

31 May 2024

Bumi Armada

In Need of New Assets to Drive Growth

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ARMADA's 1QFY24 results met expectations. Its 1QFY24 core net profit was flattish as improved showing from FPSO Olembendo (higher rates) and FPSO Kraken (improved uptime) was negated by start-up costs from Sterling 5. We maintain our forecasts, TP of RM0.58 and MARKET PERFORM call.

Its 1QFY24 core net profit of RM196.8m (excluding RM10.2m unrealised forex loss and RM53m gain from the revision of charter FPSO Olembendo attributable to FY23) met expectations at 25% of both our full-year forecast and the full-year consensus estimate. No dividend was declared in the quarter as expected.

YoY, its revenue surged 17% underpinned by higher revenue from FPSO Olembendo post an upward rate revision (back in late-FY23) and higher FPSO Kraken contribution due to better vessel availability. However, its core profit was flattish as JV contribution weakened due to start-up costs from Sterling 5 (which is still pending the final acceptance by the client).

QoQ, its top line remained flat with stable contributions from FPSO Kraken and FPSO Olembendo. However, its core net profit declined by 12% as higher operating cost offset the turnaround of joint ventures.

Forecasts. Maintained.

Outlook. On April 25, FPSO Kraken will transition to an extension contract as its firm charter with Enquest concludes, resulting in a lower recurring earnings base from this asset. FPSO Sterling 5 is still awaiting the final acceptance from the client, so the asset remains on a standby rate, which is lower than the full contract rate. Its RM1.5b sukuk maturing in Sep 2024 will likely to be refinanced with an USD400m facility of which the rate is yet to be determined.

Valuations. We maintain our SoP-based TP at RM0.58 after a 5% discount to reflect a 2-star ESG rating as appraised by us (see Page 2).

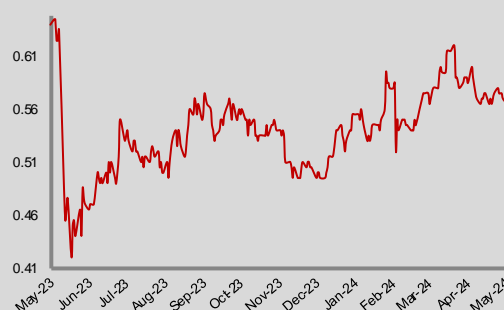
Investment case. We like ARMADA drawn by its: (i) better net gearing position, (ii) long-term earnings visibility from sizeable order book in excess of RM20b (including potential extensions), and (iii) potential for long-term growth on the back of multiple potential FPSO and LNG opportunities. However, post Kraken recovery, the group's earnings will be flattish in the absence of any new project. Maintain **MARKET PERFORM**.

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) inability to secure contract extensions for key FPSO assets.

MARKET PERFORM ↔

Price: **RM0.575**
Target Price: **RM0.58** ↔

Share Price Performance



KLCI	1,604.26
YTD KLCI chg	10.3%
YTD stock price chg	18.2%

Stock Information

Shariah Compliant	No
Bloomberg Ticker	BAB MK Equity
Market Cap (RM m)	3,467.8
Shares Outstanding	5,927.9
52-week range (H)	0.66
52-week range (L)	0.42
3-mth avg. daily vol.	17,512,340
Free Float	39%
Beta	1.3

Major Shareholders

Objektif Bersatu Sdn	34.6%
Amanah Saham Nasiona	12.6%
Norges Bank	5.0%

Summary Earnings Table

FY Dec (RM m)	2023A	2024F	2025F
Turnover	2133.1	1709.4	1642.3
EBIT	1046.5	898.2	846.9
PBT	296.1	846.9	802.4
Net Profit (NP)	332.1	796.5	754.7
Core NP (CNP)	332.1	796.5	754.7
Consensus CNP	-	802.3	676.2
Earnings Revision (%)	-	-	-
Core EPS (sen)	5.7	13.6	12.9
CNP Growth (%)	10.2	-1.3	-5.3
NDPS (sen)	0.0	0.0	0.0
BV/Share (RM)	1.0	1.1	1.2
Core PER (x)	10.2	4.2	4.5
Price/BV (x)	0.6	0.5	0.5
Net-gearing (x)	0.6	0.4	0.2
Dividend Yield (%)	-	-	-

