

PP14767/09/2012(030761)

Bumi Armada Berhad

“Potential Tie-up with MISC?”

It was reported recently that MISC Berhad (MISC) is going to inject several of its asset into Bumi Armada Berhad (Bumi Armada) business. If the deal goes through, we expect Bumi Armada to emerge as a clear winner by becoming an FPSO arm of Petronas with significant market reach and strong backing that would capable of elevating Bumi Armada in world's top 3 FPSO player. We maintain Bumi Armada with a target price of RM1.06 and the stock is a HOLD.

- **MISC in talks with Bumi Armada?** Bumi Armada and MISC are speculated to be in the early stages of discovering a corporate exercise involving the consolidation of the floating production storage offshore (FPSO) businesses of both companies. The ‘possible’ exercise could see MISC injecting its FPSO business into Bumi Armada in return for shares which would result MISC in owning substantial stake in Bumi Armada.

The sources said the MISC could strip out 6 FPSO vessels, 4 floating storage and offloading vessels (FSO), 2 mobile offshore production units (MOPU) and 1 semi-submersible floating production system. In addition, the preliminary talks between MISC and Bumi Armada could include the sale of MISC's 51% interest in FPSO Ventures Sdn Bhd (the remaining 41% is owned by Ombank Simfoni Sdn Bhd).

- **Our view.** We still neutral on the news pending for further clarification from both sides on the ‘possible’ corporate exercise and hence, this is limited to conjecture and therefore, too early to speculate on an outcome. Nonetheless, we opine that Bumi Armada could emerge as a clear winner if the deal is materialized which may strengthen its position as one of the largest FPSO players globally with 12 fleets of FPSO (including 6 MISC's FPSO). Besides, MISC's asset

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HOLD (TP: RM1.06)

Current Price (RM)	RM1.05
New Target Price (RM)	RM1.06
Previous Target Price (RM)	RM1.32
Previous Recommend.	BUY
Upside To Target Price	1%
Dividend Yield (FY16)	3%

Stock Code

Bloomberg	BAB MK
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Stock & Market Data

Listing	MAIN MARKET
Sector	Oil and Gas
Shariah Compliance	Yes
Issued Shares (mn)	5,866
Market Cap (RM mn)	6,688
YTD Chg In Share Price	5%
Beta (x)	1.35
52-week Hi/Lo (RM)	1.43 0.77
3M Average Volume (shrs)	20.4mn
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

divestment plan is not caught our surprise as several corporate deal has been finalized by the entity in the previous year including the selling of 15.73% stake in NCB Holdings Bhd (2014) and 50% stake in Gumusut-Kakap Semi-Floating Production System (L) Ltd to E&P Ventures Solution Sdn Bhd (2012).

- **Potential new job from Petronas.** Assuming the deal goes through, MISC will hold a substantial stake in the group and Bumi armada would become an FPSO arm of Petronas. We expect this to be a new catalyst for Bumi Armada to secure potential contract from Petronas since a bulk of its orderbook are consist of overseas job.
- **Outlook.** 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 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.
- **Earnings outlook.** We keep unchanged our earnings forecast pending further details of the corporate deal. At this juncture, 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 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 **HOLD** 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	2.17	18	19	12.5	11.3	1.0	0.9	7	2	2.55	Buy
Wah Seong	Dec	1.18	12	13	9.9	8.9	0.8	0.8	10	3	1.15	Hold
Bumi Armada	Dec	1.05	6	8	16.5	12.8	0.9	0.8	(3)	2	1.06	Hold
Dialog Group	Jun	1.63	6	6	28.3	25.8	4.1	3.9	16	1	1.60	Hold
MMHE	Dec	1.10	8	8	14.2	13.7	0.7	0.6	4	NA	1.04	Hold
PetDag	Dec	24.08	81	87	27.9	25.9	4.3	4.2	13	2	22.68	Hold
Dayang	Dec	1.69	18	21	9.6	8.2	1.6	1.4	18	2	1.80	Hold
UMW-OG	Dec	1.21	4	6	33.6	19.2	0.8	0.8	5	1	0.90	Sell
Perisai	Dec	0.31	1	2	40.6	13.5	0.4	0.4	2	NA	NR	NR
Perdana Petroleum	Dec	1.54	(0)	8	NA	19.0	1.5	1.3	6	1	NR	NR
TH Heavy	Dec	0.19	(1)	2	NA	10.5	0.5	0.4	(25)	NA	NR	NR
Petra Energy	Dec	1.28	10	13	12.9	9.4	0.8	0.8	8	2	NR	NR
Deleum	Dec	1.30	15	18	9.1	7.5	1.7	1.5	22	5	NR	NR
Uzma	Dec	2.21	20	24	11.0	9.1	1.9	1.2	17	2	NR	NR
KNM	Dec	0.52	6	7	8.9	7.5	0.4	0.4	3	NA	NR	NR
Average					18.1	13.5	1.4	1.3	7	2		

