

## Bumi Armada (BAB MK)

# Kraken FPSO's rebirth likely to push FY24E to a record-high

### Worst is likely over, U/G to BUY

We revise our FY23-25E net profit forecasts by -36%/+0%/-22% to account for: (i) Kraken FPSO's unplanned shutdown on 29 May 2023; (ii) the recognition of bareboat charter (BBC) rates for 30%-JV Sterling V FPSO starting Nov 2023; (iii) lapse of TGT1 FPSO's option period in Nov 2024; and (iv) a decline in BBC rates when Kraken FPSO's firm period expires in July 2025. We take the view that the worst is now behind the group and U/G BArmada to BUY with a higher SOP-TP of MYR0.70 (from MYR0.58).

### Kraken FPSO now operating at pre-shutdown levels

We highlight the following events in chronological order for the Kraken FPSO: (i) 29 May 2023: a complete shutdown following the failure of 3 out of 4 of its critical HSP transformers; (ii) 11 June 2023: 60% of pre-shutdown levels; (iii) 20 July 2023: 90% of pre-shutdown levels; (iv) 7 August 2023: achieved 100% production. As at the latest update, we note that 3 out of 4 transformers are now functional with further replacements to come in Sep 2023. In 2Q23, BArmada booked in repair costs of c.RM40m and we think that the worst is now behind the group. Going forward, we foresee sequential quarterly improvement in profitability in 2H23 and now expect full status quo in FY24.

### Achieved 13 consecutive quarters of de-gearing

The group has successfully reduced its net gearing over 13 consecutive quarters to a more palatable level of 0.7x as at 2Q23 (from a peak of 2.9x in 1Q20) through healthy cash flows from its floating assets and disposals of its non-core assets (i.e. Armada Claire FPSO and completely exiting the OSV business) over the past few years. We expect the group to continue its de-gearing exercise over the next few quarters with its strong operating cashflows to reduce its finance costs and make room for future possibility of debt financing for its other ventures in the near future.

### We forecast record-high core net profit in FY24E

Given that Kraken FPSO's unexpected mishap is now behind BArmada, coupled with: (i) the start of BBC recognition for 30%-JV Sterling V FPSO beginning Nov 2023; (ii) and a further decline in finance costs, we are forecasting a record-high core net profit of MYR847m in FY24E.

FYE Dec (MYR m)	FY21A	FY22A	FY23E	FY24E	FY25E
Revenue	2,163	2,406	1,873	2,015	1,358
EBITDA	1,424	1,369	1,006	1,252	977
Core net profit	710	828	535	847	627
Core EPS (sen)	12.0	14.0	9.0	14.3	10.6
Core EPS growth (%)	52.3	16.4	(35.4)	58.3	(26.0)
Net DPS (sen)	0.0	0.0	0.0	0.0	0.0
Core P/E (x)	3.9	3.4	6.1	3.8	5.2
P/BV (x)	0.7	0.6	0.6	0.5	0.5
Net dividend yield (%)	0.0	0.0	0.0	0.0	0.0
ROAE (%)	18.5	16.1	9.9	13.9	9.2
ROAA (%)	5.7	7.0	4.6	7.1	5.2
EV/EBITDA (x)	6.2	5.4	7.4	5.4	6.4
Net gearing (%) (incl perps)	156.1	91.6	74.9	55.5	43.7
Consensus net profit	-	-	637	794	730
MIBG vs. Consensus (%)	-	-	(16.0)	6.6	(14.2)

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# BUY

[Prior:SELL]

Share Price	MYR 0.55
12m Price Target	MYR 0.70 (+27%)
Previous Price Target	MYR 0.58

### Company Description

Bumi Armada engages in the operations, engineering, and maintenance services to oil and gas companies.

