Bumi Armada Berhad

Maintain BUY

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

Operating cost and forex push 3Q22 earnings down

***Unchanged* Target Price: RM0.80**

KEY INVESTMENT HIGHLIGHTS

- **Bumi Armada Berhad's profit down 2%yoy to RM150m, revenue +20%yoy to RM653m**
- **Earnings came in within expectations**
- **Lower profit from higher operating cost, unfavourable foreign exchange**
- **Orderbook at RM13b, with RM10b potential extension**
- **No changes to earnings forecast**
- **Maintain BUY with TP of RM0.80 per share**

Earnings down -2%yoy. Bumi Armada Berhad's (BAB) reported a decline in earnings by -2.4%yoy and -19.6%qoq to RM149.7m. Cumulatively for 9 months, profit gained +14.4%yoy to RM521.7m – which came in within expectations at 70.9% of our and 74.1% of consensus full-year earnings estimate.

Revenue rise +20%yoy. BAB's revenue rose up by +19.7%yoy and +5.6%qoq to RM653.1m. For the cumulative 9 months, revenue gained +4.4%yoy to RM1.8b. The higher revenue was due higher progress of Subsea Construction work in the Caspian Sea, offset by lower Pre-FEED revenue recognised.

Operations segment. Operations reported a rise in revenue by +31.6%yoy and +8.6%qoq to RM621.6m, while earnings lost -9.9%yoy and -14.3%qoq to RM303.8m. For the cumulative 9 months, revenue was up +11%yoy to RM1.72b, and but lost -34.7%yoy to RM677.9m in earnings. The lower quarterly earnings are mainly due to higher vessel operating costs and foreign exchange losses arising from translation of cash and bank balances.

Others segment. This segment recorded drop in revenue by -57.2%yoy and -31.6%qoq to RM31.4m, while earnings surged +118%yoy and +82%qoq to RM46.6m. Cumulatively for 9 months, revenue decreased -18.4%yoy to RM84.9m, while earnings slipped -36.8%yoy to RM26.36m. The recognition of the remaining profit of a Pre-FEED contract in 3QFY22 for services rendered upon final approval by the client had assisted in the improved quarterly earnings.

Orderbook and Balance Sheet. The group's order book stood at a firm RM13b, with additional optional extensions of up to RM9.9b. 83% of the orderbook remains to be from its wholly-owned FPO units. The group's cash balance added +32.9%qoq to RM953m due to increase in cash flows from operating activities, but offset by debt service – making its gearing at 1.22x which was the lowest since FY15.

RETURN STATISTICS	
Price @ 24th November 2022 (RM)	0.44
Expected share price return (%)	+81.82
Expected dividend yield (%)	0.00
Expected total return (%)	**+81.82**

SHARE PRICE CHART



Share price performance (%)	Absolute	Relative
1 month	14.3	10.1
3 months	14.3	14.9
12 months	-5.4	-4.1

KEY STATISTICS	
FBM KLCI	1,501.88
Syariah compliant	No
FSGBM Index	No
ESG Grading Band	☆☆☆
Issues shares (m)	5907.05
Estimated free float (%)	40.15
Market Capitalisation (RM'm)	2,603.94
52-wk price range	RM0.32 - RM0.57
Beta vs FBM KLCI (x)	1.35
Monthly velocity (%)	0
Monthly volatility (%)	79.67
3-mth average daily volume (m)	12.86
3-mth average daily value (RM'm)	5.18
Top Shareholders (%)	
Objektif Bersatu Sdn Bhd	34.61
Amanah Saham Nasional Bhd	12.90
Karisma Mesra Sdn Bhd	3.99

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BAB had also repaid USD75m of debt in the reporting quarter. 3 OSVs remain as of 3QFY22, 1 of which is classified as an asset held for sale of which the sale was completed in Oct 2022. The group is in active discussions with potential buyers of the 2 remaining OSVs which are currently on charter in Congo and Malaysia. Meanwhile, BAB continues to engage with potential buyers for Armada Claire and perform numerous vessel inspections in the between. The group had also submitted proposals for proposals for FPSOs and will be active in select tenders in the future. 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 3QFY22

