

Bumi Armada Berhad

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

Maintain BUY

Anticipating Normalisation of Operation in FY24

Revised Target Price: RM0.71
(Previously RM0.67)

KEY INVESTMENT HIGHLIGHTS

- **Maintain BUY with revised target price of RM0.71**
- **4QFY23 reported earnings unexpectedly down to a deficit of -RM175m, mainly due to impairment and Kraken shutdown**
- **Revenue up +3%yoy to RM441m from full operation of Kraken and settlement of outstanding issues with charterer**
- **FY24 earnings to recover strongly in absence of impairment for Kraken and reimbursement of the Caspian Sea project**

Maintain BUY, revised TP: RM0.71. Bumi Armada Berhad (BAB)'s FY23 normalized earnings are above our expectations at 113%. We maintain our **BUY** call on the basis of an expected better performance in FY24 after the one-off impairments on Kraken and Caspian Sea projects to be reimbursed. We also **revised our target price to RM0.71** (previously RMRM0.67) as we input FY23 results adjusting to the impairment written-off.

4QFY23 normalised earnings up +46%. 4QFY23 normalised earnings added +46.2%yoy to RM312.5m. gains on disposal of PPE in FY 2023 and allowance for impairment losses on accrued lease rental of RM88m as Armada Balnaves Pte Ltd was unsuccessful in its appeal against Woodside Energy Julimar Pty Ltd. However, these are offset by lower contribution from Armada Kraken FPSO arising from the failure of HSP transformers, as well as the impairment of Armada Kraken FPSO and SC assets of RM514.4m.

4QFY23 revenue up +3%yoy. 4QFY23 revenue gained +3%yoy to RM623m. Conversely, FY23 revenue dropped -11.3%yoy to RM2.1b. The higher revenue is due to operational performance of Armada Kraken fully restored in 3QCY23, coupled with a resolution of outstanding issues with a charterer.

Operations reported profit slipped into deficit. This segment which oversees the management of floating units, vessels and marine operations, saw its 4QFY23 reported earnings slipped into a deficit. However, normalised earnings added +30%yoy to a RM448.9m, while revenue gained +3.7%yoy to RM621.4m. The higher revenue was mainly due to Armada Kraken FPSO as the vessel's operational performance was fully restored in August CY23, resolution of outstanding issues with a charterer, as well as higher revenue from Armada Olombendo FPSO due to a revision of vessel unguaranteed residual value.

Others earnings down -217%yoy. 4QFY23 earnings for this segment slipped to a deficit of -RM79.6m from a deficit of RM16.8m in 4QFY22. Revenue also dipped -73.7%yoy to RM1.5m. Revenue was lower mainly due to the absence of front-end engineering and design (Pre-FEED) revenue recognized.

RETURN STATISTICS

| | |
|---|-------|
| Price @ 28 th February 2024 (RM) | 0.52 |
| Expected share price return (%) | +36.5 |
| Expected dividend yield (%) | +0.0 |
| Expected total return (%) | +36.5 |

SHARE PRICE CHART



| Price performance (%) | Absolute | Relative |
|-----------------------|----------|----------|
| 1 month | -7.1 | -9.1 |
| 3 months | 5.1 | -8.6 |
| 12 months | -10.3 | -15.6 |

INVESTMENT STATISTICS

| FYE Dec | 2024E | 2025F | 2026F |
|-------------------|-------|-------|-------|
| Revenue | 2,229 | 2,341 | 2,504 |
| Operating Profit | 819 | 883 | 926 |
| Profit Before Tax | 797 | 860 | 903 |
| Normalised PATAMI | 777 | 845 | 893 |
| Core EPS | 13.1 | 14.3 | 15.1 |
| DPS | 0.0 | 0.0 | 0.0 |
| Dividend Yield | 0.0% | 0.0% | 0.0% |

KEY STATISTICS

| | |
|----------------------------------|---------------|
| FBM KLCI | 1,545.59 |
| Issue shares (m) | 5,918.05 |
| Estimated free float (%) | 39.28 |
| Market Capitalisation (RM'm) | 3,079.79 |
| 52-wk price range | RM0.41-RM0.73 |
| 3-mth average daily volume (m) | 20.74 |
| 3-mth average daily value (RM'm) | 11.14 |
| Top Shareholders (%) | |
| Objektif Bersatu Sdn Bhd | 34.58 |
| Amanah Saham Nasional Bhd | 12.62 |
| Norges Bank | 5.04 |

USD57m debt repaid. The group had repaid its debt totaling to USD57m (approx. RM271.8m) in 4QFY23, with net gearing at 0.65x – the lowest since 2QFY15. Meanwhile, Armada’s orderbook stood at RM9.8b as of 4QFY23. Certain contracts contain extension options beyond the firm contract period with a total estimated value of RM9.5b. For updates on 4QFY23 charter period of FPO units, refer to Table 1.

