

04 March 2019

Bumi Armada Bhd

FY18 In Line; But No Positives In Sight

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FY18 saw massive impairments of >RM2.5b from its Armada Kraken FPSO and OSV vessels, plunging into huge losses. Nonetheless, core earnings were still poorer, in line with expectations, dragged by poorer OMS segment. With problems still faced in its Armada Kraken FPSO and on-going debt restructuring negotiations, we feel compelled to downgrade it to UNDERPERFORM with a lowered TP of RM0.09.

Within expectations. While reported FY18 results came in with huge losses of RM2.3b, the numbers were dragged massively by large impairments (>RM2.5b), mainly in its Armada Kraken FPSO and OSV vessels. In fact, the huge impairments seen during the quarter (>RM1.3b) was a key risk we have previously highlighted (refer to our previous report dated 26 Nov 2018). Stripping off the impairments and other non-core items, FY18 core net profit of RM225.5m came in line with expectations at 103% and 99% of our and consensus forecasts, respectively. As expected, no dividends were announced.

Poorer FY18 results. YoY, FY18 core earnings slid 25%, dragged by: (i) poorer OMS segment (-51%) due to work completion on the LukOil project, and (ii) higher finance costs (+21%) due to the cessation of capitalisation of borrowing costs following the final acceptance of Armada Kraken FPSO, offsetting improved FPO segment (+8%) following the full-year contributions of Armada Olombendo FPSO and Armada Kraken FPSO, which commenced operations in Feb 2017 and June 2017, respectively. Sequentially, 4Q18 core earnings plunged 37% QoQ, dragged by poorer FPO (-22%) mainly on the back of lower vessel productivity from Armada Kraken FPSO, coupled with lower contributions from Armada TGT FPSO after signing an extension agreement in Aug 2018. This offset stronger OMS (+31%) from variation order for the LukOil project.

Plagued by both operational and financial problems. Operationally, its biggest asset – the Armada Kraken FPSO, continued to face problems during the quarter, having suffered system outages leading to less-than-expected production output for its client, EnQuest. We believe this may not be an isolated incident, having delayed receiving final acceptance until September last year as the vessel was not able to meet specifications. This led to massive impairments of the asset during the year (>RM1.6b), which we believe could imply either (i) massive reduction in the vessel's assumed utilisation moving forward, or (ii) huge slash in charter rates from the clients. Meanwhile, financially, the company is still facing difficulties in securing a loan restructuring arrangement with the banks. Management is now not confident that it can meet its end-1Q19 deadline, and has pushed it back to a later date in 2Q19. With its net-gearing at an alarmingly high level of 2.7x, should it fail to secure a loan restructuring, we see no other alternatives for ARMADA as we believe cash calls or asset sales are no longer viable options in raising sufficient capital for debt repayments.

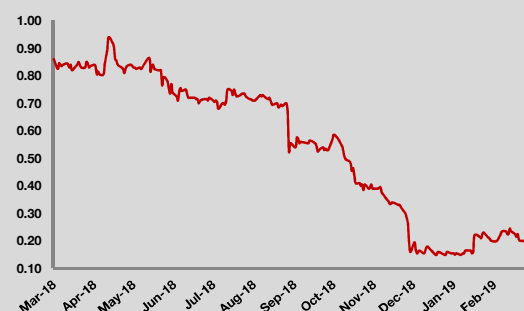
Downgrade to UNDERPERFORM. With the overhang from issues both operationally and financially, we feel compelled to ascribe an UNDERPERFORM call to ARMADA, seeing no other alternatives. With the book value suffering a huge write-down following massive impairments during the quarter, our TP has also been lowered to RM0.09, from RM0.15 previously, pegged to unchanged distress valuations of 0.15x. Post-results, no changes were made to our FY19E numbers while we introduced new FY20E forecasts.

Risks to our call include: (i) completion of debt restructuring with hugely favourable terms, (ii) better-than-expected margins, and (iii) possible privatisation given all-time low share prices.