### Statistics

52w high/low (MYR)	0.72/0.37
3m avg turnover (USDm)	3.5
Free float (%)	55.6
Issued shares (m)	5,923
Market capitalisation	MYR3.3B
	USD695M

### Major shareholders:

KRISHNAN TATPARANANDAM ANANDA	34.6%
Permodalan Nasional Bhd.	12.6%
Norges Bank Investment Management	4.4%

### Price Performance



	-1M	-3M	-12M
Absolute (%)	10	17	38
Relative to index (%)	10	12	35

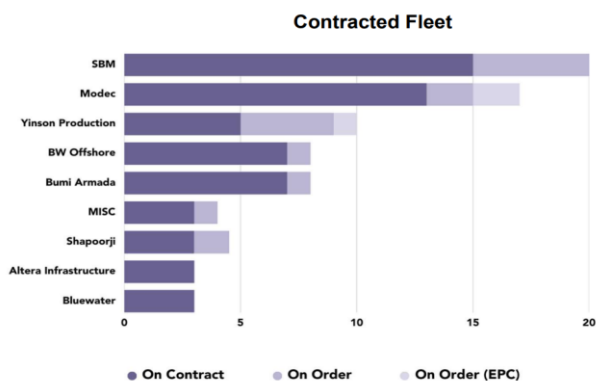
Source: FactSet

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Tear Sheet Insert

## Value Proposition

- Bumi Armada is a top 5 largest FPSO operators globally (by fleet size).
- Bumi Armada’s FPSO assets provide reasonably steady cash flows and earnings visibility (long-term charters) with reasonable project IRRs.
- Has been disposing non-core assets (OSVs mainly) for de-gearing exercises to strengthen its balance sheet.

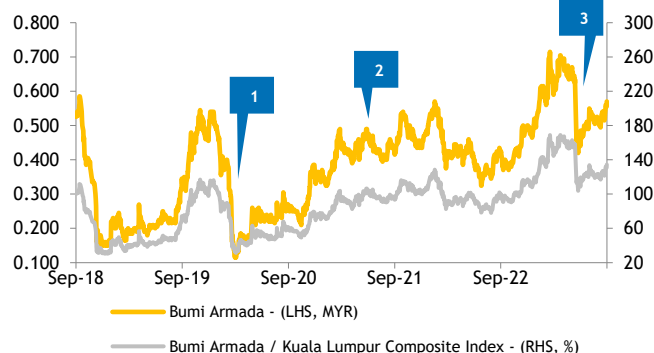
### Contracted fleet



Source: Company

## Price Drivers

### Historical share price trend



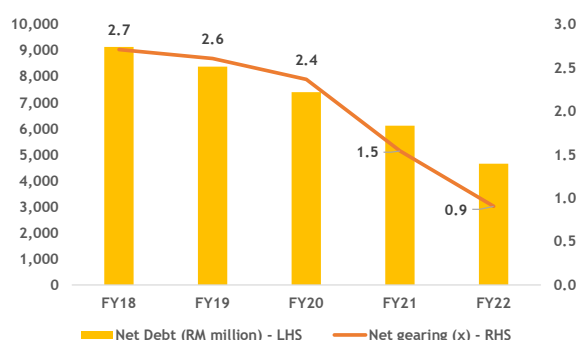
Source: Company, Maybank IBG Research

1. Crash in crude oil prices during the Covid-19 pandemic.
2. Steady recovery in crude oil prices.
3. Kraken FPSO’s unplanned shutdown due to failure of HSP transformers.

## Financial Metrics

- Key earnings drivers are bareboat and O&M charters, as well as production uptime and opex. Variation in any of these parameters will impact profitability.
- FPSO is capital-intensive in nature. The capacity to fund projects or the ability to raise funds is crucial for FPSO operators.
- ARMADA has shown significant improvement in its balance sheet strength over past few years with gearing improved from a peak of 2.9x in 1Q20 to 0.7x as at end-2Q23.
- The group relies heavily on its cashflow generation from its FPSO operations.

### Gearing levels



Source: Company

## Swing Factors

### Upside

- Recovery in crude oil prices will be the most dominant near-term share price driver.
- Improvement in balance sheet giving room for more FPSO job bidding opportunities.
- New job wins will contribute to a significant jump in earnings.

### Downside

- Further weakness in oil prices will hurt share price performance.
- Any unplanned shutdown in its floating assets will hurt earnings recovery trajectory.
- Poor execution, cost overruns and contract termination would have a detrimental effect on earnings and market perception.

