

25 November 2019

Bumi Armada Bhd

Comforted by Kraken's Recovery

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Strong 9MFY19 results met expectations, driven by operational recovery in FPSO Armada Kraken. The FPSO reached an uptime of >90% during the quarter, providing comfort on its operational certainty moving forward, after numerous operational hiccups previously. Stable operations could partially help relieve debt obligations; although we feel more cash raising efforts could still be necessary. Upgraded to MARKET PERFORM, with TP of RM0.53.

9MFY19 within expectations. ARMADA posted 9MFY19 core net profit of RM217.3m (after stripping-off non-recurring items e.g. gains on disposals, unrealised forex, etc) – coming within expectations, at 71% of our and 77% of consensus full-year earnings estimates. No dividends were declared, as expected.

Stronger overall results, helped by Kraken recovery. Cumulative 9MFY19 results jumped 66% YoY, heavily driven by the recovery of FPSO Armada Kraken, offsetting weaker OMS segment due to the completion of the LukOil project in the Caspian Sea in Dec 2018. For the individual quarter of 3QFY19, similar reasons can be said for the better YoY performance by +6% (core net profit of RM80.1m). Sequentially, 3QFY19 improved 25%, helped by higher uptime in FPSO Armada Kraken, coupled with higher JV contributions arising from tax exemptions obtained for Armada Sterling and Armada Sterling II FPSOs. However, this was partially offset by higher operating costs as a result of discounts obtained from vendors for FPSO Armada Olombendo last quarter.

Is the worst behind? FPSO Armada Kraken recorded an uptime of >90% during the quarter. This provides earnings comfort, with the FPSO having showed gradual operational recovery over the past several quarters. While the alarmingly high net-gearing (2.6x as at end-3QFY19, with total borrowings of RM10b) is still a concern nonetheless, sustainable operations could provide some reprieve in partially meeting cash flow obligations, although we reckon further cash raising efforts may be needed. Operations aside, we see further avenues to raise cash (aside from equity fund raising) could include (i) continued monetisation of assets, as the company seeking to dispose portions of its OSV fleet, with FPSO Armada Claire also up for sale or new jobs, and/or (ii) favourable decision from the court case against Woodside.

Upgraded to MARKET PERFORM. With higher visibility in its operational certainty, especially on FPSO Armada Kraken, we feel an upgrade to our call is due, with expected improvements in cash flows somewhat alleviating its high borrowings concern. Our TP is raised to RM0.53 (from RM0.20 previously), pegged to 10x PER on FY20E – in-line with the stock's 5-year mean PER valuations (from previously 0.3x PBV at "floor" valuations). Nonetheless, we feel that the recent rally in share price over the past few weeks have well priced-in foreseeable positives. *No changes were made to our FY19-20E post-results.*

Risks to our call include: (i) higher-than-expected margins, and (ii) sudden surge in OSV utilisation, and (iii) significant improvement in cash flow generating capabilities.

MARKET PERFORM ↑

Price : **RM0.505**
Target Price : **RM0.530** ↑

Share Price Performance



KLCI	1,596.84
YTD KLCI chg	-5.5%
YTD stock price chg	225.8%

Stock Information

Shariah Compliant	No
Bloomberg Ticker	BAB MK Equity
Market Cap (RM m)	2,967.6
Shares Outstanding	5,876.5
52-week range (H)	0.55
52-week range (L)	0.15
3-mth avg daily vol:	107,434,200
Free Float	35%
Beta	1.6

Major Shareholders

Objektif Bersatu Sdn Bhd	34.9%
Skim Amanah Saham	8.6%
Employees Provident Fund	5.3%

