Armada has taken on various CSR efforts to offset its carbon footprint eg contributions to the construction of three check dams to harvest rainwater in Rajasthan, India.

G: EXCELLENT

Bumi Armada's board meets Bursa Malaysia requirements. Directors are skilled and experienced, and it 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 through processes within Bursa Malaysia guidelines.

Forecasts and Valuation	Dec-20	Dec-21	Dec-22F	Dec-23F	Dec-24F
Total turnover (MYRm)	2,235	2,163	2,259	2,217	2,245
Recurring net profit (MYRm)	476	677	773	741	688
Recurring net profit growth (%)	74.5	42.3	14.2	(4.2)	(7.1)
Recurring P/E (x)	5.43	3.82	3.34	3.49	3.76
P/B (x)	0.8	0.7	0.6	0.5	0.4
P/CF (x)	10.33	2.70	3.37	2.89	2.87
Dividend Yield (%)	na	na	na	na	na
EV/EBITDA (x)	5.26	2.99	2.82	2.14	1.51
Return on average equity (%)	4.7	19.0	18.6	15.7	12.7
Net debt to equity (%)	237.1	156.1	134.6	97.1	69.6

Source: Company data, RHB

See important disclosures at the end of this report

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

Financial Exhibits

Asia	Financial summary (MYR)	Dec-20	Dec-21	Dec-22F	Dec-23F	Dec-24F
Malaysia	Recurring EPS	0.08	0.12	0.13	0.13	0.12
Energy & Petrochemicals	BVPS	0.54	0.67	0.74	0.86	0.98
Bumi Armada	Return on average equity (%)	4.7	19.0	18.6	15.7	12.7
BAB MK						
Buy						
	Valuation metrics	Dec-20	Dec-21	Dec-22F	Dec-23F	Dec-24F
	Recurring P/E (x)	5.43	3.82	3.34	3.49	3.76
	P/B (x)	0.8	0.7	0.6	0.5	0.4
	FCF Yield (%)	7.8	36.6	24.3	29.2	29.4
	EV/EBITDA (x)	5.26	2.99	2.82	2.14	1.51
	EV/EBIT (x)	10.50	4.45	3.74	2.96	2.11
	Income statement (MYRm)	Dec-20	Dec-21	Dec-22F	Dec-23F	Dec-24F
	Total turnover	2,235	2,163	2,259	2,217	2,245
	Gross profit	905	934	468	793	909
	EBITDA	1,041	1,424	1,382	1,401	1,383
	Depreciation and amortisation	(519)	(466)	(340)	(390)	(393)
	Operating profit	522	958	1,042	1,012	990
	Net interest	(492)	(397)	(366)	(361)	(355)
	Pre-tax profit	128	686	803	791	779
	Taxation	8	(25)	(40)	(55)	(93)
	Reported net profit	149	677	773	741	688
	Recurring net profit	476	677	773	741	688
	Cash flow (MYRm)	Dec-20	Dec-21	Dec-22F	Dec-23F	Dec-24F
	Change in working capital	(307)	(43)	(208)	(91)	(35)
	Cash flow from operations	250	959	767	894	900
	Capex	(50)	(13)	(140)	(140)	(140)
	Cash flow from investing activities	252	(102)	(140)	(140)	(140)
	Cash flow from financing activities	(1,334)	(1,515)	(1,010)	(105)	(103)
	Cash at beginning of period	1,094	895	795	550	1,344
	Net change in cash	(832)	(659)	(383)	649	657
	Ending balance cash	263	236	411	1,199	2,001
	Balance sheet (MYRm)	Dec-20	Dec-21	Dec-22F	Dec-23F	Dec-24F
	Total cash and equivalents	895	795	550	1,344	2,148
	Tangible fixed assets	4,945	4,213	4,013	3,763	3,510
	Total investments	4,490	4,403	4,403	4,403	4,403
	Total assets	12,648	12,070	11,929	12,454	13,013
	Short-term debt	1,540	1,404	1,304	1,204	1,104
	Total long-term debt	6,767	5,514	5,014	5,014	5,014
	Total liabilities	9,522	8,149	7,644	7,434	7,307
	Total equity	3,125	3,922	4,285	5,020	5,706
	Total liabilities & equity	12,648	12,070	11,929	12,454	13,013
	Key metrics	Dec-20	Dec-21	Dec-22F	Dec-23F	Dec-24F
	Revenue growth (%)	7.9	(3.3)	4.5	(1.9)	1.3
	Recurrent EPS growth (%)	74.5	42.3	14.2	(4.2)	(7.1)
	Gross margin (%)	40.5	43.2	20.7	35.8	40.5
	Operating EBITDA margin (%)	46.6	65.9	61.2	63.2	61.6
	Net profit margin (%)	6.7	31.3	34.2	33.4	30.7
	Capex/sales (%)	2.2	0.6	6.2	6.3	6.2
	Interest cover (x)	1.06	2.41	2.84	2.81	2.79

