

28 September 2020

# Bumi Armada Bhd

## Secures Contracts for Sterling FPSO

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ARMADA has secured contracts for the bareboat charter, and the operation and maintenance for the Armada Sterling FPSO to ONGC. The contracts are for 10 firm years, with annual extension options for up to an additional 5 years. Combined, the contracts are estimated to worth ~RM2b. Overall, we are positive on the contracts, providing further uptime charter visibility for the asset, as well as earnings and cash flow certainty for the group. Maintain “trading” **OUTPERFORM** with TP of RM0.30.

**Contract received for Armada Sterling FPSO.** ARMADA has secured contract awards from Oil and Natural Gas Corporation Limited (ONGC) of India for: (i) bareboat charter lease of the Armada Sterling FPSO, for a fixed period of 10 years, with annual options to extend for up to 5 additional years, with the fixed period contract value estimated to be USD370m (or ~RM1.54b), and (ii) operation and maintenance (O&M) of the Armada Sterling FPSO, with estimated fixed period contract value of INR9.2b (or ~RM520m). Combined, the bareboat charter and O&M contracts for Armada Sterling FPSO is worth an estimated RM2.06b excluding extensions. The FPSO will continue to operate in the ONGC D1 field, located 200km off the west coast of Mumbai, India.

**Contracts extend charter tenure of the FPSO.** These contracts follow through the original Armada Sterling FPSO contract awarded back in 10 Aug 2011, for a seven-year firm period for USD620m with six annual extension options. The original seven-year firm chartered expired on 19 April 2020, with the client triggering an extension until 24 Sep 2020. Instead of continuing with the extension options under the original contract, the client has now opted to sign the new 10 firm-year contracts, thereby extending the FPSO’s charter tenure by up to a further ~9 years (assuming all extensions are fully exercised). We take this as a signal that the oil fields are still in good producing health.

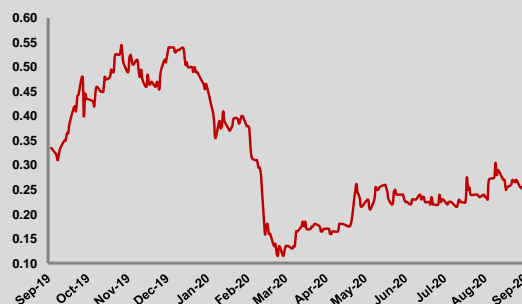
**Positive on earnings and cash flow visibility.** Under these new contracts, revenue contribution per annum is 44% lower as compared to the original firm charter contract, but somewhat similar with the extension periods from the original contract. However, we believe this to be well justified, given that borrowings attached to the vessel have already been fully paid, while value of the vessel has also been substantially depreciated throughout the years. As such, we estimate margins from the contracts to be roughly >30%, as compared to its average margins of mid-teens. Note that earnings from the contracts would be recognised on the joint-venture/associate level in the P&L, instead of being consolidated, as ARMADA owns 49% of the bareboat charter contract, and 40% of the O&M contract, with the rest being a joint-venture partnership with Shapoorji Pallonji Oil & Gas Pte Ltd.

Overall, we are positive on the contract awards, providing further earnings and cash flow visibility for the company, especially given the lengthened charter tenure under the new contracts.

**OUTPERFORM** ↔

Price : **RM0.265**  
Target Price : **RM0.300** ↔

### Share Price Performance



KLCI	1,509.14
YTD KLCI chg	-5.0%
YTD stock price chg	-50.0%

### Stock Information

Shariah Compliant	No
Bloomberg Ticker	BAB MK Equity
Market Cap (RM m)	1,559.8
Shares Outstanding	5,885.9
52-week range (H)	0.56
52-week range (L)	0.11
3-mth avg daily vol:	71,237,270
Free Float	49%
Beta	2.1

### Major Shareholders

Objektif Bersatu Sdn Bhd	34.8%
Amanah Saham Nasional	11.8%
Karisma Mesra Sdn Bhd	4.0%

