Bumi Armada Berhad

***Maintain* BUY**

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

Earnings improved by Caspian Sea construction

***Revised* Target Price: RM0.80**

(previously RM0.90)

KEY INVESTMENT HIGHLIGHTS

- **Bumi Armada Berhad's profit up by +33%yoy to RM186m, revenue +1%yoy to RM618m**
- **Earnings came in above expectations by +26%**
- **High profit from lower operating cost, higher vessel availability, foreign exchange**
- **Orderbook at RM13b, with RM9b potential extension**
- **FY23-24 earnings forecast revised up 26% and 41%**
- **Maintain BUY with revised TP of RM0.80 per share**

Earnings up +33%yoy. Bumi Armada Berhad's (BAB) reported an increase in profit by +33.2%yoy and +0.3%qoq to RM186.3m. Cumulatively for 1HFY22, profit gained +22.9%yoy to RM372m – which came in above our expectations by +26% and consensus' by +12%.

Marginal +0.5%yoy in revenue. BAB's revenue rose up by +0.5%yoy and +15.9%qoq to RM618.4m. For the cumulative first half, revenue however dropped -2.6%yoy to RM1.15b. The higher revenue was due to the excellent progress of the Subsea Construction work in the Caspian Sea, and preliminary front-end engineering and design projects during the quarter. However, this is offset primarily by the impairment losses on the accrued lease rental of RM88m, as the group's wholly-owned subsidiary, Armada Balnaves Pte Ltd was unsuccessful in its appeal against Woodside Energy Julimar Pty Ltd.

Operations segment. Operations reported a rise in revenue by +3.3%yoy and +9.6%qoq to RM572.5m, while earnings gained +5.5%yoy and +9.7%qoq to RM354.6m. For the cumulative 1HFY22, revenue was up +3.2%yoy to RM1.1b, and profit gained slightly by +1%yoy to RM677.87m. The higher revenue is contributed by higher vessel availability for Armada Kraken FPSO. Profit gained on the back of higher vessel availability, lower operating costs and favourable foreign exchange movements.

Others segment. This segment recorded a rise in revenue by +21.7%yoy to RM46m, while surging to nearly 6-fold from RM6.9m from 1QFY22. Profit gained >100% to RM25.6m from a deficit of -RM12.5m in 2QFY21 and from RM0.8m in 1QFY22. Cumulatively for the first half, revenue decreased -25.9%yoy to RM52.9m, while profit gained over 6-fold to RM26.4m from a deficit of -RM5m in 1HFY21. The decline in revenue was due to the provision of a one-off engineering services related to an FPSO vessel in FY21. Profit surged due to foreign exchange gain.

RETURN STATISTICS	
Price @ 26th Aug 2022 (RM)	0.41
Expected share price return (%)	+95.1
Expected dividend yield (%)	0.00
Expected total return (%)	**+95.1**

SHARE PRICE CHART



Share price performance (%)	Absolute	Relative
1 month	8	7.4
3 months	5.2	-2.9
12 months	-9	-3.5

KEY STATISTICS	
FBM KLCI	1,500.29
Syariah compliant	No
FSGBM Index	No
ESG Grading Band	☆☆☆
Issues shares (m)	5907.05
Estimated free float (%)	40.15
Market Capitalisation (RM'm)	2,396.81
52-wk price range	RM0.32 - RM0.57
Beta vs FBM KLCI (x)	1.41
Monthly velocity (%)	0
Monthly volatility (%)	79.67
3-mth average daily volume (m)	12.29
3-mth average daily value (RM'm)	4.78
Top Shareholders (%)	
Objektif Bersatu Sdn Bhd	34.61
Amanah Saham Nasional Bhd	12.9
Karisma Mesra Sdn Bhd	3.99

MIDF Research
research@midf.com.my

Orderbook and Balance Sheet. The group's order book stood at a firm RM13.1b, with additional optional extensions of up to RM9.4m. 82% of the orderbook remains to be from its wholly-owned FPO units. The group's cash balance, including cash held by discontinued operations, decreased by -10%qoq to RM717.4m due to repayment of borrowings – making its gearing at 1.36x which was the lowest since FY15. BAB reported updates on its FPO vessels as included in Table 1.

