

PP14767/09/2012(030761)

Market Access

Bumi Armada Berhad

“Healthy FPSO Contribution Offset by Weaker OSV”

Results Review

- Actual vs. expectations.** Bumi Armada Berhad (Bumi Armada) 9M15 core net profit of RM174 million (-41% y-o-y), excluding exceptional item, came in below ours and consensus estimates respectively, accounting 42% and 52% of both parties full year net profit forecast. Note that 6M15 earnings have been adjusted to exclude exceptional items including; i) RM353 million impairment for PPE and con-current asset held for sale, ii) RM21 million impairment for available-for-sale asset, iii) RM3 million impairment for investment in joint venture and iv) RM61 million net forex gain. Nonetheless, the disappointing 9M15 earnings were injured by lower contribution from the OSV segment which recorded an operational loss of RM41 million, offsetting the strong earnings contribution from FPSO segment (+49% y-o-y) thanks to robust FPSO conversion project.
- Dividend.** No dividend was declared during the quarter.
- Top line.** Bumi Armada's 9M15 revenue declined to RM1.6 billion (-6% y-o-y) mainly impacted by lower contribution from the T&I and OSV segment. T&I segment revenue dropped to RM236 million (-58% 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 RM428 million (-9% y-o-y) hammered by lower utilisation rate of Class B vessels in tandem with the decline in global oil prices. Contrariwise, revenue from FPSO segment improved to RM927 million (+40% y-o-y) lifted by 1) steady conversion activity from the kraken Eni 1506 FPSO project and Armada LNG Mediterrana FGS project.

Monday, November 23, 2015

BUY (TP: RM1.20)

Current Price (RM)	RM1.05
New Target Price (RM)	RM1.20
Previous Target Price (RM)	RM1.06
Previous Recommend.	Buy
Upside To Target Price	14%
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)	5,925
YTD Chg In Share Price	7%
Beta (x)	1.33
52-week Hi/Lo (RM)	1.43 0.77
3M Average Volume (shrs)	20.99mn
Estimated Free Float	28%

Major Shareholders

Objektif Bersatu	35%
EPF	8%
Skim ASB	8%

Note

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

- **Bottom line.** Bumi Armada recorded higher EBITDA of RM855 million (+94% y-o-y) in 9M15 driven by strong contribution from the FPSO conversion activities. EBITDA margin stood at 54% in 9M15, higher against 9M14 margin of 45%. Besides, the group also posted higher depreciation by RM99 million due to additional vessels in operation across all business segments.
- **Outlook.** For FY15, Bumi Armada Berhad has secured a new contract win in April 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%. Bumi Armada's current orderbook stands at approximately RM44.6 billion comprising RM29.0 billion of firmed contract and RM15.6 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 made revision to our FY15 after taking into consideration of the challenging market conditions due to softening of global oil prices which may impact earnings contribution from the OSV segment but we keep unchanged our FY16 earnings forecast. Nonetheless, FY15 and FY16 earnings are projected to jump by 36% y-o-y and 48% 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 RM1.20, based on 16x PER (ascribing 30% 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 RM29 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	2.12	18	19	12.5	11.3	1.0	0.9	7	2	2.55	Buy
Wah Seong	Dec	1.13	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	1.20	Buy
Dialog Group	Jun	1.62	6	6	28.3	25.8	4.1	3.9	16	1	1.60	Hold
MMHE	Dec	1.08	8	8	14.2	13.7	0.7	0.6	4	NA	1.04	Hold
PetDag	Dec	24.20	81	87	27.9	25.9	4.3	4.2	13	2	22.68	Hold
Dayang	Dec	1.49	18	21	9.6	8.2	1.6	1.4	18	2	1.80	Hold
UMW-OG	Dec	1.17	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	NA	(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	1.40	10	13	12.9	9.4	0.8	0.8	8	2	NR	NR
Deleum	Dec	1.16	15	18	9.1	7.5	1.7	1.5	22	5	NR	NR
Uzma	Dec	2.04	20	24	11.0	9.1	1.9	1.2	17	2	NR	NR
KNM	Dec	0.51	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	2,194	2,499
EBIT	552	544	372	483	625
Finance cost	(123)	(98)	(99)	(129)	(162)
JCE	40	33	36	53	75
PBT	469	480	309	407	537
Net profit	386	431	219	297	441
EPS	7	7	4	5	8
PBT margin	28%	23%	13%	19%	22%
Net profit margin	23%	21%	9%	14%	18%
PER (x)	30.2	26.9	24.5	20.4	13.7
P/BV (x)	1.3	1.5	1.1	0.9	0.8
DPS (sen)	3	3	2	2	3
Dividend yield	2%	2%	1%	2%	2%

