

27 September 2019

## Bumi Armada Bhd

### Financing from Largest Shareholder

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ARMADA announced receiving USD75m financing from its largest shareholder, Usaha Tegas (34.9% stake), for (i) USD30m capex funding for the ONGC project, and (ii) USD45m refinancing of bridging loans for Malta FSU. Nonetheless, with projected capex for the ONGC project at ~USD200m, we believe further fund raising could still be necessary, and may even pose as a challenge given ARMADA's gearing level. Maintain UP with TP of RM0.20.

**Receives USD75m financing from Usaha Tegas.** ARMADA announced that it has received financing commitments of up to USD75m from Usaha Tegas Sdn Bhd, its largest shareholder with 34.9% stake. The USD75m financing entails: (i) up to USD30m (or RM128m) 3-year term loan facility, to fund the company's 30% equity interest joint-venture project with Shapoorji Pallonji Oil & Gas Ptd Ltd for the deployment of an FPSO at NELP Block KG – DWN 98/2 Development Project Cluster-II field located on the east coast of Kakinada, offshore India. To recap, the FPSO contract was awarded by Oil and Natural Gas Corporation Limited (ONGC) of India in May-2019 (refer report dated 7 May 2019), and (ii) up to USD45m (RM189m) 6-year term loan facility for the refinancing of bridging loans in relation to Malta FSU (remaining charter period of 16 years).

Following this, **Usaha Tegas has also been granted options to acquire ARMADA's 30% interest** in the aforementioned ONGC-awarded project at fair market value to be determined by an independent valuer. The options may be exercised at any time within 36 months. ARMADA may also sell its interest in the project to any third party during the option period, subject to obtaining Usaha Tegas' consent.

**Our take on the deal.** As we projected capex for ARMADA's stake for the ONGC contract could be as high as ~USD200m, we believe current financing could be inadequate, and hence, additional fund raising may be required. This could even pose as a possible challenge, given its alarmingly high debt level (net-gearing of 2.7x as at end-2Q19, with total borrowings of RM9.9b, of which 26% is still classified as short-term debts). Nonetheless, this USD75m financing from Usaha Tegas is not expected to materially impact its balance sheet's net-gearing and earnings at the moment.

**Maintain UNDERPERFORM**, with unchanged TP of RM0.20, pegged to 0.3x FY20E PBV – which is at -2SD its 5-year mean valuation. Overall, we continue to remain cautious over the group's highly geared balance-sheet over the longer-term, 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, (ii) sudden surge in OSV utilisation, and (iii) significant improvement in cash raising capabilities.

## UNDERPERFORM ↔

Price : **RM0.350**  
Target Price : **RM0.200** ↔

### Share Price Performance



KLCI 1,593.00  
YTD KLCI chg -5.8%  
YTD stock price chg 125.8%

### Stock Information

Shariah Compliant	No
Bloomberg Ticker	BAB MK Equity
Market Cap (RM m)	2,056.8
Shares Outstanding	5,876.5
52-week range (H)	0.61
52-week range (L)	0.15
3-mth avg daily vol:	75,729,010
Free Float	35%
Beta	1.6

### Major Shareholders

Objektif Bersatu Sdn Bhd	54.4%
Employees Provident Fund	10.1%
Skim Amanah Saham BP	6.4%

### 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
<b>Net Profit (NP)</b>	<b>(2302.8)</b>	<b>303.1</b>	<b>310.0</b>
<b>Core NP (CNP)</b>	<b>225.5</b>	<b>303.1</b>	<b>310.0</b>
Consensus		277.9	319.7
Earnings revision (%)	-	-	-
Core EPS (sen)	3.8	5.2	5.3
Core EPS 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)	9.1	6.8	6.6
Price/BV (x)	0.6	0.6	0.5
Net-gearing (x)	2.7	3.1	2.8
Dividend Yield (%)	0.0	0.0	0.0



