

Bumi Armada Berhad

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

Maintain BUY

FPSO Activities to Pace-Up in Coming Quarters

Revised Target Price: RM0.67
(previously RM0.83)

KEY INVESTMENT HIGHLIGHTS

- **Maintain BUY with revised TP: RM0.67**
- **Earnings down -36%yoy and revenue down -29%yoy; earnings came below expectations**
- **Kraken shutdown ended, now fully operational with expectation of performance back to normal**
- **First oil expected from Sterling V in the near-term, Sterling II extension from 1QCY24**

Maintain BUY, revised TP: RM0.67. Bumi Armada Berhad (Armada)'s 1QFY23 earnings came in below our yearly expectations at 39.4%. As such, we revised our **target price of RM0.67** (previously RM0.83) adjusting to the operating loss from Armada Kraken shutdown and production outage, as well as decreased revenue from the Caspian Sea project. However, we maintain our **BUY** call for Armada, given that:

- Armada Kraken is fully online as of August CY23, with operational performance back to pre-shutdown levels. Additionally, two new HSPs will be installed, possibly adding to more production and lesser maintenance shutdown.
- Armada Sterling V is expected to extract its first oil in the near term, as Armada is waiting for its 72 hours testing on provisions of hydrocarbons by ONGC.
- Armada Sterling II is expecting a one-year extension commencing 1QCY24.

Earnings down -36%yoy. Armada's 2QFY23 earnings was slipped -36.2%yoy and -40.9%qoq to RM118.8m. This was mainly due to increase in operating expenses caused by the shutdown on Armada Kraken FPSO, due to failure of hydraulic submersible pumps (HSP) transformers and foreign exchange gain; offset by disposal of Armada Claire FPSO and an offshore service vessel. Likewise, 2QFY23 revenue declined by -28.6%yoy and -18.9%qoq to RM441.3m.

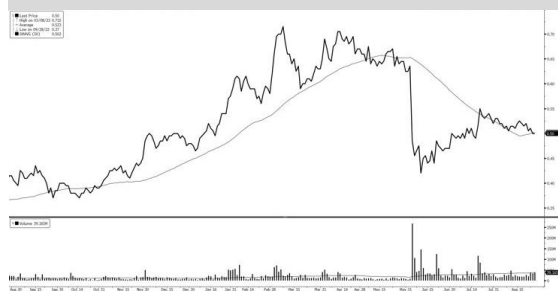
Operations segment profit down -46%yoy. This segment which oversees the management of floating units, vessels and marine operations, saw its 2QFY23 earnings down -48%yoy and -51.6%qoq to RM127.5m. Revenue slipped -23.2%yoy and -16.9%qoq. The decrease was mainly due to the failure of HSP transformers on Armada Kraken FPSO and lower revenue from Subsea Construction contract work in the Caspian Sea. The latter is nearing its completion in CY23.

Others earnings down -149%. 2QFY23 earnings for this segment slipped to a deficit of -RM12.4m from RM25.4m in 2QFY22. Revenue also dipped -96.9%yoy to RM1.4m. These are due to lower preliminary front-end engineering and design (Pre-FEED) revenue recognized and foreign exchange gain.

RETURN STATISTICS

Price @ 25 th August 2023 (RM)	0.50
Expected share price return (%)	+34.0
Expected dividend yield (%)	+1.0
Expected total return (%)	+35.0

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	2,225	2,247	2,270
Operating Profit	1,123	1,168	1,213
Profit Before Tax	709	818	863
Core PATAMI	737	782	827
Core EPS	12.5	13.2	14.0
DPS	0.8	1.0	2.0
Dividend Yield	0.0%	1.0%	2.0%

KEY STATISTICS

FBM KLCI	1,444.4
Issue shares (m)	5,918.1
Estimated free float (%)	39.3
Market Capitalisation (RM'm)	2,961.3
52-wk price range	RM0.36-RM0.73
3-mth average daily volume (m)	35.9
3-mth average daily value (RM'm)	17.8
Top Shareholders (%)	
Objektif Bersatu Sdn Bhd	34.58
Amanah Saham Nasional Bhd	12.62
Norges Bank	5.04

