

## Bumi Armada Berhad

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

**Maintain BUY**

### Kraken Recovery Added into 3QFY23 Earnings

**Unchanged Target Price: RM0.67**

#### KEY INVESTMENT HIGHLIGHTS

- **Maintain BUY with unchanged TP: RM0.67**
- **Earnings up 19%yoy to RM178m but came in below expectations**
- **Revenue down -20%yoy to RM441m due to lower revenue from Caspian Sea project and disposal of vessel**
- **FY24-25 earnings forecast revised down by -6% and -2%**

**Maintain BUY, TP: RM0.67.** Bumi Armada Berhad (Armada)'s 9MFY23 earnings (-4.6%yoy to RM497.5m) came in below our expectation at 67.5% of full-year estimate. However, we maintain our BUY call and target price at RM0.67 after adjusting to the decreasing revenue from the near completion of the Caspian Sea project and the disposal of a JV unit in Indonesia.

**3QFY23 earnings up +19%yoy.** Armada's 3QFY23 earnings gained +18.7%yoy to RM177.8m, while revenue dropped -19.6%yoy to RM524.8m. The higher earnings were mainly due to the added contribution from Armada Kraken FPSO upon recovery, offset by foreign exchange loss during the period. Additionally, the higher other operating income from gain on disposal of a subsea JV unit in Indonesia and allowance for impairment losses on accrued lease rental also contributed to the earnings.

**Operations segment profit jumped +43%yoy.** This segment which oversees the management of floating units, vessels, and marine operations, saw its 3QFY23 earnings up by +42.9%yoy to RM248.8m, while revenue slipped -15.7%yoy to RM524.3m. The lower revenue was mainly due to the failure of hydraulic submersible pump (HSP) transformers on Armada Kraken FPSO and lower revenue from Subsea Construction contract work in the Caspian Sea as the project was near completion.

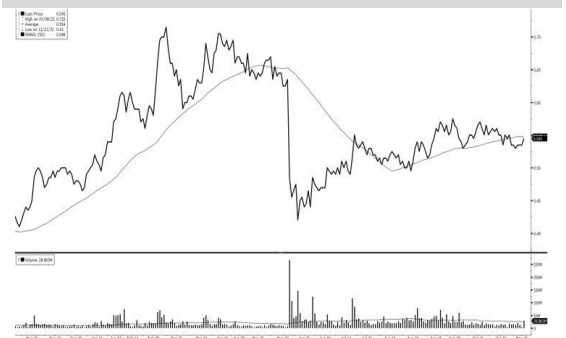
**Other earnings down -217%yoy.** 3QFY23 earnings for this segment slipped to a deficit of -RM34.1m from RM41.3m in 3QFY22. Revenue also dipped -98.4%yoy to RM0.5m. Revenue was lower mainly due to preliminary front-end engineering and design (Pre-FEED) revenue recognized and foreign exchange losses.

**USD37m debt repaid.** The group had repaid its debt totaling to USD37m (approx. RM173.5m) in 3QCY23, with net gearing at 0.66x – the lowest since 2QFY15. Meanwhile, Armada's orderbook stood at RM10.4b as of 3QFY23. Certain contracts contain extension options beyond the firm's contract period with a total estimated value of RM9.8b. For updates on 3QFY23 charter period of FPO units, refer to Table 1.

#### RETURN STATISTICS

Price @ 16 <sup>th</sup> November 2023 (RM)	0.55
Expected share price return (%)	+21.8
Expected dividend yield (%)	+1.0
<b>Expected total return (%)</b>	<b>+22.8</b>

#### SHARE PRICE CHART



Price performance (%)	Absolute	Relative
1 month	-3.5	-4.9
3 months	-3.5	2.6
12 months	28.2	26.9

#### INVESTMENT STATISTICS

FYE Mar	2023E	2024F	2025F
Revenue	2,093	2,114	2,135
Operating Profit	918	987	1,056
Profit Before Tax	669	742	816
Core PATAMI	665	738	812
Core EPS	11.2	12.5	13.7
DPS	0.8	1.0	2.0
Dividend Yield	0.0%	1.0%	2.0%


#### KEY STATISTICS

FBM KLCI	1464.68
Issue shares (m)	5,918.05
Estimated free float (%)	39.28
Market Capitalisation (RM'm)	3,227.85
52-wk price range	RM0.40-RM0.73
3-mth average daily volume (m)	25.62
3-mth average daily value (RM'm)	13.82
Top Shareholders (%)	
Objektif Bersatu Sdn Bhd	34.58
Amanah Saham Nasional Bhd	12.62
Norges Bank	5.04

**First oil from Sterling V expected in November.** FPSO Sterling V in Kakinada 98-2 Field, India is currently moored on location and is awaiting its first oil extraction. The first oil is expected to be extracted via Sterling V by end of November CY23, after the technical tests onboard are fully completed.