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Results Highlights					
	1Q	4Q	Q-o-Q	1Q	Y-o-Y
	FY24	FY23		FY23	
FYE : Dec (RM m)					
Revenue	635.5	623.0	2.0%	544.0	16.8%
Cost of sales	-182.9	-132.8	37.7%	-186.7	-2.0%
Gross profit	452.7	490.2	-7.6%	357.3	26.7%
Other income	16.9	13.9	21.2%	24.0	-29.9%
Operating Cost	-47.9	-32.6	46.7%	-35.8	33.8%
Operating profit	301.5	386.3	-21.9%	260.6	15.7%
Finance costs	-79.1	-80.0	-1.1%	-91.8	-13.8%
Share of results of JVs	3.2	-3.1	-200.4%	27.1	-88.3%
EI	43.7	-388.7	-111.3%	4.2	943.4%
Profit/(loss) before tax	270.2	-174.8	-254.6%	200.0	35.1%
Taxation	-7.1	0.1	-11058.5%	-4.1	73.1%
Non-controlling interest	-22.6	9.3	-343.3%	5.1	-542.8%
Net profit	240.5	-165.5	-245.4%	201.0	19.7%
Core net profit	196.8	223.2	-11.8%	196.8	0.0%
EPS	4.1	-2.8	-245.3%	3.4	19.6%
Core EPS	3.4	3.8	-11.8%	3.4	0.0%
Gross margin	71.2%	78.7%		65.7%	
EBIT margin	47.4%	62.0%		47.9%	
PBT margin	42.5%	-28.1%		36.8%	
Net margin	37.8%	-26.6%		37.0%	
Core net margin	31.0%	35.8%		36.2%	
Effective tax rate	2.6%	0.0%		2.1%	

Source: Company, Kenanga Research

Sum-of-Parts Valuation		
	RM m	Valuation Metric
Armada Kraken FPSO	1,450.6	DCF at 11.0% discount rate
Armada Olombendo FPSO	3520.5	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)	-2580.7	
Total	3,589.2	
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	0.585	0.580	-0.9%	3,467.8	N	12/2024	13.8	12.6	144.4%	-8.8%	4.2	4.6	0.5	13.4%	0.00	0.00%
DIALOG GROUP BHD	OP	2.44	3.18	30.3%	13,767.9	Y	06/2024	10.2	10.6	13.9%	4.1%	24.0	23.0	2.3	10.0%	4.31	1.77%
KEYFIELD INTERNATIONAL	OP	2.39	2.69	12.6%	1,912.0	N	12/2024	17.8	25.4	35.1%	42.3%	13.4	9.4	2.8	29.7%	3.44	1.44%
MISC BHD	MP	8.28	8.09	7.4%	36,959.8	Y	12/2024	52.9	52.3	11.2%	1.2%	15.7	15.9	1.6	5.8%	30.00	3.62%
PETRONAS CHEMICALS GROUP	MP	6.71	6.28	-6.4%	53,680.0	Y	12/2024	34.8	41.9	71.3%	20.3%	19.3	16.0	1.3	6.8%	17.41	2.59%
PETRONAS DAGANGAN BHD	OP	19.42	23.70	22.0%	19,292.9	Y	12/2024	99.7	109.8	1.1%	10.1%	19.5	17.7	3.2	16.9%	79.78	4.11%
PETRON MALAYSIA REFINING	MP	5.00	4.74	-5.2%	1,350.0	Y	12/2024	99.6	89.6	-1.1%	-10.0%	5.0	5.6	0.5	10.6%	20.00	4.00%
VELESTO ENERGY BHD	OP	0.275	0.340	23.6%	2,259.3	Y	12/2024	1.8	2.3	46.6%	28.8%	15.5	12.0	0.9	5.7%	0.00	0.00%
WASCO BHD	MP	1.56	1.48	-5.1%	1,207.9	Y	12/2024	12.1	14.8	20.0%	22.6%	12.9	10.5	1.5	12.5%	0.00	0.00%
YINSON HOLDINGS BHD	OP	2.32	3.41	47.0%	7,023.7	N	01/2025	17.4	19.4	45.2%	11.0%	13.3	12.0	1.4	10.2%	5.00	2.16%
SECTOR AGGREGATE					145,006.4					32.7%	10.2%	16.3	14.8	1.5	11.0%		1.60%

Source: Kenanga Research

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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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