

## Bumi Armada (BAB MK)

# 1Q23 results in line; priced in

### D/G to SELL

1Q23 results met expectations. While BArmada's turnaround story (de-gearing sustainably, improving cashflows and monetizing non-core assets) continues to gain traction, these positives have been priced in, in our view. To catalyse growth and re-rate, BArmada needs to win a BOO FPSO project, beyond EPC jobs (construction-based). Our SOP-TP is unchanged. With a 9% downside potential to our TP, we D/G the stock to SELL.

### Snapshot of 1Q23 results

BArmada reported a core net profit of MYR199m (-6% QoQ; +8% YoY), 24% of our FY estimate. The QoQ earnings weakness was largely due to: (i) lower utilisation at FPSO Kraken, (ii) minimal variation orders on its FPSO Olombendo ops, (iii) lower associate profits (-32%) due to reduced provisioning of engineering services, and (iv) higher taxes. This was partly offset by: (i) lower interest costs (-8%), as it continued on its debt repayment. It repaid USD110m in borrowings in 1Q23, steadily reducing its net debt (11<sup>th</sup> consecutive quarter) to MYR4.3b @ Mar 2023.

### Turning around, but ...

Our earnings estimates are unchanged, expecting flattish earnings growth. BArmada's strategy to constantly generate positive FCFs while keeping opex in check is showing results (net debt-to-EBITDA of 3x is firmly below the 6-year weighted average of firm charter) while monetizing non-core assets remain its key KPIs. BArmada will also seek to refinance its USD loans to further improve its cashflows.

### ... needs a new BOO project to re-rate

Most of the positives (the pursuit for higher earnings, lower gearing level, divestment of non-core assets) have been priced in, in our view. To catalyse growth and re-rate, BArmada needs to win a BOO FPSO project. We reckon that while securing an EPC FPSO job will offer a mid-term earnings boost (3 years; provided execution is on par, no delay in deliveries and/or minimal cost overruns), it is insufficient to catalyst growth in the longer term. FPSO chartering model typically offers visibility of steady cashflow. Inability to secure a BOO contract in a booming market reflects prospective client(s) confidence on its execution capabilities, track record, cost management and financing abilities, in our view.

FYE Dec (MYR m)	FY21A	FY22A	FY23E	FY24E	FY25E
Revenue	2,163	2,406	2,533	2,593	2,212
EBITDA	1,469	1,369	1,384	1,400	1,312
Core net profit	755	822	830	843	803
Core EPS (sen)	12.8	13.9	14.0	14.3	13.6
Core EPS growth (%)	62.2	8.5	0.9	1.6	(4.8)
Net DPS (sen)	0.0	0.0	0.0	0.0	0.0
Core P/E (x)	3.7	3.5	4.7	4.6	4.8
P/BV (x)	0.7	0.6	0.6	0.6	0.5
Net dividend yield (%)	0.0	0.0	0.0	0.0	0.0
ROAE (%)	18.5	16.1	14.9	13.2	11.1
ROAA (%)	6.1	6.9	6.9	6.7	6.1
EV/EBITDA (x)	6.0	5.4	5.4	4.7	4.3
Net gearing (%) (incl perps)	156.1	91.6	63.0	41.5	25.0
Consensus net profit	-	-	791	843	774
MIBG vs. Consensus (%)	-	-	4.9	0.0	3.7

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# SELL

[Prior:HOLD]

Share Price	MYR 0.66
12m Price Target	MYR 0.58 (-11%)
Previous Price Target	MYR 0.58

### Company Description

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

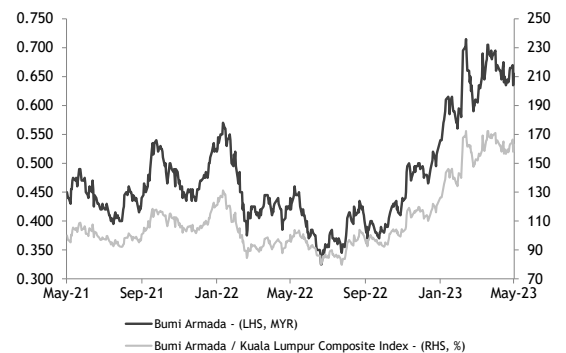
### Statistics

52w high/low (MYR)	0.72/0.33
3m avg turnover (USDm)	2.7
Free float (%)	na
Issued shares (m)	5,918
Market capitalisation	MYR3.9B USD844M

