

SECTOR UPDATE

Oil & Gas – Malaysia

MISC-Bumi Armada Is Better Off Collaborating In Certain Projects

Speculations of a merger might have lifted Bumi Armada’s (BAB) share price in the past month. While combining both FPSO fleets may propel the merged entity to Modec’s fleet size, alongside complementary geographical FPSO market presence, the stumbling blocks are too great in our opinion. There is a lack of financial synergies from the non-FPSO segments. If any, we think a collaboration in certain projects may generate more positive market reaction. We advise investors to take profit on BAB.

WHAT’S NEW

- **MISC-BAB merger speculation may be difficult to materialise.** The Edge financial newspaper revealed that base-level negotiations on the shareholder level for a potential acquisition of a substantial stake in Bumi Armada (BAB) by MISC. As announced by MISC yesterday, no material developments have materialised for now, despite BAB’s share price appreciating by nearly 10% in the past month. While there are complementary areas and synergies, we believe the stumbling blocks for such a merger are too great. It may make better sense and positive market reaction should both companies form JVs for certain segments, such as new energy/decarbonisation, or collaborate to bid for new FPSOs.
- **Potential to create a mega FPSO player equal to Modec’s fleet size, with complementary areas in geographical reach...** Theoretically, combining the 13/8 offshore assets of MISC/BAB can create an FPSO behemoth with a fleet size equivalent to Modec, the largest FPSO player globally. Also, MISC is well-established in Malaysia, Thailand, Vietnam and South America. MISC is not strong in Indonesia, and it had attempted to break into the African FPSO market (via FPSO Cameia), in order to truly solidify its branding as a leading FPSO provider. BAB on the other hand has strong presence in India and Indonesia (via its partnership with SP), Africa and the North Sea, while it lacks market presence in Malaysia and the Americas.
- **...but potential resistance may make the whole exercise futile.** Tan Sri AK’s intention to sell BAB was made known long ago, but we opine that BAB’s recent entry into O&G upstream concessions (Akia in Indonesia) with AK’s special vehicle may counteract its appeal to any prospective buyer. Even assuming that the merger only involves the FPSO divisions of both companies, we see another key stakeholder resistance to potentially come from SP Energy. SP Energy was BAB’s key FPSO partner since 2014, but had recently “graduated from the piggy-back ride” and is now deemed as a FPSO competitor to both MISC and BAB. Financials will be another issue, with a key drag for a prospective acquirer BAB’s Caspian Sea subsea vessels which remain loss-making.

MARKET WEIGHT  
(Maintained)

BUMI ARMADA: NOTABLE SHAREHOLDERS (%)

	%	Comments
Tan Sri Ananda Krishnan (AK)	34.6	In 2012, he attempted to sell 600m shares for US\$825m, or RM3.95-RM4.09/share.
Permodalan Nasional (PNB)	13.3	BAB was considered as a strategic investee company.
Farah Suhanah Ahmad Sarji	6.1	Lawyer, daughter of the late Tun Ahmad Sarji Abdul Hamid. Special Advisor of MEASAT, a space vehicle created by AK. Director of BAB from 2003-12.
Ombak Damai	NA	Major shareholder until Jul 16. 80% shareholder of FPSO ventures (JV with MISC).
Sharpooji Pallonji (SP) Mistry	NA	SP is a key FPSO partner since 2014. Mistry was a director of BAB from Oct 14 to Feb 17.

Source: Bloomberg

MISC: NOTABLE SHAREHOLDERS (%)

	%	Comments
Petronas (MISC is transportation arm)	51.0	In 2020, Petronas pared down 6% stake for RM6.67/share.
Permodalan Nasional (PNB)	8.8	MISC was considered a strategic investee company.
EPF	12.2	MISC is considered a strategic investee company.
State Financial Secretary, Sarawak	1.5	Past MISC directors were also ex-State Financial Secretaries.
Ministry of Finance	NA	Holds a Golden Share.

Source: Bloomberg, MOF

GHG EMISSIONS (K\*TONNES CO<sup>2</sup> EQUIVALENT)

	2023	2022	2021
<b>MISC</b>			
- Scope 1 and 2	4,146.1	4,224.8	4,173.6
- Scope 3, total	2,953.1	2,846.8	1,344.2
- Scope 3, Category 3*	1,132.6	1,156.4	na
- Scope 3, Category 13**	999.4	1,094.8	1,229.4
<b>Bumi Armada</b>			
- Scope 3, Category 13**	982.3	974.5	946.9

