Bumi Armada Berhad

Maintain BUY

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

Positive FY22 earnings from Caspian Sea project

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

KEY INVESTMENT HIGHLIGHTS

- **Bumi Armada Berhad's FY22 earnings up 11%yoy to RM732m, revenue +11%yoy to RM2.4b**
- **Earnings came in within expectations**
- **Caspian subsea construction contributed to the higher earnings and revenue; offset by OSV disposal**
- **Orderbook at RM12b, with RM9b potential extension**
- **No changes to earnings forecast**
- **Maintain BUY with TP of RM0.80 per share**

Earnings up 44%yoy. Bumi Armada Berhad's (BAB) reported an increase in earnings by +43.8%yoy and +40.7%qoq to RM210.7m in 4QFY22. For FY22, profit gained +11.1%yoy to RM732.4m – which came in within our and consensus' one-year estimates at 99%. Meanwhile, 4QFY22 revenue rose +17.9%yoy, but slipped -7.4%qoq to RM605m. For FY22, revenue gained +11.2%yoy to RM2.41b.

Operations segment. In 4QFY22, Operations reported a rise in revenue by +17.2%yoy but slipped -3.6%qoq to RM599.2m, while earnings added +26%yoy and +13.7%qoq to RM345.6m. For FY22, revenue was up +12.5%yoy to RM2.32b, and earnings rose +4.1%yoy to RM1.33b. The higher FY22 revenue and earnings were contributed by the Subsea Construction contract work in the Caspian Sea, and higher vessel availability for Armada Kraken FPSO; offset by fewer operating vessels as a result of disposal of Offshore Support Vessels (OSVs) and higher admin expenses over the disposal.

Others segment. This segment recorded a rise in revenue of nearly 3-fold to RM5.9m from RM1.7m in 4QFY21, but dropped -81.3%qoq from previous quarter. Meanwhile, earnings declined to a deficit of -RM17.8m from RM27.1m from 4QFY21 and RM46.6m in 3QFY22. For FY22, revenue slipped -14.1%yoy to RM90.2m, but earnings added over 6-fold to RM55.2m from RM8.3m in FY21. The decrease in FY22 revenue was mainly due to preliminary front end engineering and design (Pre-FEED) revenue recognised in 3QFY22. FY22 earnings were attributable to forex gains arising from translation of intercompany balances denominated in MYR.

Orderbook and Balance Sheet. The group's order book stood at a firm RM11.7b, with additional optional extensions of up to RM9.2b. 83% of the orderbook remains to be from its wholly-owned FPO units. The group's cash balance added +12.0%qoq to RM839m due to debt service in 4QFY22; offset by an increase in cash flows from operating activities – making its gearing at 1.08x which was the lowest since FY20.

RETURN STATISTICS	
Price @ 24th Feb 2023 2023 (RM)	0.60
Expected share price return (%)	+34.5
Expected dividend yield (%)	0.00
Expected total return (%)	**+34.5**

SHARE PRICE CHART



Share price performance (%)	Absolute	Relative
1 month	14.4	17.8
3 months	24.0	39.4
12 months	14.4	23.6

KEY STATISTICS	
FBM KLCI	1,456.80
Syariah compliant	No
FSGBM Index	No
ESG Grading Band	☆☆☆
Issues shares (m)	5907.05
Estimated free float (%)	40.15
Market Capitalisation (RM'm)	3,521.24
52-wk price range	RM0.32 - RM0.63
Beta vs FBM KLCI (x)	1.28
3-mth average daily volume (m)	16.82
3-mth average daily value (RM'm)	8.98
Top Shareholders (%)	
Objektif Bersatu Sdn Bhd	34.61
Amanah Saham Nasional Bhd	12.38
Karisma Mesra Sdn Bhd	8.65

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BAB had also repaid USD125m of debt in the reporting quarter. One OSV remained as of 4QFY22, while 2 OSVs were disposed with overall disposal value above net book value. The group is in active discussions with potential buyers of the remaining OSV which are currently on charter in Malaysia. Meanwhile, BAB continues to engage with potential buyers for Armada Claire, after numerous vessel inspections were carried out in FY22. 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 4QFY22

Unit	Location	LTI Free	Key Operations Update	Charter Period	
				Firm Contract	Optional Extension
Armada Kraken FPSO	Kraken Field, United Kingdom	<1 year	a) Completion of major PSV recertification campaign b) Completion of additional diesel storage project	3Q 2025	>2039
Armada Olombendo FPSO	15/06 Field, Angola	<1 year	a) Completion of PSV campaign	3Q 2030	3Q 2038
Armada LNG Mediterana FSU	Marsaxlokk Bay, Malta	5 years	a) COMAH audit carried out with no findings	3Q 2035	N/A
Armada TGT 1 FPSO	TGT Field, Vietnam	11 years	a) Replacement of significant length of nitrogen distribution header b) Replacement of fire pump main piping 4" supports on main deck	4Q 2024	N/A
Armada Sterling FPSO	D1 Field, India	9 years	a) 5 yearly special survey by ABS (Oct-Dec 2022)	3Q 2030	3Q 2035
Armada Sterling II FPSO	C7 Field, India	7 years	a) Intermediate survey by Class ABS b) ISM audit by Class 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
FPSO Sterling V	Kakinada 98-2 Field, India	N/A	a) Successfully hooked up with the STP buoy mooring system since 27 Dec CY22 b) Ready to commence commissioning	N/A	N/A

Source: Company, MIDFR

Caspian Sea Subsea Construction update. As of 4QFY22, the Caspian Sea project had its Armada Installer on lay-up. Armada Constructor had also completed its final post-trenching of the pipeline, as well as spool installation, pre-commissioning, demobilisation and lay-up. To date, the backfilling and survey vessels are performing its final offshore activity – namely the backfilling of seabed and the final as-built survey.

