Bumi Armada Berhad

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

Engineering Services Returned, Pushed Up 1Q23 Earnings

***Maintain* BUY**

***Revised* Target Price: RM0.83**
(previously RM0.80)

KEY INVESTMENT HIGHLIGHTS

- **Maintain BUY with revised TP: RM0.83**
- **1Q23 earnings up +8%yoy to RM201m, surpassing expectations**
- **Revenue up by +3%yoy to RM544m due to engineering services for an FPSO**
- **FY23-24 earnings forecast revised upward by 8% and 4% respectively**

Maintain BUY, revised TP: RM0.83. Bumi Armada Berhad (Armada)'s 1QFY23 earnings came in above our expectations by +7%. As such, we maintain our **BUY** call with an **upgraded target price of RM0.83**, considering the adjustments after the completed disposal of Armada Claire FPSO unit.

Earnings up +8%yoy. Armada's 1QFY23 earnings was up +8.2yoy but down -4.6%qoq to RM201m. Meanwhile, 1QFY23 revenue was up +2.8%yoy but down -10.1%qoq to RM544m. The higher earnings and revenue were due to the improved performance in the Others segment on its engineering services for an FPSO vessel.

Operations segment profit down -2%yoy. This segment, which oversees the management of floating units, vessels and marine operations, saw its earnings down -1.7%yoy and -8%qoq to RM317.9m. Revenue added +1.3%yoy but down -11.7%qoq. The decrease was mainly due to lower vessel availability for Armada Kraken FPSO and lower revenue from variation order for Armada Olombendo FPSO.

Others segment earnings grew over 4-fold. 1QFY23 earnings and revenue for the Others segment surged nearly 4-fold to RM3.7m and 10-fold RM14.9m respectively. The surge in revenue and earnings due to the provision of engineering services to one of the FPSO vessels.

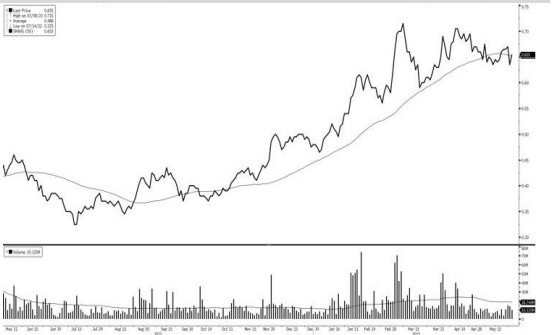
Extensive debt repayment. The group had been concentrating in repaying its debt totaling to USD110m (approx. RM505.1m) in 1QCY23. Its current asset is positioned at RM453m and net asset per share is RM0.89. Armada's Kraken's project finance debt has been fully repaid in 1QFY23, ahead of schedule.

Orderbook at RM11b. Armada's orderbook stood at RM11.1b as of 1QFY23. 84% of the orderbook is from its wholly-owned FPO units. Certain contracts contain extension options beyond the firm contract period with a total estimated value of RM9.3b. For updates on 1QFY23 charter period of FPO units, kindly refer to Table 2.

Moving forward. Armada will continue to operate its vessels at the optimum level and secure new projects in core regions. Considering that Armada had achieved a reduction in GHG emissions by -2.5% and methane emission by 13.6% in CY22, we believe the group will shift its focus into green engineering solutions for current and new FPSOs and the LNG business. We remain sanguine on Armada's prospects, on the basis of a robust upstream operations globally.

RETURN STATISTICS	
Price @ 25th May 2023 (RM)	0.66
Expected share price return (%)	+25.8
Expected dividend yield (%)	0.00
Expected total return (%)	**+25.8**

SHARE PRICE CHART



Price performance (%)	Absolute	Relative
1 month	-5.8	-4.2
3 months	4.0	14.3
12 months	48.9	63.0

INVESTMENT STATISTICS

FYE Mar	2023E	2024F	2025F
Revenue	2,664	2,690	2,717
Operating Profit	1,204	1,218	1,266
Profit Before Tax	804	868	966
Core PATAMI	812	895	990
Core EPS	13.7	15.1	16.7
DPS	0.8	1.0	2.0
Dividend Yield	0.0%	1.0%	2.0%

KEY STATISTICS	
FBM KLCI	1,402.5
Issue shares (m)	5,918.1
Estimated free float (%)	39.3
Market Capitalisation (RM'm)	3,876.4
52-wk price range	RM0.32-RM0.73
3-mth average daily volume (m)	19.0
3-mth average daily value (RM'm)	12.5
Top Shareholders (%)	
Objektif Bersatu Sdn Bhd	34.61
Amanah Saham Nasional Bhd	12.62
Norges Bank	5.05

