

## COMPANY RESULTS

### Bumi Armada (BAB MK)

1H23: Not Out Of The Woods Yet

**BAB's 1H23 core profit was below expectations. The bulk of the negative deviation arose from Kraken's HSP downtime. Kraken's operational recovery (to 100% production levels by Sep 23) is promising, but overshadowed by problems in other projects such as surprise losses in the asset-light engineering segment and further delays in the JV FPSO Armada Sterling V (ASTV) startup. We cut forecasts by 8-21%. Maintain SELL with an adjusted target price of RM0.43.**

#### 1H23 RESULTS

Year to 31 Dec (RMm)	2Q 2023	qoq (% chg)	yoy (% chg)	ytd 2023	yoy (% chg)
Revenue	441.3	(18.9)	(28.6)	958.3	(16.5)
- Floating operations (FPSO, subsea)	439.9	(16.9)	(23.2)	969.0	(11.5)
- Engineering, Technology & Others	30.8	106.5	(33.1)	45.7	(13.6)
EBIT	99.9	(58.5)	(66.1)	340.6	(24.0)
- Floating operations (FPSO, subsea)	112.1	(52.9)	(58.5)	350.0	(31.5)
- Engineering, Technology (include pre-FEED)	(12.2)	(521.1)	(149.3)	(9.3)	(137.6)
Operating margin (%)	22.6%	-21.6%	-25.0%	35.5%	-3.5%
Impairment loss	1.4	4.5	(102.1)	2.7	(104.1)
Finance Cost	(83.6)	(9.0)	(267.3)	(175.4)	1.7
Associates	13.8	(49.0)	9.6	40.9	(22.5)
PBT	105.9	(47.1)	516.9	440.4	16.3
PATMI	118.8	(40.9)	521.7	305.9	(17.8)
Core PATMI	49.4	(76.3)	(77.2)	248.1	(38.5)

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

#### RESULTS

- **1H23 core profit below expectations at only 44%/35% of our/consensus estimates**, mainly due to the FPSO Armada Kraken's unplanned downtime arising from the failure of the hydraulic submersible pumps (HSP) transformers. This led to 23 days of production outage during 2Q23, or a financial impact of roughly RM50m. The remaining difference of RM70-80m qoq (for floating operations) came from additional costs for repairs on FPSO Kraken, as well as about two months' impact from the charter of OSV Armada Tuah 300 (AT300), which was handed over to Shell on 2 May 23.
- **Kraken was not the only negative factor as the asset-light segment reported a loss of RM12m.** This segment saw less work done (over its resource base), unlike in previous quarters when BAB benefited from jobs like pre-engineering works for FPSO Cameia, and modification works for several joint venture projects. There was also further delays on first oil of ASTV (a JV project with Shapoorji) from Aug 23 to Oct 23 at the earliest, due to an incident on the umbilicals and manifolds.

#### KEY FINANCIALS

Year to 31 Dec (RMm)	2021	2022	2023F	2024F	2025F
Net turnover	2,163	2,406	1,951	2,532	2,377
EBITDA	1,391	1,382	1,006	1,075	1,020
Operating profit	926	1,040	674	752	694
Net profit (rep./act.)	659	732	376	500	471
Net profit (adj.)	698	841	376	500	471
EPS (sen)	11.8	14.2	6.3	8.4	7.9
PE (x)	4.2	3.5	7.9	5.9	6.3
P/B (x)	0.7	0.6	0.6	0.5	0.5
EV/EBITDA (x)	4.6	4.6	6.3	5.9	6.3
Dividend yield (%)	0.0	0.0	0.0	0.0	0.0
Net margin (%)	30.5	30.4	19.3	19.8	19.8
Net debt/(cash) to equity (%)	154.5	90.7	65.4	42.7	34.6
Interest cover (x)	3.5	3.8	3.0	4.0	4.0
ROE (%)	18.5	16.1	7.2	9.0	7.7
Consensus net profit	-	-	694	812	745
UOBKH/Consensus (x)	-	-	0.54	0.62	0.63

