

Bumi Armada (BAB MK)

1Q21 results above expectation

U/G to BUY; TP raised to MYR0.52

1Q21 core earnings of MYR150m (+42% YoY) came in above ours/consensus initial FY estimate of MYR430m/MYR433m respectively, on improved opex management, leading us to raise FY21-23 estimates by 16%-21% and SOP-based TP to MYR0.52 (+21%). Its net gearing remained high at 2.1x, but its ongoing de-leveraging exercise: (i) monetising part of its FPSO/ OSV assets and (ii) seeking re-deployment opportunities for its idle assets would aid its cashflows.

Snapshot of 1Q21 results

Core net profit of MYR150m (+42% YoY), accounted for 35% of ours/consensus FY estimates. The YoY strength came largely from: (i) lower opex at its FPSO Olombendo ops and (ii) reduced losses at its OMS ops. BArmada disposed 11 units of vessels in 1Q21. Its net debt stood at MYR7.2b in 1Q21 (vs. MYR7.5b in 4Q20) following the repayment of USD85m loans in the quarter. It turned in net current assets in 1Q21, a positive after being in a net current liability position in the past.

Raise earnings

Our earnings upgrades reflect lower Group opex and losses at its OMS ops. BArmada intends to exit the OSV business, targeting to sell its remaining 15 units by 2022. We see this positively in disposing off non-core assets and to reduce opex. Overall, OSV utilisation and DCRs for this segment have been poor, with an ageing assets portfolio. Meanwhile, BArmada is optimistic for the FPSO Kakinada project to proceed, albeit with delays. The FPSO is expected to be delivered by mid-2022.

Improving financials

Its earnings income has appeared to be more sustainable. Its net debt/EBITDA of 5x, below the 6-years weighted average firm FPSO charter period is expected to fall further, should it be able to: (i) monetise part of its FPSO/ OSV assets and (ii) seek re-deployment opportunities for its idle assets. Securing the 30-year FSRU O&M Mumbai port project (in a 49:51 JV with Sharpooji) would be another catalyst, provided it secures the financing for it.

FYE Dec (MYR m)	FY19A	FY20A	FY21E	FY22E	FY23E
Revenue	2,071	2,340	2,473	2,471	2,471
EBITDA	974	1,467	1,465	1,465	1,465
Core net profit	243	464	500	521	540
Core EPS (sen)	4.1	7.9	8.5	8.9	9.2
Core EPS growth (%)	(1.7)	90.8	7.8	4.1	3.7
Net DPS (sen)	0.0	0.0	0.0	0.0	1.0
Core P/E (x)	12.8	4.4	5.3	5.1	4.9
P/BV (x)	1.0	0.7	0.7	0.6	0.6
Net dividend yield (%)	0.0	0.0	0.0	0.0	2.2
ROAE (%)	1.8	3.9	14.7	13.3	12.2
ROAA (%)	1.6	3.5	3.9	4.0	4.1
EV/EBITDA (x)	11.8	6.5	6.4	5.8	5.1
Net gearing (%) (incl perps)	261.3	238.6	187.1	141.8	105.7
Consensus net profit	-	-	433	458	470
MKE vs. Consensus (%)	-	-	15.7	13.9	15.1

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BUY

[Prior:HOLD]

Share Price MYR 0.45
12m Price Target MYR 0.52 (+16%)
Previous Price Target MYR 0.43

Company Description

A Top 5 FPSO operator in the world with OSV and T&I units complementing its business

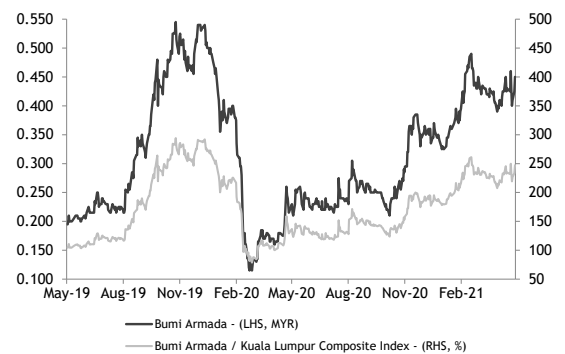
Statistics

52w high/low (MYR) 0.49/0.21
3m avg turnover (USDm) 4.9
Free float (%) 54.1
Issued shares (m) 5,895
Market capitalisation MYR2.7B
USD640M