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Risk Rating & Score <sup>1</sup>	Medium & 20.4
Score Momentum <sup>2</sup>	N.A.
Last Updated	02 Sep 2023
Controversy Score <sup>3</sup> (Updated: 27 Jun 2023)	1

## Business Model & Industry Issues

- Has good disclosures and have established an ESG framework - in which guiding principles are aligned with the relevant United Nations Sustainable Development Goals 2030. Committed to achieving Net-Zero Carbon Emissions by 2050. Also measures its GHG emissions consistently and aims to reduce them to ALARP. Aims to leverage on International Association of Oil and Gas Producers (IOGP) baseline from 2021-2026.
- A FPSO business is typically carbon-intensive. We would like to see Bumi Armada use high-quality offsets for its assets.
- Slightly ahead of its peers in Sustainalytics ESG Risk Scoring.
- We are comfortable with Bumi Armada, given its broad-based improvement across ESG parameters and compliance with international standards.

### Material E issues

- In FY22, GHG emission intensity: 115tCO<sub>2</sub>e (FY21: 118tCO<sub>2</sub>e); Methane emission: 1,042t (FY21: 1,206t). Emission-wise, BArmada recorded a decent broad-based improvement YoY.
- In FY22, Bunker Fuel Consumption: 77.4m litres (FY21: 76.4m litres); FPSO energy consumption: 1.52GJ/t of production (FY21: 1.53GJ/t); Electricity consumption: 536.2MWh (FY21: 531.7MWh); water-consumption: 98.3k m<sup>3</sup> (FY21: 96.1k m<sup>3</sup>). Overall energy/electricity consumption was flattish YoY.
- In FY22, zero spills to sea (FY21: 2); Hazardous waste disposal: 109t (FY21: 280t); Non-hazardous waste disposal: 454t (FY21: 502t); Total oil discharged: 121.5t (FY21: 124.4t); Produced water discharge to sea: 5,481k m<sup>3</sup> (FY21: 5,102k m<sup>3</sup>); Average oil concentration in produced water discharge: 19.3mg/L (FY21: 16.1mg/L).
- BArmada treats produced water before it gets discharged to the sea.

### Material S issues

- Has a diversified workforce, with 34% non-Malaysian employees (FY21: 36%). 42% of the workforce are female employees (FY21: 43%). 7% of its workforce are below 30 years old in FY22.
- Registered: (i) zero Fatal Accident Rate, (ii) 0.53 Lost Time Injury Rate (LTIR); (iii) 1.58 Total recordable Injury Rate (TRIR) on the back of 3.8m manhours worked in FY22.
- Recorded an 86% increase in the training hours per employee in FY22 from previous reporting year.
- Has zero-tolerance policy against bullying and discrimination of any form in place.

### Key G metrics and issues

- A constituent of the FTSE4Good Index Series.
- ARMADA's Board comprises 8 directors - 4 Independent Non-Executive Directors (INEDs), 3 NINEDs, and 1 ED (CEO).
- A very experienced and gender-diversified board - 37.5% are above 65 years old and 25% are female.
- CEO's total remuneration package of MYR11.2m for FY22 accounted for 1.4% of the Group's PAT.
- ARMADA is audited by PricewaterhouseCoopers (PwC), second largest network of professional firms in the word.
- Its Audit Committee is made up of 2 INEDs and 1 NINED.
- Its Risk Management Committee is made up of 1 INED and 2 NINEDs.
- Its Remuneration Committee comprises 3 INEDs and 1 NINED.
- In 2016, Woodside terminated the contract for Armada Claire FPSO. ARMADA then took legal action against woodside seeking USD\$ 283.5m and yet lost its legal battle. Subsequently, Armada Claire FPSO was sold in 2022.
- In 2016, ARMADA reported a delay of more than one year for the Armada Kraken FPSO.
- In 2018, Armada delayed its USD500m debt refinancing deadline, exposing the firm to default risk.
- In June 2023, ARMADA reported a shut-in incident following a failure of critical transformers at Armada Kraken FPSO. Two months after in Aug 2023, the vessel's operation was fully restored to pre-shutdown level.

