

Bumi Armada

Steadily on Track

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ARMADA's 1QFY23 results met with expectations. The key earnings driver came from lumpy revenue from engineering services provided to jointly owned FPSOs. As the leading contender for the USD1b EPCC contract for FPSO Cameia, it is poised for a re-rating should it win the bid. We maintain our forecasts, TP of RM0.75 and OUTPERFORM call.

Performance in line with expectations. Its core net profit of RM209m was within expectations, coming in at 27% and 26% of our full-year forecast and the full-year consensus estimate, respectively.

YoY performance boosted by engineering services. YoY, its profit expansion was mainly attributed to the combination of: (i) higher interest income, and (ii) increased contribution from joint ventures (+32% YoY). To a lesser extent, bottomline was uplifted by lumpy revenue from engineering services. The services were provided to one of ARMADA's jointly-owned FPSO vessels. The above more than offset drag from higher finance costs (+8% YoY).

QoQ weakness due to absence of tax credits. Its sequential profit contraction was largely attributed to: (i) decrease in contribution from Armada Kraken FPSO due to lower vessel availability, and (ii) absence of chunky tax write backs recognized in 4QFY22. Recall that back in 4QFY22, the group recognized a one-off reversal of accrued withholding tax expense for prior years. To a lesser magnitude, earnings were also dragged by variation orders for Armada Olombendo FPSO. Nevertheless, the bottomline decline was partially cushioned by: (i) management fee charged to an associate, (ii) higher revenue from engineering services (as mentioned above), and (iii) decrease in finance costs on the back of sustained debt repayment.

Leading contender for USD1b EPCC project. According to IHS Markit, global offshore exploration and production (E&P) capex spend is expected to grow 12% YoY to USD151b in 2023. The bulk emanates from Latin America and Asia Pacific, which account for more than half of the total. On the back of this, ARMADA is aggressively pursuing international FPSO projects - in particular, according to Upstream, the Group is front runner for Total Energies' Cameia FPSO project. It comprises an engineering, procurement, construction and commissioning (EPCC) contract with estimated value of at least USD1b. This project is expected to be awarded soon by year-end.

Forecasts. Maintained.

We also maintain our TP of RM0.75 based on Sum-of-Parts valuation. Our valuation also reflects a 5% discount to factor in a 2-star ESG rating as appraised by us (see Page 4).

We like ARMADA due to: (i) compelling valuation of 4.4x FY24F PER (sector average: 18x), (ii) long-term earnings visibility from sizeable orderbook in excess of RM20b (including potential extensions), and (iii) ARMADA being the front runner for a USD1b EPCC contract for FPSO Cameia. Maintain **OUTPERFORM**.

Risks to our call include: (i) offshore E&P projects are placed on the backburner as a result of crude oil price weakness, (ii) cost overruns and delays for EPCC projects, and (iii) FPSO contract extensions are not exercised.

OUTPERFORM ↔

Price: RM0.655
Target Price: RM0.75 ↔

Share Price Performance



KLCI 1,402.48
YTD KLCI chg -6.2%
YTD stock price chg 36.5%

Stock Information

Shariah Compliant	No
Bloomberg Ticker	BAB MK Equity
Market Cap (RM m)	3,876.4
Shares Outstanding	5,918.1
52-week range (H)	0.73
52-week range (L)	0.32
3-mth avg daily vol:	18,992,450
Free Float	39%
Beta	1.3

Major Shareholders

Objektif Bersatu Sdn Bhd	34.6%
Amanah Saham Nasional	12.6%
Karisma Mesra Sdn Bhd	5.1%

Summary Earnings Table

FY Dec (RM m)	2022A	2023F	2024F
Turnover	2405.5	2500.0	2550.0
EBIT	1026.5	1031.3	1059.8
PBT	709.0	811.3	839.8
Net Profit (NP)	732.4	770.8	797.8
Core NP (CNP)	763.5	770.8	797.8
Consensus CNP	-	816.8	853.5
Earnings revision (%)	-	-	-
Core EPS (sen)	13.0	13.1	13.6
CNP growth (%)	13.5	0.9	3.5
NDPS (sen)	0.0	0.0	0.0
BV/Share (RM)	0.9	1.0	1.1
Core PER (x)	4.6	4.5	4.4
Price/BV (x)	0.7	0.6	0.5
Net-gearing (x)	0.9	0.7	0.6
Dividend Yield (%)	-	-	-

26 May 2023

Results Highlights

	1Q FY23	4Q FY22	Q-o-Q	1Q FY22	Y-o-Y
FYE : Dec (RM m)					
Revenue	544.0	605.0	-10.1%	529.0	2.8%
Cost of sales	(268.8)	(331.8)	-19.0%	(256.3)	4.9%
Gross profit	275.2	273.2	0.7%	272.7	0.9%
Other operating income	24.0	13.8	74.2%	13.7	76.0%
Selling and distribution costs	(0.9)	(1.1)	-12.8%	(2.0)	-51.8%
Administrative expenses	(34.8)	(34.1)	2.3%	(28.3)	23.1%
Exceptionals	(9.2)	(10.8)	-14.3%	8.4	-210.2%
Core Operating profit	263.4	251.9	4.6%	256.1	2.9%
Finance costs	(91.8)	(99.4)	-7.6%	(84.9)	8.1%
Share of results of JVs	27.1	39.6	-31.6%	20.5	32.2%
Profit/(loss) before tax	198.7	192.1	3.5%	191.7	3.7%
Taxation	(4.1)	19.7	-120.9%	(5.4)	-23.9%
Non-controlling interest	5.1	(1.1)	-554.2%	(0.5)	-1074.4%
Net profit	199.7	210.7	-5.2%	185.8	7.5%
Core net profit	208.9	221.5	-5.7%	177.4	17.8%
Gross margin	50.6%	45.2%		51.5%	
EBIT margin	48.4%	41.6%		48.4%	
PBT margin	36.5%	31.7%		36.2%	
Net margin	36.7%	34.8%		35.1%	
Core net margin	38.4%	36.6%		33.5%	
Effective tax rate	2.1%	-10.3%		2.8%	