### Major shareholders:

Norges Bank Investment Management	4.4%
The Vanguard Group, Inc.	2.0%
Dimensional Fund Advisors LP	1.1%

### Price Performance



	-1M	-3M	-12M
Absolute (%)	(6)	10	49
Relative to index (%)	(5)	14	62

Source: FactSet

## Summary Results Table

FY Dec (MYR m)	Quarterly results				
	1Q23	1Q22	% YoY	4Q22	% QoQ
Turnover	544.0	529.0	2.8	605.0	(10.1)
EBITDA	321.2	324.1	(0.9)	294.8	9.0
EBIT	239.1	240.8	(0.7)	239.3	(0.1)
Int. expense	(91.8)	(84.9)	8.1	(99.4)	(7.6)
Associate	27.1	20.5	32.2	39.6	(31.6)
EI	1.6	1.7	(1.3)	(1.2)	NM
Pretax profit	200.0	191.7	4.4	192.1	4.1
Tax	(4.1)	(5.4)	(23.9)	19.7	NM
Minority interest	5.1	(0.5)	NM	(1.1)	NM
Net profit	201.0	185.8	8.2	210.7	(4.6)
Net profit Ex EI	199.4	184.1	8.3	211.9	(5.9)
<i>EBIT margin (%)</i>	43.9	45.5	(1.6)	39.5	4.4
<i>Tax rate (%)</i>	2.1	2.8	(0.8)	(10.3)	12.3
Turnover	544.0	529.0	2.8	605.0	(10.1)
- Operations (FPSO & FSU)	529.1	522.1	1.3	599.2	(11.7)
- Others	14.9	6.9	>100	5.9	153.2
EBIT	239.1	240.8	(0.7)	239.3	(0.1)
- Operations (FPSO & FSU)	236.5	240.8	(1.8)	305.3	(22.5)
- Others	2.5	0.0	NM	(66.1)	NM
Margins (%)	43.9	45.5	(1.6)	39.5	45.5
- Operations (FPSO & FSU)	44.7	46.1	(1.4)	51.0	46.1
- Others	19.2	0.0	19.2	(2,143.8)	0.0

