

26 November 2018 | 3QFY18 Results Review

Bumi Armada Berhad

Second round of impairment a drag on earnings

Maintain NEUTRAL

Revised Target Price (TP): RM0.35
(Previously RM0.58)

INVESTMENT HIGHLIGHTS

- Bumi Armada's (BAB) 3QFY18 reported earnings slumped by >100%yoy to –RM513.4m
- Normalised 3QFY18 earnings at RM71.2m
- Firm orderbook stands at RM21.0b (from RM20.2b)
- OSV utilisation rate in 3QFY18 increased to 43%
- Maintain Neutral with revised TP of RM0.35 per share

Normalised earnings below estimates. BAB's 3QFY18 reported earnings turned red to –RM513.4m. Excluding exceptional items ie. impairment on its OSVs (RM522.1m) and FPO business (RM41.4m) FPSOs, BAB's normalised earnings declined by -43.3%yoy to RM71.2m. 9MFY18 normalised earnings came in at RM23.0m which is below ours and consensus' FY18 full-year earnings estimates.

FPO (previously FPSO & FGS) segment. Segment revenue was flat year-over-year at RM405.7m while segment profit declined by -6.7%yoy to RM196.5m. The lacklustre numbers were largely attributable to lower revenue from Armada TGT FPSO after the signing of its extension agreement during the quarter.

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 -23.6%yoy to RM182.3m while profits registered at RM44.6m. This was mainly due to lower contribution from Armada Installer following completion of work in Turkmenistan in 2QFY18. Combined OSV utilisation rate increased to 43% in 3QFY18 compared with 38% in 1QFY18 however, it did not translate to higher revenue due to persistently depressed charter rates.


Impact on earnings. Due to the impact from the two consecutive impairments as well as the persistent depressed charter rates for its in OMS segment, we are revising our FY18F and FY19F earnings lower to RM53.1m and RM136.3m respectively.

Orderbook. The company's latest orderbook as at 30 September 2018 stands at RM21.0b compared with RM20.2b as at 30 June 2018. 93% of the orderbook consists of FPO contracts (RM19.5b) while the remaining 7% are OMS jobs (RM1.5b). The optional extension orderbook stands at RM10.3b.

RETURN STATS	
Price (23 November 2018)	RM0.32
Target Price	RM0.35
Expected Share Price Return	+8.4%
Expected Dividend Yield	+0.6%
Expected Total Return	+9.0%

STOCK INFO	
KLCI	1,695.88
Bursa / Bloomberg	5210 / BAB MK
Board / Sector	Main / Trading Services
Syariah Compliant	No
Issued shares (mil)	5,870.9
Market cap. (RM'm)	1,878.7
Price over NA	0.4x
52-wk price Range	RM0.30 – RM0.95
Beta (against KLCI)	1.31
3-mth Avg Daily Vol	13.4m
3-mth Avg Daily Value	RM6.64m
Major Shareholders (%)	
Objektif Bersatu	34.9
Permodalan Nasional Berhad & its associated funds	12.3
Employee Provident Fund	8.1
FPO – Floating Production and Operation FPSO –Floating Production Storage Offloading FSU – Floating Storage Unit OMS – Offshore Marine Services	

Remaining USD380m debt to be restructured. Recall that, BAB has USD500m in term loan due for repayment by end of this year. The term loan which is due to be repaid in three tranches by end-2018, has been extended to May 2019. BAB is in the midst of restructuring the remaining term loan of USD380m, where the first tranche of USD120m has been repaid back in October 2018. Management disclosed that it is in discussions with its lenders on the potential term loan extension for the remaining two tranches that is expected to be concluded in 1QCY19. We understand that management expects the newly restructured debt to be able to match its future cashflow going forward.