Source: Bumi Armada Bhd, Bloomberg, UOB Kay Hian

## SELL

(Maintained)

Share Price	RM0.50
Target Price	RM0.43
Upside	-13.9%
(Previous TP)	RM0.40)

#### 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:	Yes
Shares issued (m):	5,922.7
Market cap (RMm):	2,961.3
Market cap (US\$m):	638.1
3-mth avg daily t'over (US\$m):	3.8

#### Price Performance (%)

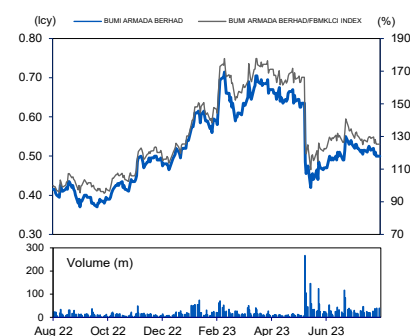
52-week high/low RM0.715/RM0.370

1mth	3mth	6mth	1yr	YTD
(5.7)	(23.7)	(16.0)	28.2	4.2

Major Shareholders	%
Objektif Bersatu	34.9

FY23 NAV/Share (RM)	0.90
FY23 Net Debt/Share (RM)	0.59

#### PRICE CHART



Source: Bloomberg

#### ANALYST(S)

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## STOCK IMPACT

- **1H23 EBITDA at RM523m vs RM691m yoy; asset disposals the saving grace for its cash flow.** 2Q23 EBITDA was only RM183m due to the same reasons mentioned above. Fortunately, BAB recognised RM61m of disposal gains from the sale of FPSO Armada Claire and AT300. At the same time, investing cash flow recognised RM152m of asset sale proceeds in 2Q23. Hence, net debt/EBITDA remained stable qoq at 3x, and is the lowest gearing since 2015, after repaying US\$202m of loans in 1H23 (2Q23: US\$92m) and bringing down loan base to RM4.8b (1Q23: RM5b).
- **Kraken: Stabilised operational performance a relief as it reduces impairment risk...** The HSP transformers' progressive repairs allowed for production recovery to 90% by late-July and close to 100% by end-August. Assuming sustained uptime, impairment risks due to the asset's operational stats will not be touched. BAB was very likely have to fork out the additional costs for repairs, and the bareboat charter was at close to "zero-rate" payments and will be compensated in tandem with volume recovery.
- **...although earnings recovery may take time.** There was no guidance given on the timing of the actual compensation, reimbursement likelihood for any additional repair costs, and any confirmation on whether the rate compensation will follow a 100% correlation to production recovery/FPSO uptime. If the earnings recovery is delayed materially, there is still a possibility of impairment risk (on the contract cash flow angle).
- **Above all, management is still investigating the root cause** behind the HSP failure. Kraken's Infrastructure Code Of Practice (ICOP) document, a key document behind our SELL downgrade in June, shows that all of the FPSO's processing equipment (not just the HSP transformers) were expected to reach critical ullage constraint from 2023. In our view, for BAB to avoid another unplanned FPSO breakdown, the more prudent action must involve "diagnosing" the entire FPSO's processing topsides, and we understand that this is not necessarily in its current plans.
- **Armada Etan and Pexco entered into upstream concessions in Indonesia.** Recently, Indonesia awarded three O&G blocks to new players, including the Akia block (north of Kalimantan) to the above consortium. This may not require an investor announcement as initial outlay is merely US\$8m in capex, and they have three years of pre-development phase. Armada Etan was originally BAB's subsidiary set up to bid for African FPSO projects. Pexco is a private company with >10 years developing O&G fields in Australia, Indonesia and New Zealand. Pexco is a related company controlled by Ananda Krishnan, and we do not have information on its recent financial performance.