**Kraken fully operational, new transformer pending.** As of writing, Armada Kraken is back to pre-shutdown operations. All transformers had been installed in September CY23, with one additional new transformer to be received upon better weather conditions in the North Sea to allow transport and installation. The analysis on the root cause of the damage to HSP is still ongoing. We believe there will be no more impairment impact regarding this FPSO in the coming quarters.

**Moving forward - Akia PSC.** Moving forward, we are expecting Armada to continue with its Akia Production Sharing Contract (PSC), comprising Armada Akia BV as operator (51%) and Pexco Tarakan NV (49%). The Akia PSC covers 8,394 sqkm and contains the Aster and Tulip oil and gas discoveries. Armada will be acquiring the service of a 3D seismic hydrophone vessel over Tulip for a fast-track development, which is expected to commence in 1Q/2QCY24 for an estimate of 3-6 months. Should this PSC be instigated as planned without a hitch, Armada is expected to also provide and operate an FPSO and an FLNG or pipelines to further develop any discoveries. While this project is in its preliminary exploration phase, we opine that in a few years, the PSC will be another stable revenue stream for the group's FPSO and FLNG operations.

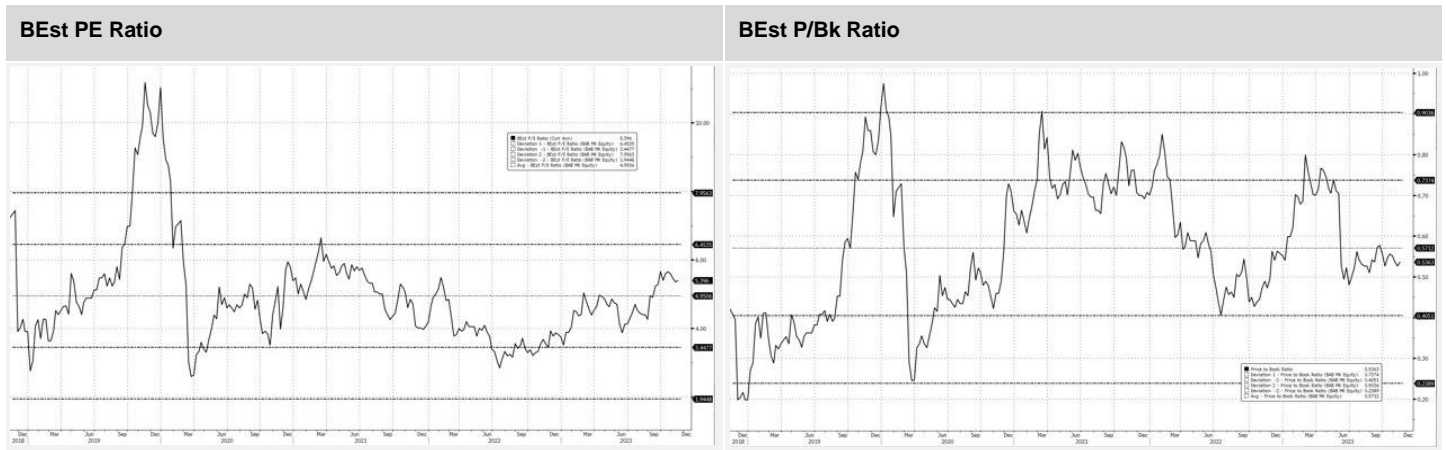
**Revised earnings estimates.** In consideration of the disposal of a JV unit and the near completion of the Caspian Sea project, as well as the uncertainty on the USD/MYR foreign exchange, we adjusted our revenue forecast for FY24-FY25, and as such our earnings estimates for FY24 and FY25 are adjusted accordingly (downward by -6% and -2% respectively). Nevertheless, we maintain our target price at RM0.67 by pegging a PER of 5.4x to the revised EPS24 of 12.5sen. We shift the PER, which is based on the group's 5-Year average PER, upon Kraken's recovery. 

