

COMPANY RESULTS

Bumi Armada (BAB MK)

1Q22: Mixed Results; Still A Beneficiary Of Energy Transition

1Q22 results are mixed. BAB benefitted from a sharp reduction in depreciation as FPSO Armada Claire is earmarked for disposal. Excluding this, EBITDA is weaker yoy, reflecting higher costs. Our forecast revision reflects its readiness to capture opportunities on energy security (more FPSO demand) and energy transition (more gas demand). This may be a bumpy ride ahead, but most of the risks are priced in. Maintain BUY with a higher target price of RM0.57.

1Q22 RESULTS

Year to 31 Dec (RMm)	1Q 2022	qoq (% chg)	yoy (% chg)	Comments
Revenue	529.0	3.1	(2.0)	
- Floating operations (FPSO, subsea)	522.1	8.8	3.2	Higher FPSO Kraken utilisation
- Engineering, Technology & Others	6.9	(79.1)	(79.5)	1Q21 revenue was RM34m
EBIT	240.8	11.1	8.1	
- Floating operations	240.8	40.0	11.5	Depreciation lowered by 27% qoq
- Engineering, Technology & Others	0.0	NA	NA	Small profit of RM7m in 1Q21
Operating margin (%)	45.5%	3.3ppt	5.4ppt	
Impairment loss	NA	NA	NA	
Finance Cost	(84.9)	(8.4)	(16.5)	Lower borrowings base
Associates	20.5	(34.3)	177.9	FPSO 98/2 is 87% completed
PBT	191.7	37.1	6.0	
PATMI	185.8	26.8	17.2	
Core PATMI	187.1	32.1	28.2	EBITDA lower yoy

Source: BAB *Note: All segments are reclassified restated after removing earnings from discontinued Offshore Support Vessels (OSV)

RESULTS

- 1Q22 core results a mixed review.** The core profit is a positive surprise, accounting for 28/30% of our/consensus' estimates. This was entirely due to a significantly lower depreciation by 27% qoq (c.RM30m) to RM83m. This will be the new recurring base for the group, as the idle FPSO Armada Claire had been fully depreciated to residual value in end-21, in preparation to be scrapped or disposed. This was not explicitly guided previously. The remaining assets have depreciation lives of 10-25 years.
- EBITDA fell from RM378m to RM328m yoy.** This is despite the higher revenue base from the assets (the first business segment) given the higher utilisation of 99-100%. Firstly, 1Q21 contained some large variation orders, or engineering works, one example being FPSO Olombendo's additional subsea installation that lasted until 3Q21. Assuming this contributed to half of the EBITDA difference yoy, management explained that the other factor is higher administration costs in 1Q22, and some of these costs may likely be non-recurring in nature.

KEY FINANCIALS

Year to 31 Dec (RMm)	2020	2021	2022F	2023F	2024F
Net turnover	2,235	2,163	2,156	2,110	2,311
EBITDA	1,405	1,391	1,321	1,252	1,191
Operating profit	886	926	988	923	856
Net profit (rep./act.)	103	659	698	675	630
Net profit (adj.)	425	698	698	675	630
EPS (sen)	7.2	11.8	11.8	11.4	10.6
PE (x)	5.8	3.5	3.6	3.7	4.0
P/B (x)	0.8	0.6	0.5	0.4	0.4
EV/EBITDA (x)	5.3	5.4	5.7	6.0	6.3
Dividend yield (%)	0.0	0.0	0.0	0.0	0.0
Net margin (%)	4.6	30.5	32.4	32.0	27.3
Net debt/(cash) to equity (%)	235.4	154.5	102.7	75.2	62.6
Interest cover (x)	2.9	3.5	3.5	3.8	4.1
ROE (%)	3.2	18.5	15.8	12.9	10.7
Consensus net profit	-	-	626	628	665
UOBKH/Consensus (x)	-	-	1.11	1.07	0.95

Source: Bumi Armada Bhd, Bloomberg, UOB Kay Hian

BUY

(Maintained)

Share Price	RM0.42
Target Price	RM0.57
Upside	+35.3%
(Previous TP)	RM0.54

COMPANY DESCRIPTION

Floating Production Storage and Offloading (FPSO) platform and offshore marine services owner.