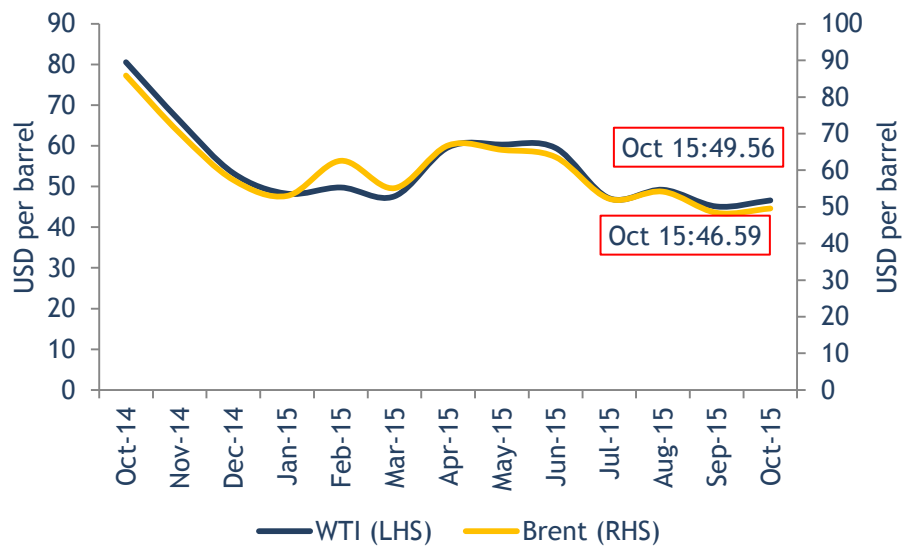
Source: Bloomberg, M&A Securities

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%

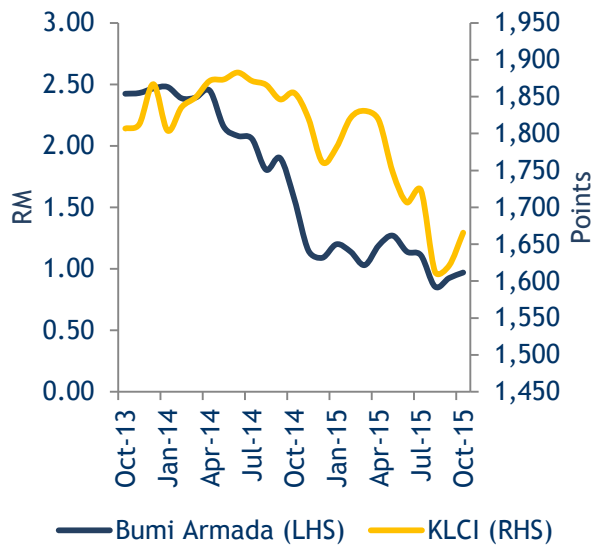
Source: Bursa Malaysia, M&A Securities

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



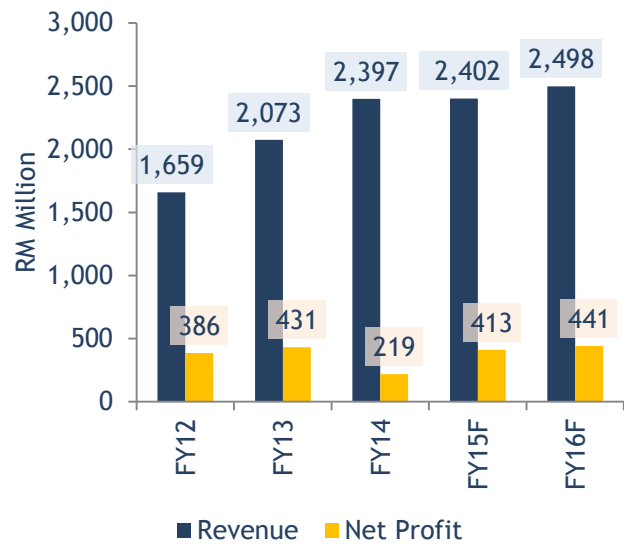
Source: Bloomberg

Bumi Armada Share Price vs. KLCI
(October 2013-October 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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