UNDERPERFORM ↓

Price : RM0.175
Target Price : RM0.090 ↓

Share Price Performance



KLCI 1,700.76
YTD KLCI chg 0.6%
YTD stock price chg 12.9%

Stock Information

Shariah Compliant	No
Bloomberg Ticker	BAB MK Equity
Market Cap (RM m)	1,027.4
Shares Outstanding	5,870.9
52-week range (H)	0.95
52-week range (L)	0.15
3-mth avg daily vol:	124,618,300
Free Float	49%
Beta	1.5

Major Shareholders

Objektif Bersatu	34.9%
Skim Amanah Saham	8.6%
Kumpulan Wang Simpanan	7.1%

Summary Earnings Table

FY Dec (RM'm)	2018A	2019E	2020E
Turnover	2418.7	2764.5	2217.6
EBIT	301.9	766.8	770.9
PBT	-2296.9	444.9	454.6
Net Profit (NP)	-2302.8	312.2	319.1
Core NP (CNP)	225.5	312.2	319.1
Consensus CNP		278.6	342.5
Earnings revision (%)		-	NEW
Core EPS (sen)	3.8	5.3	5.4
CNP growth (%)	-25.1	38.5	2.2
NDPS (sen)	0.0	0.0	0.0
BV/Share (RM)	0.6	0.6	0.6
Core PER	4.6	3.3	3.2
Price/BV (x)	0.3	0.3	0.3
Gearing (x)	2.7	2.7	2.7
Dividend Yield (%)	0.0	0.0	0.0



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Income Statement								
	4Q FY18	3Q FY18	Q-o-Q	4Q FY17	Y-o-Y	12M FY18	12M FY17	Y-o-Y
Y/E : Dec (RM' mil)								
Revenue	576.3	588.0	-2.0%	662.1	-13.0%	2,418.7	2,402.1	0.7%
Cost of sales	(495.7)	(414.7)	19.5%	(462.2)	7.2%	(1,917.5)	(1,596.2)	20.1%
Gross profit	80.7	173.3	-53.5%	199.9	-59.7%	501.2	805.9	-37.8%
Other operating income	9.8	9.2	6.6%	30.8	-68.3%	65.5	177.9	-63.2%
Selling and distribution costs	0.5	(16.9)	-103.1%	(4.6)	-111.4%	(30.0)	(20.8)	43.8%
Administrative expenses	(71.0)	(50.9)	39.6%	(44.0)	61.5%	(234.8)	(195.8)	19.9%
Impairment	(1,200.5)	(563.5)	113.0%	(0.7)	N.M.	(2,242.9)	(8.3)	N.M.
EBIT	(1,180.6)	(448.8)	163.0%	182.1	-748.2%	(1,941.0)	758.8	-355.8%
Finance costs	(137.1)	(130.8)	4.8%	(125.8)	9.0%	(522.1)	(431.0)	21.2%
Share of results of JVs	54.2	65.5	-17.2%	24.6	120.5%	166.2	164.3	1.2%
Profit/(loss) before tax	(1,263.4)	(514.2)	145.7%	80.3	-1673.3%	(2,296.9)	492.2	-566.6%
Taxation	1.2	0.8	39.9%	(2.4)	-148.1%	(22.3)	(115.8)	-80.8%
Non-controlling interest	(0.6)	10.5	-105.6%	(14.1)	-95.8%	16.4	(24.2)	-167.8%
Net profit	(1,262.9)	(502.8)	151.2%	63.8	-2078.9%	(2,302.8)	352.2	-753.7%
Core net profit	48.0	75.6	-36.5%	44.9	6.9%	225.5	302.0	-25.3%
Gross margin	14.0%	29.5%		30.2%		20.7%	33.5%	
EBIT margin	-204.9%	-76.3%		27.5%		-80.2%	31.6%	
PBT margin	-219.2%	-87.4%		12.1%		-95.0%	20.5%	
Net margin	-219.1%	-85.5%		9.6%		-95.2%	14.7%	
Core net margin	8.3%	12.8%		6.8%		9.3%	12.6%	
Effective tax rate	0.1%	0.2%		3.0%		-1.0%	23.5%	

Source: Company

Segment Breakdown								
	4Q FY18	3Q FY18	Q-o-Q	4Q FY17	Y-o-Y	12M FY18	12M FY17	Y-o-Y
Y/E : Dec (RM' mil)								
FPO								
Revenue	381.4	405.7	-6.0%	452.8	-15.8%	1,693.9	1,432.9	18.2%
Segmental Results	153.4	196.5	-22.0%	202.4	-24.2%	810.4	748.6	8.3%
Segmental margins	40.2%	48.4%		44.7%		47.8%	52.2%	
OMS								
Revenue	194.9	182.3	6.9%	209.3	-6.9%	724.8	969.2	-25.2%
Segmental Results	58.5	44.6	31.3%	85.8	-31.8%	198.0	403.2	-50.9%
Segmental margins	30.0%	24.4%		41.0%		27.3%	41.6%	