STOCK DATA

GICS sector	Energy
Bloomberg ticker:	BAB MK
Shariah Compliant:	No
Shares issued (m):	5,918.0
Market cap (RMm):	2,485.6
Market cap (US\$m):	565.4
3-mth avg daily t'over (US\$m):	3.2

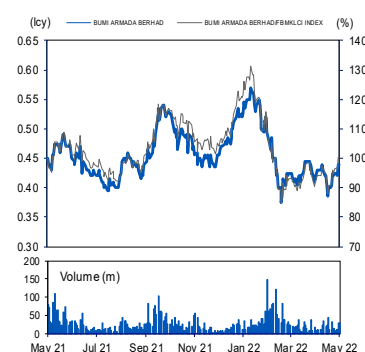
Price Performance (%)

52-week high/low			RM0.570/RM0.375	
1mth	3mth	6mth	1yr	YTD
(2.3)	(19.2)	(9.7)	(1.2)	(10.6)

Major Shareholders

Objektif Bersatu	34.9
FY22 NAV/Share (RM)	0.83
FY22 Net Debt/Share (RM)	0.85

PRICE CHART



Source: Bloomberg

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STOCK IMPACT

- Restructured business segments effective 1Q22.** With four vessels disposed in 1Q22, BAB is on track to dispose almost its entire offshore support vessel (OSV) fleet with only three OSV remaining. Hence, BAB had reclassified its business segments. Previously, BAB separated the FPSO and the remainder offshore marine fleet (comprising OSV subsea vessels) as two segments. Effective 1Q22, the entire floating operations (ie FPSO, subsea and any new floating assets) are one segment, while the other segment mainly relates to asset-light engineering and consultancy scope of works.
- Benefitting from energy security opportunities...** With net debt lowered to RM5.8b (net gearing: 1.3x), BAB is positioning itself to capture new floating projects. In the previous quarter, it was revealed that BAB is bidding alone for Total's Cameia FPSO (US\$1b capex range), competing with MISC and Yinson. Recently, an Upstream article surfaced that the same three players are competing for Eni's FPSO Agogo (Angola, Africa), by carrying out early engineering studies (FEED stage) for the bids. Higher oil prices driven by the supply crunch is encouraging oil majors to hasten viable projects, pushing up FPSO demand. Each of the FPSO players is exploring funding needs that are favourable without the need for major rights issue. There is no guidance from BAB on the maximum gearing room, although debt repayment continues to be their focus.
- ...and energy transition opportunities.** Our earlier sector report highlighted that gas projects may see a greater surge in demand. BAB is a beneficiary as it is the only local player with known exposure in Floating, Storage and Regasification Unit (FSRU) projects. There is still no update on the FSRU Mumbai project, although news sources touted the capacity at about 5MTPA. BAB did comment that the bidbook no longer comprises of merely FPSOs, and includes gas projects such as FSRU, carbon capture vessels and even the highly technical floating LNG terminals.
- We are still cautiously optimistic on the prospects, given the potential cost upside.** Our channel checks suggest that BAB may be playing catch-up relative to peers, as BAB had not been active in winning new contracts for a few years. This coincides with BAB recently issuing 7.6m shares under management incentive plan, which is substantial relative to the usual issuance. While the asset-light segmental revenue may grow in 2H22 to factor in small FEED-stage works (for bidding), as it stands, we view the other two peers have a cost advantage in the FEED competition to secure the FPSO lease itself. Hence, it will present a challenge for BAB to manage the cost of hiring project-based manpower on the expense of EBITDA margins, while remaining competitive. Another concern is that FSRU Mumbai may be a project highly exposed to the current inflationary environment – capex may spike from the US\$0.5b estimate for such a FSRU size. The mitigating factor is BAB's partner Sharpoorji should co-share the project risks.