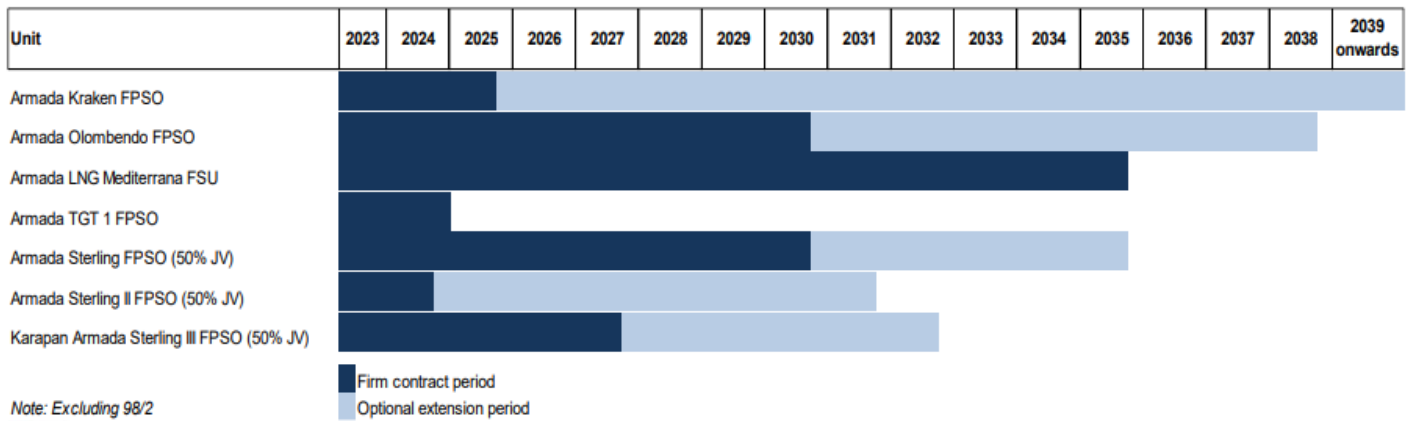
Source: Company

## SOP valuation

FPSO operations	Contract (firm + ext) yr	Location	% stake	NPV (MYR'm)	Details
- TGT1	7 + 6	Vietnam	100%	444	NPV (6-year extension, up to 2024), 5.6% WACC
- Sterling I @ D1	7 + 6	India	49%	486	NPV (10-year firm; up to 2030); 5.6% WACC
- Sterling II @ C7	10 + (5)	India	49%	206	NPV (firm; up to 2024); 5.6% WACC
- Kraken	8 + (1x17)	North Sea	100%	1,638	NPV (firm; up to 2025); 7.0% WACC
- Olombendo	12 + (1 x 8)	Angola	100%	4,490	NPV (firm; up to 2030); 5.8% WACC
- Sterling III @ Madura	10 + 5	Indonesia	50%	376	NPV (firm; up to 2027); 5.8% WACC
- Malta FSU	18.2	Malta	100%	532	NPV (firm; up to 2035); 5.8% WACC
- 98/2 @ Kakinada	9 + 7	India	30%	486	NPV (firm; up to 2031); 7.0% WACC
FPSO				8,658	
Residual value				876	5% of capex
Less: Net debt				(6,123)	FY21
Total				3,411	
Share base (m)				5,883	
SOP per share				0.58	

Source: Maybank IBG Research

**BArmada: Charter period of FPO units (firm: MYR11.1b, option: MYR9.3b)**



Source: Company

**Risk statement**

There are several risk factors for our earnings estimates, price target, and rating for BArmada. 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.