Income Statement						Financial Data & Ratios					
FY Dec (RM'm)	2016A	2017A	2018A	2019E	2020E	FY Dec (RM'm)	2016A	2017A	2018A	2019E	2020E
Revenue	1317.4	2402.1	2418.7	2034.3	2034.3	<b>Growth</b>					
EBITDA	392.7	1342.5	801.3	1230.1	1235.4	Turnover (%)	(39.6)	82.3	0.7	(15.9)	-
Depreciation	(570.8)	(575.4)	(499.4)	(476.3)	(477.5)	EBITDA (%)	(57.7)	241.8	(40.3)	53.5	0.4
Operating Profit	(178.0)	767.2	301.9	753.8	758.0	Oper. Profit (%)	(155.1)	(531.0)	(60.6)	149.7	0.6
Interest Exp	(100.8)	(431.0)	(522.1)	(520.3)	(520.3)	PBT (%)	1,034.4	(125.3)	(566.6)	(118.8)	2.3
Associate & JV	77.7	164.3	166.2	198.4	204.0	Net Profit (%)	(138.3)	(397.3)	(25.1)	34.4	2.3
PBT	(1944.3)	492.2	(2296.9)	431.9	441.7	<b>Profitability (%)</b>					
Taxation	(60.8)	(115.8)	(22.3)	(108.0)	(110.4)	EBITDA Margin	29.8	55.9	33.1	60.5	60.7
Minority Interest	37.4	(24.2)	16.4	(20.8)	(21.3)	Operating Marg.	-13.5	31.9	12.5	37.1	37.3
<b>Net Profit</b>	<b>(1967.7)</b>	<b>352.2</b>	<b>(2302.8)</b>	<b>303.1</b>	<b>310.0</b>	PBT Margin	-147.6	20.5	-95.0	21.2	21.7
<b>Core Net Profit</b>	<b>(101.3)</b>	<b>301.0</b>	<b>225.5</b>	<b>303.1</b>	<b>310.0</b>	Net Margin	-7.7	12.5	9.3	14.9	15.2
						Effect. Tax Rate	-3.1	23.5	-1.0	25.0	25.0
						ROA	-0.5	1.6	1.5	1.9	1.9
						ROE	-1.8	5.5	6.7	8.3	7.8
						<b>DuPont Analysis</b>					
						Net Margin (%)	-7.7	12.5	9.3	14.9	15.2
						Ass. Turnover (x)	0.1	0.1	0.2	0.1	0.1
						Lev. Factor (x)	4.0	3.4	4.6	4.3	4.1
						ROE (%)	-1.8	5.5	6.7	8.3	7.8
						<b>Leverage</b>					
						Debt/Asset (x)	0.6	0.6	0.7	0.7	0.6
						Debt/Equity (x)	2.3	2.1	3.1	2.8	2.6
						Net (Cash)/Debt	10030	9717	9154	11447	11160
						Net Debt/Equity	1.8	1.8	2.7	3.1	2.8
						<b>Valuations</b>					
						EPS (sen)	-1.7	5.1	3.8	5.2	5.3
						DPS (sen)	1.0	0.0	0.0	0.0	0.0
						BVPS (RM)	1.0	0.9	0.6	0.6	0.7
						PER (x)	-20.3	6.8	9.1	6.8	6.6
						Div. Yield (%)	2.9	0.0	0.0	0.0	0.0
						P/BV (x)	0.4	0.4	0.6	0.6	0.5