Major shareholders:

KRISHNAN TATPARANANDAM ANANDA 34.8%
Permodalan Nasional Bhd. 13.0%
Hong Leong Asset Management Bhd. 4.7%

Price Performance



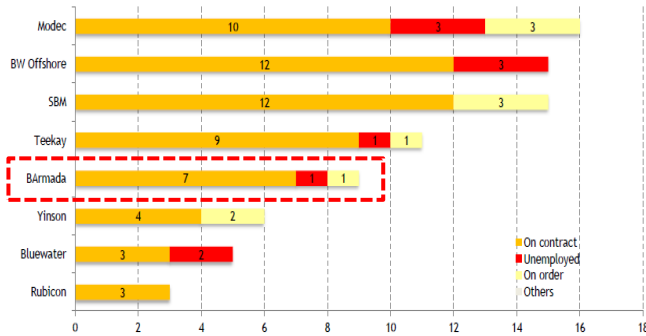
	-1M	-3M	-12M
Absolute (%)	11	15	109
Relative to index (%)	14	16	91

Source: FactSet

Value Proposition

- A Top 5 FPSO operator in the world by fleet size. Operating presence in Asia, Africa and Europe. T&I and OSV (loss-making) are complementary businesses.
- Unlike OSV and T&I operations, FPSO's contracts are more bankable, providing steady visibility (long-term charters, termination protection) with reasonable project IRRs.
- FPSOs tender pipeline is strong. Winning a job is a catalyst.

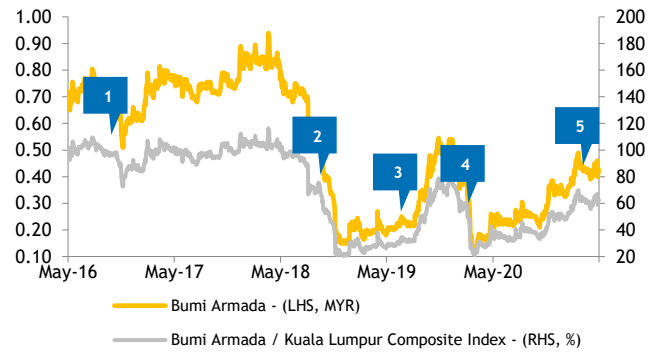
Top 8 FPSO companies worldwide



Source: Company

Price Drivers

Historical share price trend



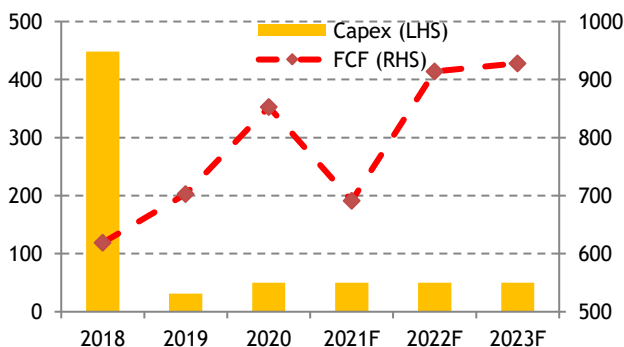
Source: Company, FactSet, Maybank Kim Eng

1. Woodside Energy terminated FPSO Armada Balnaves contract.
2. FPSO Armada Perdana ops down.
3. Secured final acceptance on FPSO Kraken.
4. Secured ONGC's Kakinada FPSO job with Shapoorji, on a 30:70 JV basis.
5. Set up 49:51 BArmada-Sharpooorji JV to operate and maintain a FSRU in Mumbai for 30 years,

Financial Metrics

- Bare-boat & O&M charters, utilisation and opex are BArmada's key earnings drivers. Variations in any of these parameters will impact profitability.
- Cost management, capital discipline and execution capabilities are key emphases for FPSO operators.
- Group's FCF turned positive in 2018 as several FPSOs come onstream.
- Following the heavy capex in recent years, improving its net gearing level is crucial, reflective of the cashflow generation from its FPSO operations.