FYE 31 Dec	FY21A	FY22A	FY23E	FY24E	FY25E
<b>Key Metrics</b>					
P/E (reported) (x)	3.9	3.5	4.7	4.6	4.8
Core P/E (x)	3.7	3.5	4.7	4.6	4.8
P/BV (x)	0.7	0.6	0.6	0.6	0.5
P/NTA (x)	0.7	0.6	0.6	0.6	0.5
Net dividend yield (%)	0.0	0.0	0.0	0.0	0.0
FCF yield (%)	55.1	51.0	24.2	23.9	23.6
EV/EBITDA (x)	6.0	5.4	5.4	4.7	4.3
EV/EBIT (x)	9.1	7.3	7.0	5.8	5.3
<b>INCOME STATEMENT (MYR m)</b>					
Revenue	2,162.6	2,405.5	2,532.7	2,592.7	2,212.1
EBITDA	1,468.9	1,369.2	1,384.4	1,400.4	1,311.9
Depreciation	(491.5)	(342.7)	(301.5)	(265.4)	(233.5)
Amortisation	0.0	0.0	0.0	0.0	0.0
EBIT	977.4	1,026.5	1,082.8	1,135.0	1,078.4
Net interest income / (exp)	(397.1)	(366.7)	(323.6)	(362.2)	(347.6)
Associates & JV	106.7	49.2	114.0	114.7	114.2
Exceptionals	(95.8)	(89.3)	0.0	0.0	0.0
Other pretax income	0.0	0.0	0.0	0.0	0.0
Pretax profit	667.9	709.0	873.3	887.6	844.9
Income tax	(25.1)	15.7	(52.4)	(53.3)	(50.7)
Minorities	16.4	7.8	8.6	8.5	8.5
Discontinued operations	0.0	0.0	0.0	0.0	0.0
Reported net profit	659.2	732.4	829.5	842.8	802.7
Core net profit	755.1	821.7	829.5	842.8	802.7
<b>BALANCE SHEET (MYR m)</b>					
Cash & Short Term Investments	794.8	838.8	1,550.7	2,264.4	2,977.6
Accounts receivable	494.3	506.9	533.7	546.4	466.2
Inventory	0.0	0.0	5.1	5.2	4.5
Reinsurance assets	0.0	0.0	0.0	0.0	0.0
Property, Plant & Equip (net)	4,212.8	4,011.5	3,760.0	3,544.6	3,361.1
Intangible assets	0.0	0.0	0.0	0.0	0.0
Investment in Associates & JVs	1,064.7	1,076.6	1,190.7	1,305.4	1,419.5
Other assets	5,503.8	5,292.0	5,292.0	5,292.0	5,292.0
<b>Total assets</b>	<b>12,070.4</b>	<b>11,726.0</b>	<b>12,332.3</b>	<b>12,958.0</b>	<b>13,520.9</b>
ST interest bearing debt	1,404.1	1,018.4	1,018.4	1,018.4	1,018.4
Accounts payable	158.9	182.6	192.3	196.8	167.9
Insurance contract liabilities	0.0	0.0	0.0	0.0	0.0
LT interest bearing debt	5,514.2	4,486.4	4,262.1	4,048.9	3,846.5
Other liabilities	1,071.0	943.0	943.0	943.0	943.0
<b>Total Liabilities</b>	<b>8,148.6</b>	<b>6,630.5</b>	<b>6,415.8</b>	<b>6,207.3</b>	<b>5,975.9</b>
Shareholders Equity	3,962.7	5,146.5	5,976.0	6,818.9	7,621.6
Minority Interest	(40.9)	(51.0)	(59.6)	(68.1)	(76.6)
<b>Total shareholder equity</b>	<b>3,921.8</b>	<b>5,095.6</b>	<b>5,916.5</b>	<b>6,750.8</b>	<b>7,545.0</b>
<b>Total liabilities and equity</b>	<b>12,070.4</b>	<b>11,726.0</b>	<b>12,332.3</b>	<b>12,958.0</b>	<b>13,520.9</b>
<b>CASH FLOW (MYR m)</b>					
Pretax profit	667.9	709.0	873.3	887.6	844.9
Depreciation & amortisation	491.5	342.7	301.5	265.4	233.5
Adj net interest (income)/exp	0.0	0.0	0.0	0.0	0.0
Change in working capital	(7.2)	89.3	(22.2)	(8.2)	52.1
Cash taxes paid	(25.1)	15.7	(52.4)	(53.3)	(50.7)
Other operating cash flow	340.0	242.9	0.0	0.0	0.0
Cash flow from operations	1,360.4	1,350.4	986.2	976.8	965.7
Capex	167.3	98.0	(50.0)	(50.0)	(50.0)
Free cash flow	1,527.8	1,448.4	936.2	926.8	915.7
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	(1,388.1)	(1,413.6)	(224.3)	(213.1)	(202.4)
Other invest/financing cash flow	(239.6)	9.2	0.0	0.0	0.0
Effect of exch rate changes	0.0	0.0	0.0	0.0	0.0
<b>Net cash flow</b>	<b>(99.9)</b>	<b>44.0</b>	<b>711.9</b>	<b>713.7</b>	<b>713.2</b>