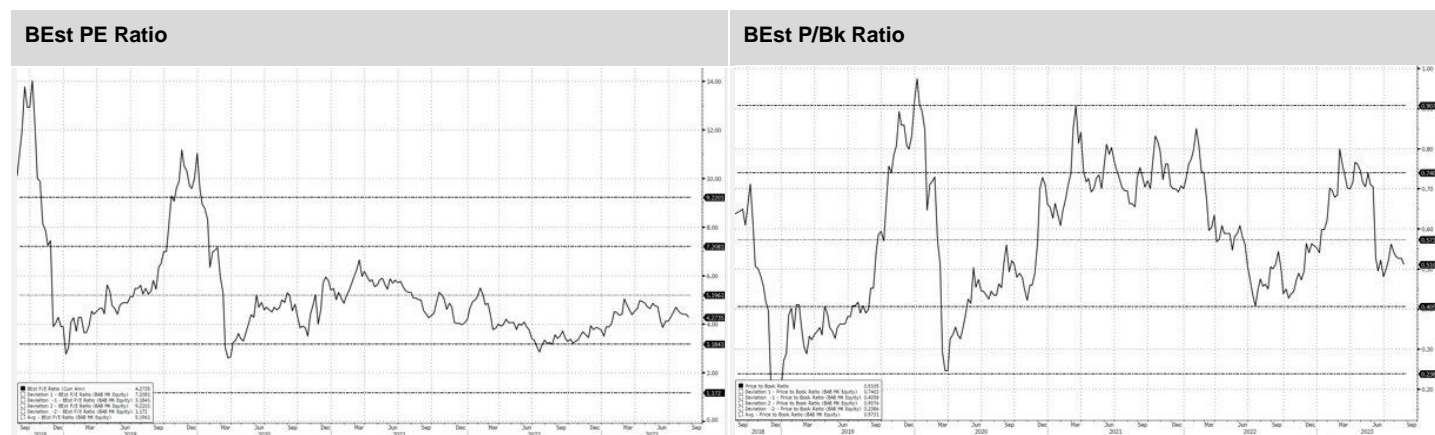
Debt continues to decrease. The group had been repaying its debt totaling to USD92m (approx. RM426.9m) in 2QCY23, with net gearing at 0.72x – the lowest since 2QFY15. Meanwhile, Armada’s orderbook stood at RM11.2b as of 2QFY23. 84% of the orderbook is from its wholly-owned FPO units. Certain contracts contain extension options beyond the firm contract period with a total estimated value of RM9.7b. For updates on 2QFY23 charter period of FPO units, refer to Table 2.

Armada Kraken back online. As of August CY23, Armada Kraken FPSO’s operational performance has been restored to pre-shutdown levels. Redundancy is expected to be restored when 2 new HSP transformers which are estimated to arrive in September CY23, are successfully installed on the Armada Kraken FPSO. Armada had informed that all other FPSOs had been inspected in relation to the Kraken shutdown, and were found to be operational as usual. As of date, no additional expenses were reported in regards of Kraken’s operation, pending investigations on the root cause of the damaged transformers.

Moving forward. Armada will continue to operate its vessels at the optimum level, at the upmost level of safety. Armada is also looking into improving and maintaining the operational performance of its vessels and secure new projects in core regions. We remain positive on Armada’s prospects, on the basis of a robust upstream operations globally, increased opportunities for its FPSO and LNG businesses, and its swift response to HSSE and production issues on the operations of its FPSOs.

Revised earnings estimates. In consideration of Armada’s 2QFY23 earnings, we revise our earnings estimates for FY23 and FY24 downward by -9% and -13% respectively. As we rollover to FY24, we revise our target price at RM0.67 (previously RM0.83) by pegging a PER of 6x to the revised EPS24 of 13.2sen. The PER is based on the FPSO and shipping subsectors’ 5-Year average PER.

