

PP14767/09/2012(030761)

Bumi Armada Berhad

“Healthy FPSO Offset by Weak OSV Contribution”

Results Review

- **Actual vs. expectations.** Bumi Armada Berhad (Bumi Armada) 1Q15 core net profit of RM65 million came in below ours and consensus estimates respectively, accounting 14% and 15% of both parties full year net profit forecast. Note that 1Q15 earnings have been adjusted to exclude exceptional item including RM21 million staff retrenchment expenses. Disappointing 1Q15 earnings was caused by weaker-than-expected contribution from the OSV segment (-98% y-o-y) impacted by lower utilisation rate of its Class B vessels.
- **Dividend.** No dividend was declared during the quarter.
- **Top line.** Bumi Armada's 1Q15 revenue gained to RM572 million (+22% y-o-y) mainly driven by higher contribution from FPSO and OSV segment. FPSO segment revenue rose to RM291 million (+49% y-o-y), lifted by higher conversion activities from Kraken FPSO and additional contribution from Angola FPSO contracts while OSV segment revenue grew to RM165 million (+5% y-o-y) underpinned by the contribution of new vessels acquired in 2014. However, T&I segment posted a flat revenue of RM117 (-0.4% y-o-y) due to lower activity from LukOil project in Caspian Sea.
- **Bottom line.** Bumi Armada recorded higher EBITDA of RM285 million (+28% y-o-y) in 1Q15 driven by strong contribution from FPSO conversion project coupled with on-going contribution from Armada Installer operations in Turkmenistan and Armada Hawk operation in India. EBITDA margin stood at 50% in 1Q15, slightly higher against 1Q14 margin of 48%. The group also posted higher depreciation by RM26 million due to additional vessels in operation across all business segments.

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HOLD (TP: RM1.32)

Current Price (RM)	RM1.23
New Target Price (RM)	RM1.32
Previous Target Price (RM)	RM1.28
Previous Recommend.	Hold
Upside To Target Price	7%
Dividend Yield (FY16)	2%

Stock Code

Bloomberg	BAB MK
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Stock & Market Data

Listing	MAIN MARKET
Sector	Oil and Gas
Shariah Compliance	No
Issued Shares (mn)	5,866
Market Cap (RM mn)	7,392
YTD Chg In Share Price	11%
Beta (x)	1.08
52-week Hi/Lo (RM)	2.46 0.98
3M Average Volume (shrs)	13.54mn
Estimated Free Float	39%

Major Shareholders

Objektif Bersatu	35%
EPF	9%
Skim ASB	8%

Note

FPSO - Floating Production Storage Offloading
 OSV - Offshore Support Vessel
 T&I - Transport and Installation
 OFS - Oilfield Services
 PSV - Platform Support Vessel

- **Secure FSU contract in April 2015.** Bumi Armada Berhad has secured a new contract win from ElectroGas Malta Limited (EGM) worth approximately USD300 million (RM1.1 billion) for the conversion, supply and operations and maintenance of one floating storage unit (FSU) in Malta for the period of eighteen years and two months (18+2). We assume the contract may generate a revenue of RM61 million per annum (FY16-FY34), translating into earnings contribution of RM18 million annually based on EBIT margin assumption of 30%.
- **Orderbook.** Bumi Armada's current orderbook stands at approximately RM38.9 billion comprising RM25.6 billion of firmed contract and RM13.3 billion on optional extensions. Moving forward, the group is bidding for three FPSO projects in Nigeria, Angola and Namibia which may involve capex of approximately between USD1 billion-USD1.5 billion for each jobs.
- **Change to forecast.** We made adjustment to our earnings by cutting our FY15 and FY16 earnings forecast by 9% respectively as 1Q15 results were below our expectation. Nonetheless, FY15 and FY16 earnings are projected to jump by 88% y-o-y and 14% y-o-y driven by i) orderbook replenishment from Angola FPSO jobs and ii) improving contribution from T&I jobs in the Caspian Sea.
- **Valuation & recommendation.** We re-value Bumi Armada target price at RM1.32, based on 17x PER (ascribing 45% discount to the average 3-years PER of 30) pegged to FY16 EPS of 8sen and the stock is a **HOLD**. Re-rating catalyst may come from i) new FPSO contract as the group is gunning for three new FPSO jobs and ii) new contracts for the T&I segment.

