

COMPANY RESULTS

Bumi Armada (BAB MK)

3Q20: In Line; Loan Default Risks Unresolved; ONGC Project Stumbled

9M20 core profit was in line. The 3Q20 qoq profit decline was expected due to Kraken's planned shutdown. Cash flow improved qoq as BAB made progress in working capital management. However, the better cash flow did nothing for the outstanding RM0.6b Tranche 1 unsecured refinancing facility (payable by May 21). Moreover, a new execution risk emerges as the associate US\$1b ONGC FPSO faces force majeure. Maintain SELL and target price of RM0.19.

3Q20 RESULTS

Year to 31 Dec (RMm)	3Q20	qoq % chg	yoy % chg	ytd 2020	yoy % chg
Revenue	564.4	(7.0)	6.9	1159.4	(25.4)
- FPSO	470.5	(9.7)	3.7	983.3	(25.7)
- OMS	93.9	9.8	27.0	176.1	(24.1)
EBIT	160.5	(30.9)	(4.7)	447.4	(13.0)
- FPSO	197.0	(22.5)	27.1	522.2	(4.6)
- OMS (comprising subsea and OSV)	(37.9)	24.9	(520.1)	(78.6)	180.8
Operating margin (%)	28.4%	-9.9%	-3.5%	38.6%	5.5%
Impairment loss	(16.2)	n.a.	284.6	(330.5)	3307.2
Finance cost	(116.7)	(8.7)	(18.6)	(381.8)	(6.5)
Associates	(0.5)	(88.1)	(100.9)	(9.0)	(107.3)
PBT	88.7	(22.7)	(44.6)	(10.7)	(103.2)
Net profit	85.6	(28.5)	(44.2)	(18.6)	(106.3)
Core net profit	86.6	(20.0)	10.0	282.9	40.3

Source: BAB, UOB Kay Hian

RESULTS

- 9M20 core profit is deemed in line, accounting for 82% and 77% of our and consensus full-year estimates respectively. For 3Q20, we stripped out RM16m impairments for Bumi Armada's (BAB) three offshore marine service (OMS) vessels earmarked for disposal, RM10m forex losses, RM14m gains on re-measurement of the JV'S KP1 work barge value in Indonesia, and RM12m impairment write-backs of the FPSO Karapan Armada Sterling III JV in tandem with better receivables collection.
- The qoq decline in 3Q20 profit mainly arose from lower FPSO revenues, due to the maintenance shutdown of FPSO Kraken in 3Q20 which we had expected earlier. The OMS division remained loss-making, largely on idle subsea vessels and poor utilisation/ falling average rates for offshore service vessels (OSV). Nevertheless, the OSV utilisation had slightly improved qoq to 56% (2Q20: 55%, 3Q19: 56%). JVs/associates continued to incur losses with "profit generation not up to par".

KEY FINANCIALS

Year to 31 Dec (RMm)	2018	2019	2020F	2021F	2022F
Net turnover	2,419	2,071	2,103	2,554	2,668
EBITDA	1,055	1,139	1,292	1,309	1,320
Operating profit	556	699	822	837	840
Net profit (rep./act.)	(2,268)	59	30	378	398
Net profit (adj.)	315	246	342	378	398
EPS (sen)	5.3	4.2	5.8	6.4	6.7
PE (x)	5.1	6.5	4.7	4.2	4.0
P/B (x)	0.5	0.5	0.5	0.4	0.4
EV/EBITDA (x)	9.8	9.0	8.0	7.9	7.8
Dividend yield (%)	0.0	0.0	0.0	0.0	0.0
Net margin (%)	(93.8)	2.8	1.4	14.8	14.9
Net debt/(cash) to equity (%)	272.2	260.2	252.2	222.9	197.3
Interest cover (x)	2.0	2.1	2.4	2.4	2.4
ROE (%)	n.a.	1.8	0.9	10.4	9.9
Consensus net profit	-	-	366	383	397
UOBKH/Consensus (x)	-	-	0.93	0.99	1.00

Source: BAB, Bloomberg, UOB Kay Hian

SELL

(Maintained)

Share Price	RM0.27
Target Price	RM0.19
Upside	-28.4%

COMPANY DESCRIPTION

BAB is a FPSO platform and offshore marine services owner.