Impairment assessment on Kraken, Caspian Sea. An assessment on the recoverable amount of Kraken FPSO was conducted during FY23, considering value-in-use, which involved key assumptions like the expected contractual period, charter fees, discount rate, inflation rate, and residual value. Similarly, another was conducted on the recoverable amount of subsea construction (SC) assets due to delays in potential projects in the Caspian Sea, caused by the prolonged Russian-Ukrainian conflict and consequent sanctions. As a result of these assessments, an impairment charge of RM514.4 million was recognized for Kraken FPSO and SC assets. Approximately 85% of the total impairment was from Kraken. We believe the impairments are now waiting for write-offs and are not likely to repeat in FY24. However, other FPSOs are subjected to similar impairment assessments in the near future.


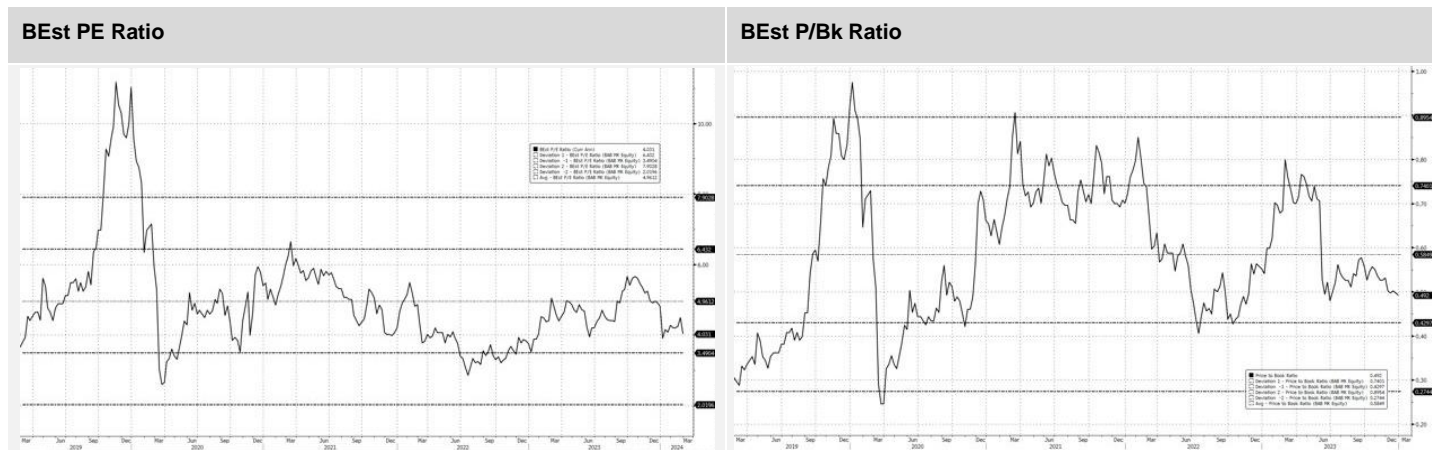
Revised earnings estimates. All in all, we revised our earnings forecast for FY24 upwards by +8% and FY25 by +4%. in light of the robust cash flow from Kraken FPSO and the minimal impairment impact coming into FY24, as well as the anticipation of the group’s initiative in future ESG projects. We maintain our BUY call and revised target price at RM0.71 for BAB, by pegging a PER of 5.4x to the revised EPS24 of 13.1sen. 