Summary Earnings Table

FY Dec (RM'm)	2018A	2019E	2020E
Turnover	2418.7	2034.3	2034.3
EBIT	301.9	753.8	758.0
PBT	(2296.9)	431.9	441.7
Net Profit (NP)	(2302.8)	303.1	310.0
Core NP (CNP)	225.5	303.1	310.0
Consensus CNP		277.6	318.3
Earnings revision (%)		-	-
Core EPS (sen)	3.8	5.2	5.3
CNP growth (%)	-25.1	34.4	2.3
NDPS (sen)	0.0	0.0	0.0
BV/Share (RM)	0.6	0.6	0.7
Core PER (x)	13.1	9.8	9.6
Price/BV (x)	0.9	0.8	0.7
Gearing (x)	2.7	3.1	2.8
Dividend Yield (%)	0.0	0.0	0.0

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Income Statement								
	3Q	2Q	Q-o-Q	3Q	Y-o-Y	9M	9M	Y-o-Y
Y/E : Dec (RM' mil)	FY19	FY19		FY18		FY19	FY18	
Revenue	527.8	535.6	-1.5%	588.0	-10.2%	1,555.1	1,842.4	-15.6%
Cost of sales	(329.1)	(307.1)	7.2%	(414.7)	-20.7%	(937.8)	(1,421.9)	-34.0%
Gross profit	198.7	228.6	-13.1%	173.3	14.7%	617.3	420.6	46.8%
Other operating income	81.8	15.7	422.6%	9.2	793.3%	109.8	55.7	97.1%
Selling and distribution costs	(2.4)	(1.2)	98.7%	(16.9)	-86.0%	(5.2)	(30.5)	-83.0%
Administrative expenses	(29.5)	(41.8)	-29.3%	(50.9)	-41.9%	(105.1)	(163.8)	-35.9%
Impairment	0.0	0.0	N.M.	(563.5)	N.M.	0.0	(1,042.4)	N.M.
Operating profit	248.6	201.3	23.5%	(448.8)	-155.4%	616.9	(760.4)	N.M.
Finance costs	(143.4)	(129.2)	11.0%	(130.8)	9.6%	(408.2)	(385.0)	6.0%
Share of results of JVs	54.7	30.5	79.4%	65.5	-16.4%	123.7	112.0	10.4%
Profit/(loss) before tax	160.0	102.6	56.0%	(514.2)	-131.1%	332.3	(1,033.4)	N.M.
Taxation	(8.5)	(20.4)	-58.3%	0.8	N.M.	(37.4)	(23.4)	59.5%
Non-controlling interest	1.9	(3.9)	N.M.	10.5	-82.1%	(1.2)	17.0	N.M.
Net profit	153.4	78.2	96.1%	(502.8)	-130.5%	293.8	(1,039.9)	N.M.
Core net profit	80.1	63.9	25.3%	75.6	6.0%	217.3	131.3	65.5%
Gross margin	37.7%	42.7%		29.5%		39.7%	22.8%	
EBIT margin	47.1%	37.6%		-76.3%		39.7%	-41.3%	
PBT margin	30.3%	19.1%		-87.4%		21.4%	-56.1%	
Net margin	29.1%	14.6%		-85.5%		18.9%	-56.4%	
Core net margin	15.2%	11.9%		12.8%		14.0%	7.1%	
Effective tax rate	5.3%	19.9%		0.2%		11.2%	-2.3%	

Source: Company

Segment Breakdown								
	3Q	2Q	Q-o-Q	3Q	Y-o-Y	9M	9M	Y-o-Y
Y/E : Dec (RM' mil)	FY19	FY19		FY18		FY19	FY18	
FPO								
Revenue	453.9	443.6	2.3%	405.7	11.9%	1,323.0	1,312.5	0.8%
Segmental Results	226.1	278.5	-18.8%	196.5	15.1%	758.3	648.0	17.0%
Segmental margins	49.8%	62.8%		48.4%		57.3%	49.4%	
OMS								
Revenue	74.0	92.0	-19.6%	182.3	-59.4%	232.0	529.9	-56.2%
Segmental Results	45.8	22.5	103.4%	44.6	2.8%	77.4	148.6	-47.9%
Segmental margins	62.0%	24.5%		24.4%		33.4%	28.0%	