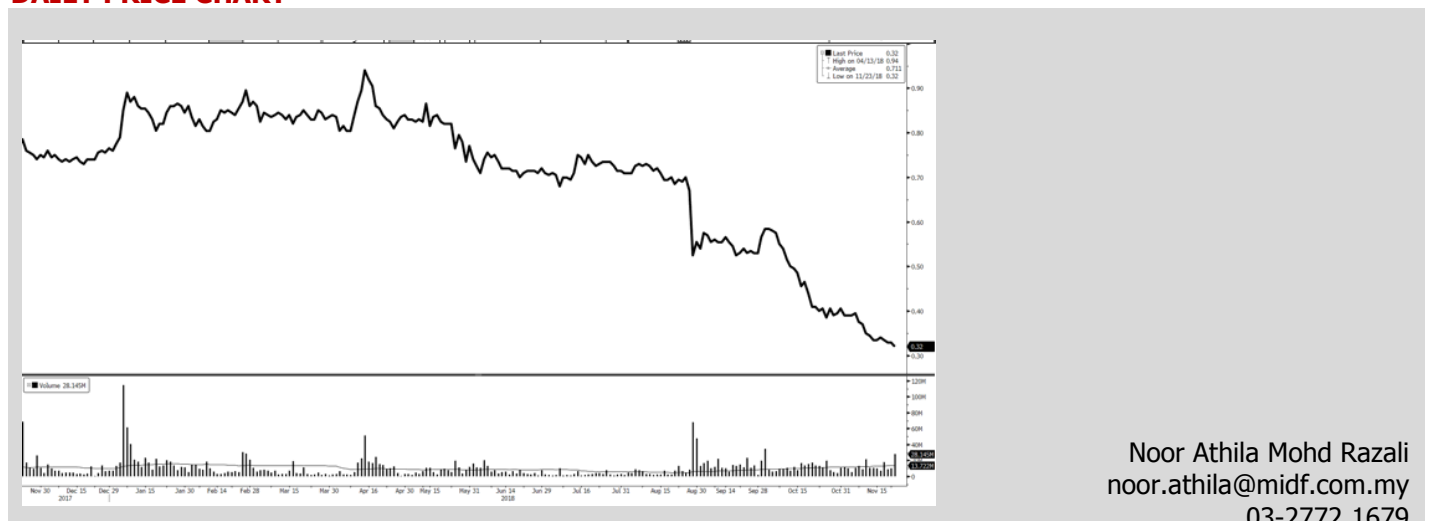
Maintain NEUTRAL. We are maintaining our **NEUTRAL** recommendation on BAB with a revised TP of **RM0.35 per share**. Our valuation is based on PER19 of 15x pegged to EPS19 of 2.3sen. We opine that this is fair given that the OMS segment will continue to face headwinds due to the oversupply in the OSV segment (especially the higher brake horsepower vessels), and despite the increased in utilisation rate during the quarter; it is not expected to translate into higher revenue due to persistently depressed charter rates. Furthermore, two of its FPSOs i.e Armada Claire and Armada Perdana are currently not yielding due to issues facing the charterers. 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	2,174.9	2,228.1
EBIT (RM m)	322.9	-1,744.3	767.2	200.1	252.4
Pretax Profit (RM'm)	-171.4	1,845.1	492.2	110.9	163.2
Normalised Net Profit (RM m)	188.5	-144.0	265.0	92.6	136.3
Reported Net Profit (RM'm)	-234.6	-1,887.2	352.2	72.1	136.3
EPS (sen)	nm	-32.2	6.0	1.6	2.3
EPS Growth (%)	nm	nm	nm	(73.80)	47.12
PER (x)	nm	-1.0	5.3	20.4	13.8
Net Dividend (sen)	0.8	0.0	0.0	0.2	0.2
Net Dividend (%)	2.5%	0.0%	0.0%	0.6%	0.6%

Source: MIDFR

DAILY PRICE CHART



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Source: MIDFR, Company

Table 1: Bumi Armada's quarterly earnings review

FYE Dec (RM m)	Quarterly Results					Cumulative		
	3QFY17	2QFY18	3QFY18	QoQ (%)	YoY (%)	9MFY17	9MFY18	YoY (%)
Revenue	641.4	654.0	588.0	-10.1	-8.3	1,740.0	1,842.4	5.9
COGS	(491.1)	(607.1)	(414.7)	-31.7	-15.5	(1,159.8)	(1,421.9)	22.6
Gross Profit	150.3	47.0	173.3	>100	15.3	580.2	420.6	-27.5
Other Operating Income	92.1	18.3	9.2	-50.1	-90.1	147.1	55.7	-62.1
Selling & Dist Cost	(2.1)	(0.1)	(16.9)	>100	>100	(16.2)	(30.5)	87.7
Admin Expenses	(44.8)	(67.2)	(50.9)	-24.3	13.6	(151.8)	(163.8)	7.9
Operating Profit	195.5	(2.0)	114.7	>-100	-41.4	559.3	282.0	-49.6
Impairment	(1.9)	(478.9)	(563.5)	17.7	>100	(7.7)	(1,062.9)	>100
Finance Costs	(133.1)	(131.4)	(130.8)	-0.4	-1.7	(305.2)	(385.0)	26.2
JCE	81.3	27.6	65.5	>100	-19.5	139.7	112.0	-19.8
Profit Before Tax	141.8	(584.8)	(514.2)	-12.1	>-100	386.2	(1,053.9)	>-100
Tax	(17.4)	(7.4)	0.8	>-100	>-100	(87.7)	(23.4)	-73.3
Profit After Tax	124.4	(592.2)	(513.4)	-13.3	>-100	298.5	(1,077.3)	
MI	0.6	(6.7)	(10.5)	56.6	>-100	10.1	(17.0)	>-100
PATAMI	123.7	(585.5)	(502.8)	-14.1	>-100	288.4	(1,060.4)	>-100
Normalised PATAMI	125.6	(106.5)	71.2	>-100	-43.3	296.1	33.6	-88.7
Segmental:								
Revenue								
- FPO (FPSO & FGS)	402.7	446.5	405.7	-9.1	0.7	980.0	1312.5	33.9
- OMS	238.7	207.6	182.3	-12.2	-23.6	759.9	529.9	-30.3
Operating Profit								
- FPO (FPSO & FGS)	210.7	166.2	196.5	18.3	-6.7	520.5	648.0	24.5
- OSV	81.0	73.8	44.6	-39.6	-45.0	317.4	148.6	-53.2

Source: MIDFR, Compan

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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.