Source: Bursa Malaysia, M&A Securities

Table 3: Results Analysis

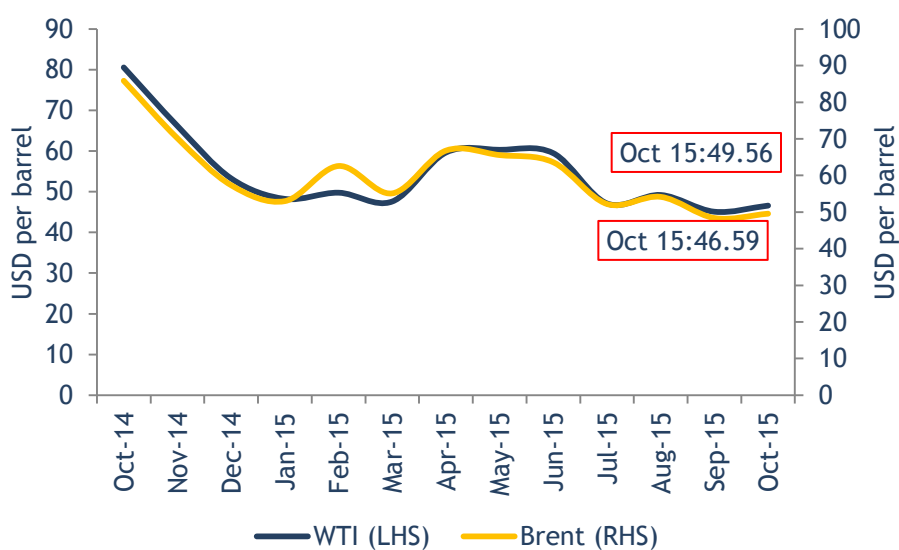
YE: Dec (RM million)	3Q14	2Q15	3Q15	q-o-q	y-o-y	9M14	9M15	y-o-y
Revenue	637	459	559	22%	-12%	1,696	1,591	-6%
EBIT	150	(253)	102	NM	-32%	372	(9)	NM
Interest expenses	(24)	(37)	(26)	-31%	6%	(67)	(101)	52%
JCE	2	16	26	60%	1016%	36	43	20%
PBT	128	(274)	102	NM	-20%	342	(67)	NM
Taxation	(17)	(25)	(31)	25%	85%	(62)	(88)	40%
Net Profit	108	(292)	70	NM	-35%	271	(149)	NM
EPS	2	(5)	1	NM	-48%	6	(3)	NM
EBIT Margin	24%	-55%	18%			22%	-1%	
Pre-tax margin	20%	-60%	18%			20%	-4%	
Net profit margin	17%	-64%	13%			16%	-9%	
Effective tax rate	13%	-9%	30%			18%	-130%	

Source: Bursa Malaysia, M&A Securities

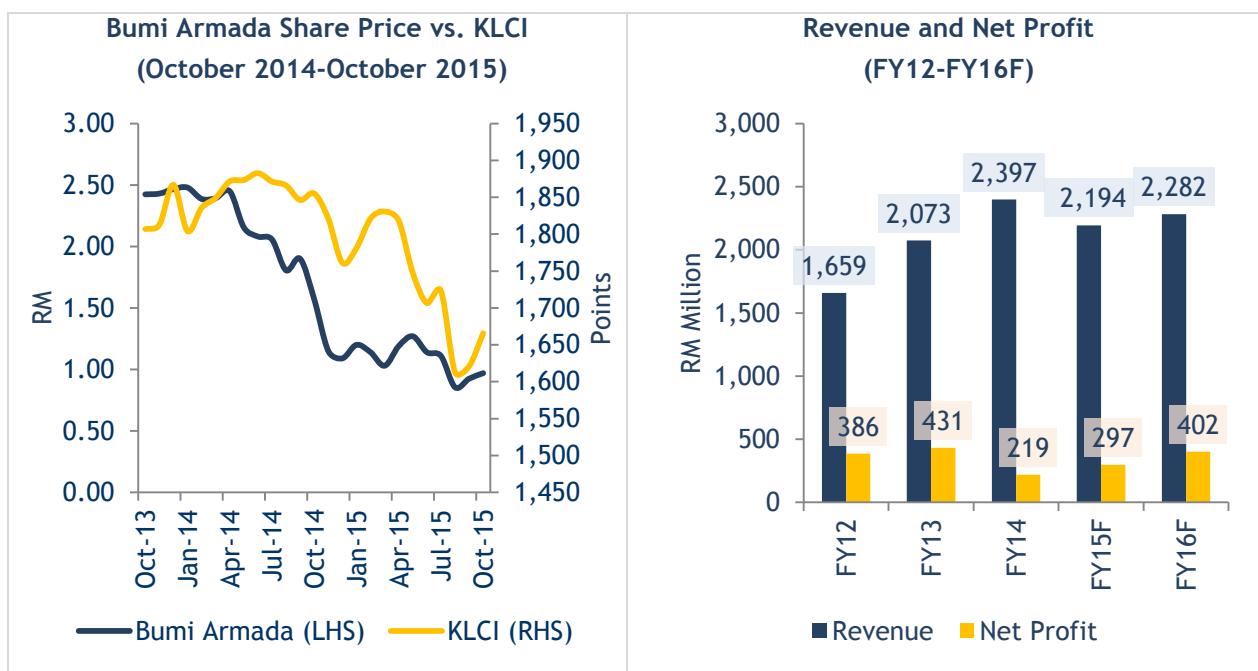
Table 4: Segmental Analysis

YE: Dec (RM million)	3Q14	2Q15	3Q15	q-o-q	y-o-y	9M14	9M15	y-o-y
Revenue								
FPSO	236	271	365	35%	54%	664	927	40%
OSV	163	126	137	9%	-16%	472	428	-9%
T&I	237	62	57	-8%	-76%	560	236	-58%
Segment results								
FPSO	84	100	146	47%	74%	221	330	49%
OSV	29	(22.6)	(19)	NM	NM	64	(41)	NM
T&I	34	(6)	(30)	NM	NM	68	4	-95%

Source: Bursa Malaysia, M&A Securities

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

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