Table 1: Peers Comparison (Calenderised)

Company	FYE	Price (RM)	EPS (sen)		P/E (X)		P/B (X)		ROE (%)	DY (%)	TP (RM)	Call
			FY15	FY16	FY15	FY16	FY15	FY16				
SapuraKencana	Jan	2.61	20	21	13.7	12.7	1.2	1.1	13	1	3.22	Buy
Wah Seong	Dec	1.32	14	15	9.2	8.6	0.8	0.8	12	4	1.38	Hold
Bumi Armada	Dec	1.23	8	10	15.7	11.7	1.0	1.0	4	2	1.32	Hold
Dialog Group	Jun	1.67	5	5	34.3	31.0	4.8	4.6	15	1	1.70	Hold
Alam Maritim	Dec	0.63	7	7	9.5	9.4	0.7	0.7	9	NA	0.56	Sell
MMHE	Dec	1.25	8	8	15.1	15.4	0.7	0.7	8	NA	1.33	Hold
PetDag	Dec	19.68	71	79	30.1	27.0	4.0	3.9	11	2	18.90	Sell
Dayang	Dec	2.44	24	28	10.8	9.3	2.4	2.1	22	3	2.64	Hold
UMW-OG	Dec	2.00	15	17	14.8	13.3	1.4	1.2	8	0.5	2.21	Hold
Perisai	Dec	0.47	6	9	10.0	5.9	0.6	0.5	1	NA	NR	NR
Perdana Petroleum	Dec	1.51	12	15	11.4	9.3	1.3	1.1	14	1	NR	NR
TH Heavy	Dec	0.26	3	4	12.1	9.0	0.8	0.7	(20)	NA	NR	NR
Petra Energy	Dec	1.40	15	16	9.3	9.0	0.8	0.8	7	1	NR	NR
Deleum	Dec	1.56	16	18	10.1	9.2	2.0	1.7	23	5	NR	NR
Uzma	Dec	2.36	21	23	11.3	10.0	1.6	1.2	19	2	NR	NR
KNM	Dec	0.59	7	8	8.9	7.8	0.5	0.4	2	NA	NR	NR
Average					14.1	12.4	1.5	1.4	9	2		

Source: Bloomberg, M&A Securities

Table 2: Financial Forecast

YE: Dec (RM million)	FY12	FY13	FY14	FY15F	FY16F
Revenue	1,659	2,073	2,397	2,402	2,654
EBIT	552	544	372	600	664
Finance cost	(123)	(98)	(99)	(156)	(173)
JCE	40	33	36	58	80
PBT	469	480	309	503	571
Net profit	386	431	219	413	469
EPS	13	15	4	7.0	8.0
PBT margin	28%	23%	13%	21%	22%
Net profit margin	23%	21%	9%	17%	18%
PER (x)	30.2	26.9	24.5	17.5	15.4
P/BV (x)	1.3	1.5	1.1	1.1	1.0
DPS (sen)	3	3	2	2	3
Dividend yield	2%	2%	1%	1%	2%

Source: Bursa Malaysia, M&A Securities

Table 3: Results Analysis

YE: Dec (RM million)	1Q15	4Q14	1Q15	q-o-q	y-o-y	3M14	3M15	y-o-y
Revenue	469	702	572	-18%	22%	469	572	22%
EBIT	93	(0.03)	142	NM	53%	93	142	53%
Interest expenses	(22)	(32)	(38)	18%	77%	(22)	(38)	77%
JCE	15	(0.1)	1	NM	-93%	15	1	-93%
PBT	86	(33)	105	NM	22%	86	105	22%
Taxation	(20)	(22)	(32)	44%	64%	(20)	(32)	64%
Net Profit	65	(53)	72	NM	11%	65	72	11%
EPS	1	(1)	1	NM	-10%	1	1	-10%
EBIT Margin	20%	0%	25%			20%	25%	
Pre-tax margin	18%	-5%	18%			18%	18%	
Net profit margin	14%	-7%	13%			14%	13%	
Effective tax rate	23%	-69%	31%			23%	31%	