<sup>1</sup>**Risk Rating & Score** - derived by Sustainalytics and assesses the company's exposure to unmanaged ESG risks. Scores range between 0 - 50 in order of increasing severity with low/high scores & ratings representing negligible/significant risk to the company's enterprise value, respectively, from ESG-driven financial impacts. <sup>2</sup>**Score Momentum** - indicates changes to the company's score since the last update - a **negative** integer indicates a company's improving risk score; a **positive** integer indicates a deterioration. <sup>3</sup>**Controversy Score** - reported periodically by Sustainalytics in the event of material ESG-related incident(s), with the impact severity scores of these events ranging from Category 0-5 (0 - no reports; 1 - negligible risks; ...; 5 - poses serious risks & indicative of potential structural deficiencies at the company).

## BArmada likely pulled out of Cameia FPSO EPC job bid

*Upstream Online* reported that BArmada has pulled out of further contract discussions with TotalEnergies for the EPC job of a 100kbpd FPSO for the Cameia-Golfinho project. While reasons were not disclosed, we believe that this was due to the massive hike in capex costs (due to inflationary pressures in the oil and gas sector) and with that, we believe that both TotalEnergies and BArmada were not able to find a middle ground on an agreeable DCR for the FPSO.

To recap, participants in the original pre-FEED contest were: i) Technip-Yinson; ii) Saipem-MISC; and iii) BArmada. *Upstream Online* states that TotalEnergies is now sourcing a supplier for a 70kbpd FPSO with Saipem, Modec, BW Offshore and other Asian FPSO players as a replacement.

## Sterling II & Kraken FPSO firm period to end in Mar 2024 & Jul 2025 respectively, TGT1 FPSO contract to lapse in Nov 2024

We highlight the following:

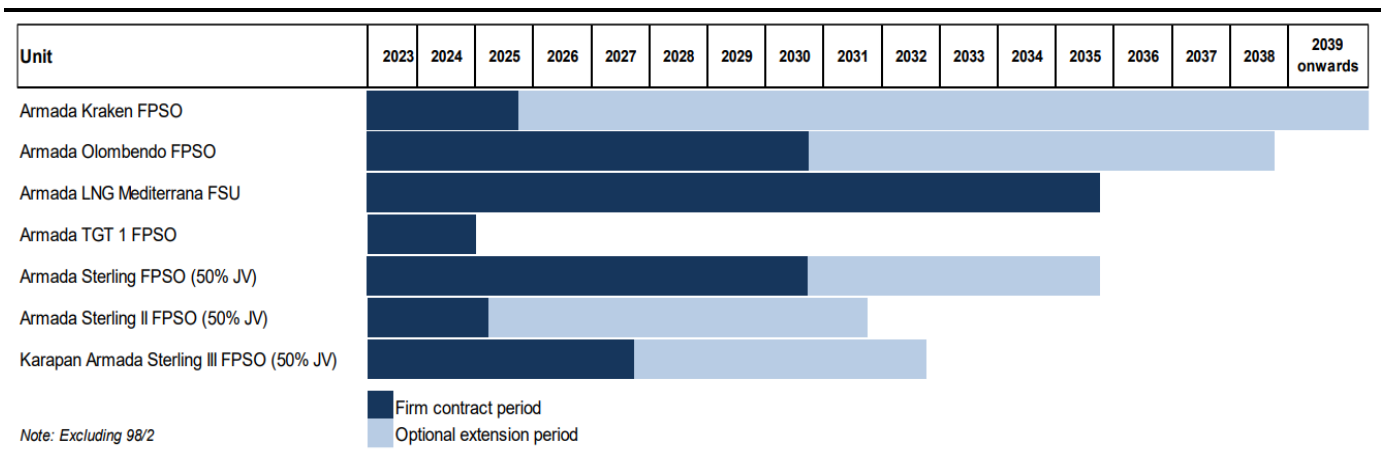
1) Armada Sterling II (50% JV with Shapoorji Pallonji)'s firm time-charter tenure is set to expire in March 2024. On 16 June 2023, via an announcement on the local bourse, the JV entity received a notification that the client ONGC intends to extend the charter hire of the FPSO for 1 more year till March 2025, with further possible annual renewals. The contract value extension amounts to about USD43m. In our earnings model and valuation, we have assumed an annual renewal till 2030.

