

Bumi Armada Bhd

Sale of Armada Perdana FPSO

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ARMADA announced the sale of its Armada Perdana FPSO for a total consideration of USD40m, with full payment to be received over >2 years. The sale would result in a one-off gain of ~USD5m in FY19, coupled with a slight decrease in net-gearing to 2.6x (from 2.7x currently). We are positive on the sale, given the unutilised state of the FPSO, although we feel further cash raising efforts are still needed to tackle high gearing issue. Maintain UP and TP of RM0.20.

Sale of Armada Perdana FPSO. ARMADA announced that it has entered into an agreement with Century Energy Services Limited for the sale of the Armada Perdana FPSO, for a consideration of USD40m (or ~RM167m), with Century Energy planning to redeploy the vessel to another field in Nigeria. Full payment is expected to be received over the course 2 years after its first oil date following redeployment (refer below for further details of payment).

To recap, operations for Armada Perdana FPSO was suspended in June 2017 after irregular payments from Erin Petroleum Nigeria Ltd. Subsequently in April 2018, ARMADA received a notice from Erin advising of a purported "Force Majeure Event" and requesting immediate shutdown of operations on the Armada Perdana FPSO.

Impact from the sale. With the book value of the Armada Perdana FPSO reportedly (by the press) being previously estimated at RM300m, this would imply a sale valuation of roughly ~0.6x PBV. Additionally, ARMADA is also expected to recognise a one-off gain of approximately USD5m in FY19 (or ~7% of our FY19E forecasts) following the transaction. Assuming full payment of the USD40m consideration, the sale would also help slightly alleviate ARMADA's net-gearing to 2.6x, from 2.7x currently.

That said, all things considered, we still view the transaction as a positive development, nonetheless, given the successful sale of the unutilised FPSO, although we feel that further cash raising efforts are still required over the next 2 years for the company to more fundamentally tackle their high gearing issue.

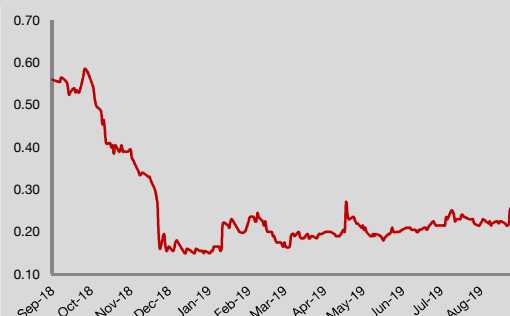
Maintain UNDERPERFORM, with an unchanged TP of RM0.20, pegged to 0.3x PBV on FY20E – which is at -2SD its 5-year mean valuation. Overall, we continue to remain cautious over the group's highly geared balance-sheet over the longer-term, while its recent run-up in share price could have also more than 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 : RM0.255
Target Price : RM0.200 ↔

Share Price Performance



KLCI	1,604.47
YTD KLCI chg	-5.1%
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:	53,607,440
Free Float	29%
Beta	1.6

Major Shareholders

Objektif Bersatu Sdn Bhd	34.9%
Skim Amanah Saham BP	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		273.2	313.7
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	6.6	4.9	4.8
Price/BV (x)	0.4	0.4	0.4
Net-gearing (x)	2.7	3.1	2.8
Dividend Yield (%)	0.0	0.0	0.0



Other salient points:

Further details of the payment. The payment for the sale of Armada Perdana FPSO shall be made in the following manner:

