

30 August 2018 | 2QFY18 Results Review

Bumi Armada Berhad

Kraken impairment a drag on earnings

INVESTMENT HIGHLIGHTS

- **Bumi Armada's (BAB) 2QFY18 reported earnings slumped to -RM585.5m**
- **Normalised 2QFY18 earnings in the red at -RM106.5m**
- **Orderbook stands at RM20.2b (from RM20.7b)**
- **OSV utilisation rate in 2QFY18 struggling at 39%**
- **Downgrade to Neutral with revised TP of RM0.58**

Performance below estimates. BAB's 2QFY18 reported earnings slumped to -RM585.5m. Excluding exceptional items, i.e. impairments on Armada Kraken (RM477.2m) and Armada Gema (RM1.7m) FPSOs, BAB's normalised earnings was in the red at -RM106.5m. Its 6MFY18 normalised earnings is recorded at -RM37.6m which is below ours and consensus' FY18 full-year earnings estimates.

FPO (previously FPSO & FGS) segment. Segment revenue grew by +32.2%yoy to RM446.5m while segment profit increased by +14.1%yoy to RM166.2m. The encouraging 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 -41.8%yoy to RM207.6m while profit was registered at RM73.8m. This is mainly due to low OSV utilisation rates which offset the higher contribution from the LukOil project in the Caspian Sea. Combined OSV utilisation rate declined to 39% in 2QFY18 compared with 40% in 1QFY18.

Impact on earnings. Due to the RM100m impact expected from the amendment agreement two entered into on the acceptance of Armada Kraken with EnQuest, as well as a further slowdown in OMS segment, we are revising our FY18 and FY19 earnings downwards to RM112.5m and RM225.9m respectively.

Orderbook. The company's latest orderbook as at 30 June 2018 stands at RM20.2b (compared with RM20.7b as at 31 March 2018) with 93% of the orderbook consists of FPO contracts (RM18.8b) while the remaining 7% are OMS jobs (RM1.4b). The optional extension orderbook stands at RM11.8b.

Downgrade to NEUTRAL


Revised Target Price (TP): RM0.58
(previously RM0.90)

RETURN STATS

Price (29 August 2018)	RM0.54
Target Price	RM0.58
Expected Share Price Return	+7.4%
Expected Dividend Yield	+1.5%
Expected Total Return	+8.9%

STOCK INFO

KLCI	1,820.64
Bursa / Bloomberg	5210 / BAB MK
Board / Sector	Main / Trading Services
Syariah Compliant	Yes
Issued shares (mil)	5,870.9
Market cap. (RM'm)	3,082.24
Price over NA	0.6x
52-wk price Range	RM0.51 – RM0.95
Beta (against KLCI)	1.39
3-mth Avg Daily Vol	5.17m
3-mth Avg Daily Value	RM3.73m
Major Shareholders (%)	
Objektif Bersatu	34.9
Permodalan Nasional Berhad & its associated funds	12.3
Employee Provident Fund	7.5
FPO – Floating Production and Operation FPSO –Floating Production Storage Offloading FSU – Floating Storage Unit OMS – Offshore Marine Services	

Downgrade to NEUTRAL. We are downgrading BAB to **NEUTRAL** (previously Trading Buy) with a revised TP of **RM0.58 per share**. Our valuation is based on PER19 of 15x pegged to EPS19 of 4.0sen. We opine that this is fair given that the OMS could face further headwinds due to (i) the oversupply state in the OSV segment (especially the higher brake horsepower vessels), and (ii) the recent increase in oil price is not expected to translate into offshore activities such as exploration and drilling. That said, we opine that the expected continued increase in contribution coming from Armada Olombendo and Armada Kraken FPSOs will assist in mitigating the shortfall going forward. 

INVESTMENT STATISTICS

FYE Dec	FY15	FY16	FY17	FY18F	FY19F
Revenue (RM m)	2,179.7	1,416.6	2,402.1	2,208.8	2,293.4
EBIT (RM m)	322.9	-1,744.3	767.2	224.0	359.7
Pretax Profit (RM'm)	-171.4	1,845.1	492.2	134.8	270.5
Normalised Net Profit (RM m)	188.5	-144.0	265.0	112.5	225.9
Reported Net Profit (RM'm)	-234.6	-1,887.2	352.2	92.0	225.9
EPS (sen)	nm	-32.2	6.0	1.9	3.8
EPS Growth (%)	nm	nm	nm	nm	100.73
PER (x)	nm	-2.2	11.8	37.2	18.5
Net Dividend (sen)	0.8	0.0	0.0	0.8	0.8
Net Dividend (%)	1.5%	0.0%	0.0%	1.5%	1.5%

Source: MIDFR

DAILY PRICE CHART



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Source: MIDFR, Company

2QFY18 Results Review

FYE Dec (RM m)	Quarterly Results			Cumulative			Comments
	2Q18	QoQ (%)	YoY (%)	6MFY17	6MFY18	YoY (%)	
Revenue	654.0	8.9	-5.8	1098.6	1254.4	14.2	
COGS	-607.1	51.8	61.8	-653.5	-1007.1	54.1	
Gross Profit	47.0	-76.6	-85.3	445.1	247.2	-44.5	
Other Operating Income	18.3	-35.0	-29.9	55.1	46.6	-15.4	
Selling & Dist Cost	-0.1	-99.0	-96.3	-14.2	-13.6	-4.4	
Admin Expenses	-67.2	47.1	31.8	-107.0	-112.9	5.5	
Operating Profit	-2.1	-101.2	-100.7	379.0	167.4	-55.8	
Impairment	-478.9	>100	8220.7	-5.8	-478.9	8220.7	One-off impairment on Armada Kraken and Armada Gema of RM478.9m
Finance Costs	-131.4	7.1	-146.1	221.6	-254.2	-214.7	
JCE	27.6	46.4	-125.5	-58.9	46.5	-179.0	
PBT	-584.8	-992.2	-414.4	259.6	-519.2	-300.0	
Tax	-7.4	-55.8	-89.1	-51.1	-24.3	-52.5	
MI	-6.7	-2365.7	-698.7	9.4	-6.4	-168.2	
PATAMI	-585.5	-1309.2	-602.2	164.7	-537.1	-426.1	
Normalised PATAMI	-106.5	-254.6	-187.1	189.2	-37.6	-119.9	Excluding one-off impairment on Armada Kraken and Armada Gema of RM478.9m
Segmental:							
<i>Revenue</i>							
- FPO (FPSO & FGS)	446.5	-3.0	32.2	577.3	906.8	57.1	Increased contribution from Armada Olembendo & Armada Kraken
- OMS	207.6	48.3	-41.8	521.3	347.6	-33.3	Low utilisation rate of 39%
<i>Operating Profit</i>							
- FPO (FPSO & FGS)	166.2	-14.1	14.1	215.1	359.7	67.2	
- OSV	73.8	-291.2	-34.1	119.9	35.2	-70.6	

Source: MIDFR, Company

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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.