

Bumi Armada (BAB MK)

We expect sequential core net profit improvement in 4Q23

Maintain BUY with a lower TP of MYR0.66

We trim FY23-24E net profit by -0.5%/-1.1% while leaving FY25E estimates unchanged for BArmada to account for a delay in the recognition of a bareboat charter to Apr 2024 (from end-Nov 2023) by its 30%-owned Armada Sterling V FPSO as ONGC had faced multiple delays in achieving first oil in its KG-DWN-98/2 development. Also, after rolling forward our base valuation year to FY24E, our SOP-based TP is lowered to MYR0.66 (from MYR0.71). Maintain BUY.

ONGC achieved first oil from the KG-DWN-98/2 block

Upstream Online ([link](#)) reported that ONGC has confirmed that it has achieved first oil production from the deep-water KG-DWN-98/2 block on 7 Jan 2024. While first oil has been achieved, Armada Sterling V FPSO may have yet to achieve final acceptance, which would lead to the recognition of bareboat charter of the asset. While we understand that the FPSO has already achieved hook-up, BArmada is still waiting for ONGC to conduct the necessary acceptance tests. Our revised earnings forecasts and TP assume that final acceptance will be achieved in Apr 2024.

Sequential core net profit improvement in 4Q23E

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. We note the major downtime happened in 2Q23 which caused BArmada's core net profit to dip to MYR47m in the quarter. Core earnings improved to MYR181m in 3Q23 and our revised FY23E core net profit forecast implies a further sequential core net profit improvement in 4Q23 to MYR210m (back to status quo).

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 Apr 2024; (ii) and a further decline in finance costs, we forecast a record-high core net profit of MYR844m in FY24E.

| FYE Dec (MYR m) | FY21A | FY22A | FY23E | FY24E | FY25E |
|------------------------------|-------|-------|--------|-------|--------|
| Revenue | 2,163 | 2,406 | 2,070 | 2,141 | 1,412 |
| EBITDA | 1,424 | 1,369 | 1,054 | 1,264 | 971 |
| Core net profit | 710 | 828 | 579 | 844 | 630 |
| Core EPS (sen) | 12.0 | 14.0 | 9.8 | 14.3 | 10.6 |
| Core EPS growth (%) | 52.3 | 16.4 | (30.1) | 45.8 | (25.4) |
| Net DPS (sen) | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Core P/E (x) | 3.9 | 3.4 | 5.6 | 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 | 10.6 | 13.6 | 9.1 |
| ROAA (%) | 5.7 | 7.0 | 4.9 | 7.0 | 5.2 |
| EV/EBITDA (x) | 6.2 | 5.4 | 6.9 | 5.1 | 6.0 |
| Net gearing (%) (incl perps) | 156.1 | 91.6 | 72.0 | 50.7 | 37.3 |
| Consensus net profit | - | - | 603 | 778 | 730 |
| MIBG vs. Consensus (%) | - | - | (3.9) | 8.5 | (13.7) |

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BUY

| | |
|-----------------------|-----------------|
| Share Price | MYR 0.55 |
| 12m Price Target | MYR 0.66 (+21%) |
| Previous Price Target | MYR 0.71 |

Company Description

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

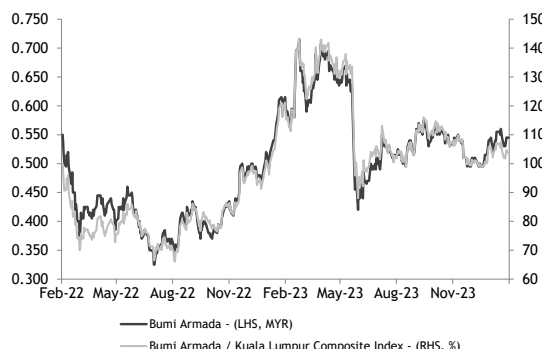
Statistics

| | |
|------------------------|--------------------|
| 52w high/low (MYR) | 0.72/0.42 |
| 3m avg turnover (USDm) | 1.7 |
| Free float (%) | 55.6 |
| Issued shares (m) | 5,923 |
| Market capitalisation | MYR3.2B USD677M |

Major shareholders:

