

PP14767/09/2012(030761)

Bumi Armada Berhad

“FPSO Shield Earnings from Weaker OSV”

Results Review

- Actual vs. expectations.** Bumi Armada Berhad (Bumi Armada) 6M15 core net profit of RM175 million, excluding exceptional item, came in line with ours and consensus estimates respectively, accounting 42% of both parties full year net profit forecast. Note that 6M15 earnings have been adjusted to exclude exceptional items including; i) RM386 million total impairment charge, ii) RM15 million allowance for doubtful written back, iii) RM20 million net forex gain, iv) RM22 million retrenchment expenses and iv) RM5 million non-core item. Nonetheless, the group's 2Q15 earnings that dropped by 6% y-o-y, were injured by lower contribution from the OSV segment which recorded an operational loss of RM23 million, offsetting the strong earnings contribution from FPSO segment (+31% y-o-y) thanks to robust FPSO conversion project.
- Dividend.** No dividend was declared during the quarter.
- Top line.** Bumi Armada's 6M15 revenue declined to RM1.0 billion (-3% y-o-y) mainly impacted by lower contribution from the T&I and OSV segment. T&I segment revenue dropped to RM179 million (-45% y-o-y) due to lower activity from the LukOil project in Caspian Sea as well as lower utilisation of Armada Condor and Armada Hawk. Similarly, OSV segment posted weaker revenue of RM290 million (-6% y-o-y) hammered by lower utilisation rate of both Class A and Class B vessels in tandem with the decline in global oil prices. Contrariwise, revenue from FPSO segment improved to RM562 million (+32% y-o-y) lifted by 1) steady conversion activity from Eni 1506 FPSO project and initial revenue recognition from Armada LNG Mediterrana, 2) higher contribution from tanker operation and 3) a jump in operation and maintenance (O&M) activity from Armada Claire.

Friday, August 28, 2015

BUY (TP: RM1.06)

Current Price (RM)	RM0.86
New Target Price (RM)	RM1.06
Previous Target Price (RM)	RM1.32
Previous Recommend.	Hold
Upside To Target Price	23%
Dividend Yield (FY16)	3%

Stock Code

Bloomberg	BAB MK
-----------	--------

Stock & Market Data

Listing	MAIN MARKET
Sector	Oil and Gas
Shariah Compliance	No
Issued Shares (mn)	5,866
Market Cap (RM mn)	6,452
YTD Chg In Share Price	1%
Beta (x)	1.02
52-week Hi/Lo (RM)	2.09 0.98
3M Average Volume (shrs)	7.81mn
Estimated Free Float	28%

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

- **Bottom line.** Bumi Armada recorded higher EBITDA of RM557 million (+15% y-o-y) in 6M15 driven by strong contribution from the FPSO conversion activities. EBITDA margin stood at 54% in 6M15, higher against 6M14 margin of 46%. The group also posted higher depreciation by RM56 million due to additional vessels in operation across all business segments.
- **Latest development.** Bumi Armada Berhad has secured a new contract win in April 2015 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 RM39.1 billion comprising RM25.8 billion of firmed contract and RM13.3 billion on optional extensions. Furthermore, FY15 will be a year of consolidation for Bumi Armada to focus on the existing FPSO conversions (Kraken, Madura and Angola) which will be completed in 2016 and 2017 as well as managing costs in line with weakening in oil prices.
- **Change to forecast.** We maintain our FY15 earnings but cut slightly our FY16 earnings forecast by 5% after taking into consideration of the challenging market condition due to softening of global oil prices which may impact earnings contribution from the OSV segment. Nonetheless, FY15 and FY16 earnings are projected to jump by 88% y-o-y and 7% y-o-y driven by i) orderbook replenishment from Angola FPSO jobs and ii) improving contribution from T&I jobs in the Caspian Sea. At this stage we are cautiously optimistic on the group as its ability to replenish order book may become a challenge given the protracted slowdown in global oil prices in addition to potential contract cancellation by oil majors. Its mission to add more FPSO in its stable may also hang in balance due to the aforementioned reason.
- **Valuation & recommendation.** We re-value Bumi Armada target price at RM1.06, based on 14x PER (ascribing 40% discount to the average 3-years low PER of 24x) pegged to FY16 EPS of 7.5sen and the stock is a **BUY** powered by i) impressive firm orderbook at RM25.8 billion and ii) strong business presence in Europe, Africa and South East Asia.

