

## Bumi Armada (BAB MK)

# 3Q23 results review: Kraken FPSO back in action!

### 3Q23 results beat! Maintain BUY

BArmada's 3Q23 results came in above our expectations and with that, we raise our FY23E net profit forecast by 21% to account for higher Kraken FPSO uptime for the year while leaving FY24-25E estimates relatively unchanged. With its Kraken FPSO now fully up and running at pre-shutdown levels, we believe that the worst is now behind the group. Post-revision of our earnings estimate, our SOP-based TP is raised slightly to MYR0.71 (from MYR0.70 previously). Maintain BUY.

### 3Q23 supported by Kraken's comeback (+286% QoQ)

Core net profit of MYR181m in 3Q23 (+286% QoQ, -13% YoY) brought 9M23 core earnings to MYR436m (-28% YoY) - which came in above our expectations but within street at 82%/73% of ours/consensus full-year forecasts respectively. The 9M23 results were adjusted for: i) MYR18.4m gain on disposal of a JV; ii) MYR60.7m gain on disposal of PPE, iii) MYR3.7m insurance claim; iv) MYR3.2m reversal of impairment on trade receivables; v) MYR23.4m net forex loss; and vi) MYR1.2m fair value loss on hedges. The QoQ strength was mainly due to the recovery in Kraken's DCR as the FPSO achieved 90% pre-shutdown production on 20 July 2023 and 100% production on 7 August 2023. We should see full quarterly earnings recovery in 4Q23 and we are expecting full status quo in FY24E.

### 14 consecutive quarters of de-gearing in 3Q23

BArmada's successfully reduced in its net gearing yet again for the 14th consecutive quarter to 0.66x as at 3Q23 (from a peak of 2.95x 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 quarters. We foresee BArmada's balance sheet to continue improving over the next few quarters with its strong OCFs to: i) reduce its finance costs; and ii) make room for debt financing for its other ventures in the near future.

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

Given that Kraken's FPSO mishap is now behind BArmada, coupled with: i) the start of BBC recognition for its 30%-JV Sterling V FPSO beginning end-Nov 2023; and ii) a further decline in finance costs, we are forecasting a record-high core net profit of MYR853m in FY24E (+31% YoY). BArmada is our sector's top pick.

FYE Dec (MYR m)	FY21A	FY22A	FY23E	FY24E	FY25E
Revenue	2,163	2,406	2,070	2,094	1,412
EBITDA	1,424	1,369	1,121	1,250	971
Core net profit	710	828	649	853	630
Core EPS (sen)	12.0	14.0	11.0	14.4	10.6
Core EPS growth (%)	52.3	16.4	(21.6)	31.4	(26.2)
Net DPS (sen)	0.0	0.0	0.0	0.0	0.0
Core P/E (x)	3.9	3.4	5.0	3.8	5.1
P/BV (x)	0.7	0.6	0.6	0.5	0.4
Net dividend yield (%)	0.0	0.0	0.0	0.0	0.0
ROAE (%)	18.5	16.1	11.9	13.7	9.0
ROAA (%)	5.7	7.0	5.5	7.1	5.2
EV/EBITDA (x)	6.2	5.4	6.5	5.3	6.3
Net gearing (%) (incl perps)	156.1	91.6	71.9	53.0	41.6
Consensus net profit	-	-	611	794	664
MIBG vs. Consensus (%)	-	-	6.2	7.4	(5.2)

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# BUY

Share Price	MYR 0.55
12m Price Target	MYR 0.71 (+30%)
Previous Price Target	MYR 0.70

### Company Description

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

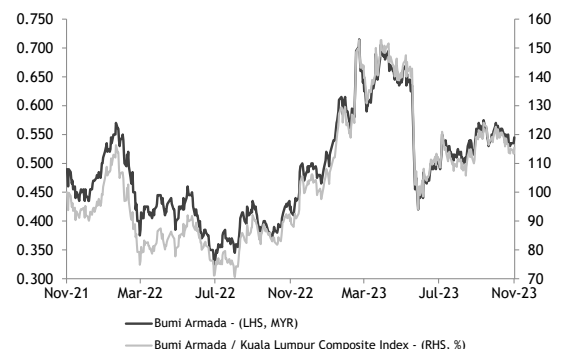
### Statistics

52w high/low (MYR)	0.72/0.41
3m avg turnover (USDm)	2.9
Free float (%)	55.6
Issued shares (m)	5,923
Market capitalisation	MYR3.2B
	USD691M

