

28 February 2020

Bumi Armada Bhd

Steady Kraken's Uptime to Drive Profits

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Stronger FY19 core earnings came in slightly below our expectation, but in-line with market's, driven by operational recovery in Armada Kraken FPSO. Moving forward, we expect continued operational uptime for Kraken to lead to a stronger FY20. Although the company's high net-gearing remains a key underlying concern, we believe at current price levels offer trading opportunities. Maintain OUTPERFORM with lowered TP of RM0.42.

Below our expectation, but in-line with market's. FY19 core net profit came in at RM281.8m (arrived after stripping-off non-core items i.e. impairments, unrealised forex etc, cumulatively amounting to RM223m), coming in below our expectation, making up only 93% of our forecast, due to poorer-than-expected FPO and OMS segment contributions. However, it was actually spot on market's expectation. No dividends were announced, as expected.

Improvement of results helped by Kraken. FY19 core net profit jumped 25% YoY, thanks to the operational recovery of Armada Kraken FPSO, especially in 2HFY19. This was partially offset by: (i) lower contributions from Armada TGT 1 FPSO, following a step-down of charter rates after signing of the extension agreement in Aug 2018, and (ii) completion of LukOil project in the Caspian Sea in Dec 2018, dragging its OMS segment. For the individual quarter of 4QFY19, core net profit of RM52.5m showed a 9% improvement YoY, due to similar aforementioned reasons.

Sequentially however, core net profit declined 35% QoQ. The quarter was hit by an adjustment of charter hire revenue for Armada Kraken FPSO, due to the vessel's lower availability in the preceding quarters, especially in 1HFY19. Meanwhile, its OMS segment was also dragged by lower vessel utilisation (54% vs. 58%).

The worst is behind. Armada Kraken FPSO managed to deliver an uptime of >90% in 2HFY19, recovering from operational hiccups faced in 1HFY19. Moving forward, sustained operational uptime for Armada Kraken FPSO should be able to contribute to positive earnings growth going into FY20. In fact, as guided by management, the continued satisfactory operations of Armada Kraken FPSO should result in the reclassification of RM1.3b project-related term loans into long term debt (from currently short-term debt) by end-1QFY20, suggesting stability in the project.

Maintain OUTPERFORM. While the company's high net-gearing still remains a key underlying concern, we believe trading opportunity is emerging at current levels, backed by continued earnings recovery.

We lowered our TP to RM0.42 (from RM0.53) after lowering our valuations to 8x PER on FY20E EPS – in-line with -0.5SD from its 12-month mean valuations (from previously 10x PER in-line with mean), given the slight earnings disappointment coupled with current weak market sentiment. Post-results, minimal changes to our FY20E numbers, while we introduce new FY21E numbers.

Risks to our call include: (i) poorer-than-expected margins, and (ii) costs overrun, (iii) poorer-than-expected asset uptime and utilisation.

OUTPERFORM ↔

Price: RM0.335
Target Price: RM0.420 ↓

Share Price Performance



KLCI 1,505.59
YTD KLCI chg -5.2%
YTD stock price chg -36.8%

Stock Information

Shariah Compliant	No
Bloomberg Ticker	BAB MK Equity
Market Cap (RM m)	1,968.6
Shares Outstanding	5,876.5
52-week range (H)	0.56
52-week range (L)	0.15
3-mth avg daily vol:	52,327,940
Free Float	51%
Beta	1.8

Major Shareholders

Objektif Bersatu Sdn Bhd	34.9%
Skim Amanah Saham Bumiputera	8.6%
Employees Provident Fund	5.6%

Summary Earnings Table

FY Dec (RM'm)	2019A	2020E	2021E
Turnover	2070.7	2100.0	2200.0
EBIT	490.1	835.5	890.4
PBT	82.2	414.6	466.5
Net Profit (NP)	58.6	310.9	349.9
Core NP (CNP)	281.8	310.9	349.9
Consensus CNP		326.4	351.2
Earnings revision (%)		0.3	NEW
Core EPS (sen)	4.8	5.3	6.0
CNP growth (%)	25.0	10.3	12.5
NDPS (sen)	0.0	0.0	0.0
BV/Share (RM)	0.5	0.6	0.7
Core PER (x)	7.0	6.3	5.6
Price/BV (x)	0.6	0.6	0.5
Gearing (x)	2.6	2.2	1.8
Dividend Yield (%)	0.0	0.0	0.0