### Summary Earnings Table

FY Dec (RM m)	2019A	2020E	2021E
Revenue	2070.7	2100.0	2200.0
EBIT	490.1	788.6	869.2
PBT	82.2	415.2	445.2
<b>Net Profit (NP)</b>	<b>58.6</b>	<b>332.2</b>	<b>356.2</b>
<b>Core NP (CNP)</b>	<b>281.8</b>	<b>332.2</b>	<b>356.2</b>
Consensus (CNP)		354.7	376.0
Earnings revision (%)		-	-
Core EPS (sen)	4.8	5.7	6.1
Core EPS growth (%)	25.0	17.9	7.2
NDPS (sen)	0.0	0.0	0.0
BV/Share (RM)	0.5	0.6	0.7
Core PER (x)	5.5	4.7	4.4
Price/BV (x)	0.5	0.4	0.4
Net-gearing (x)	2.6	2.1	1.7
Dividend Yield (%)	0.0	0.0	0.0

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**Maintain “trading” OUTPERFORM**, with unchanged TP of RM0.30, pegged to 5x PER on FY21E EPS at -0.5SD below its 12-month mean valuation. No changes were made to our FY20E/FY21E earnings assumptions as contributions from the Armada Sterling FPSO have already been factored into our numbers.

We continue to like ARMADA given its resilient earnings base given its business as an FPSO operator, being relatively less impacted by the current oil market down-cycle and pandemic outbreak. However, our OUTPERFORM call is advocated on a “trading” basis, as we are still not entirely comfortable with the stock’s high gearing levels on a long-term basis. Currently, the group’s net-gearing sits at 2.8x, with total borrowings of RM9.3b – with RM1.7b of them being short-term (i.e. repayable within the next 12 months), of which, RM679.6m are corporate loans remaining from its Tranche 1 refinancing facility done back in May 2019 and will come due in May 2021. Against its cash balance of only RM850m, we believe further monetisation of its non-core assets and/or another refinancing exercise in the coming months may be possible in order to meet its repayment obligations.

**Risks to our call include:** (i) poorer-than-expected margins, (ii) costs over-run, (iii) poorer-than-expected asset uptime and utilisation, and (iv) failure to secure refinancing or monetise unutilised assets.

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Income Statement						Financial Data & Ratios					
FY Dec (RM m)	2017A	2018A	2019A	2020E	2021E	FY Dec (%)	2017A	2018A	2019A	2020E	2021E
Revenue	2402.1	2418.7	2070.7	2100.0	2200.0	<b>Growth</b>					
Operating Profit	767.2	301.9	490.1	788.6	869.2	Revenue	82.3	0.7	(14.4)	1.4	4.8
PBT	492.2	(2296.9)	82.2	415.2	445.2	Oper. Profit	(531.0)	(60.6)	62.3	60.9	10.2
Taxation	(115.8)	(22.3)	(44.0)	(83.0)	(89.0)	PBT	(125.3)	(566.6)	(103.6)	405.2	7.2
Minority Interest	(24.2)	16.4	20.5	0.0	0.0	Net Profit	(397.3)	(25.1)	25.0	17.9	7.2
<b>Net Profit</b>	<b>352.2</b>	<b>(2302.8)</b>	<b>58.6</b>	<b>332.2</b>	<b>356.2</b>	<b>Profitability (%)</b>					
<b>Core Net Profit</b>	<b>301.0</b>	<b>225.5</b>	<b>281.8</b>	<b>332.2</b>	<b>356.2</b>	Operating Marg.	31.9	12.5	23.7	37.6	39.5
						PBT Margin	20.5	-95.0	4.0	19.8	20.2
						Net Margin	12.5	9.3	13.6	15.8	16.2
						Effect. Tax	23.5	-1.0	53.6	20.0	20.0
						ROA	1.6	1.5	2.0	2.3	2.4
						ROE	5.5	6.7	8.7	9.3	9.1
						<b>DuPont Analysis</b>					
						Net Margin (%)	12.5	9.3	13.6	15.8	16.2
						Ass. Turnover (x)	0.1	0.2	0.1	0.1	0.1
						Lev. Factor (x)	3.4	4.6	4.3	4.0	3.8
						ROE (%)	5.5	6.7	8.7	9.3	9.1
						<b>Leverage</b>					
						Debt/Asset (x)	0.6	0.7	0.7	0.7	0.6
						Debt/Equity (x)	2.1	3.1	2.9	2.7	2.4
						Net (Cash)/Debt	9717	9154	8396	7620	6837
						Net Debt/Equity	1.8	2.7	2.6	2.1	1.7
						<b>Valuations</b>					
						EPS (sen)	5.1	3.8	4.8	5.7	6.1
						DPS (sen)	0.0	0.0	0.0	0.0	0.0
						BVPS (RM)	0.9	0.6	0.5	0.6	0.7
						PER (x)	5.2	6.9	5.5	4.7	4.4
						Div. Yield (%)	2.4	0.0	0.0	0.0	0.0
						P/BV (x)	0.3	0.5	0.5	0.4	0.4