Table 1: Update on Bumi Armada’s FPO vessels as of 4QCY23

| Unit | Location | LTI Free | Key Operations Update | Charter Period | |
|----------------------------------|------------------------------|----------|---|----------------|--------------------|
| | | | | Firm Contract | Optional Extension |
| Armada Kraken FPSO | Kraken Field, United Kingdom | 1 year | a) Completed MPG-3 24,000 hours service b) Completed inspection and repairs in 2P/S OSPW tanks c) Completed MPG-1 gas trial | 3Q 2025 | >2039 |
| Armada Olombendo FPSO | 15/06 Field, Angola | 1 year | a) UF Membranes Change Out b) Test Separator LP Mode Test Run c) Mini shutdown (WI & Gas System) | 3Q 2030 | 2Q 2038 |
| Armada LNG Mediterrana FSU | Marsaxlokk Bay, Malta | 6 years | a) FSU planned terminal shut down (16 – 18 Oct) b) Annual class certification (BV) and inspection c) Underwater hull cleaning and chain clearing operations | 1Q 2035 | N/A |
| Armada TGT 1 FPSO | TGT Field, Vietnam | 12 years | a) Annual shutdown (1 – 6 Oct) b) Extensive UTM vessel wide survey c) Pump Room repairs | 4Q 2024 | N/A |
| Armada Sterling FPSO | D1 Field, India | 10 years | N/A | 3Q 2030 | 3Q 2035 |
| Armada Sterling II FPSO | C7 Field, India | 8 years | N/A | 1Q 2025 | 3Q 2031 |
| Karapan Armada Sterling III FPSO | Madura BD Field, Indonesia | 6 years | a) 4 yearly MIGAS certification renewal of cranes, rotating equipment, electrical equipment and pressure vessels b) New hypochlorite injection unit installation and commissioning | 3Q 2027 | 4Q 2032 |
| FPSO Sterling V | Kakinada 98-2 Field, India | N/A | First oil on 7 Jan CY24 | 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 | | |
|---|-------------------|--------------|----------------|---------|---------|--------------------|----------------|---------------|
| | 4QFY22 | 3QFY23 | 4QFY23 | QoQ (%) | YoY (%) | FY22 | FY23 | YoY (%) |
| Revenue | 605.0 | 524.8 | 623.0 | 18.7 | 3.0 | 2,405.5 | 2,133.1 | (11.3) |
| Cost of sales | (328.7) | (283.5) | (218.0) | (23.1) | (33.7) | (1,275.4) | (1,090.9) | (14.5) |
| Gross profit | 276.3 | 241.3 | 405.0 | 67.8 | 46.6 | 1,130.1 | 1,042.2 | (7.8) |
| Other operating income | 13.8 | 33.4 | 13.9 | (58.3) | 0.8 | 58.2 | 145.7 | 150.3 |
| Selling and distribution costs | (1.1) | (0.5) | (0.5) | (5.7) | (56.9) | (5.6) | (2.6) | (52.5) |
| Administrative expenses | (34.1) | (51.7) | (32.2) | (37.8) | (5.6) | (84.8) | (138.8) | 63.6 |
| Operating profit | 251.9 | 223.0 | (91.7) | (141.1) | (136.4) | 1,026.5 | 571.7 | (44.3) |
| Finance cost | (99.4) | (83.0) | (80.0) | (3.6) | (19.5) | (366.7) | (338.4) | (7.7) |
| Profit Before Tax | 192.1 | 165.0 | (174.8) | (205.9) | (191.0) | 709.0 | 296.1 | (58.2) |
| Taxation | 19.7 | (0.3) | 0.1 | (122.3) | (99.7) | 15.7 | (3.1) | (119.8) |
| Profit After Tax | 211.8 | 164.8 | (174.8) | (206.1) | (182.5) | 724.7 | 293.0 | (59.6) |
| Non- controlling interests | 1.1 | (13.0) | (9.3) | (28.7) | (926.7) | (7.8) | (39.0) | 403.2 |
| PATAMI | 210.7 | 177.8 | (165.5) | (193.1) | (178.5) | 732.4 | 332.1 | (54.7) |
| Normalised PATAMI | 213.8 | 177.3 | 312.5 | 76.3 | 46.2 | 796.1 | 749.4 | (5.9) |
| Segmental: | | | | | | | | |
| <i>Revenue</i> | | | | | | | | |
| Operations (FPSO, FGS, OSV, SC, marine) | 599.2 | 524.3 | 621.4 | 18.5 | 3.7 | 2,415.4 | 2,114.7 | (12.4) |
| Others (TEP, Corporate) | 5.9 | 0.5 | 1.5 | 198.5 | (73.7) | 90.2 | 18.4 | (79.6) |
| <i>Segmental Profit</i> | | | | | | | | |
| Operations (FPSO, FGS, OSV, SC, marine) | 345.6 | 248.3 | 448.9 | 80.8 | 29.9 | 855.4 | 822.8 | (3.8) |
| Others (TEP, Corporate) | (16.8) | (34.6) | (79.6) | 130.1 | 373.3 | (55.2) | (63.3) | 14.7 |