EARNINGS REVISION/RISK

- Upgraded 2022-24 earnings forecasts by 6%/4%/3%.** We adjusted depreciation base following after 1Q22's disclosure. While we do not factor in new contract wins at this juncture, our EBITDA forecasts for 2022-24 are lowered by 5-7% to factor in potential costs due to inflationary impact and BAB's readiness to be in the market for new jobs. The cost impact is not quantified, but BAB acknowledges the risk, given that FPSO charter rates typically do not have upside adjustments due to oil prices or inflation rates.

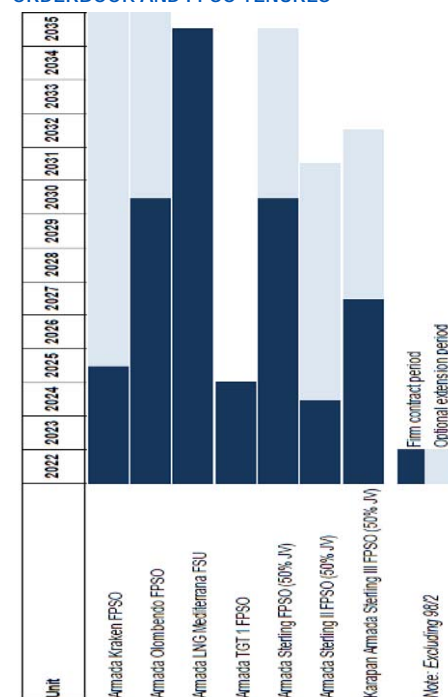
VALUATION/RECOMMENDATION

- Maintain BUY, target price adjusted to RM0.57 from RM0.54.** This implies 5x 2022F PE, at a discount to Yinson's 18x forward PE. Despite the low PE, our target price implies 5-6x EV/EBITDA, which are within peers' range. Our valuation is also adjusted for higher WACC and share base, and continues to ignore FPSO 98/2, FSRU Mumbai and future contracts, reflecting our cautious optimism on BAB's prospects. Having said, we see value as most of the risks are priced in, including the impact of Russian war on its subsea contracts (Lukoil), but BAB is a beneficiary of higher FPSO and FSRU demand. Having said that, we see value as most of the risks, including the impact of Russian war on its subsea contracts (Lukoil), are priced in.

ENVIRONMENTAL, SOCIAL, GOVERNANCE (ESG) UPDATES

Environmental	
- Carbon (CO2) reduction. BAB has disclosed greenhouse gas contributions and strives to reduce emissions, though no targets were revealed at this juncture.	
- Safety (HSE). Lost Time Injury Frequency (LTIF) was 0.55 in 2021, vs 0 previously.	
Social	
- Diversity. ~45% female proportion among onshore staff.	
- Charities in various countries of operations ie UK, Angola and India.	
Governance	
- 4 out of 7 board members are independent.	

ORDERBOOK AND FPSO TENURES



Source: BAB

SEGMENTAL FORECASTS

(RMm)	2022F	2023F	2024F
Revenue	2,156.5	2,110.1	2,311.1
Operation	2,019.9	1,973.4	2,173.4
Others	136.6	136.6	137.6
EBIT	988.1	923.2	855.9
Operation	1,000.7	933.8	866.9
Others	(32.7)	(30.6)	(31.0)

Source: UOB KayHian

SOTP VALUATION (RM4.1/US\$)

Item	Valuation	Current SOTP (RM)
FPSO	DCF based on a higher WACC of 10% from 8.0%, up to firm value. The discount remains given its lower-than-peers average FPSO tenures and less competitive advantage	1.11
OMS	Post-impairment value on subsea vessels only (no more OSV vessels)	0.01
- Net debt		(0.55)
SOTP	Slightly higher share base of 5.9b shares	0.57
2022F PE		4.8x
2022F EV/ EBITDA		6.3x
2022F adjusted EV/ EBITDA include JV/associate		-5.3x