## EARNINGS REVISION/RISK

- **Cut 2023-25F earnings by 21%/19%/8%,** given the lack of guidance of: a) actual earnings recovery timing of FPSO Kraken (if contract negotiations deviate from actual volume recovery), b) the risk of FPSO Kraken breaking down again (full repair of the HSP pumps does not adequately address concerns that we spotted in Kraken's ICOP document), c) the timing of FPSO Armada Sterling V first oil (as there is a risk of delay beyond Oct 23 given the uncertain monsoon impact), and d) visibility of other engineering works in the pipeline. It is possible that 2H earnings may be similar to 2Q23.

## VALUATION/RECOMMENDATION

- **Maintain SELL with adjusted target price of RM0.43 (implied 7x 2023F PE); we cut JV FPSO DCF from RM0.03/share to nil.** BAB still remains as a discount to Yinson's 15x PE valuation, but the target prices are consistently within 5-7x EV/EBITDA. While Yinson holds many growth projects to justify a higher 7x EV/EBITDA, and BAB's execution risk may be priced in, we are concerned that BAB's lower gearing (and hence, ability to win projects) may not be reflected as a positive market factor. For example, investors may be concerned over how BAB will fund Pexco's Indonesia upstream ventures.

## ENVIRONMENTAL, SOCIAL, GOVERNANCE (ESG) UPDATES

• <b>Environmental</b>	
- <b>Carbon (CO2) reduction.</b> Set targets using 2022 levels as the baseline	
- <b>Safety (HSE).</b> Lost Time Injury Frequency (LTIF) was 0.53 in 2022, vs 0.55 previously. To address this, have allocated additional safety e.	
• <b>Social</b>	
- <b>Diversity.</b> 42% female proportion among onshore staff.	
- <b>Charities</b> in various countries of operations ie the UK, Angola and India.	
• <b>Governance</b>	
- 4 out of 7 board members are independent.	

## GEARING LEVEL



Source: BAB

## KEY DEVELOPMENTS RELATED TO KRAKEN

Timeline	Developments
29 May 23	Production offline following 3 <sup>rd</sup> HSP pump failure. 0% production
11 June 23	HSP Charlie restarted. ~60% production
20 July 23	HSP Delta restarted. ~90% production
07 Aug 23	HSP Alpha restarted. 100% production
Sep 23	Additional 2 new HSP pumps
3Q23	Planned maintenance was shifted forward. No planned shutdown for 2H23
Tanker offloads	Last, before HSP malfunction: 7 May Altera Wind shuttle tanker : 8 Aug Altera Wind shuttle tanker : 27 Aug Ingrid Knutsen tanker: July Torill Knutsen tanker: 7 May

Source:

## SEGMENT FORECASTS

(RMm)	2023F	2024F	2025F
Revenue	1,951.5	2,532.5	2,377.3
FPSO	1,674.6	1,874.6	1,709.5
Subsea	216.6	347.6	457.6
Others	60.2	310.2	210.2
EBIT	673.5	752.1	694.4
FPSO	726.4	656.5	605.6
Subsea	(0.6)	29.0	37.3
Others	(72.2)	46.5	31.5

Source: UOB KayHian

## SOTP VALUATION (RM4.2/US\$)

Item	Valuation	Current SOTP (RM)
FPSO	DCF based on WACC of 10%, up to firm value. The WACC is higher than peers (Yinson and MISC) given its shorter average FPSO firm tenures and lack of new FPSOs	0.91
JV FPSO, Sterling V (ONGC)	30% stake, based on US\$1.17b capex, IRR of 12% on firm tenure, 30% residual value	0.00
- Net debt		(0.48)
SOTP	on 5.9b shares	0.43
2023F PE		6.8x

Source: UOB KayHian

**PROFIT & LOSS**

Year to 31 Dec (RMm)	2022	2023F	2024F	2025F
Net turnover	2,406	1,951	2,532	2,377
EBITDA	1,382	1,006	1,075	1,020
Deprec. & amort.	343	333	323	326
EBIT	1,040	674	752	694
Associate contributions	49	(13)	38	52
Net interest income/(expense)	(367)	(331)	(272)	(254)
<b>Pre-tax profit</b>	<b>709</b>	<b>387</b>	<b>518</b>	<b>493</b>
Tax	16	(19)	(26)	(29)
Minorities	8	8	8	8
<b>Net profit</b>	<b>732</b>	<b>376</b>	<b>500</b>	<b>471</b>
Net profit (adj.)	841	376	500	471