STOCK DATA

GICS sector	Energy
Bloomberg ticker:	BAB MK
Shariah Compliant:	Yes
Shares issued (m):	5,885.9
Market cap (RMm):	1,589.2
Market cap (US\$m):	388.7
3-mth avg daily t'over (US\$m):	3.6

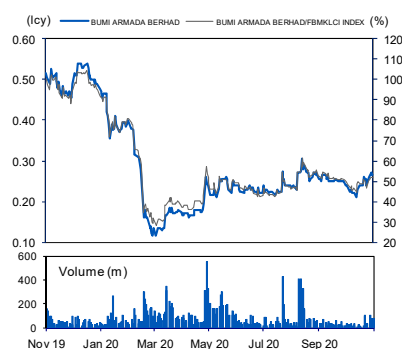
Price Performance (%)

52-week high/low	RM0.545/RM0.115
1mth	8.0
3mth	12.5
6mth	3.8
1yr	(48.6)
YTD	(49.1)

Major Shareholders

Objektif Bersatu	34.9
EPF	5.0
FY20 NAV/Share (RM)	0.59
FY20 Net Debt/Share (RM)	1.48

PRICE CHART



Source: Bloomberg

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STOCK IMPACT

- Operating cash flow improved qoq.** EBITDA remained strong at RM1.1b in 9M20 vs RM766m in 1H20, largely boosted by ongoing healthy EBITDA generation from the FPSO business. While we were concerned on the weak 1H20 operating cash flow which was only at RM218m, 9M20 operating cash flow improved to RM595m. This shows that BAB's management had been making progress in meeting its guidance to improve its receivables collection, although a sustainable trend of this needs to be observed - given its poor financial track record and the ongoing oil and gas downturn.
- Cash weakened from 2019's RM1.1b to RM0.9b in 1H20, as BAB largely focused on debt repayments.** With BAB making progress in cash flow generation, it had repaid RM1.03b of loans in 9M20 (1H20: RM796m), though this still resulted in its cash position falling to RM0.9b. Due to this and changes in forex movements, BAB's outstanding total loans adjusted qoq from RM9.4b to RM8.9b. To recap, RM307m of the unsecured corporate loan of the Tranche 1 facility of RM1.07b (this refinanced loan was announced in Apr 19) has been repaid. The remainder RM679m of this facility was reclassified as a current unsecured term loan, and is repayable by 23 May 21. Another refinanced facility (Tranche 2) of US\$400m is repayable within five years from 23 May 19. In 3Q20, the Tranche 1 unsecured facility (all in US dollar terms) has an outstanding amount of RM656m, which implies nothing was repaid if we take into account forex movements.
- Overall, cash flow improvement did nothing to help the Tranche 1 repayment.** BAB maintained that they are "negotiating with their bankers" on this refinancing facility. Under our assumption that the OMS division will not likely recover in the near term, the risk of another round of refinancing by May 21 (or default risk if this exercise fails) remains high. Despite the better cash flow position, this is not surprising. As mentioned in our previous report, the strong EBITDA generation clearly comes from FPSOs, with much of it channeled towards project loan repayments. BAB mentioned that the salient terms for repaying the refinanced loans were asset monetisation and new project financing. We continue to believe that BAB will find it very challenging to engage in further asset disposals.
- Another risk not fully factored in is the execution risk of ONGC FPSO.** Confirming Jul 20 newsflows that first oil from Oil and Natural Gas Corporation's (ONGC) KG-DWN-98/2 Block is facing huge delays as contractors in the supply chain were affected by COVID-19 pandemic - BAB highlighted that its associate unit (30:70-owned by BAB and Shapoorji Pallonji Group) is among the few contractors that submitted notice of force majeure to ONGC. This comes as the US\$1b FPSO undergoing conversion in Sembcorp suffered the aforementioned delays in work schedule and difficulties in securing funding. According to ONGC, none of the contractors that submitted the notices have come back on the actual execution plan. While BAB's action for submitting the force majeure is a form of protection against unwanted claims from the client in the future, there is no confirmation from management on whether ONGC has accepted BAB's terms nor assurance that this project will not incur negative P&L impact in the future.

EARNINGS REVISION/RISK

- We retain our earnings forecasts.** Although the FPSO division remains strong, and Kraken should not encounter another major shutdown in the near term, 4Q is historically a period of low OSV utilisation due to monsoon effects. We also continue to forecast a yoy fall in cash despite higher EBITDA, as BAB has an outstanding short-term loan of RM1.6b (RM1b, excluding the Tranche 1 facility) as of 3Q20. BAB guided that the total JV/associate should revert to profits, however we are wary of new execution risks that surfaced, most notably the outcome of the JV ONGC FPSO force majeure.

VALUATION/RECOMMENDATION

- Maintain SELL and target price of RM0.19.** This implies 3x 2021F PE, at a discount to Yinson's 14x forward PE. But this implies 6-7x EV/EBITDA (adjusted for JV/associates), which is fair and within the FPSO and OSV peers' 6-10x. Although markets may react to the positive results, our SELL angle on the stock remains, ie OMS is still a fundamental drag, loan default risk remains (especially on incoming Tranche 1 repayment), and the long-term sustainability of the FPSO is uncertain, given multiple blunders in past project executions had worsened lately according to court findings. Adding to this, is the execution risk of the JV ONGC FPSO; nevertheless we did not factor this into our valuation.