2) Kraken FPSO's firm time-charter tenure is set to end in July 2025, with an annual extension option till 2042. In our earnings model and valuation, we have assumed an annual renewal till 2042.

3) TGT1 FPSO's option time-charter contract will lapse in November 2024.

With that, our revised forecasts have reflected all of these assumptions. BArmada's earnings may peak in FY24E if the group does not find ways to fill the profit vacuum from the said developments.

**Fig 1: Charter Period for Bumi Armada's floating assets**



Source: Company

## Other recent announcements on future ventures

**1) Carbon Capture, Usage and Storage (CCUS) initiatives:** BArmada signed a non-binding MoU with Navigator Holdings (the owner and operator of the world's largest fleet of handysize liquefied gas carriers) to establish a JV company to provide CO<sub>2</sub> shipping and injection solutions in the UK.

This "Bluestreak JV" will be equally owned by BArmada and Navigator (NVGS US) and it aims to provide an end-to-end solution for carbon emitters to capture, transport, sequester and store their CO<sub>2</sub> emissions. The JV entity will design, implement a value chain of shuttle tankers delivering to a floating carbon storage & injection unit. The CO<sub>2</sub> is intended to be subsequently injected into offshore storage aquifers and/or depleted oil and gas reservoirs in a controlled manner.

**2) New E&P venture:** Overnight, the group announced that the consortium of BArmada (51% participating interest and will be the operator of the field) and Pexco Energy have signed a PSC contract with the Ministry of Energy and Mineral Resources of Indonesia for the Akia PSC (located off the coast of North Kalimantan). The Akia PSC has an area of 8.4k sq km and contains the Aster and Tulip oil discoveries.

The group aims to provide and operate: 1) an FPSO; and 2) a FLNG/gas pipeline for the development - to leverage on BArmada's core expertise of providing floating production assets.

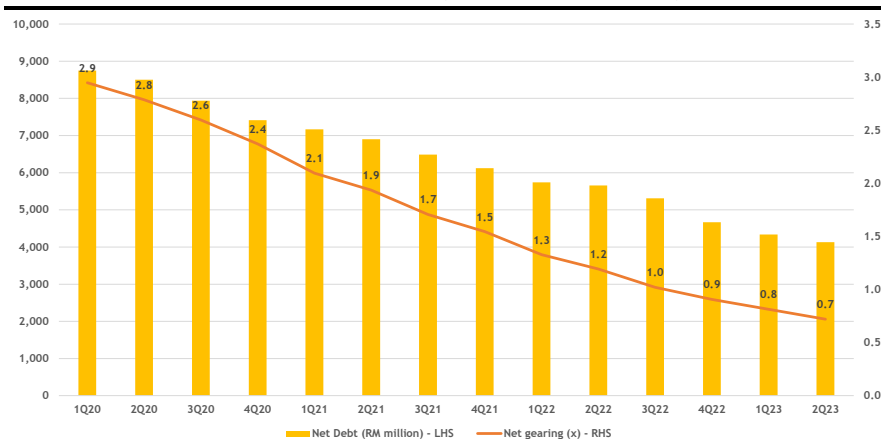
*Upstream Online* reported that the Akia Block has "world-class hydrocarbon potential". Akia is located off the coast of North Kalimantan and has estimated reserves of 2b barrels of oil and 9t cf of gas.

While we understand that Pexco Energy is already involved in the E&P business, the same cannot be said for BArmada. This will be BArmada's first E&P venture. The initial exploration works will take about 3 years. We highlight that the consortium signing the PSC is a RPT as both entities are directly/indirectly owned by Ananda Krishnan.

We have not taken into consideration of both ventures in our earnings forecasts - pending more information and clarity (if any) from the company.