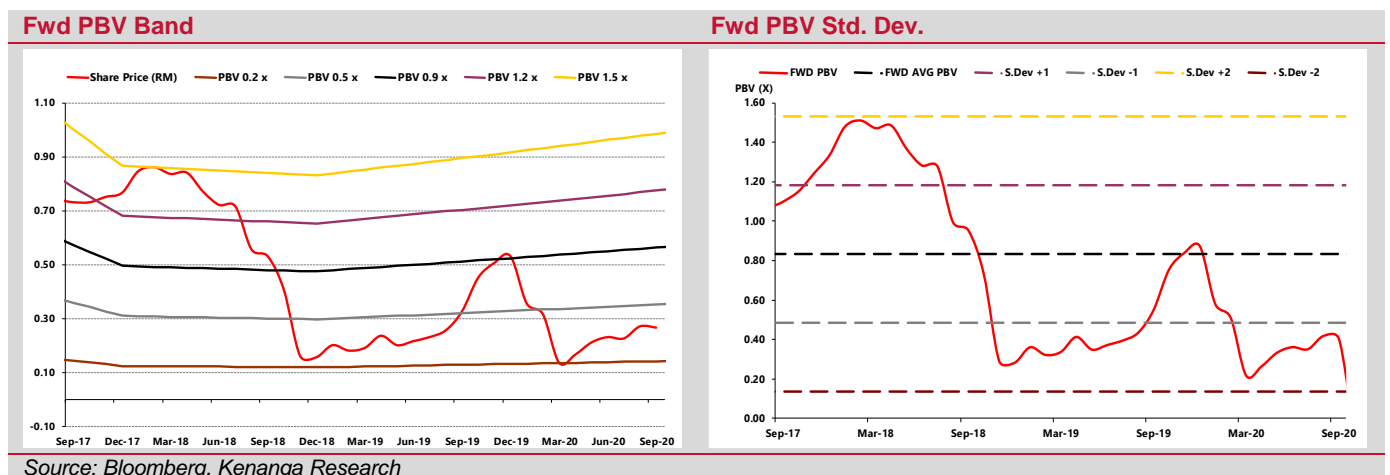
  

Balance Sheet					
FY Dec (RM m)	2017A	2018A	2019A	2020E	2021E
Fixed Assets	9,235	6,693	5,941	5,504	5,103
LT Investments	669	1,023	1,068	1,068	1,068
Other LT assets	5,555	5,184	5,093	5,093	5,093
Inventories	4	7	6	6	6
Receivables	727	912	589	589	589
Other CA	799	496	190	190	190
Cash	1,846	1,226	1,094	1,921	2,754
<b>Total Assets</b>	<b>18,835</b>	<b>15,541</b>	<b>13,979</b>	<b>14,369</b>	<b>14,802</b>
Payables	599	1,056	548	556	582
ST Borrowings	5,498	7,063	2,477	1,908	1,918
Other ST Liabil.	551	614	113	113	113
LT Borrowings	6,065	3,317	7,013	7,633	7,673
Other LT Liability	601	119	615	615	615
Minorities Int.	24	7	(14)	(14)	(14)
<b>Net Assets</b>	<b>5,497</b>	<b>3,363</b>	<b>3,227</b>	<b>3,559</b>	<b>3,915</b>
Share Capital	4,311	4,315	4,319	4,319	4,319
Reserves	1,186	(952)	(1,092)	(760)	(404)
<b>Equity</b>	<b>5,497</b>	<b>3,363</b>	<b>3,227</b>	<b>3,559</b>	<b>3,915</b>