\*Note: Fuel and energy related activities from offshore

\*\*Note: Downstream/ leased offshore assets to clients

Source: Company Integrated Reports

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PEER COMPARISON

Company	Ticker	Rec	Share Price 8 July 24 (RM)	Target Price (RM)	Market Cap (RMm)	P/E		P/B		Interest Cover		Net Debt to Equity		ROE	
						2024F	2025F	2024F	2025F	2024F	2025F	2024F	2025F	2024F	2025F
Bumi Armada	BAB MK	SELL	0.60	0.50	3,438.2	4.5	5.7	0.6	0.5	4.5	4.0	47.6	42.5	12.9	9.5
Dialog Group	DLG MK	BUY	2.45	3.10	13,768.0	22.9	21.3	2.5	2.3	13.1	13.8	3.0	2.3	11.0	11.2
Deleum	DLUM MK	SELL	1.32	1.25	530.1	11.0	10.3	1.2	1.1	195.0	112.8	n.a	n.a	11.3	11.5
MISC	MISC MK	BUY	8.75	9.90	39,191.7	15.5	17.9	1.0	1.0	7.2	6.9	28.1	27.5	6.4	5.4
MMHE	MMHE MK	BUY	0.47	0.60	744.0	(75.7)	(16.2)	0.5	0.5	5.1	2.6	2.3	n.a	n.a	n.a
Petronas Dagangan	PETD MK	HOLD	17.32	22.50	17,345.7	17.8	17.0	2.9	2.9	88.6	70.2	n.a	n.a	16.7	17.2
Sapura Energy	SAPE MK	HOLD	0.04	0.06	826.9	(2.0)	(5.6)	(1.1)	(0.2)	0.7	1.0	n.a	n.a	n.a	n.a
Uzma	UZMA MK	HOLD	1.15	1.20	509.3	11.1	8.9	0.8	0.7	5.1	4.5	47.0	57.1	7.4	8.7
Velesto Energy	VEB MK	HOLD	0.27	0.29	2,218.2	17.2	24.7	1.1	1.0	44.0	22.5	n.a	n.a	6.4	4.2
Yinson Holdings	YNS MK	BUY	2.34	3.90	7,024.3	10.5	8.3	1.4	1.3	2.7	2.9	212.6	219.1	10.3	12.4

Source: Bloomberg

### ACTION

- **Retain MARKET WEIGHT.** The sector's trading outperformance up till 1H24 was justified due to rising vessel rates. While 2H24 will still have awards of multi-year contract renewals, we believe the catalysts are mostly priced in, while execution risks alongside energy transition risks prevail. Another sector risk that may unfold is the effect of the transition of Petronas' East Malaysia control to the states.
- **Top pick: MISC (BUY/Target: RM9.90).** Regardless of the speculation, we still like MISC as an undervalued stock on a P/B basis relative to peers. MISC will have near-term strong EBITDA from the petroleum's upcycle earnings, followed by a boost in mid-term earnings base due to FPSO Mero-3, and its 2030 targets show it still has long-term growth.
- **SELL BAB with an unchanged target price of RM0.50.** We assume the recent share price appreciation is related to the speculation, as BAB's fundamentals is unchanged with no near-term prospects of a contract win. Moreover, a Jun 24 Upstream article revealed that the payment dispute by ONGC for the JV FPSO Armada Sterling V still lingers, despite the FPSO having already achieved first oil on 7 Jan 24. This also implies that the final acceptance test may miss management's expectation of Jun 24. Hence, we advise taking profit on BAB.

According to Upstream, market sources revealed that one outstanding issue (that impedes the start of the full dayrate) is the introduction of gas into the FPSO. Another outstanding issue was that last year, the FPSO was ready on site but ONGC was still dealing with damaged subsea infrastructure. Normally, FPSO owners will be entitled to a standby rate, but sources indicating outstanding payment issues for that remained.

### ESSENTIALS

- **Brief profile of MISC.** MISC is a shipping conglomerate with: a) gas, b) petroleum tankers, c) Malaysia Marine & Heavy Engineering (MMHE, BUY/ Target: RM0.60) yard, and d) offshore division with about 13 assets, comprising seven Floating, Production, Storage and Offloading (FPSOs) including FPSO Mero-3, 5 smaller FSOs and 1 mega Floating Platform Gumusut-Kakap. The gas division comprising LNG tankers and Very Large Ethane Carriers, are primarily for midstream/transportation purposes. In the future, MISC may expand into ammonia tankers, liquefied carbon and hydrogen carriers. MISC is not in the space of Floating LNG (FLNG) and Floating, Storage, Regasification Units (FSRU) as of today.

MISC has 2030 targets, to deliver 50% growth from the 2022 adjusted operating cash flow (OCF) baseline of RM5.7b, with half of that growth to come from clean/new energy. Also, MISC targets to cut greenhouse gas (GHG) emissions by 50% from 2008 levels by 2030. With a yearly capex allocation of about US\$1b, MISC has a lean balance sheet as it aims to not exceed the 3x net debt/EBITDA to maintain its bond rating.