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Income Statement								
	4Q	3Q	Q-o-Q	4Q	Y-o-Y	12M	12M	Y-o-Y
Y/E : Dec (RM m)	FY19	FY19		FY18		FY19	FY18	
Revenue	515.6	527.8	-2.3%	576.3	-10.5%	2,070.7	2,418.7	-14.4%
Cost of sales	(579.5)	(329.1)	76.1%	(495.7)	16.9%	(1,517.3)	(1,917.5)	-20.9%
Gross profit	(63.8)	198.7	N.M.	80.7	N.M.	553.4	501.2	10.4%
Other operating income	31.8	81.8	-61.1%	9.8	225.8%	141.6	65.5	116.3%
Selling and distribution costs	(5.7)	(2.4)	139.3%	0.5	-1185.8%	(10.9)	(30.0)	-63.8%
Administrative expenses	(45.4)	(29.5)	53.6%	(71.0)	-36.1%	(150.4)	(234.8)	-35.9%
Impairment	(43.7)	0.0	N.M.	(1,200.5)	-96.4%	(43.7)	(2,242.9)	-98.1%
Operating profit	(126.7)	248.6	N.M.	(1,180.6)	-89.3%	490.1	(1,941.0)	N.M.
Finance costs	(147.3)	(143.4)	2.7%	(137.1)	7.4%	(555.5)	(522.1)	6.4%
Share of results of JVs	23.9	54.7	-56.3%	54.2	-55.9%	147.6	166.2	-11.2%
Profit/(loss) before tax	(250.1)	160.0	N.M.	(1,263.4)	-80.2%	82.2	(2,296.9)	N.M.
Taxation	(6.7)	(8.5)	-21.9%	1.2	N.M.	(44.0)	(22.3)	97.7%
Non-controlling interest	21.6	1.9	1046.2%	(0.6)	N.M.	20.5	16.4	24.9%
Net profit	(235.2)	153.4	N.M.	(1,262.9)	-81.4%	58.6	(2,302.8)	N.M.
Core net profit	52.5	80.1	-34.5%	48.0	9.4%	281.8	225.5	25.0%
Gross margin	-12.4%	37.7%		14.0%		26.7%	20.7%	
EBIT margin	-24.6%	47.1%		-204.9%		23.7%	-80.2%	
PBT margin	-48.5%	30.3%		-219.2%		4.0%	-95.0%	
Net margin	-45.6%	29.1%		-219.1%		2.8%	-95.2%	
Core net margin	10.2%	15.2%		8.3%		13.6%	9.3%	
Effective tax rate	-2.7%	5.3%		0.1%		53.6%	-1.0%	

Source: Company

Segment Breakdown								
	4Q	3Q	Q-o-Q	4Q	Y-o-Y	12M	12M	Y-o-Y
Y/E : Dec (RM m)	FY19	FY19		FY18		FY19	FY18	
FPO								
Revenue	419.5	453.9	-7.6%	381.4	10.0%	1,742.6	1,693.9	2.9%
Segmental Results	194.5	226.1	-14.0%	153.4	26.8%	952.8	810.4	17.6%
Segmental margins	46.4%	49.8%		40.2%		54.7%	47.8%	
OMS								
Revenue	96.1	74.0	30.0%	194.9	-50.7%	328.1	724.8	-54.7%
Segmental Results	35.7	45.8	-22.2%	58.5	-39.1%	113.0	198.0	-42.9%
Segmental margins	37.1%	62.0%		30.0%		34.5%	27.3%	

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 Price	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.	(RM)	
BUMI ARMADA BHD	0.335	1,968.6	N	12/2020	1.4%	4.8%	10.3%	12.5%	7.0	6.3	5.6	0.6	0.6	9.2%	0.0%	0.420	OP
DAYANG ENTERPRISE HLDGS BHD	2.57	2,886.7	Y	12/2020	8.7%	9.0%	8.6%	9.9%	13.8	12.7	11.6	2.1	1.8	15.0%	0.0%	3.40	OP
DIALOG GROUP BHD	3.39	19,113.9	Y	06/2020	17.7%	6.1%	4.5%	9.7%	35.7	34.1	31.1	5.0	4.8	14.4%	1.2%	4.15	OP
MALAYSIA MARINE AND HEAVY EN	0.755	1,208.0	Y	12/2020	3.2%	28.4%	360.0%	23.2%	N.A.	127.2	103.2	0.5	0.5	0.4%	0.0%	0.890	OP
MISC BHD	7.76	34,638.7	Y	12/2020	3.4%	5.4%	0.6%	1.0%	21.5	21.4	21.2	1.0	1.0	4.6%	3.9%	8.70	OP
PANTECH GROUP HOLDINGS BHD	0.480	359.7	Y	02/2020	1.3%	5.9%	-19.3%	8.9%	8.2	10.2	9.4	0.7	0.6	6.1%	4.2%	0.570	OP
PETRONAS CHEMICALS GROUP BHD	5.80	46,400.0	Y	12/2020	0.2%	5.3%	18.4%	14.2%	16.5	13.9	12.2	1.6	1.5	10.8%	3.6%	6.35	OP
PETRONAS DAGANGAN BHD	21.52	21,379.1	Y	12/2020	1.3%	2.0%	10.7%	2.2%	26.0	23.5	23.0	3.6	3.5	15.0%	3.4%	21.35	MP
SAPURA ENERGY BHD	0.200	3,195.8	Y	01/2020	67.1%	N.M.	N.M.	N.M.	N.A.	N.A.	N.A.	0.2	0.2	-3.2%	0.0%	0.330	OP
SERBA DINAMIK HOLDINGS	2.32	7,154.5	Y	12/2020	15.0%	15.0%	13.0%	12.4%	14.4	12.7	11.3	2.9	2.3	20.1%	2.4%	3.05	OP
UZMA BHD	0.785	251.2	Y	06/2020	21.4%	2.2%	215.5%	9.8%	25.9	8.2	7.5	0.5	0.5	6.2%	0.0%	0.850	MP
VELESTO ENERGY BHD	0.320	2,629.0	Y	12/2019	7.6%	2.6%	105.0%	19.4%	82.2	40.1	33.6	0.9	0.9	2.3%	0.0%	0.430	OP
WAH SEONG CORP BHD	1.29	993.9	Y	12/2020	16.5%	4.1%	-3.4%	6.6%	14.2	14.7	13.8	1.0	1.0	6.7%	0.0%	1.40	MP
YINSON HOLDINGS BHD	7.12	7,618.7	Y	01/2020	0.1%	70.1%	-17.9%	66.8%	29.2	35.6	21.4	4.5	4.0	11.9%	0.8%	8.80	OP
Simple Average					11.8%	9.7%	36.1%	2.1%	24.5	27.7	23.5	1.8	1.6	8.5%	1.4%		

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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