TABLE 1: Update on Bumi Armada's FPO vessels (excluding Armada Claire) by 2QFY22

Unit	Location	LTI Free	Key Operations Update	Charter Period	
				Firm Contract	Optional Extension
Armada Kraken FPSO	Kraken Field, United Kingdom	<1 year	a) Completed annual BEIS inspection b) 56.1m barrels produced (milestone reached)	3Q 2025	>2039
Armada Olombendo FPSO	15/06 Field, Angola	<1 year	GTG A, GTX A and B 4K services, as well as Borescope Inspection provided	3Q 2030	3Q 2038
Armada LNG Mediterana FSU	Marsaxlokk Bay, Malta	5 years	a) Renewal of 3-liquid hybrid hoses b) Survey for SUSTAINABLESHIP-1 notation by Class BV	3Q 2035	N/A
Armada TGT 1 FPSO	TGT Field, Vietnam	10 years	100MM/bbls produced (milestone reached)	4Q 2024	N/A
Armada Sterling FPSO	D1 Field, India	9 years	5-year special survey by ABS	3Q 2030	3Q 2035
Armada Sterling II FPSO	C7 Field, India	6 years	Solar Turbines GTC A/B package conditioning assessments	2Q 2024	3Q 2031
Karapan Armada Sterling III FPSO	Madura BD Field, Indonesia	4 years	a) Zinc anode replacement on water ballast tanks b) New Coarse filter installation	3Q 2027	4Q 2032
98/02 FPSO	98-2 Field, India	N/A	a) Under construction (90% completed) b) Over 16m working hours clocked to date with no LTI c) Charterer granted an extension of project completion to end-2022; planned sail-away in 4QFY22	N/A	N/A

Source: Company, MIDFR

As of 2QFY22, the average uptime for BAB's owned units was 97% (-2%yoy and qoq), while the average uptime for its joint units remained at 100%. The group also reported that: (i) OSVs AT300, AT501 and Armada Hibiscus continue to operate without LTI, (ii) one OSV is currently classified as an asset held for sale, (iii) Mumbai Port FSRU project is being progressed, (iv) Armada Claire to be sold in CY22, and (v) tenders for FPSOs have been submitted. On BAB's Subsea Construction in the Caspian Sea, the group reported that the engineering, procurement awards and construction of installation aids and piles had been completed. For the project, a survey vessel was mobilized in May CY22; subsequently a dredging vessel and Armada Constructor was mobilized in June CY22 and dredging commenced. As of date, Armada Installer has been prepared for pipelaying work.

Sustainability to be a major focus. BAB will continue to be committed to its Sustainability Statement, and in part had released a Climate Change Policy that included ongoing studies to lower emissions on new vessels and improve flare management on existing vessels, as well as initiation of the implementation of ISO 50001 Energy Management Standard. Additionally, BAB had also been involved in the design completion of offshore CCS vessel (FSIU). The group believed that collaboration with other oil and gas players and improvements in its CO2 emitters would assist in upholding its sustainability goals.

Revise FY23-24 earnings forecast. Given that BAB's 2QFY22 results came in above our expectations, we revise our FY23 and FY24 upwards by +26% and +41% respectively. However, we revise our target price at RM0.80 (previously RM0.90) as we rollover to FY23, by pegging a PER of 6x to a revised EPS of 12.7sen. The PER is based on the average PER of the oilfield production and vessel services subsector.

Maintain BUY with TP:RM0.80. All in, we maintain our **BUY** recommendation based on the optimism that BAB will continue to maintain a robust operation until the end-year; primarily on the back of increasing activities in the oil and gas sector that we opine would spill over into the FPSO and O&G vessels subsegments. Given PETRONAS's announcement of an approximate RM60b capex this year, we believe that the group's performance will continue to pick up in line with the trajectory of the upstream and midstream divisions. We reiterate our positive view on the group, for its: (i) strict observation of HSSE (ii) integrated ESG strategy, (iii) continuous securement of new contracts, and (iv) maintenance of crucial relationships with clients and partners.