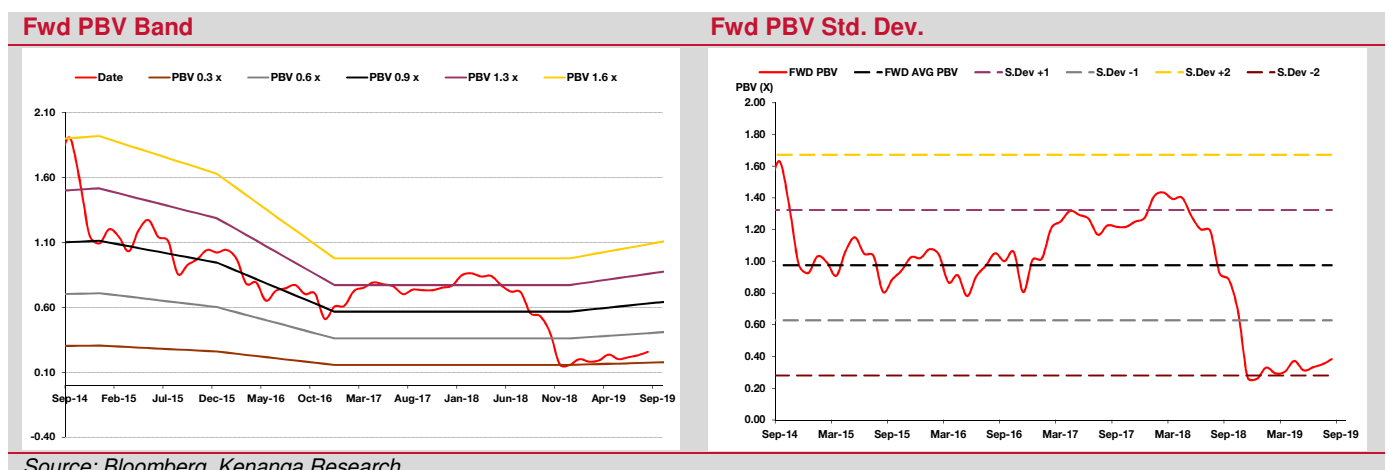
  

Balance Sheet					
FY Dec (RM'm)	2016A	2017A	2018A	2019E	2020E
Fixed Assets	16,603	9,235	6,693	9,527	9,549
LT Investments	651	669	1,023	1,023	1,023
Other LT assets	214	5,555	5,184	5,184	5,184
Inventories	6	4	7	7	7
Receivables	633	727	906	669	669
Other CA	967	799	496	496	496
Cash	3,016	1,846	1,226	(1,067)	(779)
<b>Total Assets</b>	<b>22,090</b>	<b>18,835</b>	<b>15,535</b>	<b>15,838</b>	<b>16,148</b>
Payables	1,227	599	1,084	1,084	1,084
ST Borrowings	2,517	5,498	7,063	7,063	7,063
Other ST Liabil.	1,325	551	624	624	624
LT Borrowings	10,529	6,065	3,317	3,317	3,317
Other LT Liability	902	601	76	76	76
Minorities Int.	3	24	7	7	7
<b>Net Assets</b>	<b>5,587</b>	<b>5,497</b>	<b>3,363</b>	<b>3,666</b>	<b>3,976</b>
Share Capital	1,173	4,311	4,315	4,311	4,311
Reserves	4,414	1,186	(952)	1,743	2,053
<b>Equity</b>	<b>5,587</b>	<b>5,497</b>	<b>3,363</b>	<b>3,666</b>	<b>3,976</b>

Cashflow Statement					
FY Dec (RM'm)	2016A	2017A	2018A	2019E	2020E
Operating CF	301	565	1,067	1,230	787
Investing CF	(3,592)	(1,609)	(389)	(500)	(500)
Financing CF	4,738	(401)	(1,334)	(1,530)	(1,375)

Source: Kenanga Research



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	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	0.350	2,056.8	N	12/2019	-15.9%	0.0%	34.4%	2.3%	9.1	6.8	6.6	0.6	0.6	9.0%	0.0%	0.200	UP
DAYANG ENTERPRISE HLDGS BHD	1.65	1,591.9	Y	12/2019	22.2%	4.4%	-33.9%	9.1%	9.7	14.7	13.4	1.4	1.4	9.5%	0.0%	1.45	MP
DIALOG GROUP BHD	3.40	19,170.2	Y	06/2020	17.7%	6.1%	4.5%	9.7%	35.8	34.2	31.2	5.1	4.8	14.4%	1.2%	4.15	OP
MALAYSIA MARINE AND HEAVY EN	0.835	1,336.0	Y	12/2019	-10.1%	43.0%	845.5%	139.3%	N.A.	92.1	38.5	0.6	0.6	0.6%	0.0%	1.05	OP
MISC BHD	7.70	34,370.8	Y	12/2019	3.1%	-2.9%	30.2%	5.3%	26.0	20.0	19.0	1.0	1.0	4.9%	3.9%	8.80	OP
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	7.52	60,160.0	Y	12/2019	-13.9%	4.8%	-30.3%	14.5%	12.1	17.3	15.1	2.0	1.9	11.1%	2.9%	7.70	MP
PETRONAS DAGANGAN BHD	23.36	23,207.1	Y	12/2019	-5.6%	2.0%	12.9%	7.7%	27.7	24.6	22.8	3.9	3.8	15.6%	2.9%	22.45	MP
SAPURA ENERGY BHD	0.285	4,542.7	Y	01/2020	5.9%	20.7%	1875.6%	258.5%	N.A.	94.1	26.2	0.3	0.3	0.4%	0.0%	0.430	OP
SERBA DINAMIK HOLDINGS	4.25	6,241.1	Y	12/2019	23.2%	14.3%	17.2%	13.3%	16.3	13.9	12.3	3.0	2.6	20.2%	2.2%	5.25	OP
UZMA BHD	0.870	278.4	Y	06/2020	-7.6%	-0.1%	117.5%	44.1%	28.7	13.2	9.2	0.6	0.5	4.2%	0.0%	0.610	MP
VELESTO ENERGY BHD	0.325	2,670.1	Y	12/2019	5.3%	6.2%	119.7%	152.0%	N.A.	175.7	69.7	1.0	0.9	0.5%	0.0%	0.350	OP
WAH SEONG CORP BHD	0.620	477.7	Y	12/2019	-47.7%	-7.7%	-18.8%	-18.1%	7.6	9.3	11.4	0.5	0.5	5.4%	0.0%	0.620	MP
YINSON HOLDINGS BHD	6.70	7,240.3	Y	01/2020	0.1%	70.1%	-17.9%	66.8%	27.5	33.5	20.1	4.2	3.8	11.9%	0.9%	7.75	OP

Source: Bloomberg, Kenanga Research

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**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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