

Bumi Armada Bhd

1H19 Saw Improved Results

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1H19 were mixed against expectations as operational recovery for Armada Kraken FPSO help lifted earnings. Moving forward, continued uptime from Armada Kraken FPSO could provide a more stable earnings base going into 2H19, but more vigorous cash raising efforts are still needed in the next 2 years (net-gearing of 2.7x) for the company to stay afloat. Maintain UP, as we remain cautious over its high borrowing levels. However, TP is raised to RM0.200, as we roll-forward our valuation base year to FY20E.

1H19 results mixed against expectations. 1H19 core net profit of RM137.2m (arrived after adjustments for non-core items) came in slightly below our expectations at 44% of our full-year earnings forecasts, due to weaker-than-expected offshore marine services (OMS) segment. However, against consensus, 1H19 results came in slightly above expectations at 56%, possibly due to stronger-than-expected floating production and operations (FPO) segment, especially for Armada Kraken FPSO. No dividends were announced, as expected.

Stronger YoY, but slight blip sequentially. Cumulatively YTD, 1H19 more than doubled YoY, thanks to better FPO segment given higher contributions from Armada Kraken FPSO and Armada Olombendo FPSO. However, this was partially offset by weaker OMS segment, due to the completion of the LukOil project in the Caspian Sea in Dec-2018. Sequentially, 2Q19 was 13% weaker QoQ, dragged by higher tax expenses recognised (more than doubled). Excluding that, core PBT was actually better by 9% QoQ, driven by better performances from both its core segments, (i) FPO – higher contributions from Armada Kraken FPSO and Armada Olombendo FPSO, and (ii) OMS – improved vessel utilisation of 51% versus 39% last quarter.

Outlook ahead. Positive takeaway from the quarter is Armada Kraken FPSO continues to operate as per usual for a second consecutive quarter after suffering from numerous operation problems last year. We believe this should lead to a more stabilised earnings base moving into 2H19. Meanwhile, the group had also managed to avert immediate default risks after successfully managing to refinance some of its debt (refer to our report dated 25 April 2019). However, its net-gearing still remains alarmingly high at 2.7x (total borrowings of RM9.9b, of which 26% is still classified as short-term debts), and as such, we feel that the company would still need more vigorous efforts in cash raising over the next 2 years in order to stay afloat.

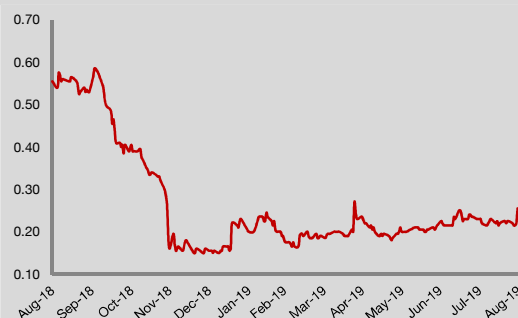
Maintain UNDERPERFORM. Post-results, we trimmed our FY19/20E earnings by 3%, after lowering our OMS contribution assumptions. However, our TP is raised to RM0.20 (from RM0.18 previously), pegged to an unchanged valuations of 0.3x PBV at -2SD from its 5-year mean, as we roll-forward our valuation base year to FY20E. Overall, we continue to remain cautious over the group's highly geared balance-sheet, while its recent run-up in share price could have also more than priced-in short-term positives.

Risks to our call include: (i) higher-than-expected margins, and (ii) sudden surge in OSV utilisation, (iii) significant improvement in cash flow generating capabilities.

UNDERPERFORM ↔

Price : **RM0.255**
Target Price : **RM0.200** ↑

Share Price Performance



KLCI	1,612.14
YTD KLCI chg	-4.6%
YTD stock price chg	64.5%

Stock Information

Shariah Compliant	No
Bloomberg Ticker	BAB MK Equity
Market Cap (RM m)	1,498.5
Shares Outstanding	5,876.5
52-week range (H)	0.61
52-week range (L)	0.15
3-mth avg daily vol:	50,543,090
Free Float	51%
Beta	1.6