Capex and FCF trend (MYR'm)



Source: Company

Swing Factors

Upside

- Strengthening of crude oil price will be the most dominant near term stock driver.
- Seamless execution of its FPSOs/FSU projects in hand will contribute to a significant jump in earnings.
- M&A action is not entirely ruled out as values are undemanding following the recent steep drop in share price.

Downside

- Further weakness in oil price will hurt share price performance.
- Poor execution capabilities and/or contract(s) termination related to its FPSO operations and inferior cost management would have a detrimental effect on earnings and perception.
- Expansion of non-core operations (T&I and OSV) will not be well received at this point of the industry cycle.
- With a high gearing level, weak cashflows could impede debt servicing efforts.

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Summary Results Table

FY Dec (MYR m)	Quarterly results				
	1Q21	1Q20	% YoY	4Q20	% QoQ
Turnover	562.7	552.6	1.8	616.0	(8.7)
EBITDA	392.8	400.5	(1.9)	381.0	3.1
EBIT	265.7	257.7	3.1	231.1	15.0
Int. expense	(101.6)	(137.2)	(25.9)	(109.8)	(7.5)
Associate	7.4	(4.5)	NM	60.3	(87.8)
EI	12.5	(330.2)	NM	(43.3)	NM
Pretax profit	184.0	(214.2)	NM	138.4	33.0
Tax	(24.4)	(5.3)	NM	(3.2)	NM
Minority interest	3.2	(4.4)	NM	9.0	(64.7)
Net profit	162.8	(224.0)	NM	144.1	12.9
Net profit Ex EI	150.3	106.2	41.5	187.4	(19.8)
<i>EBIT margin (%)</i>	47.2	46.6	0.6	37.5	9.7
<i>Tax rate (%)</i>	13.2	(2.5)	15.7	2.3	10.9
Turnover	562.7	552.6	1.8	616.0	(8.7)
- FPSO & FSU	495.2	462.1	7.2	532.1	(6.9)
- OMS	67.6	90.5	(25.4)	84.0	(19.6)
EBIT	265.7	257.7	3.1	231.1	15.0
- FPSO & FSU	270.6	268.1	0.9	224.7	20.4
- OMS	(28.7)	(48.3)	(40.5)	(18.9)	51.5
- Others	23.9	38.0	(37.1)	25.3	(5.8)
Margins (%)	47.2	46.6	0.6	37.5	46.6
- FPO	54.6	58.0	(3.4)	42.2	58.0
- OMS	(42.5)	(53.3)	10.8	(22.6)	(53.3)

Source: Company

SOP valuation

FPSO operations	Contract (firm + ext) yr	Location	% stake	NPV (MYR'm)	Details
- TGT1	7 + 6	Vietnam	100%	595	NPV (6-year extension, up to 2024), 5.6% WACC
- Sterling I @ D1	7 + 6	India	49%	528	NPV (10-year firm; up to 2030); 5.6% WACC
- Sterling II @ C7	10 + (5)	India	49%	231	NPV (firm; up to 2023); 5.6% WACC
- Kraken	8 + (1x17)	North Sea	100%	1,644	NPV (firm; up to 2025); 7.0% WACC
- Olombendo	12 + (1 x 8)	Angola	100%	4,698	NPV (firm; up to 2029); 5.8% WACC
- Madura	10 + 5	Indonesia	50%	386	NPV (firm; up to 2027); 5.8% WACC
- Malta FSU	18.2	Malta	100%	559	NPV (firm; up to 2034); 5.8% WACC
- Kakinada	9 + 7	India	30%	486	NPV (firm; up to 2031); 7.0% WACC
FPSO				9,127	
Residual value				876	5% of capex
Less: Net debt				(6,966)	
Total				3,037	
Share base (m)				5,883	
SOP per share				0.52	

