

Bumi Armada Berhad

(5210 | BAB MK) Energy | Energy Infrastructure, Equipment & Services

Maintain BUY

Resilient FPO business to sustain earnings

Unchanged Target Price: RM0.56

KEY INVESTMENT HIGHLIGHTS

- **Bumi Armada's 1QFY20 normalised earnings grew by +31.7%yoy to RM90.4m**
- **Better revenue from Armada Kraken FPSO cushioned lackluster OMS performance**
- **No new sale of OSV vessels during the quarter**
- **Current orderbook at RM18.0b, with optional extensions worth up to RM10.3b**
- **FY20-21F earnings estimates maintained**
- **Maintain BUY with a unchanged TP of RM0.56 per share**

BAB's 1QFY20 normalised earnings grew +31.7%yoy to RM90.4m. Bumi Armada Berhad's (BAB) 1QFY20 reported earnings came in at -RM219.5m. However, its normalized earnings - excluding one-off impairment on its OMS business of RM314.4m; came in at RM90.4m which was within our and consensus' full-year earnings estimates at 27.7% and 30.2% respectively. Comparing against 1QFY20, revenue was higher by +12.4%yoy whilst earnings grew by +31.7%yoy respectively. Meanwhile on a sequential quarter basis; revenue grew by +7.2%qoq whilst earnings surged by +112.8%qoq respectively. This was primarily attributable to: (i) improved vessel availability of Armada Kraken FPSO; (ii) higher OSV utilization rates at 56% in 1QFY20 vs 54% in 4QFY19 as well as; (iii) lower operating costs from Armada Olembendo in 1QFY20.

FPO (previously FPSO & FGS) segment. The segment's revenue grew by +8.6%yoy mainly attributable to higher contribution from Armada Kraken FPSO arising from improved vessel availability coupled with lower operating costs from Armada Olembendo and Armada Perdana – which was sold back in September 2019. Correspondingly, segment operating profit grew by +21.1%yoy to RM263.5m due to the better revenue recognition. Similarly, on a quarterly sequential basis; the segment's revenue and profit increased by +10.2%qoq and +35.5% respectively mainly due to gains arising from translation of intercompany balances denominated in foreign currencies.

OMS segment. The segment revenue showed improves performance with revenue growing by +21.1%yoy to RM263.5m. This was mainly due to the improved vessel utilization rate during the quarter which has risen to 56% from 39% back in 1QFY19. However, the segment made a loss of -RM362.1m after it recognizes a non-cash impairment of RM314.4m on the OMS business given the adverse outlook for the segment due to the low oil price as well as the pandemic situation which is expected to result in disruption in demand for vessel charters and rates. That said, excluding the impairment, the segment made a loss of RM47.7m. Additionally, there were no vessels sold during the quarter. Hence, its total vessels remain at 32.

RETURN STATISTICS

Price @ 29 th May 2020 (RM)	0.21
Expected share price return (%)	+165.9
Expected dividend yield (%)	+0.0
Expected total return (%)	+165.9

SHARE PRICE CHART



Share price performance (%)	Absolute	Relative
1 month	27.3	21.6
3 months	55.6	-32.9
12 months	5.0	17.7

KEY STATISTICS

FBM KLCI	1473.25
Syariah compliant	No
Issue shares (m)	5876.53
Estimated free float (%)	40.43
Market Capitalisation (RM'm)	1236.04
52-wk price range	RM0.11 - RM0.55
Beta vs FBM KLCI (x)	2.18
Monthly velocity (%)	0.00
Monthly volatility (%)	79.67
3-mth average daily volume (m)	130.62
3-mth average daily value (RM'm)	24.43
Top Shareholders (%)	
Objektif Bersatu Sdn Bhd	34.80
Skim Amanah Saham Bumiputera	9.87
Employees Provident Fund	4.01

Analyst(s)

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Orderbook amounts to RM18.0b as of March 2020. BAB's firm contract orderbook as at end-December 2019 amounts to RM18.0b. Out of the RM18.0b, RM17.1b or 95% is attributable to FPO segment. For certain firm contracts, upon expiration contains options to extend these contracts which are renewable on an annual basis with a total potential value of RM10.3b over the entire optional extension period. For the optional extension; RM15.8b or 88% is attributable to the FPO segment while the balance of 12% is expected to come from the OMS segment.

Going forward. Management disclosed that it continues to actively seek for new contracts for its two (2) Subsea Construction vessels in the Caspian Sea under its OMS business. Negotiations for the contracts were reportedly ongoing however; it was curtailed by the recent outbreak of the coronavirus (Covid-19). Furthermore, the Group will remain focused on improving operational performance, financial efficiencies and monetization of assets which we opine will result in more sales of its idle OSV vessels.

Earnings impact. Despite meeting 30% of our FY20F earnings estimate, we are making no changes to our FY20-21F earnings projections at this juncture as we opine that BAB is on track to meet our earnings estimates. This is as we foresee the OMS segment to continue to face headwinds following the novel coronavirus (Covid19) global pandemic outbreak that has affected all industries and countries worldwide.