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

Price Performance



| | -1M | -3M | -12M |
|-----------------------|-----|-----|------|
| Absolute (%) | 1 | 2 | (11) |
| Relative to index (%) | (1) | (3) | (14) |

Source: FactSet

ESG@MAYBANK IBG
Tear Sheet Insert

| | |
|--|---------------|
| Risk Rating & Score ¹ | Medium & 20.4 |
| Score Momentum ² | N.A. |
| Last Updated | 02 Sep 2023 |
| Controversy Score ³ (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: 115tCO₂e (FY21: 118tCO₂e); 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 m³ (FY21: 96.1k m³). 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 m³ (FY21: 5,102k m³); 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

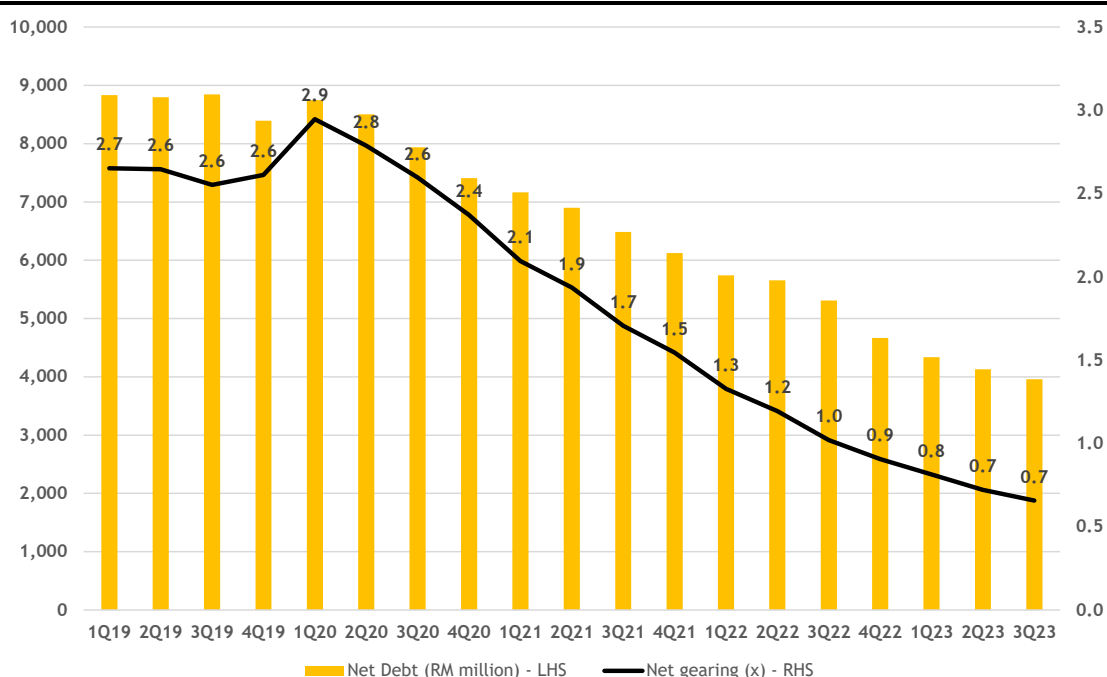
- A constituent of the FTSE4Good Index Series.
- ARMADA's Board comprises 8 directors - 4 Independent Non-Executive Directors (INEDs), 3 NINEDs, and 1 ED (CEO).
- A very experienced and gender-diversified board - 37.5% are above 65 years old and 25% are female.
- CEO's total remuneration package of MYR11.2m 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.

¹**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. ²**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. ³**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).