### Major shareholders:

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

### Price Performance



	-1M	-3M	-12M
Absolute (%)	(4)	4	28
Relative to index (%)	(5)	4	27

Source: FactSet

Fig 1: Results Review

FYE Dec	3Q23	3Q22	YoY	2Q23	QoQ	9M23	9M22	YTD-YoY
Revenue	524.8	653.1	-20%	441.3	19%	1510.1	1800.5	-16%
Cost of Sales	(283.5)	(377.9)	-25%	(320.6)	-12%	(872.9)	(1015.0)	-14%
Gross Profit	241.3	275.2	-12%	120.7	100%	637.2	785.5	-19%
Other operating income	33.4	17.9	86%	74.4	-55%	131.8	44.4	197%
Operating expenses	(51.7)	(16.7)	210%	(19.5)	166%	(105.6)	(55.2)	91%
Operating profit/(loss)	223.0	276.4	-19%	175.7	27%	663.4	774.7	-14%
Finance costs	(83.0)	(94.9)	-12%	(83.6)	-1%	(258.4)	(267.3)	-3%
Share of JV and associates	25.1	(43.2)	-158%	13.8	81%	66.0	9.6	589%
Profit/(loss) before taxation	165.0	138.4	19%	105.9	56%	471.0	516.9	-9%
Taxation	(0.3)	0.8	-138%	1.2	-124%	(3.2)	(4.1)	-22%
Profit after tax	164.8	139.2	18%	107.1	54%	467.8	512.9	-9%
MI	(13.0)	(10.5)	23%	(11.6)	12%	(29.7)	(8.9)	235%
Net profit	177.8	149.7	19%	118.8	50%	497.5	521.7	-5%
Exceptional Items	3.4	58.7	-94%	(71.8)	-105%	(61.3)	83.5	-173%
Core net profit	181.1	208.4	-13%	47.0	286%	436.3	605.3	-28%
	3Q23	3Q22	YoY	2Q23	QoQ	9M23	9M22	YTD-YoY
<b>Margins</b>			+/- ppts		+/- ppts			+/- ppts
Gross Profit Margin	46.0%	42.1%	3.8	27.3%	18.6	42.2%	43.6%	(1.4)
EBIT Margin	42.5%	42.3%	0.2	39.8%	2.7	43.9%	43.0%	0.9
PBT Margin	31.4%	21.2%	10.3	24.0%	7.5	31.2%	28.7%	2.5
PAT Margin	31.4%	21.3%	10.1	24.3%	7.1	31.0%	28.5%	2.5
PATAMI Margin	33.9%	22.9%	10.9	26.9%	7.0	32.9%	29.0%	4.0
Core Net Profit Margin	34.5%	31.9%	2.6	10.6%	23.9	28.9%	33.6%	(4.7)
Effective Tax Rate	0.2%	-0.6%	0.7	-1.2%	1.3	0.7%	0.8%	(0.1)