## De-gearing underway

BArmada has achieved an impressive feat where the group successfully reduced its net gearing over 13 consecutive quarters to a more palatable level of 0.7x as at 2Q23 (from a peak of 2.9x in 1Q20) as the group has been diligently paring down its borrowings with healthy cash flows from its floating assets and disposals of its non-core assets (i.e Armada Claire FPSO and completely exiting the OSV business) over the past few years. We expect the group to continue its de-gearing exercise over the next few quarters with its strong operating cashflows to reduce its finance costs and make room for future possibility of debt financing for its other ventures in the near future.

**Fig 2: Net Debt and Net Gearing Chart (from 1Q20 - current)**


Source: Company, Maybank IBG Research

## SOP-based Target Price of MYR0.70

We revise our SOP-based TP to MYR0.70 (from MYR0.58 previously) after updating our valuation parameters.

Our valuation for BArmada premises on the following key assumptions:

- i) Beta of 1.3 (Bloomberg);
- ii) A market risk premium of 7.7%;
- iii) A risk-free rate of 4.0%.

**Fig 3: Sum of Parts Valuation for Bumi Armada**

Assets	Location	Equity value (RMm)	Value/share (RM)	Basis
Armada Kraken FPSO	North Sea, UK	1,559.1	0.26	NPV: WACC @ 7.3% (firm + full extension)
Armada Olombendo FPSO	Angola	3,958.9	0.67	NPV: WACC @ 7.3% (firm + full extension)
Armada LNG Mediterrana FSU	Malta	345.1	0.06	NPV: WACC @ 7.3% (firm)
Armada TGT1 FPSO	Vietnam	187.6	0.03	NPV: WACC @ 7.3% (full extension)
Armada Sterling I (50% JV)	India	821.6	0.14	NPV: WACC @ 7.3% (firm + full extension)
Armada Sterling II (50% JV)	India	92.5	0.02	NPV: WACC @ 7.3% (firm + full extension)
Armada Sterling III (49% JV)	Indonesia	513.3	0.09	NPV: WACC @ 7.3% (firm + full extension)
Armada Sterling V (30% JV)	India	892.2	0.15	NPV: WACC @ 7.3% (firm + full extension)
<b>Sub-total</b>		<b>8,370.3</b>		
Net debt		-4,208.5		
<b>Total</b>		<b>4,161.7</b>		
No. of shares		5,918.0		
<b>Target Price (RM/share)</b>		<b>0.70</b>		
WACC (Discount rate)		7.3%		
Beta		1.3		
Equity risk premium		3.7%		
Risk-free rate		4.0%		

Source: Maybank IBG Research

FYE 31 Dec	FY21A	FY22A	FY23E	FY24E	FY25E
<b>Key Metrics</b>					
P/E (reported) (x)	3.9	3.5	6.1	3.8	5.2
Core P/E (x)	3.9	3.4	6.1	3.8	5.2
P/BV (x)	0.7	0.6	0.6	0.5	0.5
P/NTA (x)	0.7	0.6	0.6	0.5	0.5
Net dividend yield (%)	0.0	0.0	0.0	0.0	0.0
FCF yield (%)	59.2	53.7	14.1	19.2	15.2
EV/EBITDA (x)	6.2	5.4	7.4	5.4	6.4
EV/EBIT (x)	9.2	7.3	10.9	7.3	9.3

**INCOME STATEMENT (MYR m)**

Revenue	2,162.6	2,405.5	1,873.1	2,015.3	1,358.4
EBITDA	1,424.1	1,369.2	1,005.9	1,251.6	976.7
Depreciation	(465.8)	(342.7)	(328.6)	(328.6)	(303.6)
Amortisation	0.0	0.0	0.0	0.0	0.0
EBIT	958.3	1,026.5	677.4	923.0	673.1
Net interest income / (exp)	(397.1)	(366.7)	(302.8)	(280.8)	(250.5)
Associates & JV	106.7	49.2	166.1	213.4	210.7
Exceptionals	0.0	0.0	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	540.7	855.7	633.3
Income tax	(25.1)	15.7	(16.2)	(25.7)	(19.0)
Minorities	16.4	7.8	10.5	16.6	12.3
Discontinued operations	0.0	0.0	0.0	0.0	0.0
Reported net profit	659.2	732.4	535.0	846.6	626.6
Core net profit	710.2	827.9	535.0	846.6	626.6