INVESTMENT STATISTICS

Financial year ending 31st December (in RM'm unless otherwise stated)	2020A	2021A	2022E	2023F	2024F
Revenue	**2,339.9**	**2,237.0**	**2,443.7**	**2,663.7**	**2,690.3**
EBIT	925.2	959.3	1,108.8	1,127.3	1,235.7
Pretax Profit	127.6	602.8	758.8	777.3	885.7
Normalised Net Profit	**482.9**	**631.1**	**736.3**	**754.1**	**859.3**
Reported Net Profit	**112.2**	**574.1**	**736.3**	**754.1**	**859.3**
EPS (sen)	2.1	9.8	12.4	12.7	14.5
EPS Growth (%)	113.00	357.75	27.60	2.43	13.95
PER (x)	33.8	7.4	6.4	6.3	5.5
Dividend per share (sen)	0.0	0.0	0.0	0.8	1.0
Dividend yield (%)	0.0%	0.0%	0.0%	0.0%	0.0%

Source: Company, MIDFR

Table 2: Bumi Armada's quarterly earnings review

Financial year ending 31st December (in RM'm unless stated otherwise)	Quarterly Results					Cumulative results		
	2QFY21	1QFY22	2QFY22	QoQ (%)	YoY (%)	1HFY21	1HFY22	YoY (%)
Revenue	615.6	529.0	618.4	16.9	0.5	1,178.3	1,147.4	(2.6)
Cost of sales	(378.5)	(256.3)	(380.8)	48.6	0.6	(690.8)	(637.1)	(7.8)
Gross profit	**237.1**	**272.7**	**237.6**	(12.9)	0.2	**487.5**	**510.3**	**4.7**
Other operating income	65.5	13.7	12.8	(6.1)	(80.4)	112.4	26.5	(76.4)
Selling and distribution costs	(0.8)	(2.0)	(2.0)	3.9	157.9	(1.5)	(4.0)	173.4
Administrative expenses	(22.6)	(28.3)	(6.2)	(77.9)	(72.4)	(41.1)	(34.5)	(15.9)
Operating profit	**175.4**	**256.1**	**242.2**	(5.4)	38.0	**453.7**	**498.3**	**9.8**
Finance cost	(103.1)	(84.9)	(87.6)	3.2	(15.0)	(204.7)	(172.5)	(15.7)
Share of results of jointly controlled entities	41.3	20.5	32.3	57.6	(21.9)	48.7	52.7	8.4
Profit Before Tax	**113.7**	**191.7**	**186.8**	(2.5)	64.4	**297.6**	**378.5**	**27.2**
Taxation	10.2	(5.4)	0.6	(110.3)	(94.6)	(14.1)	(4.9)	(65.7)
Profit After Tax	**123.9**	**186.3**	**187.4**	0.6	51.2	**283.5**	**373.7**	**31.8**
Non- controlling interests	(16.0)	0.5	1.1	117.8	(107.1)	(19.2)	1.7	(108.7)
PATAMI	**139.9**	**185.8**	**186.3**	0.3	33.2	**302.7**	**372.0**	**22.9**
Segmental:								
Revenue								
- FPO	554.1	522.1	572.5	9.6	3.3	1,060.3	1,094.6	3.2
- OMS	37.8	6.9	46.0	568.0	21.7	71.4	52.9	(25.9)
Segmental Profit								
- FPO	336.2	323.3	354.6	9.7	5.5	671.0	677.9	1.0
- OMS	(12.5)	0.8	25.6	3200.0	304.8	(5.0)	26.4	626.7

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 *rise* 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 *fall* 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.
ESG RECOMMENDATIONS* - source Bursa Malaysia and FTSE Russell	
☆☆☆☆	Top 25% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆☆☆	Top 26-50% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆☆	Top 51%- 75% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆	Bottom 25% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell