

17 November 2023

Bumi Armada

Lacking New Earnings Catalyst

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ARMADA's 9MFY23 results missed our forecast as FPSO Kraken returned to full operation later than we had expected, but met market expectation. It is now running at full steam. We cut our FY24 net profit by 6%, trim our TP by 3% to RM0.58 (from RM0.60) and downgrade our call to MARKET PERFORM from OUTPERFORM in the absence of any new earnings catalyst.

Below our expectation. Its 9MFY23 core net profit of RM424.8m (excluding RM18.1m disposal gain of a JV, RM15.3m unrealised forex loss and RM1.4m insurance claim in 3QFY23) missed our expectation at only 66% of our full-year forecast but met market expectation at 71% of the full-year consensus estimate. The variance against our forecast came largely from FPSO Kraken only returning to full operations in Aug 2023, which was later than we had expected.

YoY dragged by partial Kraken downtime. Its revenue declined 19.6% YoY mainly due to FPSO Kraken downtime due to HSP transformer failure (which were back up online fully in Aug 2023) and lower revenue from Caspian subsea construction works. Its core profit declined steeper by 21.6% as opex more than tripled YoY, partially cushioned by better JV earnings driven by stronger performance by JV-owned FPSOs.

QoQ improvement significant. ARMADA's topline improved 18.9% QoQ as FPSO Kraken utilization improved in 3QFY23 compared 2QFY23 (where the asset only managed to get back to 60% of pre-shutdown uptime in early June 2023). Its net profit, on the other hand, more than tripled QoQ as cost of sales declined (-16.3%) largely due to lower FPSO repair cost. Also helping, was the improvement in JV earnings QoQ (+81.5%).

The key takeaways from the results briefing are as follows:

1. Update on Akia PSC – the company will start executing seismic studies in 1QFY24, which will take 3-6 months to be completed and this would progress further into exploration drilling stage if the outcome from the seismic is favourable.
2. A new transformer was installed on FPSO Kraken in Sep 2023. ARMADA has also received an additional new transformer but the group is still awaiting better weather for installation. By and large, FPSO Kraken will be operating in full capacity in 4QFY23 and risk of further breakdown is low.
3. Armada Sterling V (30%-owned) remains moored on East Coast of India preparing for first oil and final acceptance by client. ARMADA has guided that first oil could be in 1HFY24 but the exact date was not provided.

Forecasts. We cut our FY24 earnings forecast by 6% after reflecting slightly fewer working days (c.10 days less) for FPSO Kraken. We keep our FY25 numbers. Our forecasts have not factored in any contribution from Akia PSC, which is still in preliminary stages at this juncture.

Correspondingly, we trim our SoP-based TP by 3% to RM0.58 (from RM0.60). In our view, the market has largely priced in the FPSO Kraken operational recovery and at this juncture, the group has yet to be in advanced stages for any new FPSO project bids.

MARKET PERFORM

Price: **RM0.545** ↓
Target Price: **RM0.58** ↓

Share Price Performance



KLCI	1,464.68
YTD KLCI chg	-2.1%
YTD stock price chg	13.5%

Stock Information

Shariah Compliant	No
Bloomberg Ticker	BAB MK Equity
Market Cap (RM m)	3,227.9
Shares Outstanding	5,922.7
52-week range (H)	0.73
52-week range (L)	0.40
3-mth avg daily vol:	25,621,610
Free Float	39%
Beta	1.1

Major Shareholders

Objektif Bersatu Sdn Bhd	34.6%
Amanah Saham Nasional	12.6%
Karisma Mesra Sdn Bhd	5.0%

Summary Earnings Table

FY Dec (RM m)	2022A	2023F	2024F
Turnover	2405.5	1595.6	1725.4
EBIT	1026.5	758.0	914.1
PBT	709.0	642.8	848.2
Net Profit (NP)	732.4	604.6	797.7
Core NP (CNP)	815.5	604.6	797.7
Consensus CNP	-	594.5	728.3
Earnings revision (%)	-	-6.4%	-
Core EPS (sen)	12.5	10.3	13.6
CNP growth (%)	11.1	-17.5	31.9
NDPS (sen)	-	-	-
BV/Share (RM)	0.9	1.0	1.1
Core PER (x)	4.4	5.3	4.0
Price/BV (x)	0.6	0.6	0.5
Net-gearing (x)	0.9	0.7	0.5
Dividend Yield (%)	-	-	-

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We like ARMADA drawn by its: (i) better net gearing position (0.7x in FY22 compared to 1.5x in FY21), (ii) long-term earnings visibility from sizeable orderbook in excess of RM20b (including potential extensions), and (iii) potential for long-term growth on the back of multiple potential FPSO and LNG opportunities. However, post Kraken recovery, the group's earnings will be flattish in the absence of any new project. Downgrade to **MARKET PERFORM** from **OUTPERFORM**.

Risks to our call include: (i) further delay in Sterling 5 JV first oil (beyond FY24), (ii) cost overruns and delays for EPCC projects, and (iii) FPSO contract extensions are not exercised for core FPSO assets.