Major Shareholders

Objektif Bersatu Sdn Bhd	34.9%
Skim Amanah Saham	8.6%
Prudential Plc	6.1%

Summary Earnings Table

FY Dec (RM'm)	2018A	2019E	2020E
Turnover	2418.7	2034.3	2034.3
EBIT	301.9	753.8	758.0
PBT	(2296.9)	431.9	441.7
Net Profit (NP)	(2302.8)	303.1	310.0
Core NP (CNP)	225.5	303.1	310.0
Consensus CNP		246.4	295.3
Earnings revision (%)		-2.9	-2.9
Core EPS (sen)	3.8	5.2	5.3
CNP growth (%)	-25.1	34.4	2.3
NDPS (sen)	0.0	0.0	0.0
BV/Share (RM)	0.6	0.6	0.7
Core PER (x)	6.6	4.9	4.8
Price/BV (x)	0.4	0.4	0.4
Gearing (x)	2.7	3.1	2.8
Dividend Yield (%)	0.0	0.0	0.0

Income Statement								
	2Q	1Q	Q-o-Q	2Q	Y-o-Y	1H	1H	Y-o-Y
	FY19	FY19		FY18		FY19	FY18	
Y/E : Dec (RM' mil)								
Revenue	535.6	491.6	9.0%	654.0	-18.1%	1,027.2	1,254.4	-18.1%
Cost of sales	(307.1)	(301.6)	1.8%	(607.1)	-49.4%	(608.7)	(1,007.1)	-39.6%
Gross profit	228.6	190.0	20.3%	47.0	386.8%	418.6	247.2	69.3%
Other operating income	15.7	12.3	26.9%	18.3	-14.6%	28.0	46.6	-39.9%
Selling and distribution costs	(1.2)	(1.6)	-26.8%	(0.1)	831.3%	(2.8)	(13.6)	-79.2%
Administrative expenses	(41.8)	(33.7)	23.9%	(67.2)	-37.8%	(75.5)	(112.9)	-33.1%
Impairment	0.0	0.0	N.M.	(478.9)	-100.0%	0.0	(478.9)	-100.0%
Operating profit	201.3	167.0	20.5%	(481.0)	-141.8%	368.2	(311.6)	-218.2%
Finance costs	(129.2)	(135.6)	-4.7%	(131.4)	-1.7%	(264.8)	(254.2)	4.2%
Share of results of JVs	30.5	38.4	-20.5%	27.6	10.4%	68.9	46.5	48.1%
Profit/(loss) before tax	102.6	69.8	47.0%	(584.8)	-117.5%	172.3	(519.2)	-133.2%
Taxation	(20.4)	(8.4)	142.5%	(7.4)	174.8%	(28.9)	(24.3)	18.9%
Non-controlling interest	(3.9)	0.9	-556.2%	6.7	-158.2%	(3.1)	6.4	-147.5%
Net profit	78.2	62.2	25.7%	(585.5)	-113.4%	140.4	(537.1)	-126.1%
Core net profit	63.9	73.3	-12.9%	29.0	120.2%	137.2	55.8	146.2%
Gross margin	42.7%	38.6%		7.2%		40.7%	19.7%	
EBIT margin	37.6%	34.0%		-73.5%		35.8%	-24.8%	
PBT margin	19.1%	14.2%		-89.4%		16.8%	-41.4%	
Net margin	14.6%	12.7%		-89.5%		13.7%	-42.8%	
Core net margin	11.9%	14.9%		4.4%		13.4%	4.4%	
Effective tax rate	19.9%	12.1%		-1.3%		16.7%	-4.7%	

Source: Company

Segment Breakdown								
	2Q	1Q	Q-o-Q	2Q	Y-o-Y	1H	1H	Y-o-Y
	FY19	FY19		FY18		FY19	FY18	
Y/E : Dec (RM' mil)								
FPO								
Revenue	443.6	425.6	4.2%	446.5	-0.6%	869.2	906.8	-4.2%
Segmental Results	278.5	253.7	9.7%	166.2	67.5%	532.2	451.5	17.9%
Segmental margins	62.8%	59.6%		37.2%		61.2%	49.8%	
OMS								
Revenue	92.0	66.0	39.4%	207.6	-55.7%	158.1	347.6	-54.5%
Segmental Results	22.5	9.0	149.2%	73.8	-69.5%	31.6	104.0	-69.6%
Segmental margins	24.5%	13.7%		35.5%		20.0%	29.9%	