SEGMENTAL FORECASTS

(RMm)	2020F	2021F	2022F
Revenue	2,103.0	2,554.1	2,668.3
OSV	258.9	266.7	274.7
FPSO	1,803.6	2,247.0	2,247.0
Subsea	40.5	40.5	146.6
EBIT	816.7	831.9	835.5
OSV	(46.6)	(29.3)	(27.5)
FPSO	865.6	865.6	865.6
Subsea	(22.3)	(24.4)	(22.7)

Source: UOB Kay Hian

SOTP VALUATION (RM4.10/US\$)

Item	Valuation	Current SOTP (RM)
FPSO	DCF-based on WACC: 8.0%, up to firm value, terminal value at 15% Assume hefty discount on FPSO due to concerns over its long-term sustainability to secure new contracts	1.09
OMS	DCF is not valid as it is still loss-making. We assume a post-impairment value of the assets, especially on subsea vessels	0.03
- Net debt	To value default risks, we deduct about RM4b of unsecured debt, assumed to be linked to OMS segment which is expected to see a slow profit turnaround. Partially factored in refinancing.	(0.92)
SOTP	on 5.9b shares	0.19
2021F PE	-	3.3x
2021F EV/ EBITDA	-	7.4x
2021F adjusted EV/ EBITDA	EBITDA including JV/associate	-6.0x

Source: UOB Kay Hian

PROFIT & LOSS

Year to 31 Dec (RMm)	2019	2020F	2021F	2022F
Net turnover	2,071	2,103	2,554	2,668
EBITDA	1,139	1,292	1,309	1,320
Deprec. & amort.	441	470	472	480
EBIT	699	822	837	840
Associate contributions	148	78	127	157
Net interest income/(expense)	(556)	(534)	(538)	(543)
Pre-tax profit	82	53	426	455
Tax	(44)	(44)	(68)	(77)
Minorities	20	20	20	20
Net profit	59	30	378	398
Net profit (adj.)	246	342	378	398

BALANCE SHEET

Year to 31 Dec (RMm)	2019	2020F	2021F	2022F
Fixed assets	10,731	10,640	10,820	10,998
Other LT assets	1,370	1,410	1,473	1,552
Cash/ST investment	1,094	569	588	634
Other current assets	784	1,096	1,265	1,363
Total assets	13,979	13,714	14,147	14,547
ST debt	2,477	3,000	3,000	3,000
Other current liabilities	661	583	647	664
LT debt	7,013	6,285	6,135	5,985
Other LT liabilities	615	404	544	680
Shareholders' equity	3,227	3,456	3,834	4,232
Minority interest	(14)	(14)	(14)	(14)
Total liabilities & equity	13,979	13,714	14,147	14,547

CASH FLOW

Year to 31 Dec (RMm)	2019	2020F	2021F	2022F
Operating	734	719	985	1,012
Pre-tax profit	699	822	837	840
Tax	(44)	(44)	(68)	(77)
Deprec. & amort.	441	470	472	480
Working capital changes	(60)	(227)	(55)	(31)
Other operating cashflows	(302)	(302)	(200)	(200)
Investing	(43)	(516)	(816)	(816)
Capex (growth)	0	0	0	0
Capex (maintenance)	(227)	(700)	(1,000)	(1,000)
Proceeds from sale of assets	0	0	0	0
Others	184	184	184	184
Financing	(814)	(728)	(150)	(150)
Dividend payments	(6)	0	0	0
Issue of shares	0	0	0	0
Proceeds from borrowings	2,878	1,130	2,100	2,100
Loan repayment	(3,685)	(1,858)	(2,250)	(2,250)
Others/interest paid	0	0	0	0
Net cash inflow (outflow)	(123)	(525)	19	46
Beginning cash & cash equivalent	1,226	1,094	569	588
Changes due to forex impact	(9)	0	0	0
Ending cash & cash equivalent	1,094	569	588	634

KEY METRICS

Year to 31 Dec (%)	2019	2020F	2021F	2022F
Profitability				
EBITDA margin	55.0	61.4	51.2	49.5
Pre-tax margin	4.0	2.5	16.7	17.0
Net margin	2.8	1.4	14.8	14.9
ROA	0.4	0.2	2.7	2.8
ROE	1.8	0.9	10.4	9.9
Growth				
Turnover	(14.4)	1.6	21.5	4.5
EBITDA	8.0	13.4	1.3	0.9
Pre-tax profit	n.a.	(35.0)	697.8	6.7
Net profit	n.a.	(49.1)	1,168.1	5.2
Net profit (adj.)	(22.0)	39.2	10.7	5.2
EPS	(22.0)	39.2	10.6	5.2
Leverage				
Debt to total capital	74.7	73.0	70.5	68.1
Debt to equity	294.1	268.7	238.2	212.3
Net debt/(cash) to equity	260.2	252.2	222.9	197.3
Interest cover (x)	2.1	2.4	2.4	2.4

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