Maintain BUY with an unchanged TP of RM0.56. We are maintaining our **BUY** recommendation on BAB with an unchanged target price of **RM0.56**. Our TP is premised on a revised PER20 of 11.0x pegged to an unchanged EPS20 of 5.1sen. Our BUY recommendation is premised on our anticipation of further improvements in its OMS operating business following potential contract wins in the Caspian Sea as well as further disposal of idle and unused vessels which in turn will improve earnings visibility for the Group overall.

Additionally, we opine that the recent weak performance of BAB's stock price was mainly due to the sharp decline in the crude oil price and we are positive that BAB will be able to sustain its revenue and earnings momentum in FY20 given that its FPO segment is expected to remain resilient in the current pandemic operating environment as demand for storage surge in the low oil price environment. This is also coupled with the gradual quarterly financial improvement with better performance from Armada Kraken and much leaner business operation vs back in FY18.

Furthermore, we remain positive on the growing contribution from its FPO segment which has seen commendable improvement since earlier this year attributable to the better contribution from Armada Kraken. Its OMS segment has also recorded narrowing losses when compared against FY18 and we opine that this will improve further should BAB secure the new contracts in the Caspian Sea. The timeline for the contract wins remains unknown at this juncture. 

INVESTMENT STATISTICS

Financial year ending 31st December (in RM'm unless stated otherwise)	2018A	2019A	2020E	2021F	2022F
Revenue	2,418.7	2,070.7	2,327.9	2,623.2	2,592.7
EBIT	(1,941.0)	533.8	447.4	475.0	478.6
Pretax Profit	(2,298.9)	82.2	358.2	385.8	389.4
Normalised Net Profit	216.5	254.5	299.1	322.2	325.1
Reported Net Profit	(2,302.8)	82.2	299.1	322.2	325.1
EPS (sen)	(39.2)	5.0	5.1	5.5	5.5
EPS Growth (%)	(753.3)	112.80	1.20	7.71	0.92
PER (x)	nm	4.2	4.1	3.8	3.8
Dividend per share (sen)	-	0.0	0.0	0.0	0.0
Dividend yield (%)	-	0.0%	0.0%	0.0%	0.0%

Source: Company, MIDFR

BUMI ARMADA BERHAD: 1QFY20 RESULTS SUMMARY

Financial year ending 31st December (in RM'm unless stated otherwise)	Quarterly Results				
	1QFY19	4QFY19	1QFY20	QoQ (%)	YoY (%)
Revenue	491.6	515.6	552.6	7.2	12.4
Cost of sales	(301.6)	(579.5)	(289.8)	-50.0	-3.9
Gross profit	190.0	(63.8)	262.8	>100	38.4
Other operating income	12.3	31.8	26.3	-17.3	>100
Selling and distribution costs	(1.6)	(5.7)	(0.7)	-87.6	-56.7
Administrative expenses	(33.7)	(45.4)	(46.5)	2.6	38.0
Operating profit	167.0	(126.7)	(72.4)	-42.8	>100
Impairment	-	(43.7)	(314.4)	>100	nm
Finance cost	(135.6)	(147.3)	(137.2)	-6.8	1.2
Share of results of jointly controlled entities	38.4	23.9	(4.5)	>100	>100
Profit Before Tax	69.8	(250.1)	(214.2)	-14.4	>100
Taxation	(8.4)	(6.7)	(5.3)	-19.9	-36.7
Profit After Tax	61.4	(256.8)	(219.5)	-14.5	>100
Non- controlling interests	(0.9)	(21.6)	4.4	>100	>100
PATAMI	62.2	(235.2)	(224.0)	-4.8	>100
Exceptional Items	(6.4)	(234.0)	(314.4)	34.34	>100
PATAMI (ex-EI)	68.6	42.5	90.4	112.8	31.7
Segmental:					
<i>Revenue</i>					
- FPO (FPSO & FGS)	425.6	419.5	462.1	10.2	8.6
- OMS	66.0	96.1	90.5	-5.8	37.1
<i>Segmental Profit</i>					
- FPO (FPSO & FGS)	217.6	194.5	263.5	35.5	21.1
- OSV	(25.4)	35.7	(362.1)	-1114.2	1328.3

Source: Company, MIDFR

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MIDF AMANAH INVESTMENT BANK : GUIDE TO RECOMMENDATIONS

STOCK RECOMMENDATIONS

BUY	Total return is expected to be >10% over the next 12 months.
TRADING BUY	Stock price is expected to <i>rise</i> by >10% within 3-months after a Trading Buy rating has been assigned due to positive newsflow.
NEUTRAL	Total return is expected to be between -10% and +10% over the next 12 months.
SELL	Total return is expected to be <10% over the next 12 months.
TRADING SELL	Stock price is expected to <i>fall</i> by >10% within 3-months after a Trading Sell rating has been assigned due to negative newsflow.

SECTOR RECOMMENDATIONS

POSITIVE	The sector is expected to outperform the overall market over the next 12 months.
NEUTRAL	The sector is to perform in line with the overall market over the next 12 months.
NEGATIVE	The sector is expected to underperform the overall market over the next 12 months.