Source: Company

Peer Comparison

Name	Last Price	Market Cap (RM'm)	Shariah Compliant	Current FYE	Revenue Growth		Core Earnings Growth		PER (x) - Core Earnings			PBV (x)		ROE (%)	Net Div. Yld. (%)	Target Price (RM)	Rating
	(RM)				1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	Hist.	1-Yr. Fwd.	2-Yr. Fwd.	Hist.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.		
BUMI ARMADA BERHAD	0.175	1,027.4	N	12/2019	14.3%	-19.8%	38.4%	2.2%	4.6	3.3	3.2	0.3	0.3	9.3%	0.0%	0.090	UP
DAYANG ENTERPRISE HLDGS BHD	1.18	1,138.5	Y	12/2019	26.4%	0.8%	-35.4%	-0.9%	6.9	10.7	10.8	1.0	1.0	9.3%	0.0%	0.920	OP
DIALOG GROUP BHD	3.18	17,929.8	Y	06/2019	13.6%	1.6%	7.0%	13.8%	41.9	39.1	34.3	5.1	4.9	12.8%	1.0%	3.80	OP
MALAYSIA MARINE AND HEAVY EN	0.755	1,208.0	Y	12/2019	-10.1%	-25.6%	845.5%	123.4%	N.A.	83.3	37.3	0.5	0.5	0.6%	0.0%	0.710	MP
MISC BHD	6.89	30,755.2	Y	12/2019	0.8%	-2.9%	10.0%	8.0%	23.3	21.2	19.6	0.9	0.9	4.2%	4.4%	6.65	MP
PANTECH GROUP HOLDINGS BHD	0.565	417.9	Y	02/2019	-1.9%	-4.9%	-4.5%	-5.1%	9.8	10.2	10.8	0.9	0.8	7.9%	3.7%	0.460	MP
PETRONAS CHEMICALS GROUP BHD	9.27	74,160.0	Y	12/2019	6.9%	-2.6%	-3.6%	4.2%	14.9	15.4	14.8	2.4	2.3	15.2%	3.2%	9.30	MP
PETRONAS DAGANGAN BHD	26.70	26,525.2	Y	12/2019	-5.6%	2.0%	33.0%	2.2%	31.7	23.8	23.3	4.5	4.3	18.4%	2.9%	24.40	UP
SAPURA ENERGY BHD	0.315	5,020.8	Y	01/2019	-2.4%	31.8%	-63.1%	159.4%	N.A.	N.A.	20.8	0.5	0.4	-3.5%	0.0%	0.340	OP
SERBA DINAMIK HOLDINGS	3.92	5,756.5	Y	12/2019	18.6%	9.7%	12.2%	8.0%	15.0	13.4	12.4	2.8	2.4	19.4%	2.3%	4.80	OP
UZMA BHD	0.910	291.2	Y	06/2019	-20.2%	0.0%	-48.1%	12.3%	5.6	10.9	9.7	0.6	0.6	5.5%	0.0%	0.970	MP
WAH SEONG CORP BHD	0.780	601.0	Y	12/2019	-47.7%	-7.7%	-18.8%	-18.1%	9.5	11.8	14.4	0.6	0.6	5.4%	0.0%	0.620	UP
YINSON HOLDINGS BHD	4.45	4,811.9	Y	01/2019	12.3%	8.2%	-27.6%	-6.5%	14.1	19.5	20.8	2.4	2.2	11.8%	1.3%	5.00	OP

Source: Bloomberg, Kenanga Research

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Stock Ratings are defined as follows:**Stock Recommendations**

OUTPERFORM	: A particular stock's Expected Total Return is MORE than 10%
MARKET PERFORM	: A particular stock's Expected Total Return is WITHIN the range of -5% to 10%
UNDERPERFORM	: A particular stock's Expected Total Return is LESS than -5%

Sector Recommendations***

OVERWEIGHT	: A particular sector's Expected Total Return is MORE than 10%
NEUTRAL	: A particular sector's Expected Total Return is WITHIN the range of -5% to 10%
UNDERWEIGHT	: A particular sector's Expected Total Return is LESS than -5%

*****Sector recommendations are defined based on market capitalisation weighted average expected total return for stocks under our coverage.**

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Published and printed by:

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