- **Brief profile of BAB.** BAB has eight floating assets, comprising seven FPSOs and one Floating Storage Unit (FSU). BAB also has two subsea construction vessels dedicated to the Caspian Sea, and they remain loss-making due to the delayed recovery prospects hampered by the Russia-Ukraine crisis. In the new energy space, BAB is actively developing FLNG, FSRU, and Floating Carbon Injection Units (FCSU). To our surprise last year, BAB tied up together with a related company Pexco to undertake its maiden upstream exploration and production assets in the Akia Work Area and Production Sharing Contract (PSC) in Indonesia. Moreover, it appears to us that BAB is still on the lookout for more upstream investments, with the setting up of subsidiaries Armada Kojo and Armada Talu in Jan 24.
- **ESG: A full merger may delay the net-zero aspirations of both companies.** Both companies are at different maturity stages in ESG compliance and net-zero emission reduction pathways. Firstly, MISC is more advanced in its GHG emission disclosures for the offshore division. Its Scope 3 emissions were more wholesome covering seven categories, of which at least three were material categories for offshore division). MISC was early in making serious commitments to fulfil its set 2030 and 2050 net-zero emission reduction targets. BAB disclosed three categories within its Scope 3 emissions (and only Category 13 is related to FPSOs), and because the group has only begun to understand its emission data, it has yet to set net-zero emission reduction targets. Hence, in our opinion, it is already challenging to recalibrate the emission data, even if the merger only involves the offshore/FPSO divisions.

### MISC: OFFSHORE ASSETS



Source: MISC (Offshore Division only)

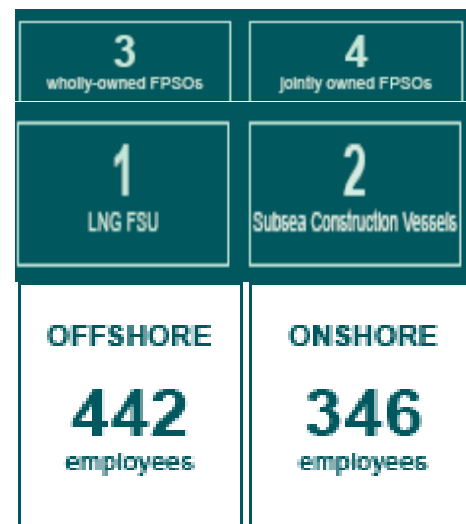
### MISC: STAFF STRENGTH (GROUP LEVEL)

#### EMPLOYEES

TOTAL EMPLOYEES	Number	10,435
Employees By Location And Gender		
• Sea	Number (%)	3,982 38.16%
• Shore	Number (%)	6,453 61.84%

Source: MISC

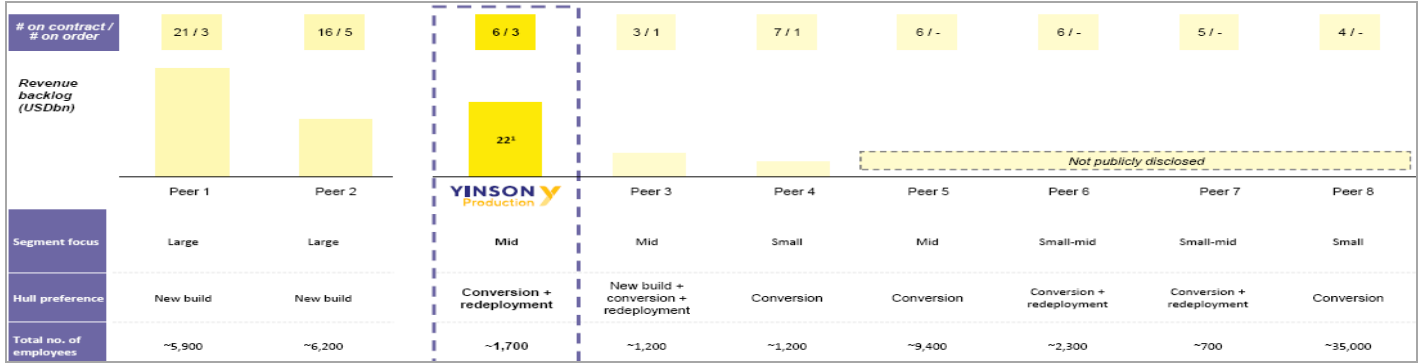
### BAB ASSETS AND STAFF STRENGTH



Source: BAB

This daunting task may prove insurmountable if **other** non-FPSO segments are included, like the upstream concession business of BAB.

### FPSO COMPETITIVE LANDSCAPE (PEER 1 AND PEER 2 REFERS TO MODEC AND SBM OFFSHORE)



Source: Yinson

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