**BALANCE SHEET**

Year to 31 Dec (RMm)	2022	2023F	2024F	2025F
Fixed assets	8,362	8,119	7,887	8,264
Other LT assets	1,544	1,369	1,396	1,433
Cash/ST investment	839	891	1,089	1,476
Other current assets	981	667	865	812
<b>Total assets</b>	<b>11,726</b>	<b>11,046</b>	<b>11,237</b>	<b>11,984</b>
ST debt	1,018	768	518	518
Other current liabilities	597	710	904	1,042
LT debt	4,486	3,594	3,054	3,164
Other LT liabilities	528	715	1,002	937
Shareholders' equity	5,147	5,310	5,810	6,373
Minority interest	(51)	(51)	(51)	(51)
<b>Total liabilities &amp; equity</b>	<b>11,726</b>	<b>11,046</b>	<b>11,237</b>	<b>11,984</b>

**CASH FLOW**

Year to 31 Dec (RMm)	2022	2023F	2024F	2025F
<b>Operating</b>	<b>1,350</b>	<b>1,045</b>	<b>838</b>	<b>976</b>
Pre-tax profit	1,040	674	752	694
Tax	16	(19)	(26)	(29)
Deprec. & amort.	343	333	323	326
Working capital changes	9	114	(155)	41
Other operating cashflows	(56)	(56)	(56)	(56)
<b>Investing</b>	<b>346</b>	<b>(100)</b>	<b>(100)</b>	<b>(700)</b>
Capex (growth)	0	0	0	0
Capex (maintenance)	(1)	(100)	(100)	(700)
Proceeds from sale of assets	0	0	0	0
Others	348	0	0	0
<b>Financing</b>	<b>(1,750)</b>	<b>(892)</b>	<b>(540)</b>	<b>110</b>
Dividend payments	0	0	0	0
Issue of shares	0	0	0	0
Proceeds from borrowings	(3)	75	75	525
Loan repayment	(1,747)	(967)	(615)	(415)
Others/interest paid	0	0	0	0
<b>Net cash inflow (outflow)</b>	<b>(53)</b>	<b>52</b>	<b>198</b>	<b>387</b>
<b>Beginning cash &amp; cash equivalent</b>	<b>795</b>	<b>839</b>	<b>891</b>	<b>1,089</b>
Changes due to forex impact	97	0	0	0
<b>Ending cash &amp; cash equivalent</b>	<b>839</b>	<b>891</b>	<b>1,089</b>	<b>1,476</b>

**KEY METRICS**

Year to 31 Dec (%)	2022	2023F	2024F	2025F
<b>Profitability</b>				
EBITDA margin	57.5	51.6	42.5	42.9
Pre-tax margin	29.5	19.9	20.5	20.7
Net margin	30.4	19.3	19.8	19.8
ROA	6.2	3.3	4.5	4.1
ROE	16.1	7.2	9.0	7.7
<b>Growth</b>				
Turnover	11.2	(18.9)	29.8	(6.1)
EBITDA	(0.6)	(27.2)	6.9	(5.1)
Pre-tax profit	6.2	(45.3)	33.8	(5.0)
Net profit	11.1	(48.7)	33.1	(5.8)
Net profit (adj.)	20.4	(55.3)	33.1	(5.8)
EPS	19.9	(55.3)	33.1	(5.9)
<b>Leverage</b>				
Debt to total capital	51.9	45.3	38.3	36.8
Debt to equity	107.0	82.2	61.5	57.8
Net debt/(cash) to equity	90.7	65.4	42.7	34.6
Interest cover (x)	3.8	3.0	4.0	4.0

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