**BALANCE SHEET (MYR m)**

Cash & Short Term Investments	794.8	838.8	896.2	972.6	916.7
Accounts receivable	802.6	817.7	636.7	685.0	461.7
Inventory	0.0	0.0	0.0	0.0	0.0
Reinsurance assets	0.0	0.0	0.0	0.0	0.0
Property, Plant & Equip (net)	4,212.8	4,011.5	3,983.0	3,954.4	3,950.9
Intangible assets	0.0	0.0	0.0	0.0	0.0
Investment in Associates & JVs	1,064.7	1,070.0	1,236.1	1,449.5	1,660.2
Other assets	5,195.6	4,987.9	4,987.9	4,987.9	4,987.9
<b>Total assets</b>	<b>12,070.4</b>	<b>11,726.0</b>	<b>11,740.0</b>	<b>12,049.5</b>	<b>11,977.4</b>
ST interest bearing debt	1,404.1	1,018.4	1,018.4	1,018.4	1,018.4
Accounts payable	444.1	499.4	388.9	418.4	282.0
Insurance contract liabilities	0.0	0.0	0.0	0.0	0.0
LT interest bearing debt	5,514.2	4,486.4	4,086.4	3,536.4	2,986.4
Other liabilities	786.0	626.0	626.0	626.0	626.0
<b>Total Liabilities</b>	<b>8,148.6</b>	<b>6,630.5</b>	<b>6,119.9</b>	<b>5,599.4</b>	<b>4,913.1</b>
Shareholders Equity	3,962.7	5,146.5	5,681.5	6,528.1	7,154.7
Minority Interest	(40.9)	(51.0)	(61.5)	(78.1)	(90.4)
<b>Total shareholder equity</b>	<b>3,921.8</b>	<b>5,095.6</b>	<b>5,620.0</b>	<b>6,450.0</b>	<b>7,064.3</b>
<b>Total liabilities and equity</b>	<b>12,070.4</b>	<b>11,726.0</b>	<b>11,740.0</b>	<b>12,049.5</b>	<b>11,977.4</b>

**CASH FLOW (MYR m)**

Pretax profit	667.9	709.0	540.7	855.7	633.3
Depreciation & amortisation	465.8	342.7	328.6	328.6	303.6
Adj net interest (income)/exp	393.7	364.4	0.0	0.0	0.0
Change in working capital	271.0	300.1	(95.6)	(232.2)	(123.8)
Cash taxes paid	(9.0)	0.1	(16.2)	(25.7)	(19.0)
Other operating cash flow	0.0	0.0	0.0	0.0	0.0
Cash flow from operations	1,475.5	1,428.8	757.4	926.4	794.0
Capex	167.3	98.0	(300.0)	(300.0)	(300.0)
Free cash flow	1,642.9	1,526.8	457.4	626.4	494.0
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	(1,651.5)	(1,747.3)	(400.0)	(550.0)	(550.0)
Other invest/financing cash flow	(93.0)	167.3	0.0	0.0	0.0
Effect of exch rate changes	50.3	48.6	0.0	0.0	0.0
Net cash flow	(51.4)	(4.5)	57.4	76.4	(56.0)

