

# Bumi Armada Berhad

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

**Maintain BUY**

## Earnings supported by Armada Kraken

**Unchanged Target Price: RM0.56**

### KEY INVESTMENT HIGHLIGHTS

- **Bumi Armada's 4QFY19 normalised earnings grew by +23.8%yoy to RM42.5m**
- **Better revenue from Armada Kraken FPSO; cushioned lackluster OMS performance**
- **No new sale of OSV vessels during the quarter**
- **Current orderbook at RM17.5b, with optional extensions worth up to RM9.8b**
- **FY20F earnings estimates maintained**
- **Maintain BUY with a unchanged TP of RM0.56 per share**

### BAB's 4QFY19 normalised earnings grew +23.8%yoy to RM42.5m.

Bumi Armada Berhad's (BAB) 4QFY19 reported earnings came in at -RM235.2m. However, its normalized earnings (excluding one-off impairment on its OMS vessels of RM43.7m and impairment loss arising from legal actions against Woodside Energy of RM234.0m) came in at RM42.5m. This brought its FY19 cumulative earnings to RM254.5m which was within our but below consensus' full-year earnings estimates at 93.6% and 90.2% respectively. Comparing against 4QFY18, revenue was lower by -10.5%yoy whilst earnings grew by +23.8%yoy respectively. Meanwhile on a quarterly sequential basis, revenue declined marginally by -2.3%qoq whilst earnings dipped by -40.6%qoq respectively. This was primarily attributable to: (i) adjustment made on charter hire revenue of Armada Kraken FPSO; (ii) lower vessel utilization rates at 54% in 4QFY19 vs 58% in 3QFY19 as well as; (iii) lower share of results from joint ventures.

**FPO (previously FPSO & FGS) segment.** The segment's revenue grew by +10.0%yoy mainly attributable to higher contribution from Armada Kraken FPSO as it saw improved vessel availability. Correspondingly, segment profit grew by +26.8%yoy to RM194.5m due to the better revenue recognition. Meanwhile, on a quarterly sequential basis, the segment's revenue and results decreased by -7.6%qoq and -14.0%qoq respectively as there was an adjustment made on charter hire revenue of about RM30.0m during the quarter under review due to the vessel's lower availability in the preceding quarters.

**OMS segment.** The segment continued its lackluster performance with revenue declining -50.7%yoy mainly due to the completion of the LukOil project in the Caspian Sea back in December 2018. Correspondingly, segment profit dipped by -39.0%yoy to RM35.7m attributable to lower utilization rate during the quarter which was at 54% during the quarter. Comparatively, utilization rate was 58% in 3QFY19. Additionally, there were no vessels sold during the quarter. Hence, its total vessels remain at 32.

### RETURN STATISTICS

Price @ 27 <sup>th</sup> February 2020 (RM)	0.34
Expected share price return (%)	+50.9
Expected dividend yield (%)	+0.0
<b>Expected total return (%)</b>	<b>+50.9</b>

### SHARE PRICE CHART



Share price performance (%)	Absolute	Relative
1 month	-27.96	-24.74
3 months	-36.79	-32.73
12 months	76.32	100.66

### KEY STATISTICS

FBM KLCI	1,505.59
Syariah compliant	No
Issue shares (m)	5,870.94
Estimated free float (%)	34.70
Market Capitalisation (RM'm)	1,968.64
52-wk price range	0.15 – 0.55
Beta vs FBM KLCI (x)	1.81
Monthly velocity (%)	11.02
Monthly volatility (%)	79.67
3-mth average daily volume (m)	51.33
3-mth average daily value (RM'm)	23.30
Top Shareholders (%)	
Objektif Bersatu Sdn Bhd	34.86
Skim Amanah Saham Bumiputera	8.55
Employees Provident Fund	5.57

### Analyst(s)

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**Orderbook amounts to RM17.5b as of December 2019.** BAB's firm contract orderbook as at end-December 2019 amounts to RM17.5b. Out of the RM17.5b, RM16.6b 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 RM9.8b over the entire optional extension period. For the optional extension; RM8.6b 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 sale of its idle OSV vessels.

**Earnings impact.** We are making no changes to our FY20F earnings projections at this juncture as we opine that BAB is on track to meet our earnings estimates. We have also introduced our FY21-22F numbers in this report.

**Maintain BUY with an unchanged TP of RM0.56.** Post earnings announcement, 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 sell down on the stock with regards to its legal claim against Woodside Energy is overdone. This is as the loss against Woodside is distinct from its financial performance which has seen gradual quarterly 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 win is however, unknown at this juncture.