FORWARD BAND



Source: Bloomberg, MIDFR

Table 2: Bumi Armada's quarterly earnings review

Financial year ending 31st December (in RM'm unless stated otherwise)	Quarterly Results					Cumulative results		
	2QFY22	1QFY23	2QFY23	QoQ (%)	YoY (%)	1HFY22	1HFY23	YoY (%)
Revenue	618.4	544.0	441.3	(18.9)	(28.6)	1,147.4	985.3	(14.1)
Cost of sales	(380.8)	(268.8)	(320.6)	19.3	(15.8)	(638.8)	(589.4)	(7.7)
Gross profit	237.6	275.2	120.7	(56.1)	(49.2)	508.7	395.9	(22.2)
Other operating income	12.8	24.0	74.4	209.5	480.2	26.5	98.4	271.7
Selling and distribution costs	(2.0)	(0.9)	(0.7)	(22.5)	(64.0)	(4.0)	(1.7)	(58.0)
Administrative expenses	(6.2)	(34.8)	(20.1)	(42.4)	221.7	(34.5)	(54.9)	59.0
Operating profit	242.2	264.8	175.7	(33.7)	(27.5)	498.3	440.4	(11.6)
Finance cost	(87.6)	(91.8)	(83.6)	(8.9)	(4.6)	(172.5)	(175.4)	1.7
Profit Before Tax	186.8	200.0	105.9	(47.1)	(43.3)	378.5	305.9	(19.2)
Taxation	0.6	(4.1)	1.2	(130.1)	121.9	(4.9)	(2.9)	(40.7)
Profit After Tax	187.4	195.9	107.1	(45.3)	(42.8)	373.7	303.0	(18.9)
Non- controlling interests	1.1	(5.1)	(11.6)	128.3	(1,121.5)	1.7	(16.7)	(1,106.7)
PATAMI	186.3	201.0	118.8	(40.9)	(36.2)	372.0	319.8	(14.0)
Segmental:								
<i>Revenue</i>								
Operations (FPSO, FGS, OSV, SC, marine)	572.5	529.1	439.9	(16.9)	(23.2)	1,094.6	969.0	(11.5)
Others (TEP, Corporate)	46.0	14.9	1.4	(90.3)	(96.9)	52.9	16.3	(69.2)
<i>Segmental Profit</i>								
Operations (FPSO, FGS, OSV, SC, marine)	236.2	263.4	127.5	(51.6)	(46.0)	499.8	390.9	(21.8)
Others (TEP, Corporate)	25.4	4.3	(12.4)	(384.9)	(148.7)	24.7	(8.0)	(132.5)