Source: Company

Sum-of-Parts Valuation

	<u>RM m</u>	<u>Valuation Metric</u>
Armada Kraken FPSO	2,775.8	DCF at 7% discount rate
Armada Olombendo FPSO	4,777.8	DCF at 6% discount rate
Armada LNG Mediterrana FSU	335.0	DCF at 7% discount rate
Armada TGT 1 FPSO	209.0	DCF at 6% discount rate
Armada Sterling FPSO (50% JV)	409.5	DCF at 8% discount rate
Armada Sterling II FPSO (50% JV)	240.9	DCF at 8% discount rate
Karapan Armada Sterling III FPSO (50% JV)	321.1	DCF at 8% discount rate
Armada Sterling V (30% JV)	245.3	DCF at 8% discount rate
Net cash / (debt)	(4,665.9)	
Total	4,648.5	
Number of shares (m)	5,870.9	
ESG premium / discount	-5%	
SoP value per share (RM)	0.75	

Source: Company, Kenanga Research

26 May 2023

Peer Table Comparison

Name	Rating	Last Price (RM)	Target Price (RM)	Upside (%)	Market Cap (RM'm)	Shariah Compliant	Current FYE	Core EPS (sen)		Core EPS Growth		PER (x) - Core Earnings		PBV (x)	ROE (%)	Net Div. (sen)	Net Div Yld (%)
								1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.
Stocks Under Coverage																	
BUMI ARMADA BHD	OP	0.655	0.750	14.50%	3,876.4	N	12/2023	13.1	13.6	1.0%	3.5%	5.0	4.8	0.6	13.9%	0.0	0.0%
DAYANG ENTERPRISE HLDGS BHD	OP	1.26	1.90	50.79%	1,458.8	Y	12/2023	11.2	12.6	12.0%	11.8%	11.2	10.0	0.9	8.6%	3.0	2.4%
DIALOG GROUP BHD	OP	2.10	3.10	47.62%	11,849.4	Y	06/2023	9.5	9.9	5.1%	4.8%	22.2	21.2	2.2	10.2%	2.8	1.3%
MISC BHD	MP	7.23	7.60	5.12%	32,272.9	Y	12/2023	57.5	55.0	8.1%	-4.3%	12.6	13.1	0.8	6.8%	33.0	4.6%
PETRONAS CHEMICALS GROUP BHD	MP	6.97	7.80	11.91%	55,760.0	Y	12/2023	65.3	52.2	-18.9%	-20.0%	10.7	13.4	1.3	12.9%	33.0	4.7%
PETRONAS DAGANGAN BHD	MP	22.00	24.90	13.18%	21,856.0	Y	12/2023	106.0	92.6	-12.6%	-12.6%	20.8	23.8	3.8	18.3%	106.0	4.8%
PETRON MALAYSIA REFINING	MP	4.50	4.65	3.33%	1,215.0	Y	12/2023	103.0	97.8	-7.6%	-5.0%	4.4	4.6	0.5	11.9%	21.0	4.7%
UZMA BHD	OP	0.635	0.900	41.73%	223.5	Y	06/2023	7.7	9.9	85.0%	28.5%	8.3	6.4	0.4	5.1%	0.0	0.0%
VELESTO ENERGY BHD	UP	0.225	0.190	-15.56%	1,848.5	Y	12/2023	0.7	1.3	-36.1%	73.3%	30.3	17.5	0.8	2.6%	0.0	0.0%
WAH SEONG CORP BHD	OP	0.875	0.970	10.86%	677.5	Y	12/2023	10.7	12.8	6.1%	19.1%	8.1	6.8	1.0	13.4%	0.0	0.0%
YINSON HOLDINGS BHD	OP	2.58	3.65	41.47%	7,499.1	N	01/2024	20.8	25.2	-18.4%	21.2%	12.4	10.2	1.6	13.7%	2.0	0.8%
Sector Aggregate					138,537.1					-5.5%	-9.2%	12.2	13.5	1.3	10.7%		2.1%

Source: Kenanga Research

26 May 2023

Stock ESG Ratings:

	Criterion	Rating				
GENERAL	Earnings Sustainability & Quality	★	★			
	Community Investment	★	★			
	Workers Safety & Wellbeing	★	★			
	Corporate Governance	★	★			
	Anti-Corruption Policy	★	★			
	Emissions Management	★	★	★		
SPECIFIC	Transition to Low-Carbon Future	★	★			
	Conservation & Biodiversity	★	★	★		
	Effluent/Waste Management	★	★	★	★	
	Water Management	★	★	★		
	Supply Chain Management	★	★	★		
	Energy Efficiency	★	★	★		
OVERALL		★	★			

☆ denotes half-star
 ★ -10% discount to TP
 ★★ -5% discount to TP
 ★★★ TP unchanged
 ★★★★ +5% premium to TP
 ★★★★★ +10% premium to TP

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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