FYE 31 Dec	FY21A	FY22A	FY23E	FY24E	FY25E
<b>Key Ratios</b>					
<b>Growth ratios (%)</b>					
Revenue growth	(7.6)	11.2	5.3	2.4	(14.7)
EBITDA growth	0.1	(6.8)	1.1	1.2	(6.3)
EBIT growth	5.6	5.0	5.5	4.8	(5.0)
Pretax growth	423.4	6.2	23.2	1.6	(4.8)
Reported net profit growth	425.0	11.1	13.3	1.6	(4.8)
Core net profit growth	62.6	8.8	0.9	1.6	(4.8)
<b>Profitability ratios (%)</b>					
EBITDA margin	67.9	56.9	54.7	54.0	59.3
EBIT margin	45.2	42.7	42.8	43.8	48.8
Pretax profit margin	30.9	29.5	34.5	34.2	38.2
Payout ratio	0.0	0.0	0.0	0.0	0.0
<b>DuPont analysis</b>					
Net profit margin (%)	30.5	30.4	32.8	32.5	36.3
Revenue/Assets (x)	0.2	0.2	0.2	0.2	0.2
Assets/Equity (x)	3.0	2.3	2.1	1.9	1.8
ROAE (%)	18.5	16.1	14.9	13.2	11.1
ROAA (%)	6.1	6.9	6.9	6.7	6.1
<b>Liquidity &amp; Efficiency</b>					
Cash conversion cycle	37.0	nm	25.8	25.9	22.4
Days receivable outstanding	83.7	74.9	74.0	75.0	82.4
Days inventory outstanding	0.6	nm	0.7	1.3	1.6
Days payables outstanding	47.3	45.6	48.8	50.4	61.6
Dividend cover (x)	nm	nm	nm	nm	nm
Current ratio (x)	0.9	1.1	1.6	2.0	2.4
<b>Leverage &amp; Expense Analysis</b>					
Asset/Liability (x)	1.5	1.8	1.9	2.1	2.3
Net gearing (%) (incl perps)	156.1	91.6	63.0	41.5	25.0
Net gearing (%) (excl. perps)	156.1	91.6	63.0	41.5	25.0
Net interest cover (x)	2.5	2.8	3.3	3.1	3.1
Debt/EBITDA (x)	4.7	4.0	3.8	3.6	3.7
Capex/revenue (%)	nm	nm	2.0	1.9	2.3
Net debt/ (net cash)	6,123.5	4,665.9	3,729.8	2,803.0	1,887.3

Source: Company; Maybank IBG Research

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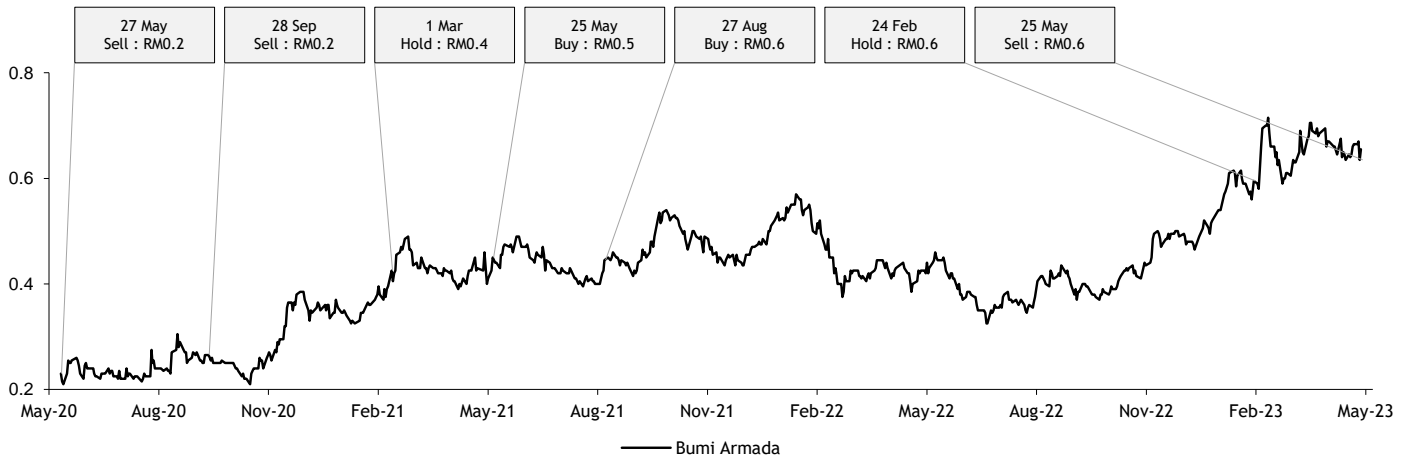
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**Historical recommendations and target price: Bumi Armada (BAB MK)**



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