## INVESTMENT STATISTICS

Financial year ending 31st December (in RM'm unless stated otherwise)	2018A	2019A	2020E	2021F	2022F
<b>Revenue</b>	<b>2,418.7</b>	<b>2,070.7</b>	<b>2,327.9</b>	<b>2,623.2</b>	<b>2,592.7</b>
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
<b>Normalised Net Profit</b>	<b>216.5</b>	<b>254.5</b>	<b>299.1</b>	<b>322.2</b>	<b>325.1</b>
<b>Reported Net Profit</b>	<b>-2,302.8</b>	<b>82.2</b>	<b>299.1</b>	<b>322.2</b>	<b>325.1</b>
EPS (sen)	-39.2	5.0	5.1	5.5	5.5
EPS Growth (%)	(753.33)	112.80	1.20	7.71	0.92
PER (x)	nm	6.8	6.7	6.2	6.2
Dividend per share (sen)	0.0	0.0	0.0	0.0	0.0
Dividend yield (%)	0.0%	0.0%	0.0%	0.0%	0.0%

Source: Company, MIDFR

**BUMI ARMADA BERHAD: 4QFY19 RESULTS SUMMARY**

Financial year ending 31st December (in RM'm unless stated otherwise)	Quarterly Results					Cumulative results		
	4QFY18	3QFY19	4QFY19	QoQ (%)	YoY (%)	FY18	FY19	YoY (%)
Revenue	576.3	527.8	515.6	-2.3	-10.5	2,418.7	2,070.7	-14.4
Cost of sales	(495.7)	(329.1)	(579.5)	76.1	16.9	(1,917.5)	(1,517.3)	-20.9
Gross profit	80.7	198.7	(63.8)	-132.1	-179.2	501.2	553.4	10.4
Other operating income	9.8	81.8	31.8	-61.1	225.8	65.5	141.6	116.3
Selling and distribution costs	0.5	(2.4)	(5.7)	139.3	>100	(30.0)	(10.9)	-63.8
Administrative expenses	(71.0)	(29.5)	(45.4)	53.6	-36.1	(234.8)	(150.4)	-35.9
Operating profit	(1,180.6)	248.6	(126.7)	-151.0	-89.3	(1,941.0)	490.1	-125.3
Impairment	(1,200.5)	-	(43.7)	nm	-96.4	(2,242.9)	(43.7)	-98.1
Finance cost	(137.1)	(143.4)	(147.3)	2.7	7.4	(522.1)	(555.5)	6.4
Share of results of jointly controlled entities	52.2	54.7	23.9	-56.3	-54.2	164.2	147.6	-10.1
Profit Before Tax	(1,263.4)	160.0	(250.1)	-256.3	-80.2	(2,298.9)	82.2	-103.6
Taxation	1.2	(8.5)	(6.7)	-21.9	-675.5	(22.3)	(44.0)	97.7
Profit After Tax	(1,262.3)	151.5	(256.8)	-269.5	-79.7	(2,321.1)	38.2	101.6
Non- controlling interests	0.6	(1.9)	(21.6)	1046.2	-3759.7	(16.4)	(20.5)	24.9
PATAMI	(1,262.9)	153.4	(235.2)	-253.3	-81.4	(2,302.8)	58.6	-102.5
Exceptional Items	(1,297.2)	81.8	(234.0)	>100	(81.96)	(2,519.3)	(152.2)	94.0
<b>PATAMI (ex-EI)</b>	<b>34.3</b>	<b>71.6</b>	<b>42.5</b>	<b>-40.6</b>	<b>23.8</b>	<b>216.5</b>	<b>254.5</b>	<b>17.5</b>
Segmental:								
<i>Revenue</i>								
- FPO (FPSO & FGS)	381.4	453.9	419.5	-7.6	10.0	1693.9	1742.6	2.9
- OMS	194.9	74.0	96.1	30.0	-50.7	724.8	328.1	-54.7
<i>Segmental Profit</i>								
- FPO (FPSO & FGS)	153.4	226.1	194.5	-14.0	26.8	810.4	952.8	17.6
- OMS	58.5	45.8	35.7	-22.1	-39.0	198.0	113.0	-42.9

Source: Company, MIDFR

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### MIDF AMANAH INVESTMENT BANK : GUIDE TO RECOMMENDATIONS

#### STOCK RECOMMENDATIONS

<b>BUY</b>	Total return is expected to be >10% over the next 12 months.
<b>TRADING BUY</b>	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.
<b>NEUTRAL</b>	Total return is expected to be between -10% and +10% over the next 12 months.
<b>SELL</b>	Total return is expected to be <10% over the next 12 months.
<b>TRADING SELL</b>	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

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