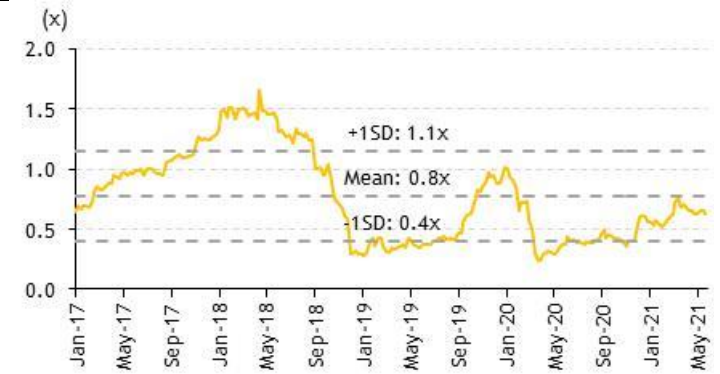
Source: Company data, Maybank Kim Eng

1-year forward PER band



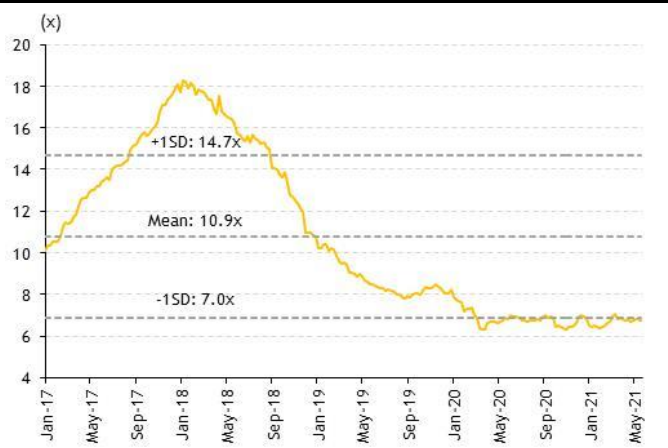
Source: Company, Maybank KE

1-year forward PBV band



Source: Company, Maybank KE

1-year forward EV/ EBITDA band



Source: Company, Maybank KE

FYE 31 Dec	FY19A	FY20A	FY21E	FY22E	FY23E
Key Metrics					
P/E (reported) (x)	28.0	12.7	5.3	5.1	4.9
Core P/E (x)	12.8	4.4	5.3	5.1	4.9
P/BV (x)	1.0	0.7	0.7	0.6	0.6
P/NTA (x)	1.0	0.7	0.7	0.6	0.6
Net dividend yield (%)	0.0	0.0	0.0	0.0	2.2
FCF yield (%)	22.6	41.4	26.1	34.5	35.1
EV/EBITDA (x)	11.8	6.5	6.4	5.8	5.1
EV/EBIT (x)	21.5	10.3	10.2	9.2	8.1
INCOME STATEMENT (MYR m)					
Revenue	2,070.7	2,339.9	2,472.7	2,471.1	2,471.1
EBITDA	974.3	1,466.8	1,464.5	1,465.1	1,465.1
Depreciation	(440.5)	(541.6)	(541.6)	(541.6)	(541.6)
Amortisation	0.0	0.0	0.0	0.0	0.0
EBIT	533.8	925.2	922.9	923.5	923.5
Net interest income / (exp)	(555.5)	(491.6)	(450.1)	(431.9)	(414.7)
Associates & JV	147.6	51.4	84.3	89.2	94.0
Exceptionals	(184.3)	(338.7)	0.0	0.0	0.0
Other pretax income	0.0	0.0	0.0	0.0	0.0
Pretax profit	82.2	127.6	557.2	580.7	602.8
Income tax	(44.0)	(15.4)	(66.9)	(69.7)	(72.3)
Minorities	20.5	13.3	10.0	10.0	10.0
Discontinued operations	0.0	0.0	0.0	0.0	0.0
Reported net profit	58.6	125.6	500.3	521.1	540.5
Core net profit	242.9	464.3	500.3	521.1	540.5
BALANCE SHEET (MYR m)					
Cash & Short Term Investments	1,094.4	894.8	1,247.6	1,840.1	2,462.8
Accounts receivable	416.8	511.8	726.6	726.1	726.1
Inventory	5.6	4.1	5.0	5.0	5.0
Reinsurance assets	0.0	0.0	0.0	0.0	0.0
Property, Plant & Equip (net)	5,940.6	4,945.1	4,453.5	3,961.8	3,470.2