Source: Company, MIDFR

Table 2: Update on Bumi Armada's FPO vessels as of 2QCY23

Unit	Location	LTI Free	Key Operations Update	Charter Period	
				Firm Contract	Optional Extension
Armada Kraken FPSO	Kraken Field, United Kingdom	1 year	<ul style="list-style-type: none"> a) HSP B and D transformer failures, resulting in availability of only one HSP and 23 days of production outage b) Failed transformers removed from E-house and transported to onshore facility for analysis and rebuild c) Shutdown work completed during transformer production outage, removing requirement for extensive planned shutdown in CY23 	3Q 2025	>2039
Armada Olombendo FPSO	15/06 Field, Angola	1 year	<ul style="list-style-type: none"> a) Uninterruptible Power Supply (UPS) Batteries removal and replacement b) 1 Centre Crude Oil Tank inspection, repair and coating 	3Q 2030	3Q 2038
Armada LNG Mediterana FSU	Marsaxlokk Bay, Malta	6 years	<ul style="list-style-type: none"> a) Successful completion of first Gas Up/Cool Down of warm trading LNGC b) 6 yearly major maintenance completed for Auxillary Diesel Generator 	3Q 2035	N/A
Armada TGT 1 FPSO	TGT Field, Vietnam	11 years	<ul style="list-style-type: none"> a) Welding repairs to various Crude Oil Tanks and Water Ballast Tanks for Class (ABS) b) Crude oil Cooler 'A' overhauled with new plates and back in service c) Defective drive couplings on both Fire Pumps replaced 	4Q 2024	N/A
Armada Sterling FPSO	D1 Field, India	10 years	<ul style="list-style-type: none"> a) Uninterruptible Power Supply (UPS) B: Battery bank replacement b) 10 yearly inspection or hydrotesting of Firefighting equipment c) Ballast tanks inspection/hydro blasting/painting 	3Q 2030	3Q 2035
Armada Sterling II FPSO	C7 Field, India	8 years	<ul style="list-style-type: none"> a) Gas Turbine Generators A&B, package counter based conditioning assessment b) 6 hours planned shutdown of Gas turbine Compressor A: 1st stage compressor inlet NRV, suction strainer and flow orifice removed for inspection c) Engine room piping Ultrasonic Testing (PAUT) measurement carried out 	1Q 2025	3Q 2031
Karapan Armada Sterling III FPSO	Madura BD Field, Indonesia	5 years	<ul style="list-style-type: none"> a) Slop (Port side) Tank De-mucking and cleaning of Tank b) Gas Turbine Generators B and C 4K hours Planned Maintenance completed c) LPG compressor 10,000 hours overhaul maintenance 	3Q 2027	3Q 2032
FPSO Sterling V	Kakinada 98-2 Field, India	N/A	On location preparing for first oil	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	2,225.1	2,247.3	2,269.8
D&A	465.8	342.7	428.9	411.5	410.5
EBITDA	959.3	1,026.5	1,123.1	1,167.8	1,212.8
Net interest	-16.4	-7.8	-7.5	-7.0	-7.0
Profit before tax	602.8	709.0	773.1	817.8	862.8
Tax	-16.6	15.7	15.7	16.1	16.1
PATAMI	631.1	724.7	737.1	781.8	826.8
Core PATAMI	574.1	732.4	737.1	781.8	826.8
Balance Sheet (RM'm)	2021A	2022A	2023E	2024F	2025F
Fixed assets	4,212.8	4,011.5	4,046.1	4,162.9	4,557.9
Intangible assets	4,403.4	4,350.6	4,444.6	4,339.2	4,260.6
Non-current assets	10,160.4	9,906.5	9,526.6	9,897.4	10,407.5
Cash	794.8	838.8	741.5	794.6	821.0
Trade debtors	494.3	506.9	462.0	510.1	516.3
Current assets	1,654.6	1,819.5	1,862.0	1,833.3	1,865.1
Trade creditors	158.9	182.6	235.9	256.0	259.9
Short-term debt	1,404.1	1,018.4	1,258.0	1,276.8	1,374.1
Current liabilities	1,992.3	1,615.7	1,658.0	1,674.1	1,776.8
Long-term debt	5,514.2	4,486.4	4,651.2	4,744.4	5,058.6
Non-current liabilities	6,102.8	5,014.7	5,296.4	5,685.8	5,929.7
Share capital	4,328.4	4,332.4	4,327.4	4,330.1	4,432.3
Retained earnings	-365.7	814.2	848.3	835.3	954.7
Equity	3,921.8	5,095.6	5,175.7	5,165.4	5,387.0
Cash Flow (RM'm)	2021A	2022A	2023E	2024F	2025F
PBT	602.8	709.0	773.1	817.8	862.8
Depreciation & amortisation	465.8	342.7	428.9	411.5	410.5
Changes in working capital	271.0	300.1	277.7	335.8	373.9
Operating cash flow	1,360.5	1,350.4	1,421.0	1,423.7	1,483.6
Capital expenditure	-13.0	-1.5	-40.5	-41.1	-42.3
Investing cash flow	193.5	346.4	365.4	365.4	365.4
Debt raised/(repaid)	-1651.5	-1747.3	-1616.	-1439.3	-1297.7
Financing cash flow	-1655.6	-1749.9	-1530.3	-1341.6	-1272.6
Net cash flow	(101.64)	(53.16)	256.08	447.41	576.34
Beginning cash flow	894.78	843.39	838.87	741.46	794.64
Ending cash flow	843.39	838.87	741.46	794.64	820.98
Profitability Margins	2021A	2022A	2023E	2024F	2025F
EBITDA margin	42.9%	42.7%	50.5%	52.0%	53.4%
PBT margin	26.9%	29.5%	34.7%	36.4%	38.0%
Core PAT margin	25.7%	30.4%	33.1%	34.8%	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 <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.

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