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	1.61	19	20	13.2	12.3	1.1	1.0	10	1	2.95	Buy
Wah Seong	Dec	1.25	14	15	9.5	8.8	0.9	0.9	13	4	1.38	Hold
Bumi Armada	Dec	0.86	7	10	15.3	11.1	1.0	0.9	4	1	1.06	Buy
Dialog Group	Jun	1.56	5	5	31.4	29.9	4.5	4.5	15	1	1.60	Hold
Alam Maritim	Dec	0.42	5	6	9.3	7.9	0.5	0.5	7	NA	0.56	Hold
MMHE	Dec	0.99	8	8	14.3	15.0	0.7	0.7	5	NA	1.20	Hold
PetDag	Dec	21.22	74	81	28.9	26.1	3.4	3.4	12	2	19.71	Hold
Dayang	Dec	1.55	21	24	9.7	8.7	1.8	1.4	22	3	1.80	Buy
UMW-OG	Dec	0.99	9	11	16.2	12.4	0.9	0.8	7	1	0.90	Hold
Perisai	Dec	0.29	3	6	15.6	7.1	0.4	0.4	2	NA	NR	NR
Perdana Petroleum	Dec	1.51	8	13	18.6	11.6	1.7	1.4	12	1	NR	NR
TH Heavy	Dec	0.15	(1)	2	NA	10.5	0.5	0.4	(26)	NA	NR	NR
Petra Energy	Dec	0.98	12	15	8.7	7.1	0.6	0.6	7	2	NR	NR
Deleum	Dec	1.06	16	18	8.0	7.5	1.7	1.4	23	6	NR	NR
Uzma	Dec	1.70	20	24	12.5	10.4	2.3	1.9	18	2	NR	NR
KNM	Dec	0.48	7	7	8.8	7.8	0.5	0.4	3	NA	NR	NR
Average					14.7	12.1	1.4	1.3	8	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	2,498
EBIT	552	544	372	600	625
Finance cost	(123)	(98)	(99)	(156)	(162)
JCE	40	33	36	58	75
PBT	469	480	309	503	537
Net profit	386	431	219	413	441
EPS	7	7	4	7	8
PBT margin	28%	23%	13%	21%	22%
Net profit margin	23%	21%	9%	17%	18%
PER (x)	30.2	26.9	24.5	12.2	11.4
P/BV (x)	1.3	1.5	1.1	1.0	0.9
DPS (sen)	3	3	2	2	3
Dividend yield	2%	2%	1%	2%	3%

Source: Bursa Malaysia, M&A Securities

Table 3: Results Analysis

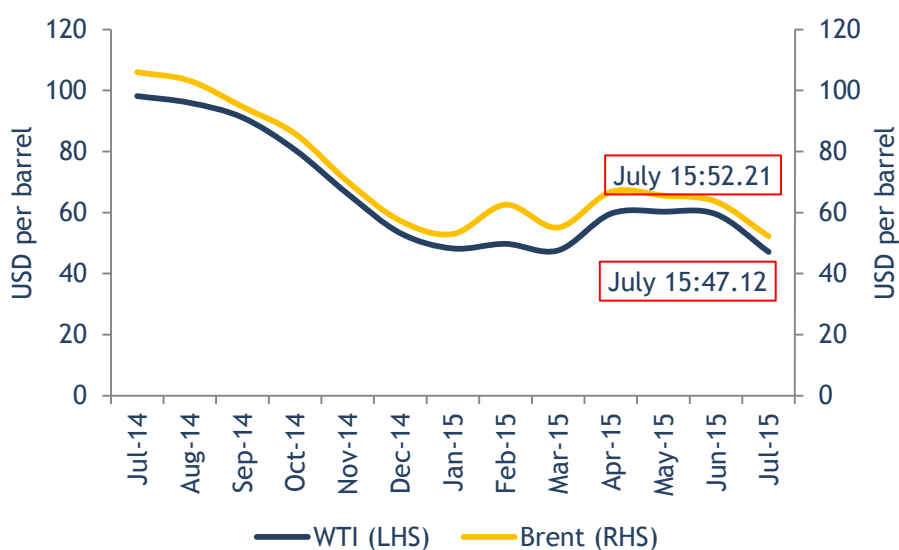
YE: Dec (RM million)	2Q14	1Q15	2Q15	q-o-q	y-o-y	6M14	6M15	y-o-y
Revenue	590	572	459	-20%	-22%	1,059	1,031	-3%
EBIT	130	142	(253)	NM	NM	223	(111)	NM
Interest expenses	(21)	(38)	(37)	-3%	79%	(42)	(75)	78%
JCE	19	1	16	1377%	-13%	34	17	-49%
PBT	128	105	(274)	NM	NM	214	(169)	NM
Taxation	(26)	(32)	(25)	-23%	-6%	(46)	(27)	-42%
Net Profit	98	72	(292)	NM	NM	163	(219)	NM
EPS	2	1	(5)	NM	NM	3	(4)	NM
EBIT Margin	22%	25%	-55%			21%	-11%	
Pre-tax margin	22%	18%	-60%			20%	-16%	
Net profit margin	17%	13%	-64%			15%	-21%	
Effective tax rate	20%	31%	-9%			21%	-16%	