De-gearing underway

BArmada has achieved an impressive feat where the group successfully reduced its net gearing over 14 consecutive quarters to a more palatable level of 0.7x as at end-2Q23 (from a peak of 2.9x end-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 1: Net Debt and Net Gearing (from 1Q20 - current)



Source: Company, Maybank IBG Research

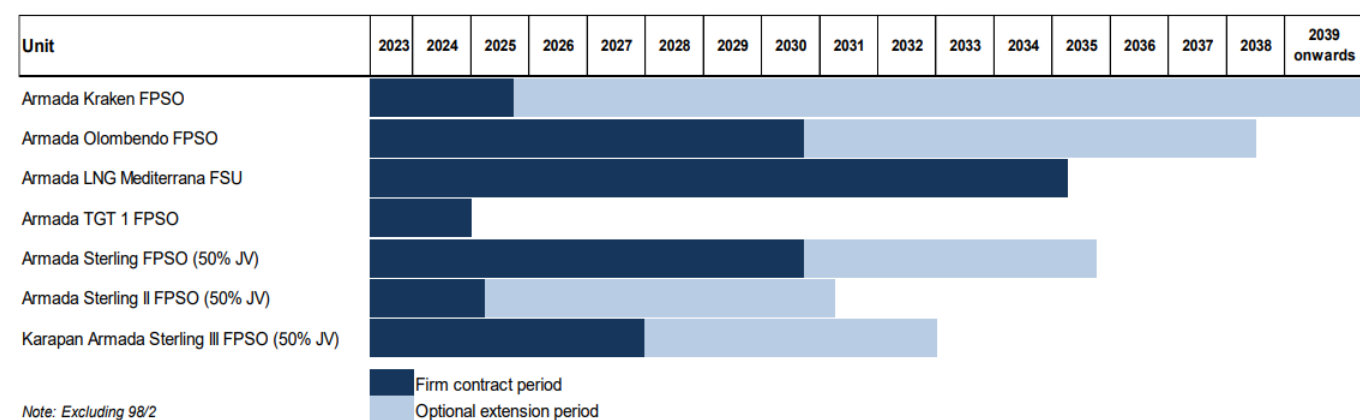
Sterling II & Kraken FPSO firm period to end in Mar 2024 & Jul 2025 respectively, TGT1 FPSO contract to lapse in Nov 2024

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 2031.
- 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 2: Charter Period for Bumi Armada's floating assets



Source: Company

SOP-based Target Price of MYR0.66

Fig 3: Sum of Parts Valuation for Bumi Armada

| Assets | Location | Equity value (MYRm) | Value/share (MYR) | Basis |
|---------------------------------|---------------|---------------------|-------------------|--|
| Armada Kraken FPSO | North Sea, UK | 1,546.7 | 0.26 | NPV: WACC @ 7.3% (firm + full extension) |
| Armada Olombendo FPSO | Angola | 3,725.7 | 0.63 | NPV: WACC @ 7.3% (firm + full extension) |
| Armada LNG Mediterranean FSU | Malta | 338.8 | 0.06 | NPV: WACC @ 7.3% (firm) |
| Armada TGT1 FPSO | Vietnam | 71.3 | 0.01 | NPV: WACC @ 7.3% (full extension) |
| Armada Sterling I (50% JV) | India | 685.6 | 0.12 | NPV: WACC @ 7.3% (firm + full extension) |
| Armada Sterling II (50% JV) | India | 292.2 | 0.05 | NPV: WACC @ 7.3% (firm + full extension) |
| Armada Sterling III (49% JV) | Indonesia | 464.8 | 0.08 | NPV: WACC @ 7.3% (firm + full extension) |
| Armada Sterling V (30% JV) | India | 915.8 | 0.15 | NPV: WACC @ 7.3% (firm + full extension) |
| Sub-total | | 8,040.9 | | |
| Net debt | | -4,122.6 | | |
| Total | | 3,918.2 | | |
| No. of shares | | 5,918.0 | | |
| Target Price (MYR/share) | | 0.66 | | |
| WACC (Discount rate) | | 7.3% | | |
| Beta | | 1.3 | | |
| Equity risk premium | | 3.7% | | |
| Risk-free rate | | 4.0% | | |

Source: 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.

| FYE 31 Dec | FY21A | FY22A | FY23E | FY24E | FY25E |
|------------------------|-------|-------|-------|-------|-------|
| Key Metrics | | | | | |
| P/E (reported) (x) | 3.9 | 3.5 | 5.6 | 3.8 | 5.1 |
| Core P/E (x) | 3.9 | 3.4 | 5.6 | 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 | 14.8 | 24.8 | 20.1 |
| EV/EBITDA (x) | 6.2 | 5.4 | 6.9 | 5.1 | 6.0 |
| EV/EBIT (x) | 9.2 | 7.3 | 10.0 | 6.9 | 8.7 |