Source: Company, Maybank IBG Research

## Risk statement

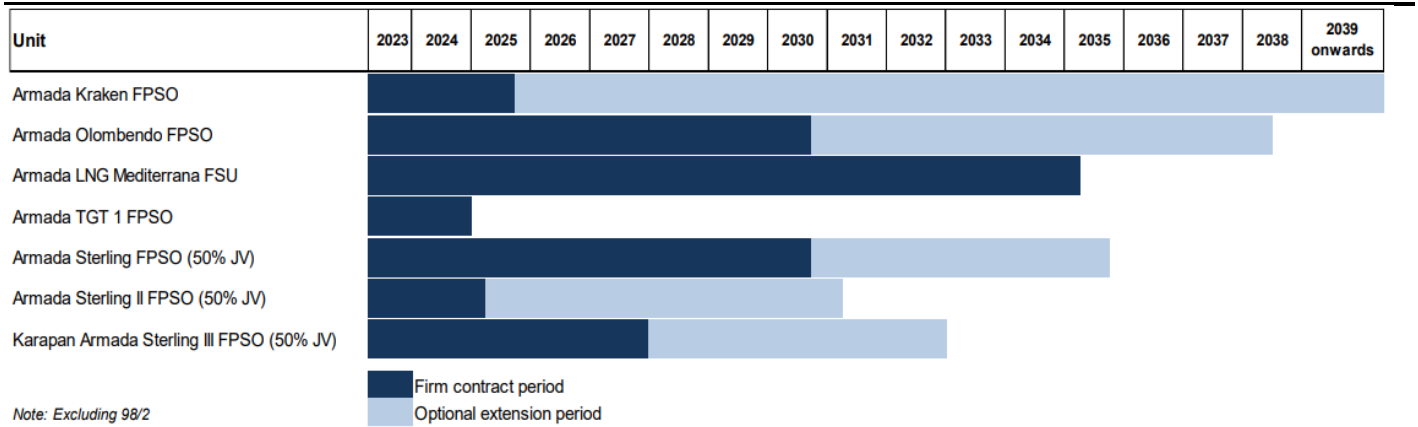
There are several risk factors that may impact our earnings estimates, target price and BUY rating for Bumi Armada. Key risks include: (i) any unplanned shutdown for its floating assets; and (ii) a termination of any of its FPSO/FSU's leasing contracts.

Fig 2: Sum of Parts Valuation

Assets	Location	Equity value (MYRm)	Value/share (MYR)	Basis
Armada Kraken FPSO	North Sea, UK	1,799.1	0.30	NPV: WACC @ 7.3% (firm + full extension)
Armada Olombendo FPSO	Angola	3,735.3	0.63	NPV: WACC @ 7.3% (firm + full extension)
Armada LNG Mediterrana FSU	Malta	357.0	0.06	NPV: WACC @ 7.3% (firm)
Armada TGT1 FPSO	Vietnam	204.5	0.03	NPV: WACC @ 7.3% (full extension)
Armada Sterling I (50% JV)	India	848.0	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	481.1	0.08	NPV: WACC @ 7.3% (firm + full extension)
Armada Sterling V (30% JV)	India	806.6	0.14	NPV: WACC @ 7.3% (firm + full extension)
<b>Sub-total</b>		<b>8,324.1</b>		
Net debt		-4,122.7		
<b>Total</b>		<b>4,201.4</b>		
No. of shares		5,918.0		
<b>Target Price (MYR/share)</b>		<b>0.71</b>		
WACC (Discount rate)		7.3%		
Beta		1.3		
Equity risk premium		3.7%		
Risk-free rate		4.0%		

