

01 June 2018 | 1QFY18 Results Review

## Bumi Armada Berhad

*Fundamental intact – buying opportunity*

### INVESTMENT HIGHLIGHTS

- Bumi Armada's (BAB) 1QFY18 reported earnings sustained year-over-year at RM48.4m
- Normalised earnings however registered RM68.2m (+3%yoy)
- Firm orderbook stands at RM26.2b (from RM22.3b)
- OSV utilisation rate in 1QFY18 persist at 40%
- Upgrade Trading Buy with revised TP of RM0.89 per share

**Performance largely within estimates.** BAB's 1QFY18 reported earnings sustained year-over-year at RM48.4m. Excluding exceptional items i.e. impairment on trade receivables, forex losses, fair value movements on derivatives and one-off retrenchment expenses, BAB's normalised earnings grew by +3%yoy to RM68.9m. 3MFY18 earnings largely met our expectations at 20% of full year profit forecasts but lagged consensus estimates by a variance of more than <10%.

**FPO (previously FPSO & FGS) segment.** Segment revenue ballooned by +92%yoy to RM460.3m while segment profit surged by +178.8%yoy to RM193.5m. The spike in numbers is largely attributable to higher contribution from Armada Olombendo FPSO and Armada Kraken FPSO.

**OMS segment.** The Offshore Marine Segment (OMS), an amalgamation of the offshore support vessel (OSV) and Transport & Installation (T&I) segments suffered revenue decline of -14.9%yoy to RM140.0m while profits entered the red at -RM38.6m. The dismal figures are due to low OSV utilisation rates and lower contribution from the LukOil project in the Caspian Sea. Combined OSV utilisation rate declined to 40% in 1QFY18 compared with 48% in 4QFY17.

**Impact on earnings.** As the impairment charges on Armada Perdana chartered by Erin Petroleum came in slightly higher than the guidance of RM30m for FY18, we are revising our FY18 and FY19 earnings downwards by -2.1% and -2.0% respectively.

**Orderbook.** The company's latest orderbook as at 31 March 2018 stands at RM26.2b compared with RM22.3b as at 31 December 2017. 95% of the orderbook consists of FPO contracts (RM24.8b) while the remaining 5% are OMS jobs (RM1.4b). The optional extension orderbook stands at RM11.1b.


**Upgrade to TRADING BUY**  
(Previously NEUTRAL)  
**Revised Target Price (TP): RM0.89**  
(previously RM0.85)

#### RETURN STATS

Price (31 May 2018)	RM0.77
Target Price	RM0.89
Expected Share Price Return	+15.6%
Expected Dividend Yield	+1.3%
<b>Expected Total Return</b>	<b>+16.9%</b>

#### STOCK INFO

KLCI	1,740.62
Bursa / Bloomberg	5210 / BAB MK
Board / Sector	Main / Trading Services
Syariah Compliant	Yes
Issued shares (mil)	5,870.9
Market cap. (RM'm)	4,520.6
Price over NA	0.7x
52-wk price Range	RM0.67 – RM0.95
Beta (against KLCI)	1.53
3-mth Avg Daily Vol	8.4m
3-mth Avg Daily Value	RM7.0m
Major Shareholders (%)	
Objektif Bersatu	34.9
Permodalan Nasional Berhad & its associated funds	12.3
Employee Provident Fund	6.9
<b>FPO</b> – Floating Production and Operation <b>FPSO</b> –Floating Production Storage Offloading <b>FSU</b> – Floating Storage Unit <b>OMS</b> – Offshore Marine Services	

