

01 March 2021

Bumi Armada Bhd

Mitigating Immediate Risks

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ARMADA posted better-than-expected FY20 results, thanks to the improvement in Armada Kraken FPSO's uptime availability. The group also managed to extend the maturity date of its Tranche 1 borrowings to Nov 2022, from May 2021 previously, mitigating immediate repayment risks. Encouragingly, during the quarter, the group had also repaid RM119m to this facility following the stellar results, with the remaining outstanding from this facility at RM537m (down from RM656m in the previous quarter). With Kraken now achieving optimum uptime, successful repayment of this facility before its maturity seems increasingly likely. Upgrade to OP, with TP of RM0.49. Without the drag of debt repayment uncertainties and risk of earnings fluctuations, ARMADA stands out as a straightforward "trading" OP considering its heavily discounted valuations.

Above expectations. FY20 core net profit of RM475m (arrived after adjusting for non-core items e.g. impairments, unrealised forex, re-measurements, disposals etc) came in above expectations at 120% of our, and 129% of consensus, forecasts, largely thanks to higher-than-expected vessel availability for Armada Kraken FPSO. No dividends were announced, as expected.

Better results driven by Armada Kraken. YoY, FY20 jumped an impressive 69%, driven by improved vessel availability for Armada Kraken FPSO, coupled with higher vessel utilisation for its OMS segment (54% vs 50%). For the quarter of 4QFY20, earnings more than doubled sequentially, similarly driven by higher vessel availability for Armada Kraken FPSO, masking lower OMS vessel utilisation (49% vs 56%) amidst the monsoon season.

Mitigating immediate debt risks. Just last week, the group managed to extend the maturity date for its Tranche 1 borrowings to November 2022, from May 2021 previously. More encouragingly, the group had also managed to further repay down a sizable portion of the debt during the quarter, following the stellar results. To-date, outstanding amounts from the Tranche 1 facility is down to RM537m, from RM656m in the previous quarter. With Armada Kraken FPSO now achieving optimum uptime, successful full repayment of this Tranche 1 borrowing before its maturity seems increasingly likely, thereby reducing immediate debt risks for the time being (bearing in mind there is another Tranche 2 facility due May 2024). Additionally, successful asset monetisation and fruition of continued cost-cutting measures may also help speed up repayments.

Upgrade to "trading" OUTPERFORM (from UNDERPERFORM previously), with higher TP of RM0.49 (from RM0.21 previously). Given the more consistent earnings following a stable Armada Kraken FPSO uptime, coupled with higher crude oil prices, we switched our valuation methodology to 6x PER on FY22E EPS (from 0.3x PBV previously) – in line with its 3-year mean valuations. Post results, we revised our FY21E earnings up by 2%, while introducing new FY22E numbers.

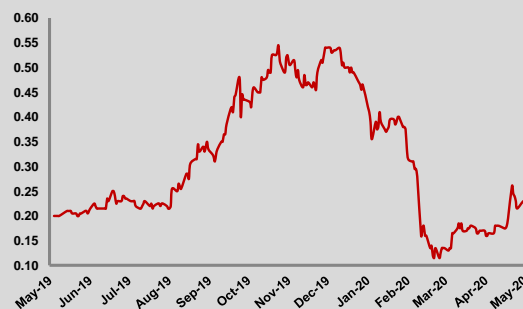
We believe with no immediate risks of debt repayments and earnings fluctuations, ARMADA should warrant an OUTPERFORM call, especially considering its discounted valuations.

Risks to our call include: (i) downtime in Armada Kraken FPSO, (ii) costs overrun, (iii) failure to meet debt repayment obligations.

OUTPERFORM ↑

Price: RM0.395
Target Price: RM0.490 ↑

Share Price Performance



KLCI	1,577.75
YTD KLCI chg	-3.0%
YTD stock price chg	12.9%

Stock Information

Shariah Compliant	No
Bloomberg Ticker	BAB MK Equity
Market Cap (RM m)	2,324.9
Shares Outstanding	5,885.9
52-week range (H)	0.41
52-week range (L)	0.11
3-mth avg daily vol:	78,476,980
Free Float	49%
Beta	1.9

Major Shareholders

Objektif Bersatu Sdn Bhd	34.8%
Amanah Saham Nasional	11.8%
Hong Leong Co Malaysia	4.3%