FYE 31 Dec	FY21A	FY22A	FY23E	FY24E	FY25E
<b>Key Ratios</b>					
<b>Growth ratios (%)</b>					
Revenue growth	(7.6)	11.2	(22.1)	7.6	(32.6)
EBITDA growth	(2.9)	(3.9)	(26.5)	24.4	(22.0)
EBIT growth	3.6	7.1	(34.0)	36.3	(27.1)
Pretax growth	423.4	6.2	(23.7)	58.3	(26.0)
Reported net profit growth	425.0	11.1	(27.0)	58.3	(26.0)
Core net profit growth	53.0	16.6	(35.4)	58.3	(26.0)
<b>Profitability ratios (%)</b>					
EBITDA margin	65.9	56.9	53.7	62.1	71.9
EBIT margin	44.3	42.7	36.2	45.8	49.6
Pretax profit margin	30.9	29.5	28.9	42.5	46.6
Payout ratio	0.0	0.0	0.0	0.0	0.0
<b>DuPont analysis</b>					
Net profit margin (%)	30.5	30.4	28.6	42.0	46.1
Revenue/Assets (x)	0.2	0.2	0.2	0.2	0.1
Assets/Equity (x)	3.0	2.3	2.1	1.8	1.7
ROAE (%)	18.5	16.1	9.9	13.9	9.2
ROAA (%)	5.7	7.0	4.6	7.1	5.2
<b>Liquidity &amp; Efficiency</b>					
Cash conversion cycle	21.9	nm	nm	nm	nm
Days receivable outstanding	109.4	121.2	139.8	118.1	151.9
Days inventory outstanding	0.6	nm	nm	nm	nm
Days payables outstanding	88.1	133.2	142.3	120.2	154.7
Dividend cover (x)	nm	nm	nm	nm	nm
Current ratio (x)	0.9	1.1	1.1	1.2	1.1
<b>Leverage &amp; Expense Analysis</b>					
Asset/Liability (x)	1.5	1.8	1.9	2.2	2.4
Net gearing (%) (incl perps)	156.1	91.6	74.9	55.5	43.7
Net gearing (%) (excl. perps)	156.1	91.6	74.9	55.5	43.7
Net interest cover (x)	2.4	2.8	2.2	3.3	2.7
Debt/EBITDA (x)	4.9	4.0	5.1	3.6	4.1
Capex/revenue (%)	nm	nm	16.0	14.9	22.1
Net debt/ (net cash)	6,123.5	4,665.9	4,208.5	3,582.2	3,088.1

Source: Company; Maybank IBG Research



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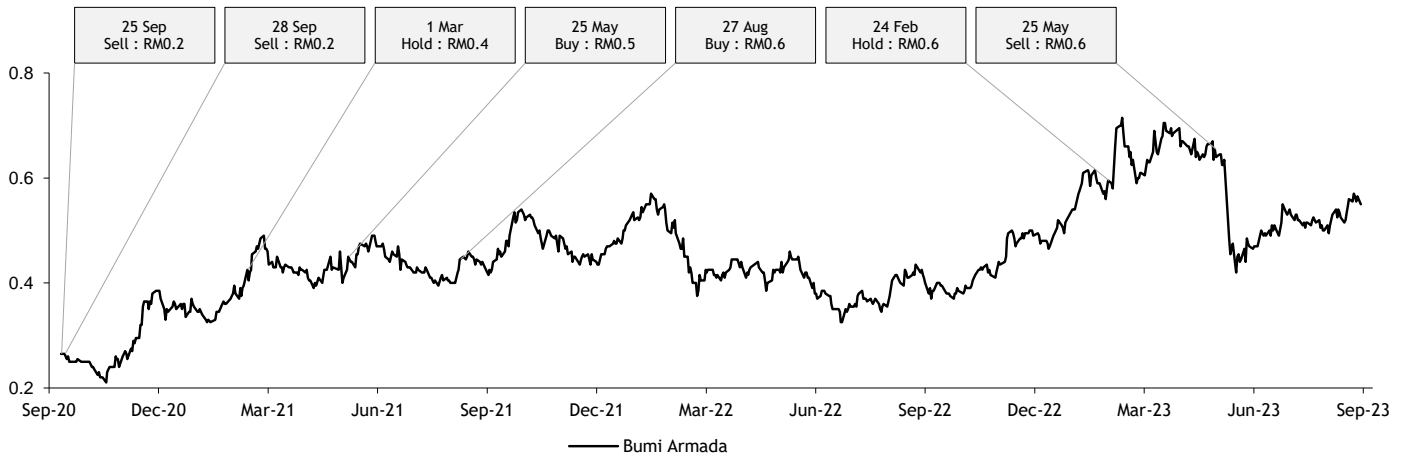
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