Source: UOB KayHian

PROFIT & LOSS

Year to 31 Dec (RMm)	2021	2022F	2023F	2024F
Net turnover	2,163	2,156	2,110	2,311
EBITDA	1,391	1,321	1,252	1,191
Deprec. & amort.	466	333	329	336
EBIT	926	988	923	856
Associate contributions	107	117	117	97
Net interest income/(expense)	(397)	(372)	(332)	(293)
Pre-tax profit	668	733	708	660
Tax	(25)	(51)	(50)	(46)
Minorities	16	16	16	16
Net profit	659	698	675	630
Net profit (adj.)	698	698	675	630

BALANCE SHEET

Year to 31 Dec (RMm)	2021	2022F	2023F	2024F
Fixed assets	8,616	8,450	8,418	8,789
Other LT assets	1,544	1,603	1,661	1,710
Cash/ST investment	795	854	793	501
Other current assets	1,115	1,117	1,099	1,174
Total assets	12,070	12,023	11,971	12,174
ST debt	1,404	1,404	1,404	1,404
Other current liabilities	642	700	871	1,042
LT debt	5,514	4,475	3,577	2,979
Other LT liabilities	589	589	589	589
Shareholders' equity	3,963	4,896	5,571	6,201
Minority interest	(41)	(41)	(41)	(41)
Total liabilities & equity	12,070	12,023	11,971	12,174

CASH FLOW

Year to 31 Dec (RMm)	2021	2022F	2023F	2024F
Operating	1,283	1,191	1,137	1,006
Pre-tax profit	926	988	923	856
Tax	(25)	(51)	(50)	(46)
Deprec. & amort.	466	333	329	336
Working capital changes	(4)	1	14	(60)
Other operating cashflows	(79)	(79)	(79)	(79)
Investing	193	(94)	(300)	(700)
Capex (growth)	0	0	0	0
Capex (maintenance)	(13)	(300)	(300)	(700)
Proceeds from sale of assets	0	0	0	0
Others	206	206	0	0
Financing	(1,656)	(1,039)	(898)	(598)
Dividend payments	0	0	0	0
Issue of shares	0	0	0	0
Proceeds from borrowings	(4)	225	225	525
Loan repayment	(1,651)	(1,264)	(1,123)	(1,123)
Others/interest paid	0	0	0	0
Net cash inflow (outflow)	(180)	59	(61)	(292)
Beginning cash & cash equivalent	895	795	854	793
Changes due to forex impact	80	0	0	0
Ending cash & cash equivalent	795	854	793	501

KEY METRICS

Year to 31 Dec (%)	2021	2022F	2023F	2024F
Profitability				
EBITDA margin	64.3	61.3	59.3	51.6
Pre-tax margin	30.9	34.0	33.6	28.6
Net margin	30.5	32.4	32.0	27.3
ROA	5.3	5.8	5.6	5.2
ROE	18.5	15.8	12.9	10.7
Growth				
Turnover	(3.3)	(0.3)	(2.2)	9.5
EBITDA	(1.0)	(5.1)	(5.2)	(4.8)
Pre-tax profit	716.0	9.8	(3.4)	(6.9)
Net profit	540.6	5.9	(3.3)	(6.7)
Net profit (adj.)	64.2	0.0	(3.3)	(6.7)
EPS	64.1	(0.5)	(3.3)	(6.7)
Leverage				
Debt to total capital	63.8	54.8	47.4	41.6
Debt to equity	174.6	120.1	89.4	70.7
Net debt/(cash) to equity	154.5	102.7	75.2	62.6
Interest cover (x)	3.5	3.5	3.8	4.1

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