Other updates and milestone achievements. BAB reportedly has reduced its Greenhouse Gas (GHG) emission by -2.5% in CY22. Additionally, all FPSO/FSU and Subsea vessels have completed its climate-related risk assessment, and as such improved BAB's Environment Score in FTSE4GOOD Index (from 1.9 to 3.0 out of 5). The group supported the EcoNinja Mangrove Forest Restoration 2022 at Tanjung Piai, Johor as part of its ESG action, and as part of its community service, 66 computers were donated to the Teach For Malaysia (TFM) organisation in Dec CY22. BAB will continue to focus on: (i) the safety of all employees, partners and assets, (ii) its energy transition pathway and environment management, (iii) improve on the operational performance of its vessels, (iv) securing new contracts in core regions with preferred partners, and (v) maintaining crucial relationships with clients and partners.

No changes to earnings forecast. Given that BAB's FY22 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:RM0.80. All in, we maintain our **BUY** recommendation for BAB with the unchanged target price, based on the positive expectation that the group will continue to maintain a stable operation amidst the return of offshore activities in the industry, post-pandemic. With an elevated but stable oil price, we opine the increasing activities within the upstream would positively impact the FPSO subsegments well. We expect BAB to maintain a robust and stable operation in 2023, while continuing to pursue new opportunities in their niche markets.

INVESTMENT STATISTICS

Financial year ending 31st December (in RM'm unless otherwise stated)	2021A	2022A	2023E	2024F	2025F
Revenue	**2,237.0**	**2,405.5**	**2,663.7**	**2,690.3**	**2,717.2**
EBIT	959.3	1,026.5	1,127.3	1,235.7	1,265.5
Pretax Profit	602.8	709.0	777.3	885.7	898.8
Normalised Net Profit	**631.1**	**724.7**	**754.1**	**859.3**	**872.1**
Reported Net Profit	**574.1**	**732.4**	**754.1**	**859.3**	**872.1**
EPS (sen)	9.8	12.4	12.7	14.5	14.7
EPS Growth (%)	357.75	27.60	2.43	13.95	5.53
PER (x)	8.2	6.4	6.3	5.5	5.4
Dividend per share (sen)	0.0	0.0	0.0	0.5	1.0
Dividend yield (%)	0.0%	0.0%	0.0%	1.0%	2.0%

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		
	4QFY21	3QFY22	4QFY22	QoQ (%)	YoY (%)	FY21	FY22	YoY (%)
Revenue	513.1	653.1	605.0	(7.4)	17.9	2,162.6	2,405.5	11.2
Cost of sales	(290.6)	(377.9)	(331.8)	(12.2)	14.2	(1,229.1)	(1,346.8)	9.6
Gross profit	**222.4**	**275.2**	**273.2**	(0.7)	22.8	**933.5**	**1,058.7**	**13.4**
Other operating income	10.5	17.9	13.8	(23.1)	31.6	145.5	58.2	(60.0)
Selling and distribution costs	(1.7)	(0.5)	(1.1)	124.7	(37.1)	(4.6)	(5.6)	19.6
Administrative expenses	(29.9)	(16.2)	(34.1)	109.9	13.7	(96.9)	(84.8)	(12.5)
Operating profit	**201.3**	**276.4**	**251.9**	(8.9)	25.1	**958.3**	**1,026.5**	**7.1**
Finance cost	(92.6)	(94.9)	(99.4)	4.8	7.3	(397.1)	(366.7)	(7.7)
Share of results of jointly controlled entities	31.1	-	-	nm	(100.0)	106.7	-	(100.0)
Profit Before Tax	**139.8**	**138.4**	**192.1**	38.8	37.4	**667.9**	**709.0**	**6.2**
Taxation	1.4	0.8	19.7	2,442.4	1,322.4	(25.1)	15.7	(162.5)
Profit After Tax	**141.2**	**139.2**	**211.8**	52.2	50.0	**642.8**	**724.7**	**12.7**
Non- controlling interests	(5.3)	(10.5)	1.1	(110.6)	(121.0)	(16.4)	(7.8)	(52.7)
PATAMI	**146.5**	**149.7**	**210.7**	40.7	43.8	**659.2**	**732.4**	**11.1**
Segmental:								
Revenue								
- FPO	511.3	621.6	599.2	(3.6)	17.2	2,057.6	2,315.4	12.5
- OMS	1.7	31.4	5.9	(81.3)	240.7	105.0	90.2	(14.1)
Segmental Profit								
- FPO	274.3	303.8	345.6	13.7	26.0	1275.508	1327.219	4.1
- OMS	27.1	46.6	(17.8)	(138.2)	(165.6)	8.311	55.197	564.1

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