Results Highlights								
	3Q	2Q	Q-o-Q	3Q	Y-o-Y	9M	9M	Y-o-Y
	FY23	FY23		FY22		FY23	FY22	
FYE : Dec (RM m)								
Revenue	524.8	441.3	18.9%	653.1	-19.6%	1,510.1	1,800.5	-16.1%
Cost of sales	-199.6	-238.3	-16.3%	-290.5	-31.3%	-624.6	-759.9	-17.8%
Gross profit	325.2	203.0	60.2%	362.6	-10.3%	885.5	1,040.6	-14.9%
Other income	33.4	74.4	-55.2%	17.9	86.0%	131.8	44.4	196.7%
Operating Cost	-52.2	-20.8	150.8%	-16.7	212.5%	-108.8	-55.2	96.9%
Operating profit	222.5	175.6	26.7%	276.4	-19.5%	662.9	774.7	-14.4%
Finance costs	-83.0	-83.6	-0.7%	-94.9	-12.5%	-258.4	-267.3	-3.3%
Share of results of JVs	25.1	13.8	81.5%	-43.2	-158.1%	66.0	9.6	588.7%
Profit/(loss) before tax	165.0	105.9	55.9%	138.4	19.2%	470.9	516.9	-8.9%
Taxation	-0.3	1.2	-123.6%	0.8	-137.6%	-0.3	0.8	-137.6%
Non-controlling interest	-13.0	-11.6	11.9%	-10.5	23.5%	-29.7	-8.9	235.1%
Net profit	177.8	118.7	49.7%	149.7	18.7%	497.5	521.7	-4.6%
EI	-4.5	-64.1	-93.0%	71.2	-106.3%	-4.5	71.2	
Core net profit	173.3	54.7	217.0%	220.9	-21.6%	424.8	615.4	-31.0%
EPS	3.0	2.0	49.7%	2.5	18.7%	8.5	8.9	-4.7%
Core EPS	3.0	0.9	217.0%	3.8	-21.6%	7.2	10.5	-31.0%
Gross margin	62.0%	46.0%		55.5%		58.6%	57.8%	
EBIT margin	42.4%	39.8%		42.3%		43.9%	43.0%	
PBT margin	31.4%	24.0%		21.2%		31.2%	28.7%	
Net margin	33.9%	26.9%		22.9%		32.9%	29.0%	
Core net margin	33.0%	12.4%		33.8%		28.1%	34.2%	
Effective tax rate	0.2%	-1.2%		-0.6%		0.1%	-0.2%	

Source: Company, Kenanga Research

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Sum-of-Parts Valuation		
	RM m	Valuation Metric
Armada Kraken FPSO	1,671.1	DCF at 11.0% discount rate
Armada Olombendo FPSO	4677.2	DCF at 7.6% discount rate
Armada LNG Mediterrana FSU	300.9	DCF at 7.6% discount rate
Armada Sterling FPSO (50% JV)	164.6	DCF at 7.6% discount rate
Armada Sterling II FPSO (50% JV)	199.1	DCF at 7.6% discount rate
Karapan Armada Sterling III FPSO (50% JV)	85.1	DCF at 7.6% discount rate
Armada Sterling V (30% JV)	449.0	DCF at 7.6% discount rate
Net cash / (debt)	-3960.2	
Total	3,586.8	
Number of shares (mil)	5866.3	
ESG premium / discount	-5%	
SoP-value per share (RM)	0.58	

Source: Company, Kenanga Research

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	MP	0.545	0.580	6.4%	3,227.9	N	12/2023	10.3	13.6	-25.9%	31.9%	5.3	4.0	0.6	11.1%	-	0.0%
DIALOG GROUP BHD	OP	2.20	3.10	40.9%	12,413.7	Y	06/2024	9.9	10.3	10.7%	4.2%	22.3	21.3	2.1	9.7%	4.2	1.9%
MISC BHD	MP	7.32	7.62	4.1%	32,674.6	Y	12/2023	57.5	54.9	32.4%	-4.5%	12.7	13.3	0.8	6.7%	30.0	4.1%
PETRONAS CHEMICALS GROUP BHD	MP	7.33	7.20	-1.8%	58,640.0	Y	12/2023	23.2	48.0	-71.2%	107.0%	31.6	15.3	1.5	4.7%	16.2	2.2%
PETRONAS DAGANGAN BHD	MP	22.90	24.90	8.7%	22,750.1	Y	12/2023	106.0	92.6	41.3%	-12.6%	21.6	24.7	4.0	18.3%	106.0	4.6%
PETRON MALAYSIA REFINING	MP	4.66	4.65	-0.2%	1,258.2	Y	12/2023	103.0	97.8	-7.6%	-5.0%	4.5	4.8	0.5	11.9%	21.0	4.5%
UZMA BHD	OP	0.800	1.05	31.3%	309.8	Y	06/2024	10.2	10.5	1.3%	2.5%	7.8	7.6	0.6	7.6%	-	0.0%
VELESTO ENERGY BHD	UP	0.235	0.190	-19.1%	1,930.7	Y	12/2023	0.6	1.3	-45.8%	104.6%	37.3	18.2	0.8	2.2%	-	0.0%
WAH SEONG CORP BHD	UP	1.02	0.890	-12.7%	789.8	Y	12/2023	6.9	9.9	-31.6%	43.4%	14.7	10.3	1.2	8.8%	-	0.0%
YINSON HOLDINGS BHD	OP	2.45	3.79	54.7%	7,121.6	N	01/2024	29.0	29.9	13.7%	3.0%	8.4	8.2	1.4	18.4%	2.0	0.8%
Sector Aggregate					143,235.0					-30.9%	25.6%	17.8	14.2	1.4	9.8%		1.8%

Source: Kenanga Research

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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