Unit	Location	LTI Free	Key Operations Update	Charter Period	
				Firm Contract	Optional Extension
Armada Kraken FPSO	Kraken Field, United Kingdom	<1 year	a) Annual planned shutdown (Sept 2022) b) Main Power Generator (MPG) #2 24k hours service	3Q 2025	>2039
Armada Olombendo FPSO	15/06 Field, Angola	<1 year	a) GTG C 4k hours service b) Helicopter Deck Annual Inspection c) Annual health check SWI filtration and treatment package	3Q 2030	3Q 2038
Armada LNG Mediterana FSU	Marsaxlokk Bay, Malta	5 years	a) Annual Life-Saving/Fire Fighting Appliances (LSA/FFA) inspection b) PERC annual test and maintenance by MIB	3Q 2035	N/A
Armada TGT 1 FPSO	TGT Field, Vietnam	11 years	a) Annual shutdown (Sept 2022) b) Completion of M.I. – Flag State survey	4Q 2024	N/A
Armada Sterling FPSO	D1 Field, India	9 years	a) Received 5-STARs in Environmental Sustainability Audit from British Safety Council b) 5 yearly special survey by ABS (Jul-Sept 2022)	3Q 2030	3Q 2035
Armada Sterling II FPSO	C7 Field, India	7 years	a) Received 5-STARs in Environmental Sustainability Audit from British Safety Council b) Intermediate Hull and Machinery survey by ABS c) ISM audit, MLC audit, ESP survey by ABS	2Q 2024	3Q 2031
Karapan Armada Sterling III FPSO	Madura BD Field, Indonesia	5 years	Solar GTG 'C' 30k hours engine and gearbox change out completed	3Q 2027	4Q 2032
98/02 FPSO	98-2 Field, India	N/A	a) The FPSO has sailed away from the construction yard in Singapore and is expected to arrive in the east coast of Kakinada, offshore India, by Dec 2022 b) Over 19M working hours to date	N/A	N/A

Source: Company, MIDFR

Other updates and milestone achievements. BAB's Subsea Construction had reportedly completed its dredging activities, pipeline installation and tie-in early Sept 2022, followed by the post trenching of the first part of the pipeline. Armada Installer also had completed work and was demobilized in the same month. Currently the Subsea Construction is commencing its 2nd and final post-trenching. As part of its sustainability initiative, BAB had: (i) extended leadership support onboard its vessel, (ii) supporting Rise Against Hunger (RAH) and performing charity to local communities, and (iii) supporting Malaysia Fisheries Department Pahang on turtle conservation effort. We expect BAB to maintain a robust and stable operation until the end-year, while continuing to pursue new opportunities in their niche markets. BAB will continue to focus on: (i) the safety of all employees, partners and assets, (ii) its Integrated Sustainability Strategy, (iii) improve on the operational performance of its vessels, (iv) securing new contracts, and (v) maintaining crucial relationships with clients and partners.

No changes to earnings forecast. Given that BAB's 3QFY22 results came in within our expectation, we make no changes to our earnings forecast. Hence, we also maintain our target price at RM0.80.

Maintain BUY with TP of RM0.80. All in, we maintain our **BUY** recommendation based on the optimism that BAB will continue to maintain a stable operation until the next quarter. With an elevated but stable oil price, adding to the increasing demand for crude petroleum and natural gas ahead of the winter season, we opine the increasing activities within the sector would positively impact the FPSO and O&G vessels subsegments as well. Subsequently the installation and maintenance of vessels will be in demand. We believe that the group's performance will continue to pick up in line with the trajectory of the upstream and midstream divisions, hence we maintain our positive stance for BAB.

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		
	3QFY21	2QFY22	3QFY22	QoQ (%)	YoY (%)	9MFY21	9MFY22	YoY (%)
Revenue	545.7	618.4	653.1	5.6	19.7	1,724.0	1,800.5	4.4
Cost of sales	(296.3)	(380.8)	(377.9)	(0.8)	27.5	(987.1)	(1,015.0)	2.8
Gross profit	**249.4**	**237.6**	**275.2**	15.8	10.3	**736.9**	**785.5**	**6.6**
Other operating income	22.9	12.8	17.9	39.9	(21.7)	135.4	44.4	(67.2)
Selling and distribution costs	(1.5)	(2.0)	(0.5)	(76.3)	(67.1)	(2.9)	(4.5)	53.0
Administrative expenses	(26.4)	(6.2)	(16.2)	159.9	(38.5)	(67.4)	(50.8)	(24.7)
Operating profit	**238.3**	**242.2**	**276.4**	14.1	16.0	**692.0**	**774.7**	**12.0**
Finance cost	(99.8)	(87.6)	(94.9)	8.3	(5.0)	(304.5)	(267.3)	(12.2)
Share of results of jointly controlled entities	26.9	32.3	(43.2)	(233.7)	(260.6)	75.5	9.6	(87.3)
Profit Before Tax	**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)
Profit After Tax	**161.5**	**187.4**	**139.2**	(25.7)	(13.8)	**445.0**	**512.9**	**15.2**
Non- controlling interests	8.1	1.1	(10.5)	(1,025.3)	(230.0)	(11.0)	(8.9)	(19.7)
PATAMI	**153.4**	**186.3**	**149.7**	(19.6)	(2.4)	**456.1**	**521.7**	**14.4**
Segmental:								
Revenue								
- FPO	472.2	572.5	621.6	8.6	31.6	1,546.3	1,716.2	11.0
- OMS	73.5	46.0	31.4	(31.6)	(57.2)	103.3	84.3	(18.4)
Segmental Profit								
- FPO	337.0	354.6	303.8	(14.3)	(9.9)	1037.4	677.874	(34.7)
- OMS	22.0	25.6	46.6	82.0	111.8	41.7	26.358	(36.8)

Source: Company, MIDFR

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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.
HOLD	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

* ESG Ratings of PLCs in FBM EMAS that have been assessed by FTSE Russell in accordance with FTSE Russell ESG Ratings Methodology