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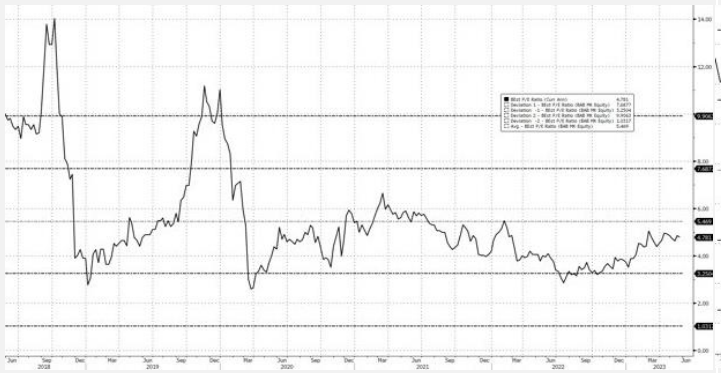
Key Risks. Near term key risks for the group includes: (i) contractual risks on its charters, (ii) increased competition in line with the onset of El Nino, and (iii) geopolitical risks and political instability.

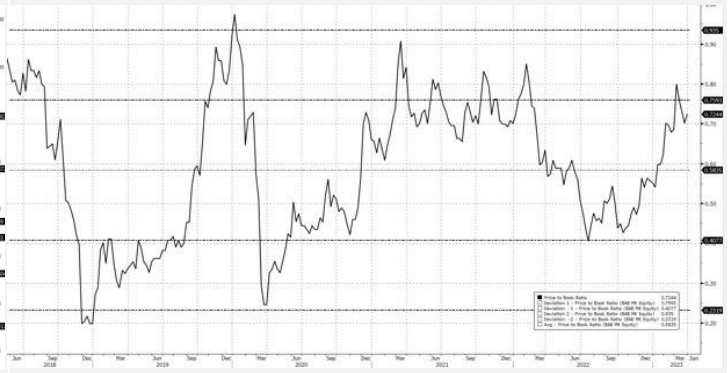
A more optimistic earnings estimate. We revise our earnings estimates for FY23 and FY24 slightly upward by +8% and +4% respectively. Accordingly, we **revised our target price to RM0.83** (previously RM0.80), by pegging a PER of 6x to the EPS23 of 13.7sen. The PER is based on the shipping and marine vessel subsector's 5-Year average PER.

FORWARD BAND

BEst PE Ratio



BEst P/Bk Ratio



Source: Bloomberg, MIDFR

Table 1: Bumi Armada's quarterly earnings review

Financial year ending 31st December (in RM'm unless stated otherwise)	Quarterly Results					Cumulative results		
	1QFY22	4QFY22	1QFY23	QoQ (%)	YoY (%)	3M22	3M23	YoY (%)
Revenue	529.0	605.0	544.0	(10.1)	2.8	529.0	544.0	2.8
Cost of sales	(258.0)	(331.8)	(268.8)	(19.0)	4.2	(258.0)	(268.8)	4.2
Gross profit	**271.0**	**273.2**	**275.2**	0.7	1.5	**271.0**	**275.2**	**1.5**
Other operating income	13.7	13.8	24.0	74.2	76.0	13.7	24.0	76.0
Selling and distribution costs	(2.0)	(1.1)	(0.9)	(12.8)	(51.8)	(2.0)	(0.9)	(51.8)
Administrative expenses	(28.3)	(34.1)	(34.8)	2.3	23.1	(28.3)	(34.8)	23.1
Operating profit	**256.1**	**251.9**	**264.8**	5.1	3.4	**256.1**	**264.8**	**3.4**
Finance cost	(84.9)	(99.4)	(91.8)	(7.6)	8.1	(84.9)	(91.8)	8.1
Profit Before Tax	**191.7**	**192.1**	**200.0**	4.1	4.4	**191.7**	**200.0**	**4.4**
Taxation	(5.4)	19.7	(4.1)	(120.9)	(23.9)	(5.4)	(4.1)	(23.9)
Profit After Tax	**186.3**	**211.8**	**195.9**	(7.5)	5.2	**186.3**	**195.9**	**5.2**
Non- controlling interests	0.5	1.1	(5.1)	n.m.	n.m.	0.5	(5.1)	n.m.
PATAMI	**185.8**	**210.7**	**201.0**	(4.6)	8.2	**185.8**	**201.0**	**8.2**
Segmental:								
Revenue								
Operations (FPSO, FGS, OSV, SC, marine)	522.1	599.2	529.1	(11.7)	1.3	522.1	529.1	1.3
Others (TEP, Corporate)	6.9	5.9	14.9	153.2	116.0	6.9	14.9	116.0
Segmental Profit								
Operations (FPSO, FGS, OSV, SC, marine)	323.3	345.6	317.9	(8.0)	(1.7)	323.3	317.9	(1.7)
Others (TEP, Corporate)	0.8	(17.8)	3.7	(120.6)	362.9	0.8	3.7	362.9