**Table 1: Update on Bumi Armada's FPO vessels as of 3QCY23**

Unit	Location	LTI Free	Key Operations Update	Charter Period	
				Firm Contract	Optional Extension
Armada Kraken FPSO	Kraken Field, United Kingdom	1 year	a) Re-instated HSP pumps D and A, returned production 100% b) Received two newly procured HSP PF Pump transformers. One installed offshore and thereafter achieved full HSP PF pump redundancy	3Q 2025	>2039
Armada Olombendo FPSO	15/06 Field, Angola	1 year	a) GTG An Engine Change for Hot Section Replacement b) UF Train Membrane Change Out c) Heavy Oil Separator Internal Inspection	3Q 2030	2Q 2038
Armada LNG Mediterrana FSU	Marsaxlokk Bay, Malta	6 years	a) Annual CTS inspection, verification, and calibration of cargo tank pressure transmitters b) Annual inspection and maintenance completed on the Cargo Marine Loading Arm (CMLA) by FMC (3rd party vendor)	1Q 2035	N/A
Armada TGT 1 FPSO	TGT Field, Vietnam	12 years	a) New Well 7P brought online at WHP. b) Replacement of UPS batteries and rack	4Q 2024	N/A
Armada Sterling FPSO	D1 Field, India	10 years	a) Helideck – Installation of CH lights b) Ballast tanks – Hydro-blasting / painting	3Q 2030	3Q 2035
Armada Sterling II FPSO	C7 Field, India	8 years	Planned shutdown for maintenance	1Q 2025	3Q 2031
Karapan Armada Sterling III FPSO	Madura BD Field, Indonesia	6 years	a) 3 yearly inspection of export floating hose and replacement of hose segments. b) GTG A engine and reduction gear box replacement.	3Q 2027	4Q 2032
FPSO Sterling V	Kakinada 98-2 Field, India	N/A	On location preparing for first oil	N/A	N/A

Source: Company, MIDFR

## 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		
	3QFY22	2QFY23	3QFY23	QoQ (%)	YoY (%)	9MFY22	9MFY23	YoY (%)
Revenue	653.1	441.3	524.8	18.9	(19.6)	1,800.5	1,510.1	(16.1)
Cost of sales	(377.9)	(320.6)	(283.5)	(11.6)	(25.0)	(1,016.7)	(872.9)	(14.1)
<b>Gross profit</b>	<b>275.2</b>	<b>120.7</b>	<b>241.3</b>	<b>99.9</b>	<b>(12.3)</b>	<b>783.8</b>	<b>637.2</b>	<b>(18.7)</b>
Other operating income	17.9	74.4	33.4	(55.2)	86.0	44.4	131.8	196.7
Selling and distribution costs	(0.5)	(0.7)	(0.5)	(32.4)	2.7	(4.5)	(2.2)	(51.5)
Administrative expenses	(16.2)	(20.1)	(51.7)	157.5	218.7	(50.8)	(106.6)	110.0
<b>Operating profit</b>	<b>276.4</b>	<b>175.7</b>	<b>223.0</b>	<b>26.9</b>	<b>(19.3)</b>	<b>773.0</b>	<b>663.4</b>	<b>(14.2)</b>
Finance cost	(94.9)	(83.6)	(83.0)	(0.7)	(12.5)	(267.3)	(258.4)	(3.3)
<b>Profit Before Tax</b>	<b>138.4</b>	<b>105.9</b>	<b>165.0</b>	<b>55.9</b>	<b>19.2</b>	<b>515.3</b>	<b>471.0</b>	<b>(8.6)</b>
Taxation	0.8	1.2	(0.3)	(123.6)	(137.6)	(4.1)	(3.2)	(22.2)
<b>Profit After Tax</b>	<b>139.2</b>	<b>107.1</b>	<b>164.8</b>	<b>53.8</b>	<b>18.4</b>	<b>511.2</b>	<b>467.8</b>	<b>(8.5)</b>
Non- controlling interests	(10.5)	(11.6)	(13.0)	11.9	23.5	(8.9)	(29.7)	235.1
<b>PATAMI</b>	<b>149.7</b>	<b>118.8</b>	<b>177.8</b>	<b>49.7</b>	<b>18.7</b>	<b>521.7</b>	<b>497.5</b>	<b>(4.6)</b>
<b>Segmental:</b>								
<i>Revenue</i>								
Operations (FPSO, FGS, OSV, SC, marine)	621.6	439.9	524.3	19.2	(15.7)	1,716.2	1,493.3	(13.0)
Others (TEP, Corporate)	31.4	1.4	0.5	(63.9)	(98.4)	84.3	16.8	(80.1)
<i>Segmental Profit</i>								
Operations (FPSO, FGS, OSV, SC, marine)	174.1	127.5	248.8	95.2	42.9	673.9	639.7	(5.1)
Others (TEP, Corporate)	41.3	(12.4)	(34.1)	175.4	(182.6)	66.0	(42.1)	(163.9)