Source: Company

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Peer Comparison

Name	Last Price	Market	Shariah	Current	Revenue Growth		Core Earnings Growth		PER (x) - Core Earnings			PBV (x)		ROE (%)	Net Div. Yld. (%)	Target	Rating
	(RM)	Cap (RM'm)	Compliant	FYE	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.	Price (RM)	
BUMI ARMADA BHD	0.505	2,967.6	N	12/2019	-15.9%	0.0%	34.4%	2.3%	13.1	9.8	9.6	0.9	0.9	9.0%	0.0%	0.530	MP
DAYANG ENTERPRISE HLDGS BHD	2.07	2,106.2	Y	12/2019	0.3%	31.9%	4.6%	6.0%	14.6	14.0	13.2	2.1	1.9	14.2%	0.0%	2.35	OP
DIALOG GROUP BHD	3.43	19,339.4	Y	06/2020	17.7%	6.1%	4.5%	9.7%	36.1	34.5	31.5	5.1	4.8	14.4%	1.2%	4.15	OP
MALAYSIA MARINE AND HEAVY EN	0.895	1,432.0	Y	12/2019	-10.1%	43.0%	-445.8%	121.1%	N.A.	N.A.	63.1	0.6	0.6	-1.1%	0.0%	1.05	OP
MISC BHD	8.31	37,093.7	Y	12/2019	3.1%	-2.9%	30.2%	5.3%	28.1	21.6	20.5	1.0	1.1	4.9%	3.6%	8.90	OP
PANTECH GROUP HOLDINGS BHD	0.490	367.5	Y	02/2020	1.3%	5.9%	1.3%	6.4%	8.4	8.3	7.8	0.7	0.6	7.6%	3.3%	0.690	OP
PETRONAS CHEMICALS GROUP BHD	7.11	56,880.0	Y	12/2019	-13.9%	4.8%	-30.3%	14.5%	11.4	16.4	14.3	1.9	1.8	11.1%	3.1%	7.70	MP
PETRONAS DAGANGAN BHD	24.10	23,942.2	Y	12/2019	-5.6%	2.0%	12.9%	7.7%	28.6	25.3	23.5	4.1	3.9	15.6%	2.8%	22.75	MP
SAPURA ENERGY BHD	0.285	4,542.7	Y	01/2020	5.9%	20.7%	-445.5%	236.1%	N.A.	N.A.	55.8	0.3	0.3	-1.4%	0.0%	0.330	OP
SERBA DINAMIK HOLDINGS	4.29	6,299.9	Y	12/2019	23.2%	14.3%	17.2%	13.3%	16.4	14.0	12.4	3.0	2.6	20.2%	2.2%	5.25	OP
UZMA BHD	0.955	305.6	Y	06/2020	21.4%	2.2%	240.2%	8.8%	31.5	9.3	8.5	0.6	0.6	6.7%	0.0%	1.05	MP
VELESTO ENERGY BHD	0.385	3,163.0	Y	12/2019	5.3%	17.2%	119.7%	298.0%	N.A.	208.1	52.3	1.1	1.1	0.5%	0.0%	0.400	OP
WAH SEONG CORP BHD	1.26	970.8	Y	12/2019	-13.9%	22.7%	-6.2%	26.9%	15.4	16.4	12.9	1.0	1.0	5.3%	0.0%	1.30	MP
YINSON HOLDINGS BHD	6.49	7,004.3	Y	01/2020	0.1%	70.1%	-17.9%	66.8%	26.6	32.5	19.5	4.1	3.7	11.9%	0.9%	7.75	OP
Simple Average					1.3%	17.0%	-34.3%	58.8%	20.9	34.2	24.6	1.9	1.8	8.5%	1.2%		

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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