Source: Company

Peer Comparison

Name	Last Price	Market	Shariah	Current	Revenue Growth		Core Earnings Growth		PER (x) - Core Earnings			PBV (x)		ROE (%)	Net Div. Yld. (%)	Target	Rating
	(RM)	Cap (RM'm)	Compliant	FYE	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	Hist.	1-Yr. Fwd.	2-Yr. Fwd.	Hist.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	Price (RM)	
BUMI ARMADA BERHAD	0.255	1,498.5	N	12/2019	-15.9%	0.0%	34.4%	2.3%	6.6	4.9	4.8	0.4	0.4	9.0%	0.0%	0.200	UP
DAYANG ENTERPRISE HLDGS BHD	1.39	1,341.1	Y	12/2019	22.2%	4.4%	-33.9%	9.1%	8.2	12.4	11.3	1.2	1.2	9.5%	0.0%	1.45	MP
DIALOG GROUP BHD	3.48	19,621.3	Y	06/2020	17.7%	6.1%	4.5%	9.7%	36.6	35.0	32.0	5.2	4.9	14.4%	1.1%	4.15	OP
MALAYSIA MARINE AND HEAVY EN	0.800	1,280.0	Y	12/2019	-10.1%	43.0%	845.5%	139.3%	N.A.	88.3	36.9	0.5	0.5	0.6%	0.0%	1.05	OP
MISC BHD	7.26	32,406.8	Y	12/2019	3.1%	-2.9%	30.2%	5.3%	24.5	18.8	17.9	0.9	0.9	4.9%	4.1%	7.60	MP
PANTECH GROUP HOLDINGS BHD	0.500	375.0	Y	02/2020	1.3%	5.9%	1.3%	6.4%	8.6	8.4	7.9	0.7	0.6	7.6%	3.2%	0.690	OP
PETRONAS CHEMICALS GROUP BHD	6.93	55,440.0	Y	12/2019	-13.9%	4.8%	-30.3%	14.5%	11.1	16.0	13.9	1.8	1.7	11.1%	3.1%	7.70	MP
PETRONAS DAGANGAN BHD	22.88	22,730.2	Y	12/2019	-5.6%	2.0%	12.9%	7.7%	27.2	24.1	22.3	3.9	3.7	15.6%	2.9%	22.45	MP
SAPURA ENERGY BHD	0.275	4,383.3	Y	01/2020	5.9%	20.7%	1875.6%	258.5%	N.A.	90.8	25.3	0.3	0.3	0.4%	0.0%	0.430	OP
SERBA DINAMIK HOLDINGS	4.40	6,461.4	Y	12/2019	23.2%	14.3%	17.2%	13.3%	16.8	14.4	12.7	3.1	2.7	20.2%	2.1%	5.25	OP
UZMA BHD	0.675	216.0	Y	06/2020	-7.6%	-0.1%	117.5%	44.1%	22.3	10.2	7.1	0.5	0.4	4.2%	0.0%	0.610	MP
VELESTO ENERGY BHD	0.305	2,505.8	Y	12/2019	5.3%	6.2%	119.7%	152.0%	N.A.	164.9	65.4	0.9	0.9	0.5%	0.0%	0.350	OP
WAH SEONG CORP BHD	0.610	470.0	Y	12/2019	-47.7%	-7.7%	-18.8%	-18.1%	7.5	9.2	11.2	0.5	0.5	5.4%	0.0%	0.620	MP
YINSON HOLDINGS BHD	6.95	7,509.5	Y	01/2020	0.1%	70.2%	-7.1%	55.9%	28.6	30.8	19.7	4.4	3.9	13.5%	0.9%	7.75	OP

Source: Bloomberg, Kenanga Research

03 September 2019

Stock Ratings are defined as follows:**Stock Recommendations**

OUTPERFORM	: A particular stock's Expected Total Return is MORE than 10%
MARKET PERFORM	: A particular stock's Expected Total Return is WITHIN the range of -5% to 10%
UNDERPERFORM	: A particular stock's Expected Total Return is LESS than -5%

Sector Recommendations***

OVERWEIGHT	: A particular sector's Expected Total Return is MORE than 10%
NEUTRAL	: A particular sector's Expected Total Return is WITHIN the range of -5% to 10%
UNDERWEIGHT	: A particular sector's Expected Total Return is LESS than -5%

*****Sector recommendations are defined based on market capitalisation weighted average expected total return for stocks under our coverage.**

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