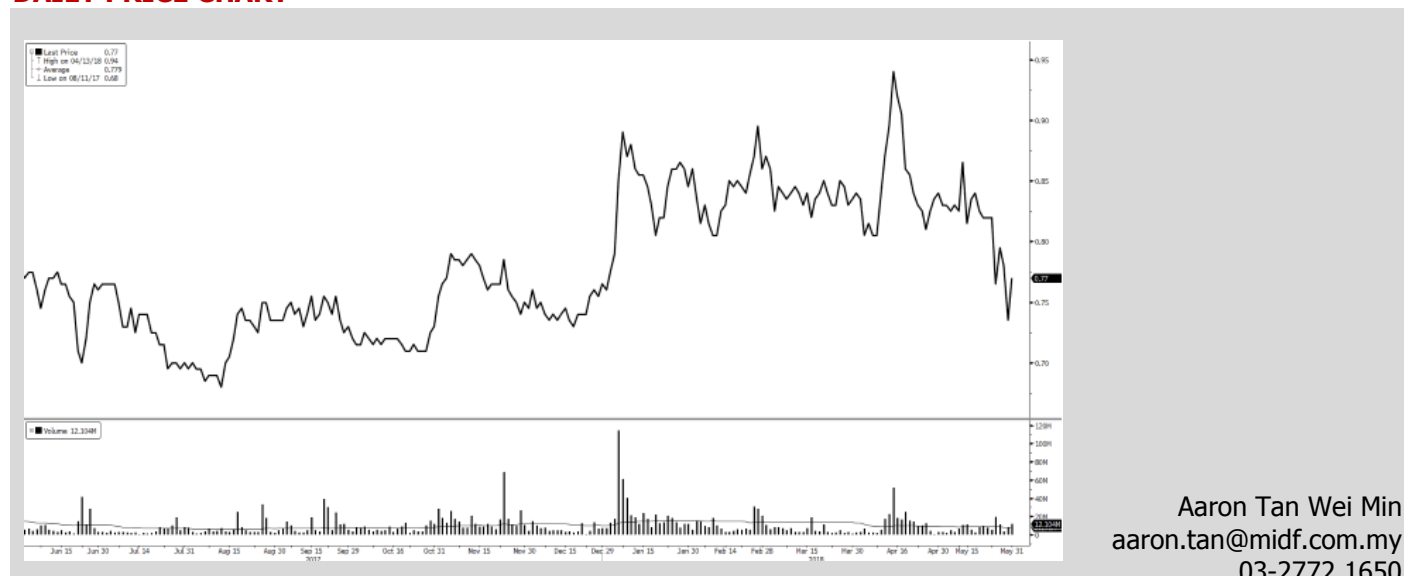
**Upgrade to Trading Buy.** The recent broad market decline presents buying opportunity for BAB. We are of the opinion that: (i) company fundamentals remain intact; (ii) FPSO projects poised to pick up in FY18 and FY19 and; (iii) earnings stability seen in FY18. We are upgrading BAB to **TRADING BUY** (previously Neutral) with a revised TP of **RM0.89 per share** to take advantage of the share price decline and the trading opportunity for recovery. Our valuation is based on PER19 of 15x pegged to EPS19 of 5.9sen. With the company's macro outlook improving and optimism on upstream exploration and production activities, we believe that the FPO segment could benefit positively. However, we still believe that the OMS segment could face further headwinds as the OSV segment (especially the higher brake horsepower vessels) remain in an oversupply state. 

## INVESTMENT STATISTICS

FYE Dec	FY15	FY16	FY17	FY18F	FY19F
Revenue (RM m)	2,179.70	1,416.60	2,402.10	2,492.60	2,633.80
EBIT (RM m)	322.9	-1,744.30	767.2	480.7	502.3
Pretax Profit (RM'm)	-171.4	1,845.10	492.2	391.5	413.1
Normalised Net Profit (RM m)	188.5	-144	265	326.9	345
Reported Net Profit (RM'm)	-234.6	-1,887.20	352.2	306.4	345
EPS (sen)	nm	-32.2	6.0	5.5	5.9
EPS Growth (%)	nm	nm	nm	-7.52	5.52
PER (x)	nm	-2.3	12.2	13.2	12.5
Net Dividend (sen)	0.8	0	0	0.8	0.8
Net Dividend (%)	1.0	0	0	1.0	1.0

Source: Company, MIDFR

## DAILY PRICE CHART



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Source: MIDFR, Company

## 1QFY18 Results Review Summary

FYE Dec (RM m)	Quarterly Results				
	1Q17	4Q17	1Q18	QoQ (%)	YoY (%)
Revenue	404.2	662.1	600.3	-9.3	48.5
COGS	-278.3	-462.2	-400.1	-13.5	43.8
Gross Profit	125.9	199.9	200.3	0.2	59.1
Other Operating Income	28.9	30.8	28.2	-8.3	-2.4
Selling & Dist Cost	-10.7	-4.6	-13.4	192.3	25.3
Admin Expenses	-56.0	-44.0	-45.7	3.9	-18.5
Operating Profit	88.1	182.1	169.4	-7.0	92.3
Finance Costs	-63.5	-125.8	-122.8	-2.4	93.2
JCE	49.6	24.6	18.9	-23.2	-61.9
PBT	73.6	80.3	65.5	-18.4	-11.0
Tax	17.2	-2.4	-16.8	600.2	-197.8
MI	8.3	14.1	0.3	-97.9	-96.4
PATAMI	48.1	63.8	48.4	-24.1	0.6
Normalised PATAMI	66.9	64.5	68.2	6.9	3.0
Segmental:					
Revenue					
- FPO (FPSO & FGS)	239.7	452.8	460.3	1.7	92.0
- OMS	164.5	209.3	140.0	-33.1	-14.9
Operating Profit					
- FPO (FPSO & FGS)	69.4	104.5	193.5	85.1	178.8
- OSV	8.0	28.6	-38.6	-234.8	-582.5

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 <i>rise</i> 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 <i>fall</i> 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.