Intangible assets	0.0	0.0	0.0	0.0	0.0
Investment in Associates & JVs	1,056.1	1,031.2	1,115.5	1,204.7	1,298.7
Other assets	5,465.7	5,260.7	5,260.7	5,260.7	5,260.7
Total assets	13,979.2	12,647.6	12,808.8	12,998.4	13,223.5
ST interest bearing debt	2,477.5	1,585.4	1,585.4	1,585.4	1,585.4
Accounts payable	266.0	164.1	173.4	173.3	173.3
Insurance contract liabilities	0.0	0.0	0.0	0.0	0.0
LT interest bearing debt	7,013.2	6,766.9	6,428.6	6,107.1	5,801.8
Other liabilities	1,009.0	1,006.0	1,006.0	1,006.0	1,006.0
Total Liabilities	10,766.0	9,522.1	9,193.0	8,871.5	8,566.1
Shareholders Equity	3,227.0	3,149.1	3,649.4	4,170.5	4,711.0
Minority Interest	(13.9)	(23.7)	(33.7)	(43.7)	(53.7)
Total shareholder equity	3,213.1	3,125.5	3,615.8	4,126.8	4,657.3
Total liabilities and equity	13,979.2	12,647.6	12,808.8	12,998.4	13,223.5
CASH FLOW (MYR m)					
Pretax profit	82.2	127.6	557.2	580.7	602.8
Depreciation & amortisation	440.5	541.6	541.6	541.6	541.6
Adj net interest (income)/exp	0.0	0.0	0.0	0.0	0.0
Change in working capital	(381.0)	(361.0)	(206.4)	0.4	0.0
Cash taxes paid	(44.0)	(15.4)	(66.9)	(69.7)	(72.3)
Other operating cash flow	784.2	661.4	0.0	0.0	0.0
Cash flow from operations	734.3	902.9	741.2	963.9	978.1
Capex	(31.5)	(49.8)	(50.0)	(50.0)	(50.0)
Free cash flow	702.8	853.1	691.2	913.9	928.1
Dividends paid	0.0	0.0	0.0	0.0	0.0
Equity raised / (purchased)	0.0	0.0	0.0	0.0	0.0
Change in Debt	(889.9)	(1,138.4)	(338.3)	(321.4)	(305.4)
Other invest/financing cash flow	55.0	85.7	0.0	0.0	0.0
Effect of exch rate changes	0.0	0.0	0.0	0.0	0.0
Net cash flow	(132.0)	(199.6)	352.8	592.5	622.7