Source: Bursa Malaysia, M&A Securities

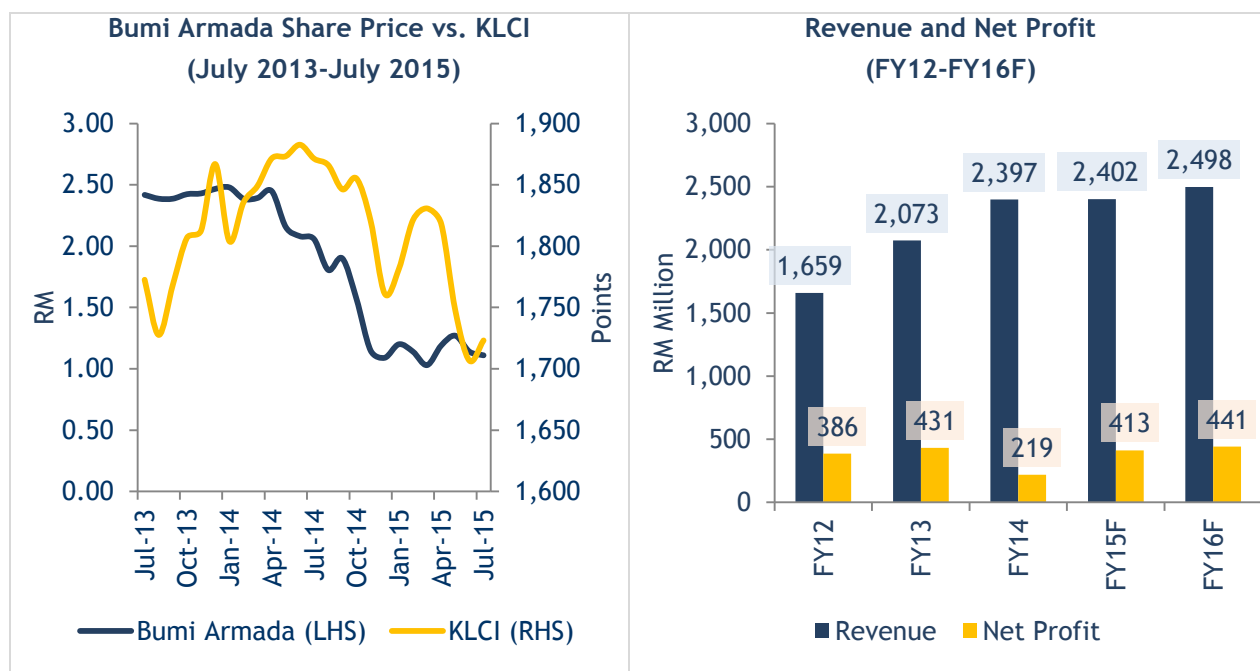
Table 4: Segmental Analysis

YE: Dec (RM million)	2Q14	1Q15	2Q15	q-o-q	y-o-y	6M14	6M15	y-o-y
<u>Revenue</u>								
FPSO	231	291	271	-7%	17%	427	562	32%
OSV	153	165	126	-23%	-18%	309	290	-6%
T&I	206	117	62	-47%	-70%	323	179	-45%
<u>Segment results</u>								
FPSO	76	84	100	18%	31%	138	184	34%
OSV	16	0.3	(23)	NM	NM	35	(22)	NM
T&I	30	40	(6)	NM	NM	34	34	1%

Source: Bursa Malaysia, M&A Securities

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

Source: Bloomberg



Source: Bloomberg, M&A Securities

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.

DISCLOSURES AND DISCLAIMER

This report has been prepared by M&A SECURITIES SDN BHD. Readers should be fully aware that this report is for informational purposes only and no representation or warranty, expressed or implied is made as to the accuracy, completeness or reliability of the information or opinion contained herein. The recommendation and opinion are based on information obtained or derived from sources believed to be reliable.

This report contains financial forecast/projection based on our assumptions which may defer from the actual financial results announced by the companies under coverage. All opinions, estimates and assumptions are subject to change without notice. Analysts will initiate, update and cease coverage solely at the discretion of M&A SECURITIES SDN BHD.

Investors are to be cautioned that value of any securities invested may fluctuate from time to time. We advise investors to seek financial, legal and other advice for investing based on the recommendation of our report as we have not taken into account each investors' specific investment objectives, risk tolerance and financial position.

This report is not, and should not be construed as, an offer to buy or sell any securities or other financial instruments. M&A SECURITIES SDN BHD can accept no liability for any consequential loss or damage whether direct or indirect. Investment should be made at investors' own risks.

M&A SECURITIES SDN BHD and INSAS GROUP of companies, their respective directors, officers, employees and connected parties may have interest in any of the securities mentioned and may benefit from the information herein. M&A SECURITIES SDN BHD and INSAS GROUP of companies and their affiliates may provide services to any company and affiliates of such companies whose securities are mentioned herein. This report may not be reproduced, distributed or published in any form or for any purpose.

M & A Securities Sdn Bhd (15017-H)

(A wholly-owned subsidiary of INSAS BERHAD)

A Participating Organisation of Bursa Malaysia Securities Berhad

Principal Office:

Level 1,2,3 No.45 & 47,43-6

The Boulevard, Mid Valley City,

Lingkaran Syed Putra,

59200 Kuala Lumpur

Tel: +603 - 2282 1820 Fax: +603 - 2283 1893

Website: www.mnaonline.com.my