Source: Company, MIDFR

TABLE 2: 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 extensive remedial work on all 4 engines. b) Replacement of train A rundown cooler plate pack.	3Q 2025	>2039
Armada Olombendo FPSO	15/06 Field, Angola	1 year	Pipe Ultrasonic thickness measurement (UTM) ongoing as part of the Risk Based Inspection (RBI) Programme	3Q 2030	3Q 2038
Armada LNG Mediterana FSU	Marsaxlokk Bay, Malta	6 years	N/A	3Q 2035	N/A
Armada TGT 1 FPSO	TGT Field, Vietnam	11 years	a) SWL pump overhauled. b) Completion of welding repairs in ballast tanks	4Q 2024	N/A
Armada Sterling FPSO	D1 Field, India	10 years	a) Completion of UWILD inspection. b) Completion of special survey by Class	3Q 2030	3Q 2035
Armada Sterling II FPSO	C7 Field, India	8 years	a) Completion of UWILD inspection. b) Replacement of GTG-A Diode and CT (current transformer)	2Q 2024	3Q 2031
Karapan Armada Sterling III FPSO	Madura BD Field, Indonesia	5years	a) Replacement of Waste Heat Boiler tube bundle b) Tailgas Thermal Oxidizer plenum (air-filled space) modified and installed c) Replacement of the Sulphur Reaction Unit reactors with new catalyst d) Replacement of ballast tanks 1 Port and 1 Starboard sacrificial anode e) Port side slop tank chemical treatment completed in preparation for tank cleaning and internal inspection	3Q 2027	4Q 2032
FPSO Sterling V	Kakinada 98-2 Field, India	N/A	a) On location preparing for first oil b) FPSO Sterling V successfully hooked up with the STP buoy mooring system since end Dec 2022, and is now ready to commence commissioning upon provision of first oil by ONGC.	N/A	N/A

Source: Company, MIDFR

FINANCIAL SUMMARY

Income Statement (RM'm)	2021A	2022A	2023E	2024F	2025F
Revenue	**2,237.0**	**2,405.5**	**2,663.7**	**2,690.3**	**2,717.2**
D&A	465.8	342.7	453.6	444.4	445.2
EBITDA	959.3	1,026.5	1,204.0	1,218.4	1,265.5
Net interest	-16.4	-7.8	-7.5	-7.0	-7.0
Profit before tax	602.8	709.0	804.0	868.4	965.5
Tax	-16.6	15.7	15.7	26.1	24.1
PATAMI	631.1	724.7	811.9	894.5	989.7
Core PATAMI	574.1	732.4	811.9	894.5	989.7

Balance Sheet (RM'm)	2021A	2022A	2023E	2024F	2025F
Fixed assets	4,212.8	4,011.5	4160.5	4304.1	4326.8
Intangible assets	1,077.7	1,077.7	1289.3	1544.8	1595.8
Non-current assets	**10,160.4**	**9,906.5**	**11074.1**	**10709.1**	**10430.7**
Cash	794.8	838.8	969.8	918.5	883.3
Trade debtors	494.3	506.9	537.0	543.4	568.7
Current assets	**1,910.1**	**1,826.1**	**1707.6**	**1820.9**	**1811.5**
Trade creditors	158.9	182.6	187.0	191.7	226.9
Short-term debt	1,404.1	1.018.4	1167.5	1314.2	1356.3
Current liabilities	**2,045.8**	**1,615.7**	**2018.5**	**2175.4**	**2182.8**
Long-term debt	5,514.2	4,486.4	4419.6	5340.1	5405.4
Non-current liabilities	**6,102.7**	**5,014.7**	**5929.0**	**6127.5**	**6127.5**
Share capital	4,328.4	4,332.4	4323.2	4324.9	4326.0
Retained earnings	-365.7	814.2	853.5	942.5	1035.6
Equity	**3,921.8**	**5,095.6**	**5245.2**	**5620.3**	**5601.7**

Cash Flow (RM'm)	2021A	2022A	2023E	2024F	2025F
PBT	602.8	709.0	804.0	868.4	965.5
Depreciation & amortisation	465.8	342.7	453.6	444.4	445.2
Changes in working capital	271.0	300.1	249.3	221.9	235.7
Operating cash flow	**1,360.4**	**1,350.4**	1083.4	1086.6	1157.0
Capital expenditure	-13.0	-1.5	-140.6	-61.9	-53.4
Investing cash flow	**193.5**	**346.4**	332.8	320.5	343.3
Debt raised/(repaid)	-1,651.5	-1,747.3	-1336.2	-1330.1	-1434.6
Financing cash flow	**-1,655.6**	**-1,749.9**	-1257.1	-1227.4	-1636.8
Net cash flow	**-101.7**	**-53.2**	159.1	179.7	-136.5
Beginning cash flow	**894.8**	**843.4**	838.8	997.9	589.2
Ending cash flow	**843.4**	**838.8**	997.9	589.2	599.7

Profitability Margins	2021A	2022A	2023E	2024F	2025F
EBITDA margin	42.9%	42.7%	45.2%	45.3%	46.6%
PBT margin	26.9%	29.5%	30.2%	32.3%	35.5%
Core PAT margin	25.7%	30.4%	30.5%	33.2%	36.4%

Source: Bloomberg, 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

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