Summary Earnings Table

FY Dec (RM'm)	2020A	2021E	2022E
Turnover	2339.9	2440.0	2440.0
EBIT	925.2	946.7	987.0
PBT	127.6	522.7	560.0
Net Profit (NP)	125.6	444.3	476.0
Core NP (CNP)	474.9	444.3	476.0
Consensus CNP		385.8	389.5
Earnings revision (%)		+1.9	NEW
Core EPS (sen)	8.1	7.6	8.1
CNP growth (%)	68.5	-6.4	7.1
NDPS (sen)	0.0	0.0	0.0
BV/Share (RM)	0.5	0.6	0.7
Core PER (x)	4.9	5.2	4.9
Price/BV (x)	0.7	0.6	0.6
Gearing (x)	2.4	1.8	1.4
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)	FY20	FY20		FY19		FY20	FY19	
Revenue	616.0	564.4	9.1%	515.6	19.5%	2,339.9	2,070.7	13.0%
Cost of sales	(388.5)	(359.4)	8.1%	(579.5)	-33.0%	(1,386.2)	(1,517.3)	-8.6%
Gross profit	227.6	205.0	11.0%	(63.8)	-456.4%	953.7	553.4	72.3%
Other operating income	4.9	50.9	-90.4%	31.8	-84.6%	97.3	141.6	-31.3%
Selling and distribution costs	(1.1)	(1.3)	-13.5%	(5.7)	-80.7%	(4.5)	(10.9)	-58.4%
Administrative expenses	(16.7)	(32.6)	-48.7%	(45.4)	-63.1%	(121.2)	(150.4)	-19.4%
Impairment	(26.8)	(16.2)	66.1%	(43.7)	-38.6%	(357.3)	(43.7)	718.5%
Operating profit	187.8	205.9	-8.8%	(126.7)	-248.2%	567.9	490.1	15.9%
Finance costs	(109.8)	(116.7)	-5.9%	(147.3)	-25.5%	(491.6)	(555.5)	-11.5%
Share of results of JVs	60.3	(0.5)	N.M.	23.9	152.5%	51.4	147.6	-65.2%
Profit/(loss) before tax	138.4	88.7	55.9%	(250.1)	-155.3%	127.6	82.2	55.3%
Taxation	(3.2)	(1.4)	132.8%	(6.7)	-51.2%	(15.4)	(44.0)	-65.1%
Non-controlling interest	9.0	(1.7)	-630.1%	21.6	-58.2%	13.3	20.5	-34.9%
Net profit	144.1	85.6	68.4%	(235.2)	-161.3%	125.6	58.6	114.2%
Core net profit	172.4	82.5	108.8%	52.5	228.5%	474.9	281.8	68.5%
Gross margin	36.9%	36.3%		-12.4%		40.8%	26.7%	
EBIT margin	30.5%	36.5%		-24.6%		24.3%	23.7%	
PBT margin	22.5%	15.7%		-48.5%		5.5%	4.0%	
Net margin	23.4%	15.2%		-45.6%		5.4%	2.8%	
Core net margin	28.0%	14.6%		10.2%		20.3%	13.6%	

Source: Company

Segment Breakdown								
	4Q	3Q	Q-o-Q	4Q	Y-o-Y	12M	12M	Y-o-Y
Y/E : Dec (RM m)	FY20	FY20		FY19		FY20	FY19	
FPO								
Revenue	532.1	470.5	13.1%	419.5	26.8%	1,985.9	1,742.6	14.0%
Segmental Results	310.8	285.1	9.0%	194.5	59.8%	1,295.3	952.8	35.9%
Segmental margins	58.4%	60.6%		46.4%		65.2%	54.7%	
OMS								
Revenue	84.0	93.9	-10.6%	96.1	-12.6%	354.0	328.1	7.9%
Segmental Results	25.6	4.8	429.4%	35.7	-28.1%	51.3	113.0	-54.6%
Segmental margins	30.5%	5.2%		37.1%		14.5%	34.5%	

Source: Company

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	0.395	2,324.9	N	12/2021	4.3%	0.0%	-6.4%	7.1%	4.9	5.2	4.9	0.7	0.6	13.2%	0.0%	0.490	OP
DAYANG ENTERPRISE HLDGS BHD	1.51	1,748.2	Y	12/2021	13.6%	16.1%	42.9%	60.5%	26.1	18.3	11.4	1.1	1.1	6.0%	0.0%	1.45	MP
DIALOG GROUP BHD	3.23	18,224.2	Y	06/2021	-33.7%	26.3%	1.8%	11.5%	30.3	29.7	26.7	4.4	4.0	14.1%	0.9%	4.35	OP
MISC BHD	6.78	30,264.2	Y	12/2021	20.3%	7.3%	0.2%	1.0%	14.0	14.0	13.9	0.9	0.9	6.6%	4.9%	8.10	OP
PETRONAS CHEMICALS GROUP BHD	7.43	59,440.0	Y	12/2021	9.3%	10.3%	30.8%	16.4%	31.0	23.7	20.3	2.0	1.9	8.1%	2.1%	7.50	MP
PETRONAS DAGANGAN BHD	20.00	19,869.1	Y	12/2021	10.2%	10.2%	58.9%	48.3%	69.7	43.9	29.6	3.5	3.5	8.0%	2.3%	17.60	UP
SAPURA ENERGY BHD	0.145	2,317.0	Y	01/2021	-11.4%	8.7%	-112.1%	-242.4%	N.A.	N.A.	N.A.	0.3	0.3	-1.8%	0.0%	0.050	UP
SERBA DINAMIK HOLDINGS	1.71	6,343.5	Y	12/2021	12.0%	12.0%	10.0%	10.0%	10.0	9.1	8.3	1.9	1.5	18.7%	3.3%	2.80	OP
UZMA BHD	0.735	235.2	Y	06/2021	-6.8%	2.3%	851.9%	20.2%	87.1	9.2	7.6	0.5	0.5	5.5%	0.0%	0.830	OP
VELESTO ENERGY BHD	0.165	1,355.6	Y	12/2020	-15.8%	6.9%	-133.1%	-215.1%	42.4	N.A.	N.A.	0.5	0.5	-0.4%	0.0%	0.130	MP
WAH SEONG CORP BHD	0.715	553.6	Y	12/2021	34.8%	15.8%	-59.0%	203.6%	N.A.	24.6	8.1	0.8	0.8	3.1%	0.0%	0.720	MP
YINSON HOLDINGS BHD	5.32	5,667.4	Y	01/2021	92.4%	-0.4%	206.8%	-15.1%	26.4	8.6	10.1	3.6	2.6	34.8%	1.1%	6.95	OP
Simple Average					10.8%	9.6%	74.4%	-7.8%	34.2	18.6	14.1	1.7	1.5	9.7%	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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