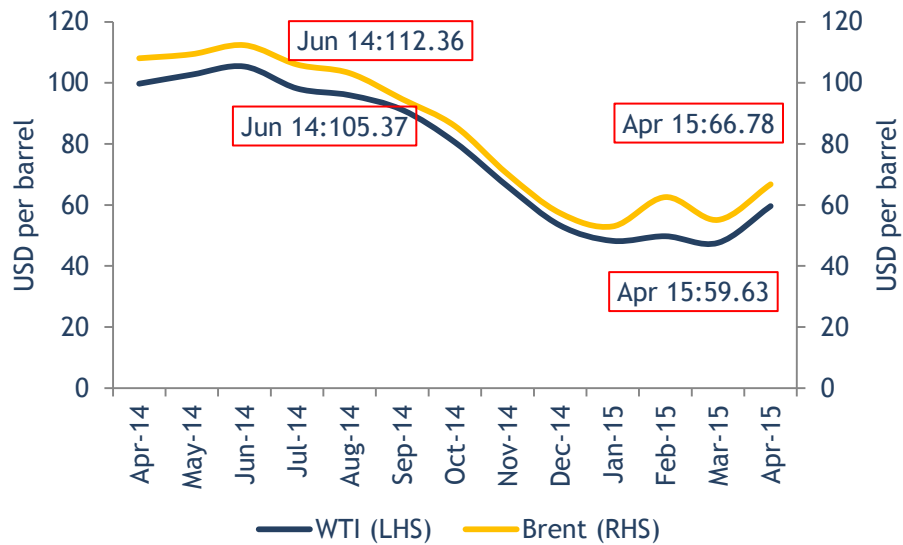
Source: Bursa Malaysia, M&A Securities

Table 4: Segmental Analysis

YE: Dec (RM million)	1Q15	4Q14	1Q15	q-o-q	y-o-y	3M14	3M15	y-o-y
<u>Revenue</u>								
FPSO	196	286	291	2%	49%	196	291	49%
OSV	156	182	165	-10%	5%	156	165	5%
T&I	117	234	117	-50%	-0.4%	117	117	0%
<u>Segment results</u>								
FPSO	62	69	84	22%	37%	62	84	37%
OSV	19	(20)	0.3	NM	-98%	19	0.3	-98%
T&I	4	(61)	40	NM	969%	4	40	969%

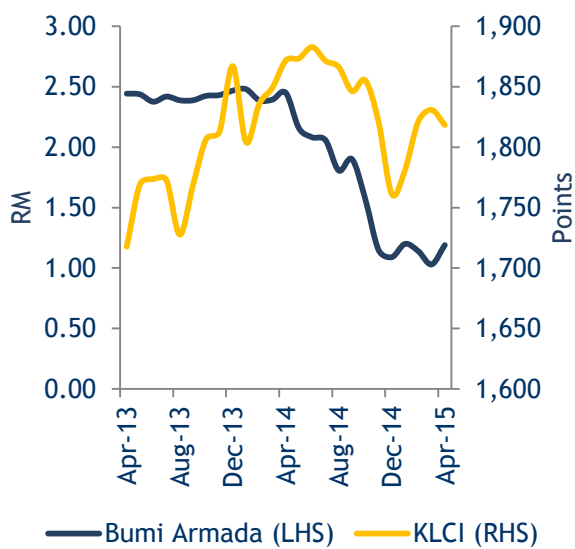
Source: Bursa Malaysia, M&A Securities

WTI vs. Brent Crude Oil Price
(April 2014-April 2015)



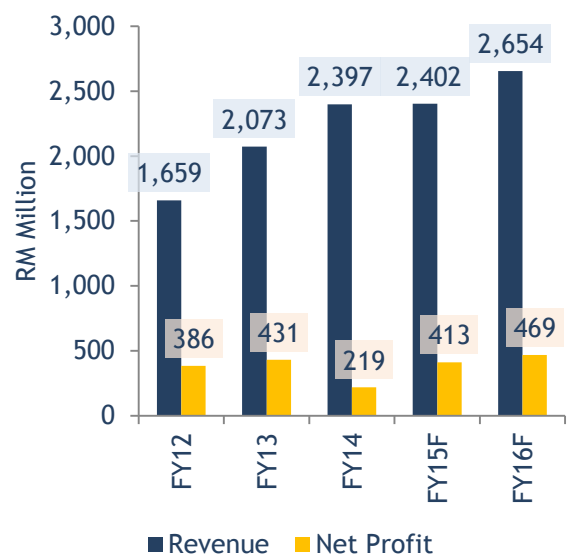
Source: Bloomberg

Bumi Armada Share Price vs. KLCI
(April 2013-April 2015)



Source: Bloomberg, M&A Securities

Revenue and Net Profit
(FY12-FY16F)



M&A Securities

STOCK RECOMMENDATIONS

BUY	Share price is expected to be $\geq +10\%$ over the next 12 months.
TRADING BUY	Share price is expected to be $\geq +10\%$ within 3-months due to positive newsflow.
HOLD	Share price is expected to be between -10% and $+10\%$ over the next 12 months.
SELL	Share price is expected to be $\geq -10\%$ over the next 12 months.

SECTOR RECOMMENDATIONS

OVERWEIGHT	The sector is expected to outperform the FBM KLCI over the next 12 months.
NEUTRAL	The sector is expected to perform in line with the FBM KLCI over the next 12 months.
UNDERWEIGHT	The sector is expected to underperform the FBM KLCI over the next 12 months.

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