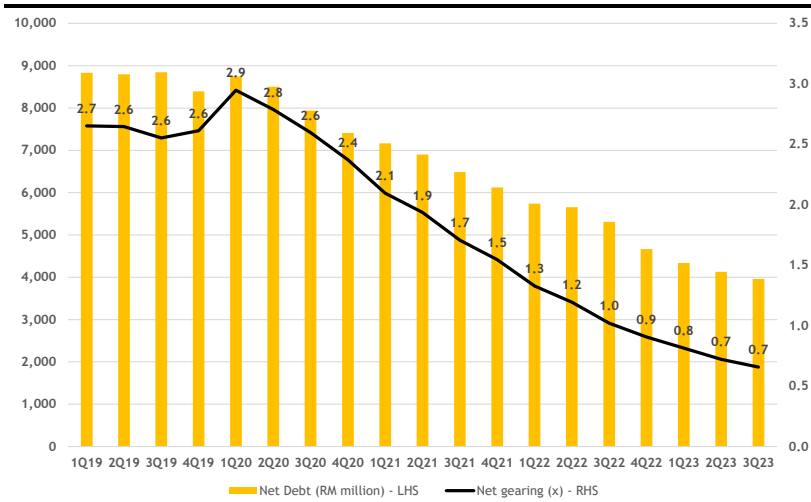
Source: Maybank IBG Research

**Fig 3: Charter Period for Bumi Armada’s floating assets**



Source: Maybank IBG Research

**Fig 4: Net debt and Net Gearing Chart (from 1Q20 - current)**



Source: Maybank IBG Research

FYE 31 Dec	FY21A	FY22A	FY23E	FY24E	FY25E
<b>Key Metrics</b>					
P/E (reported) (x)	3.9	3.5	5.0	3.8	5.1
Core P/E (x)	3.9	3.4	5.0	3.8	5.1
P/BV (x)	0.7	0.6	0.6	0.5	0.4
P/NTA (x)	0.7	0.6	0.6	0.5	0.4
Net dividend yield (%)	0.0	0.0	0.0	0.0	0.0
FCF yield (%)	59.2	53.7	16.8	19.8	15.3
EV/EBITDA (x)	6.2	5.4	6.5	5.3	6.3
EV/EBIT (x)	9.2	7.3	9.2	7.2	9.2

**INCOME STATEMENT (MYR m)**

Revenue	2,162.6	2,405.5	2,070.0	2,094.4	1,411.8
EBITDA	1,424.1	1,369.2	1,121.3	1,249.8	971.4
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	792.7	921.3	667.9
Net interest income / (exp)	(397.1)	(366.7)	(302.8)	(280.8)	(250.5)
Associates & JV	106.7	49.2	166.1	221.8	219.0
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	656.0	862.3	636.4
Income tax	(25.1)	15.7	(19.7)	(25.9)	(19.1)
Minorities	16.4	7.8	12.7	16.7	12.3
Discontinued operations	0.0	0.0	0.0	0.0	0.0
Reported net profit	659.2	732.4	649.0	853.1	629.6
Core net profit	710.2	827.9	649.0	853.1	629.6

**BALANCE SHEET (MYR m)**

Cash & Short Term Investments	794.8	838.8	982.0	1,072.0	1,014.1
Accounts receivable	802.6	817.7	703.6	711.9	479.9
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	1,457.9	1,676.9
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>11,892.7</b>	<b>12,184.1</b>	<b>12,109.7</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	429.7	434.8	293.1
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>6,160.8</b>	<b>5,615.9</b>	<b>4,924.2</b>
Shareholders Equity	3,962.7	5,146.5	5,795.6	6,648.7	7,278.3
Minority Interest	(40.9)	(51.0)	(63.7)	(80.4)	(92.8)
<b>Total shareholder equity</b>	<b>3,921.8</b>	<b>5,095.6</b>	<b>5,731.9</b>	<b>6,568.3</b>	<b>7,185.5</b>
<b>Total liabilities and equity</b>	<b>12,070.4</b>	<b>11,726.0</b>	<b>11,892.7</b>	<b>12,184.1</b>	<b>12,109.7</b>

**CASH FLOW (MYR m)**

Pretax profit	667.9	709.0	656.0	862.3	636.4
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	(121.7)	(225.0)	(128.7)
Cash taxes paid	(9.0)	0.1	(19.7)	(25.9)	(19.1)
Other operating cash flow	0.0	0.0	0.0	0.0	0.0
Cash flow from operations	1,475.5	1,428.8	843.2	940.0	792.1
Capex	167.3	98.0	(300.0)	(300.0)	(300.0)
Free cash flow	1,642.9	1,526.8	543.2	640.0	492.1
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	(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)	143.2	90.0	(57.9)