Source: Company data, RHB

Figure 1: 9M22 results review

FYE Dec (MYRm)	3Q21	2Q22	3Q22	QoQ (%)	YoY (%)	9M21	9M22	YoY (%)	Comments
Turnover	545.7	618.4	653.1	5.6	19.7	1724.0	1800.5	4.4	
EBITDA	364.3	327.6	363.8	11.1	(0.1)	1174.8	1030.7	(12.3)	
Depreciation & amortisation	(119.9)	(85.4)	(87.4)	2.3	(27.1)	(372.9)	(256.1)	(31.3)	Lower, due mainly to a non-operating FPSO that was fully depreciated in Dec 2021
Operating profit/(loss)	244.5	242.2	276.4	14.1	13.1	801.9	774.7	(3.4)	
Others	4.8	(19.4)	(74.0)	280.5	(1653.3)	93.8	(100.2)	(206.9)	
Finance cost	(99.8)	(87.6)	(94.9)	8.3	(5.0)	(304.5)	(267.3)	(12.2)	Lower, due to debt repayment
Share of results of JVs	26.9	32.3	(43.2)	(233.7)	(260.6)	75.5	9.6	(87.3)	
Exceptional items	0.1	(39.0)	(60.2)	54.5	NM	(71.9)	(91.1)	26.7	3Q22 excluded: MYR74m downward revision of residual value of vessels, MYR8m unrealised FX gain and MYR5m insurance claims
PBT	165.4	186.8	138.4	(25.9)	(16.3)	463.0	516.9	11.6	
Taxation	(3.9)	0.6	0.8	39.1	(120.1)	(18.0)	(4.1)	(77.3)	
Minority interest	(8.1)	(1.1)	10.5	(1025.3)	(230.0)	11.0	9.4	(14.9)	
Net profit	153.4	186.3	149.7	(19.6)	(843.4)	456.1	522.3	14.5	
Core net profit	153.3	225.2	210.0	(6.8)	36.9	528.0	613.4	16.2	Above expectations
EBITDA margin	66.8	53.0	55.7			68.1	57.2		
Operating margin	44.8	39.2	42.3			46.5	43.0		
Pre-tax margin	30.3	30.2	21.2			26.9	28.7		
Net margin	28.1	36.4	32.2			30.6	34.1		

Source: Company data, RHB

Figure 2: SOP valuation

Segments	FY23F (MYRm)	Remarks
FPSO	9,406.8	Discounted FCF to firm at 6.1-6.5% WACC
Net cash/(debt)	-5,768.6	End FY22F net debt
Equity value	3,638.2	
Shares outstanding (m)	5,873.0	
ESG (discount)/ premium	(2%)	Based on ESG score of 2.9
TP (MYR)	0.61	

Source: RHB

Recommendation Chart

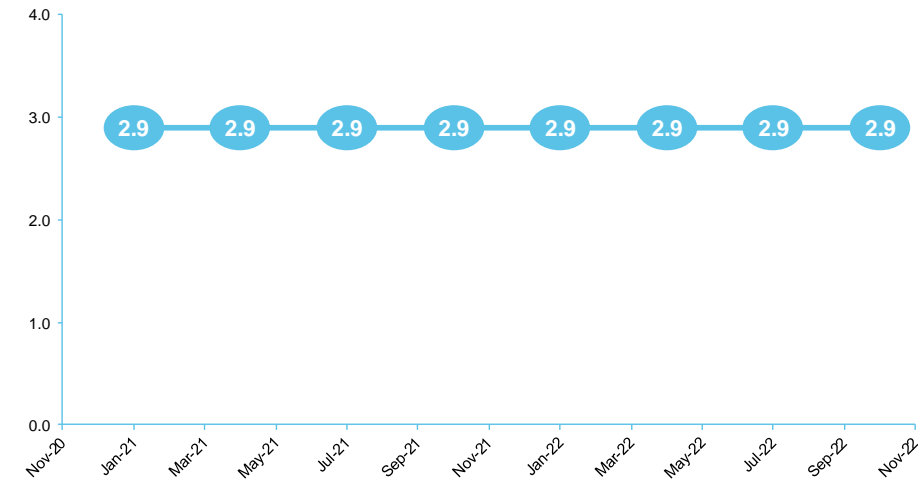


Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
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
2020-08-31	Buy	0.36	0.27
2020-05-31	Buy	0.30	0.21
2019-11-25	Buy	0.61	0.49
2019-09-27	Buy	0.39	0.34
2019-09-10	Buy	0.34	0.29

Source: RHB, Bloomberg

ESG Rating History



Source: RHB

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Analyst	Company
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