Cashflow Statement					
FY Dec (RM m)	2017A	2018A	2019A	2020E	2021E
Operating CF	565	1,067	734	669	657
Investing CF	(1,609)	(356)	(43)	(50)	(50)
Financing CF	(401)	(1,367)	(814)	208	226

Source: Kenanga Research



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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	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	0.265	1,559.8	N	12/2020	1.4%	4.8%	17.9%	7.2%	5.5	4.7	4.4	0.5	0.4	9.8%	0.0%	0.300	OP	
DAYANG ENTERPRISE HLDGS BHD	1.00	1,157.8	Y	12/2020	-35.3%	15.2%	-74.8%	34.2%	4.9	19.6	14.6	0.7	0.7	3.7%	0.0%	1.20	MP	
DIALOG GROUP BHD	3.75	21,143.7	Y	06/2021	29.4%	11.7%	7.8%	8.2%	35.1	32.6	30.1	5.1	4.8	15.3%	0.9%	4.25	OP	
MALAYSIA MARINE AND HEAVY EN	0.315	504.0	Y	12/2020	3.2%	28.4%	-289.5%	-113.0%	N.A.	N.A.	N.A.	0.2	0.2	-2.8%	0.0%	0.390	MP	
MISC BHD	7.39	32,987.1	Y	12/2020	3.4%	10.7%	38.8%	-7.7%	20.5	14.8	16.0	0.9	0.9	6.3%	4.1%	8.90	OP	
PANTECH GROUP HOLDINGS BHD	0.355	265.5	Y	02/2021	-41.9%	57.1%	-47.6%	79.8%	8.1	15.4	8.6	0.4	0.4	2.8%	2.8%	0.310	UP	
PETRONAS CHEMICALS GROUP BHD	5.50	44,000.0	Y	12/2020	-16.4%	10.4%	-47.7%	61.6%	15.2	29.0	18.0	1.5	1.4	5.0%	1.7%	6.45	MP	
PETRONAS DAGANGAN BHD	19.76	19,630.7	Y	12/2020	-21.7%	12.2%	-68.0%	127.4%	23.9	74.6	32.8	3.3	3.3	4.4%	1.1%	15.60	UP	
SAPURA ENERGY BHD	0.105	1,677.8	Y	01/2021	-11.4%	8.7%	-112.1%	-242.4%	N.A.	N.A.	N.A.	0.2	0.2	-1.8%	0.0%	0.050	UP	
SERBA DINAMIK HOLDINGS	1.66	5,596.8	Y	12/2020	15.0%	15.0%	9.6%	12.1%	11.3	10.3	9.2	2.3	1.8	19.5%	3.3%	2.70	OP	
UZMA BHD	0.470	150.4	Y	06/2021	-6.8%	2.3%	681.5%	43.1%	55.7	7.1	5.0	0.3	0.3	4.7%	0.0%	0.570	MP	
VELESTO ENERGY BHD	0.130	1,068.0	Y	12/2020	-15.8%	6.9%	-222.8%	-131.0%	33.4	N.A.	N.A.	0.4	0.4	-1.4%	0.0%	0.130	UP	
WAH SEONG CORP BHD	0.450	348.4	Y	12/2020	-56.3%	45.5%	-283.5%	-185.5%	5.0	N.A.	N.A.	0.4	0.4	-14.1%	0.0%	0.430	UP	
YINSON HOLDINGS BHD	5.70	6,079.0	Y	01/2021	-26.7%	-1.1%	76.5%	5.3%	28.3	16.0	15.2	3.8	3.3	22.0%	1.1%	7.10	OP	
<b>Simple Average</b>						<b>-12.8%</b>	<b>16.3%</b>	<b>-22.4%</b>	<b>-21.5%</b>	<b>20.6</b>	<b>22.4</b>	<b>15.4</b>	<b>1.4</b>	<b>1.3</b>	<b>5.2%</b>	<b>1.1%</b>		

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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