FYE 31 Dec	FY21A	FY22A	FY23E	FY24E	FY25E
<b>Key Ratios</b>					
<b>Growth ratios (%)</b>					
Revenue growth	(7.6)	11.2	(13.9)	1.2	(32.6)
EBITDA growth	(2.9)	(3.9)	(18.1)	11.5	(22.3)
EBIT growth	3.6	7.1	(22.8)	16.2	(27.5)
Pretax growth	423.4	6.2	(7.5)	31.4	(26.2)
Reported net profit growth	425.0	11.1	(11.4)	31.4	(26.2)
Core net profit growth	53.0	16.6	(21.6)	31.4	(26.2)
<b>Profitability ratios (%)</b>					
EBITDA margin	65.9	56.9	54.2	59.7	68.8
EBIT margin	44.3	42.7	38.3	44.0	47.3
Pretax profit margin	30.9	29.5	31.7	41.2	45.1
Payout ratio	0.0	0.0	0.0	0.0	0.0
<b>DuPont analysis</b>					
Net profit margin (%)	30.5	30.4	31.4	40.7	44.6
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	11.9	13.7	9.0
ROAA (%)	5.7	7.0	5.5	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	132.3	121.7	151.9
Days inventory outstanding	0.6	nm	nm	nm	nm
Days payables outstanding	88.1	133.2	134.7	123.8	154.7
Dividend cover (x)	nm	nm	nm	nm	nm
Current ratio (x)	0.9	1.1	1.2	1.2	1.2
<b>Leverage &amp; Expense Analysis</b>					
Asset/Liability (x)	1.5	1.8	1.9	2.2	2.5
Net gearing (%) (incl perps)	156.1	91.6	71.9	53.0	41.6
Net gearing (%) (excl. perps)	156.1	91.6	71.9	53.0	41.6
Net interest cover (x)	2.4	2.8	2.6	3.3	2.7
Debt/EBITDA (x)	4.9	4.0	4.6	3.6	4.1
Capex/revenue (%)	nm	nm	14.5	14.3	21.2
Net debt/ (net cash)	6,123.5	4,665.9	4,122.7	3,482.8	2,990.7

Source: Company; Maybank IBG Research

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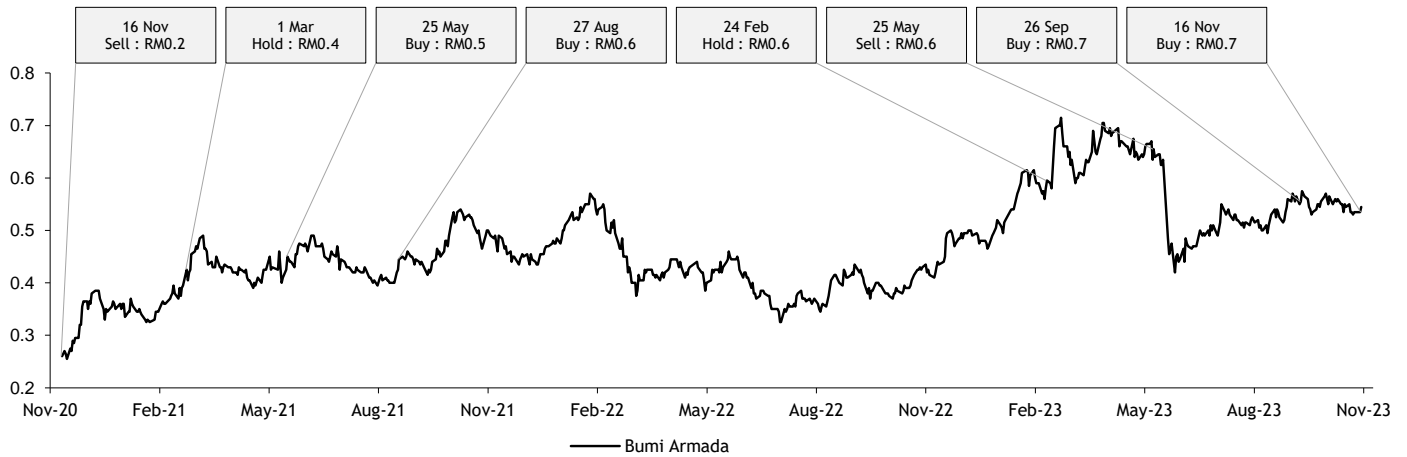
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