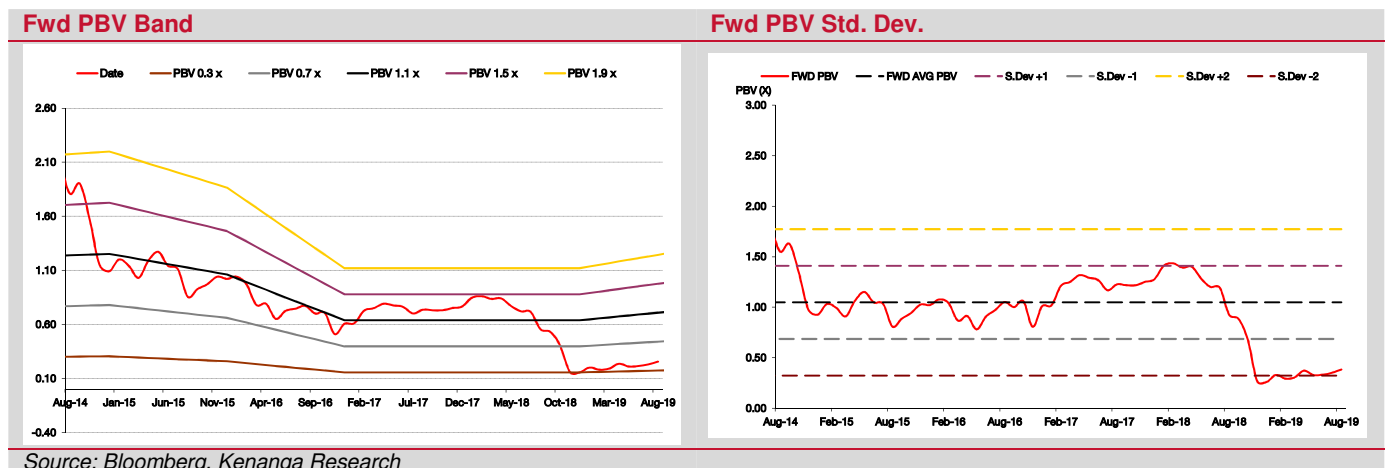
1. A deposit of USD5.5m to be paid by Century Energy Services Limited, of which USD4.5m has already been paid, with the remaining USD1m payable before end of CY2019. USD11.6m shall be fully and finally settled against amounts owing by the companies within the Bumi Armada Group to Century Energy as at 31 July 2019. Additional vessel expenses from 1 Aug 2019 up to the date the vessel is delivered, which Century Energy incurs on behalf of ARAMADA will also be set off against the purchase price.
2. USD5m on or before the earlier of 6 months after the delivery date, or when oil is first produced in the field to which the vessel is redeployed
3. The remaining balance of USD17.9m shall be payable within 2 years after first oil.

To secure the unpaid portion of the purchase price, ARMADA shall hold a mortgage over the Armada Perdana FPSO. The conclusion of the sale of the Armada Perdana FPSO will absolve the group from its demobilisation obligations. ARMADA will recognise the unpaid portion of the purchase price as and when funds are received.

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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	Growth					
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	Profitability (%)					
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
Net Profit	(1967.7)	352.2	(2302.8)	303.1	310.0	PBT Margin	-147.6	20.5	-95.0	21.2	21.7
Core Net Profit	(101.3)	301.0	225.5	303.1	310.0	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
						DuPont Analysis					
						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
						Leverage					
						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
						Valuations					
						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)	-14.8	5.0	6.6	4.9	4.8
						Div. Yield (%)	3.9	0.0	0.0	0.0	0.0
						P/BV (x)	0.3	0.3	0.4	0.4	0.4

Source: Kenanga Research



10 September 2019

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	0.255	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	1.48	1,427.9	Y	12/2019	22.2%	4.4%	-33.9%	9.1%	8.7	13.2	12.1	1.3	1.2	9.5%	0.0%	1.45	MP
DIALOG GROUP BHD	3.52	19,846.8	Y	06/2020	17.7%	6.1%	4.5%	9.7%	37.0	35.4	32.3	5.2	5.0	14.4%	1.1%	4.15	OP
MALAYSIA MARINE AND HEAVY EN	0.815	1,304.0	Y	12/2019	-10.1%	43.0%	845.5%	139.3%	N.A.	89.9	37.6	0.5	0.5	0.6%	0.0%	1.05	OP
MISC BHD	7.75	34,594.0	Y	12/2019	3.1%	-2.9%	30.2%	5.3%	26.2	20.1	19.1	1.0	1.0	4.9%	3.9%	7.60	MP
PANTECH GROUP HOLDINGS BHD	0.490	367.5	Y	02/2020	1.3%	5.9%	1.3%	6.4%	8.4	8.3	7.8	0.7	0.6	7.6%	3.3%	0.690	OP
PETRONAS CHEMICALS GROUP BHD	7.00	56,000.0	Y	12/2019	-13.9%	4.8%	-30.3%	14.5%	11.2	16.1	14.1	1.8	1.7	11.1%	3.1%	7.70	MP
PETRONAS DAGANGAN BHD	22.58	22,432.2	Y	12/2019	-5.6%	2.0%	12.9%	7.7%	26.8	23.7	22.0	3.8	3.6	15.6%	2.9%	22.45	MP
SAPURA ENERGY BHD	0.270	4,303.6	Y	01/2020	5.9%	20.7%	1875.6%	258.5%	N.A.	89.1	24.9	0.3	0.3	0.4%	0.0%	0.430	OP
SERBA DINAMIK HOLDINGS	4.35	6,388.0	Y	12/2019	23.2%	14.3%	17.2%	13.3%	16.7	14.2	12.5	3.1	2.7	20.2%	2.1%	5.25	OP
UZMA BHD	0.785	251.2	Y	06/2020	-7.6%	-0.1%	117.5%	44.1%	25.9	11.9	8.3	0.5	0.5	4.2%	0.0%	0.610	MP
WAH SEONG CORP 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
YINSON HOLDINGS 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

Source: Bloomberg, Kenanga Research

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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