FYE 31 Dec	FY19A	FY20A	FY21E	FY22E	FY23E
Key Ratios					
Growth ratios (%)					
Revenue growth	(14.4)	13.0	5.7	(0.1)	(0.0)
EBITDA growth	21.6	50.6	(0.2)	0.0	0.0
EBIT growth	76.8	73.3	(0.2)	0.1	0.0
Pretax growth	nm	55.3	336.6	4.2	3.8
Reported net profit growth	nm	114.2	298.4	4.1	3.7
Core net profit growth	(1.6)	91.1	7.8	4.1	3.7
Profitability ratios (%)					
EBITDA margin	47.1	62.7	59.2	59.3	59.3
EBIT margin	25.8	39.5	37.3	37.4	37.4
Pretax profit margin	4.0	5.5	22.5	23.5	24.4
Payout ratio	0.0	0.0	0.0	0.0	10.9
DuPont analysis					
Net profit margin (%)	2.8	5.4	20.2	21.1	21.9
Revenue/Assets (x)	0.1	0.2	0.2	0.2	0.2
Assets/Equity (x)	4.3	4.0	3.5	3.1	2.8
ROAE (%)	1.8	3.9	14.7	13.3	12.2
ROAA (%)	1.6	3.5	3.9	4.0	4.1
Liquidity & Efficiency					
Cash conversion cycle	5.0	16.8	50.7	64.8	64.8
Days receivable outstanding	101.9	71.4	90.1	105.8	105.8
Days inventory outstanding	1.5	1.3	1.1	1.2	1.2
Days payables outstanding	98.4	55.8	40.5	42.2	42.2
Dividend cover (x)	nm	nm	nm	nm	9.2
Current ratio (x)	0.6	0.9	1.2	1.5	1.8
Leverage & Expense Analysis					
Asset/Liability (x)	1.3	1.3	1.4	1.5	1.5
Net gearing (%) (incl perps)	261.3	238.6	187.1	141.8	105.7
Net gearing (%) (excl. perps)	261.3	238.6	187.1	141.8	105.7
Net interest cover (x)	1.0	1.9	2.1	2.1	2.2
Debt/EBITDA (x)	9.7	5.7	5.5	5.3	5.0
Capex/revenue (%)	1.5	2.1	2.0	2.0	2.0
Net debt/ (net cash)	8,396.3	7,457.5	6,766.3	5,852.4	4,924.3

Source: Company; Maybank

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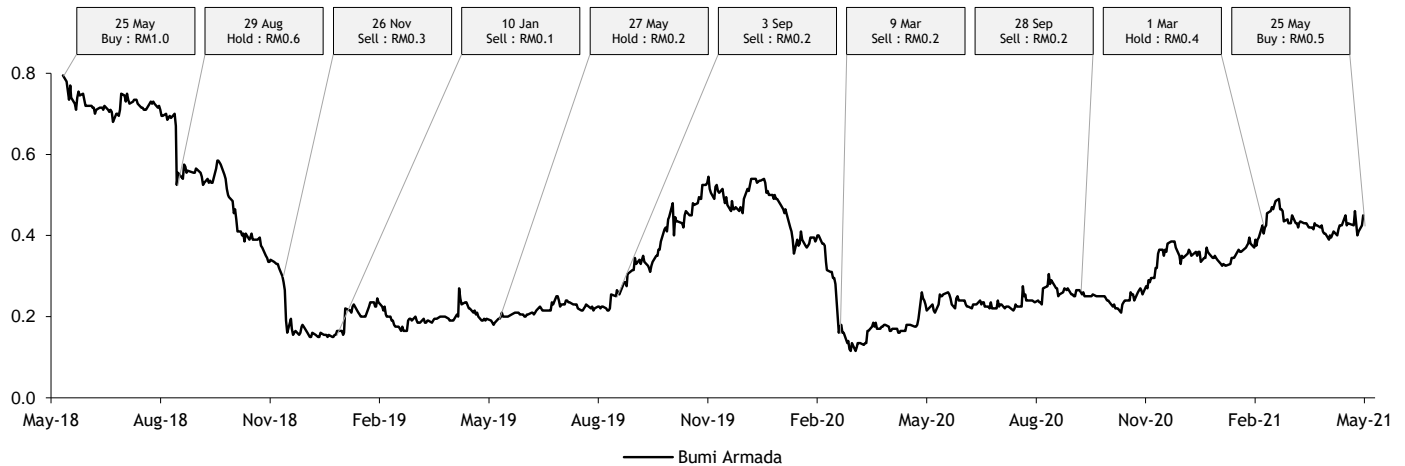
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