Source: Company, MIDFR

## FINANCIAL SUMMARY

Income Statement (RM'm)	2021A	2022A	2023E	2024F	2025F
Revenue	2,237.0	2,405.5	2,092.8	2,113.7	2,134.8
D&A	465.8	342.7	331.1	374.3	381.1
EBITDA	959.3	1,026.5	918.8	987.2	1,055.8
Net interest	-16.4	-7.8	-7.5	-7.0	-7.0
Profit before tax	602.8	709.0	668.8	742.2	815.8
Tax	-16.6	15.7	-4.0	-3.5	-3.5
PATAMI	631.1	724.7	664.8	738.2	811.8
Core PATAMI	574.1	732.4	664.8	738.2	811.8
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	4,360.6	4,339.2	4,444.6
<b>Non-current assets</b>	<b>10,160.4</b>	<b>9,906.5</b>	<b>9,428.9</b>	<b>9,697.4</b>	<b>10,007.5</b>
Cash	843.4	838.9	839.2	1,017.2	1,244.6
Trade debtors	494.3	506.9	462.0	510.1	516.3
<b>Current assets</b>	<b>1,654.6</b>	<b>1,819.5</b>	<b>1,862.0</b>	<b>1,833.3</b>	<b>1,865.1</b>
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
<b>Current liabilities</b>	<b>1,992.3</b>	<b>1,615.7</b>	<b>1,658.0</b>	<b>1,674.1</b>	<b>1,776.8</b>
Long-term debt	5,514.2	4,486.4	4,651.2	4,744.4	5,058.6
<b>Non-current liabilities</b>	<b>6,102.8</b>	<b>5,014.7</b>	<b>5,296.4</b>	<b>5,708.4</b>	<b>5,953.3</b>
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
<b>Equity</b>	<b>3,921.8</b>	<b>5,095.6</b>	<b>5,175.7</b>	<b>5,165.4</b>	<b>5,387.0</b>
Cash Flow (RM'm)	2021A	2022A	2023E	2024F	2025F
PBT	602.8	709.0	668.8	742.2	815.8
Depreciation & amortisation	465.8	342.7	331.1	374.3	381.1
Changes in working capital	271.0	300.1	277.7	335.8	373.9
<b>Operating cash flow</b>	<b>1,360.5</b>	<b>1,350.4</b>	<b>1,322.1</b>	<b>1,254.7</b>	<b>1,198.1</b>
Capital expenditure	-13.0	-1.5	-1.2	-4.0	-6.4
<b>Investing cash flow</b>	<b>193.5</b>	<b>346.4</b>	<b>306.7</b>	<b>315.3</b>	<b>337.0</b>
Debt raised/(repaid)	-1651.5	-1747.3	-1,424.3	-1478.0	-1536.5
<b>Financing cash flow</b>	<b>-1655.6</b>	<b>-1749.9</b>	<b>-1,628.4</b>	<b>-1392.0</b>	<b>-1307.7</b>
<b>Net cash flow</b>	<b>(101.6)</b>	<b>(53.2)</b>	<b>0.36</b>	<b>178.0</b>	<b>227.4</b>
<b>Beginning cash flow</b>	<b>894.8</b>	<b>843.4</b>	<b>838.9</b>	<b>839.2</b>	<b>1,017.2</b>
<b>Ending cash flow</b>	<b>843.4</b>	<b>838.9</b>	<b>839.2</b>	<b>1,017.2</b>	<b>1,244.6</b>
Profitability Margins	2021A	2022A	2023E	2024F	2025F
EBITDA margin	42.9%	42.7%	43.9%	46.7%	49.5%
PBT margin	26.9%	29.5%	32.0%	35.1%	38.2%
Core PAT margin	25.7%	30.4%	31.8%	34.9%	38.0%

Source: Bloomberg, MIDFR

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#### 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