Source: Company, MIDFR

FINANCIAL SUMMARY

| Income Statement (RM'm) | 2022A | 2023A | 2024E | 2025F | 2026F |
|-------------------------|---------|---------|---------|---------|---------|
| Revenue | 2,405.5 | 2,133.1 | 2,229.1 | 2,340.5 | 2,504.4 |
| D&A | 342.7 | 333.5 | 424.8 | 421.7 | 397.7 |
| EBITDA | 1,026.5 | 571.7 | 1,119.3 | 1,182.6 | 1,226.2 |
| Net interest | -7.8 | -39.0 | -19.4 | -19.2 | -20.3 |
| Profit before tax | 709.0 | 296.1 | 819.3 | 882.6 | 926.2 |
| Tax | 15.7 | -3.1 | -3.0 | -3.0 | -3.0 |
| PATAMI | 732.4 | 332.1 | 796.9 | 860.4 | 902.8 |
| Normalised PATAMI | 796.1 | 767.8 | 776.9 | 845.4 | 892.8 |

| Balance Sheet (RM'm) | 2022A | 2023A | 2024E | 2025F | 2026F |
|--------------------------------|----------------|----------------|----------------|----------------|----------------|
| Fixed assets | 4,011.5 | 3,256.3 | 3,973.3 | 4,079.8 | 4,156.7 |
| Intangible assets | 4,350.6 | 4,206.5 | 4,320.2 | 4,320.2 | 4,320.2 |
| Non-current assets | 9,899.9 | 9,267.9 | 9,705.1 | 9,851.4 | 9,968.6 |
| Cash | 838.8 | 704.7 | 898.9 | 1,025.9 | 1,123.1 |
| Trade debtors | 506.9 | 671.3 | 520.2 | 540.9 | 546.7 |
| Current assets | 1,826.1 | 1,848.2 | 1,828.1 | 1,987.4 | 2,098.0 |
| Trade creditors | 499.4 | 309.4 | 433.2 | 410.2 | 419.3 |
| Short-term debt | 1,018.4 | 2,273.3 | 1,476.2 | 1,542.3 | 1,542.8 |
| Current liabilities | 1,627.9 | 3,264.9 | 1,989.6 | 2,036.4 | 2,045.5 |
| Long-term debt | 4,486.4 | 2,081.3 | 4,620.7 | 4,961.4 | 5,259.0 |
| Non-current liabilities | 5,002.6 | 2,271.6 | 4,747.3 | 5,089.9 | 5,386.1 |
| Share capital | 4,332.4 | 4,335.4 | 4,335.4 | 4,335.4 | 4,335.4 |
| Retained earnings | 814.2 | 1,336.4 | 1,404.1 | 1,453.3 | 1,478.5 |
| Equity | 5,095.6 | 5,579.6 | 5,695.2 | 5,738.4 | 5,758.1 |

| Cash Flow (RM'm) | 2022A | 2023A | 2024E | 2025F | 2026F |
|-----------------------------|----------------|----------------|----------------|----------------|----------------|
| PBT | 709.0 | 296.1 | 819.3 | 882.6 | 926.2 |
| Depreciation & amortisation | 342.7 | 333.5 | 424.8 | 421.7 | 397.7 |
| Changes in working capital | 300.1 | -18.7 | 220.6 | 227.1 | 187.4 |
| Operating cash flow | 1,428.8 | 988.6 | 1,842.0 | 1,872.0 | 1,822.6 |
| Capital expenditure | 98.0 | 151.4 | 124.5 | 155.7 | 189.4 |
| Investing cash flow | 268.0 | 181.2 | 194.5 | 225.7 | 259.4 |
| Debt raised/(repaid) | -1747.3 | -1836.5 | -1860.4 | -1895.5 | -1998.2 |
| Financing cash flow | -1749.9 | -1339.8 | -1864.7 | -1899.4 | -2002.1 |
| Net cash flow | -53.2 | -170.0 | 171.8 | 98.3 | 59.9 |
| Beginning cash flow | 843.4 | 838.9 | 704.7 | 898.9 | 1,025.9 |
| Ending cash flow | 838.8 | 704.7 | 898.9 | 1,025.9 | 1,123.1 |

| Profitability Margins | 2022A | 2023A | 2024E | 2025F | 2026F |
|-----------------------|-------|--------|-------|-------|-------|
| EBITDA margin | 42.7% | 26.8% | 50.2% | 50.5% | 49.0% |
| PBT margin | 29.5% | 51.8% | 36.8% | 37.7% | 37.0% |
| PAT margin | 30.4% | 112.2% | 35.7% | 36.8% | 36.0% |
| Core PAT margin | 33.1% | 231.2% | 34.9% | 36.1% | 35.6% |

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