INCOME STATEMENT (MYR m)

| | | | | | |
|-----------------------------|---------|---------|---------|---------|---------|
| Revenue | 2,162.6 | 2,405.5 | 2,070.0 | 2,140.9 | 1,411.8 |
| EBITDA | 1,424.1 | 1,369.2 | 1,054.1 | 1,264.0 | 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 | 725.5 | 935.5 | 667.9 |
| Net interest income / (exp) | (397.1) | (366.7) | (302.8) | (280.8) | (250.5) |
| Associates & JV | 106.7 | 49.2 | 163.2 | 198.3 | 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 | 586.0 | 853.1 | 636.4 |
| Income tax | (25.1) | 15.7 | (19.6) | (25.6) | (19.1) |
| Minorities | 16.4 | 7.8 | 12.7 | 16.5 | 12.3 |
| Discontinued operations | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Reported net profit | 659.2 | 732.4 | 579.0 | 844.0 | 629.6 |
| Core net profit | 710.2 | 827.9 | 579.0 | 844.0 | 629.6 |

BALANCE SHEET (MYR m)

| | | | | | |
|-------------------------------------|-----------------|-----------------|-----------------|-----------------|-----------------|
| Cash & Short Term Investments | 794.8 | 838.8 | 982.1 | 1,230.4 | 1,328.7 |
| Accounts receivable | 802.6 | 817.7 | 703.6 | 727.7 | 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 | 3,804.4 | 3,650.9 |
| Intangible assets | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Investment in Associates & JVs | 1,064.7 | 1,070.0 | 1,233.2 | 1,431.5 | 1,650.5 |
| Other assets | 5,195.6 | 4,987.9 | 4,987.9 | 4,987.9 | 4,987.9 |
| Total assets | 12,070.4 | 11,726.0 | 11,889.9 | 12,182.1 | 12,097.9 |
| 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 | 444.5 | 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 |
| Total Liabilities | 8,148.6 | 6,630.5 | 6,160.8 | 5,625.5 | 4,924.2 |
| Shareholders Equity | 3,962.7 | 5,146.5 | 5,792.7 | 6,636.7 | 7,266.3 |
| Minority Interest | (40.9) | (51.0) | (63.6) | (80.2) | (92.5) |
| Total shareholder equity | 3,921.8 | 5,095.6 | 5,729.1 | 6,556.5 | 7,173.8 |
| Total liabilities and equity | 12,070.4 | 11,726.0 | 11,889.9 | 12,182.1 | 12,097.9 |

CASH FLOW (MYR m)

| | | | | | |
|----------------------------------|-----------|-----------|---------|---------|---------|
| Pretax profit | 667.9 | 709.0 | 586.0 | 853.1 | 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 | (118.8) | (207.7) | (122.5) |
| Cash taxes paid | (9.0) | 0.1 | (19.6) | (25.6) | (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 | 776.1 | 948.3 | 798.3 |
| Capex | 167.3 | 98.0 | (300.0) | (150.0) | (150.0) |
| Free cash flow | 1,642.9 | 1,526.8 | 476.1 | 798.3 | 648.3 |
| 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) | 76.1 | 248.3 | 98.3 |

| FYE 31 Dec | FY21A | FY22A | FY23E | FY24E | FY25E |
|--|---------|---------|---------|---------|---------|
| Key Ratios | | | | | |
| Growth ratios (%) | | | | | |
| Revenue growth | (7.6) | 11.2 | (13.9) | 3.4 | (34.1) |
| EBITDA growth | (2.9) | (3.9) | (23.0) | 19.9 | (23.2) |
| EBIT growth | 3.6 | 7.1 | (29.3) | 28.9 | (28.6) |
| Pretax growth | 423.4 | 6.2 | (17.4) | 45.6 | (25.4) |
| Reported net profit growth | 425.0 | 11.1 | (20.9) | 45.8 | (25.4) |
| Core net profit growth | 53.0 | 16.6 | (30.1) | 45.8 | (25.4) |
| Profitability ratios (%) | | | | | |
| EBITDA margin | 65.9 | 56.9 | 50.9 | 59.0 | 68.8 |
| EBIT margin | 44.3 | 42.7 | 35.1 | 43.7 | 47.3 |
| Pretax profit margin | 30.9 | 29.5 | 28.3 | 39.8 | 45.1 |
| Payout ratio | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| DuPont analysis | | | | | |
| Net profit margin (%) | 30.5 | 30.4 | 28.0 | 39.4 | 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 | 10.6 | 13.6 | 9.1 |
| ROAA (%) | 5.7 | 7.0 | 4.9 | 7.0 | 5.2 |
| Liquidity & Efficiency | | | | | |
| Cash conversion cycle | 21.9 | nm | nm | nm | nm |
| Days receivable outstanding | 109.4 | 121.2 | 132.3 | 120.3 | 154.0 |
| Days inventory outstanding | 0.6 | nm | nm | nm | nm |
| Days payables outstanding | 88.1 | 133.2 | 127.6 | 134.3 | 187.2 |
| Dividend cover (x) | nm | nm | nm | nm | nm |
| Current ratio (x) | 0.9 | 1.1 | 1.2 | 1.4 | 1.4 |
| Leverage & Expense Analysis | | | | | |
| Asset/Liability (x) | 1.5 | 1.8 | 1.9 | 2.2 | 2.5 |
| Net gearing (%) (incl perps) | 156.1 | 91.6 | 72.0 | 50.7 | 37.3 |
| Net gearing (%) (excl. perps) | 156.1 | 91.6 | 72.0 | 50.7 | 37.3 |
| Net interest cover (x) | 2.4 | 2.8 | 2.4 | 3.3 | 2.7 |
| Debt/EBITDA (x) | 4.9 | 4.0 | 4.8 | 3.6 | 4.1 |
| Capex/revenue (%) | nm | nm | 14.5 | 7.0 | 10.6 |
| Net debt/ (net cash) | 6,123.5 | 4,665.9 | 4,122.6 | 3,324.3 | 2,676.1 |

Source: Company; Maybank IBG Research

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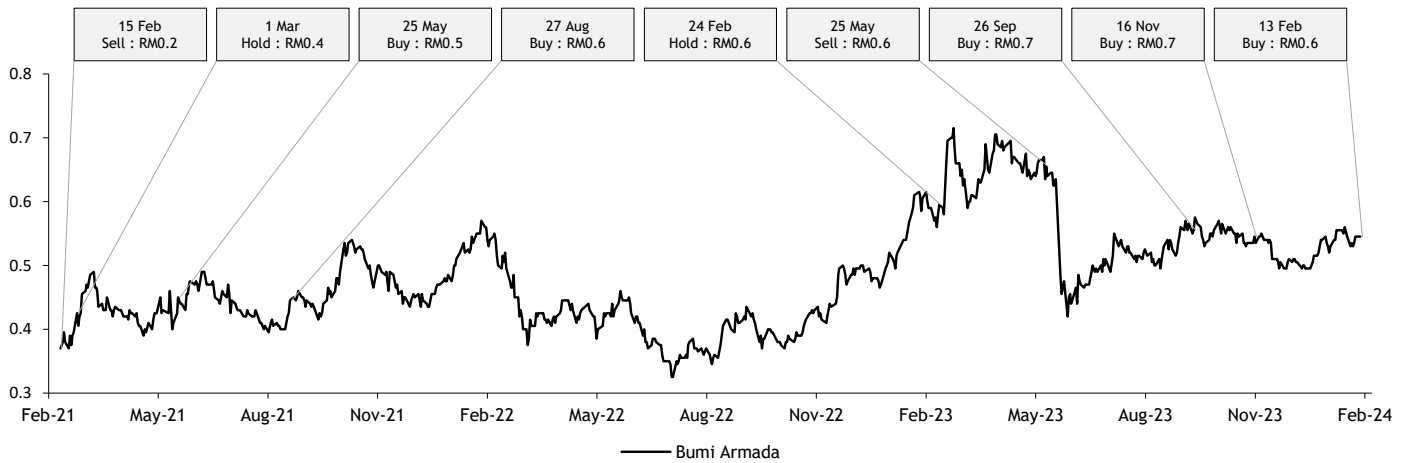
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