

BUMI ARMADA (Not Rated)

IPO NOTE

4 July 2011

IPO Price: RM3.15

Growing Influential FPSO Player

Highlights

- Bumi Armada is a Malaysia-based international offshore services provider to the oil and gas industry with an expanding reach.
- It has been successfully transformed since delisting back in 2003 via A.H.T.S strategy, where the company emphasis on strong cash-flow business unit, modernized its fleet with up-to-date technologies and promoted greater transparency and governance.
- Owner of largest OSV (offshore service vessels) fleet in Malaysia and 3rd largest in South East Asia Region after Swire Pacific Offshore and PACC Offshore Services. The fleets are relatively young (average age 7 years) and equipped with latest technology.
- Currently own 3 FPSO (Floating, Production, Storage & Offloading Vessel), with additional 2 FPSO to be awarded contracts by end FY11 and another 6 units under tendering process. Hence, Bumi Armada will become 4th largest FPSO player in the world with 5 units.
- In-house business support units to provide total solutions to potential clients.
- Beneficiary of Malaysia ETP program to boost oil and gas outputs through enhanced oil recovery, marginal oil field production and deep sea exploration.
- With the current high oil price level, global oil and gas exploration activities are expected to experience increased capex investments, where Bumi Armada will stand to benefit.
- Strong orderbook with firm contracts of RM5.8bn and optional extension contracts of RM2.5bn. (not including the recent awarded FPSO contracts in Australia " 100% owned and India " 51% owned)

Catalysts

- Success in securing more FPSO contracts with the continued capex investments in global oil and gas exploration activities.
- New domestic contracts from Petronas, for the development of marginal fields, enhanced oil recovery and deep sea oil productions.

Risks

- Drop in oil price, resulting in lower investments in oil and gas exploration due to poor margin.
- Projects execution which may result in cost overrun.
- Government regulations on the oil and gas industry.

Comment

- We expect its core earnings to enjoy CAGR of 25.4% between FY10-13 after imputing the additional 2 FPSO (Australia and India) to commence contribution in FY12 and another 1 FPSO in FY13.

Valuation

- We opine that the stock should be valued at 17.6x of FY12E P/E with fair value of RM3.30, inline with the average Malaysia O&G services players (See Figure #5) as well as to reflect its longer term prospects in the FPSO space.

Low Yee Huap, CFA

yhlow@hlib.hongleong.com.my
(603) 2168 1078

Share Price

Indicative Retail Price RM3.15

Details of IPO

Offer for sale (m shares)	234.277
- Bumiputra investors	234.277
Public issues (m shares)	644.262
- Bumiputra investors	102.496
- Institutional investors	461.904
- Directors, employees	21.292
- Bumiputra retail investors	29.285
- Non-Bumiputra retail investors	29.285

Post IPO Major Shareholders

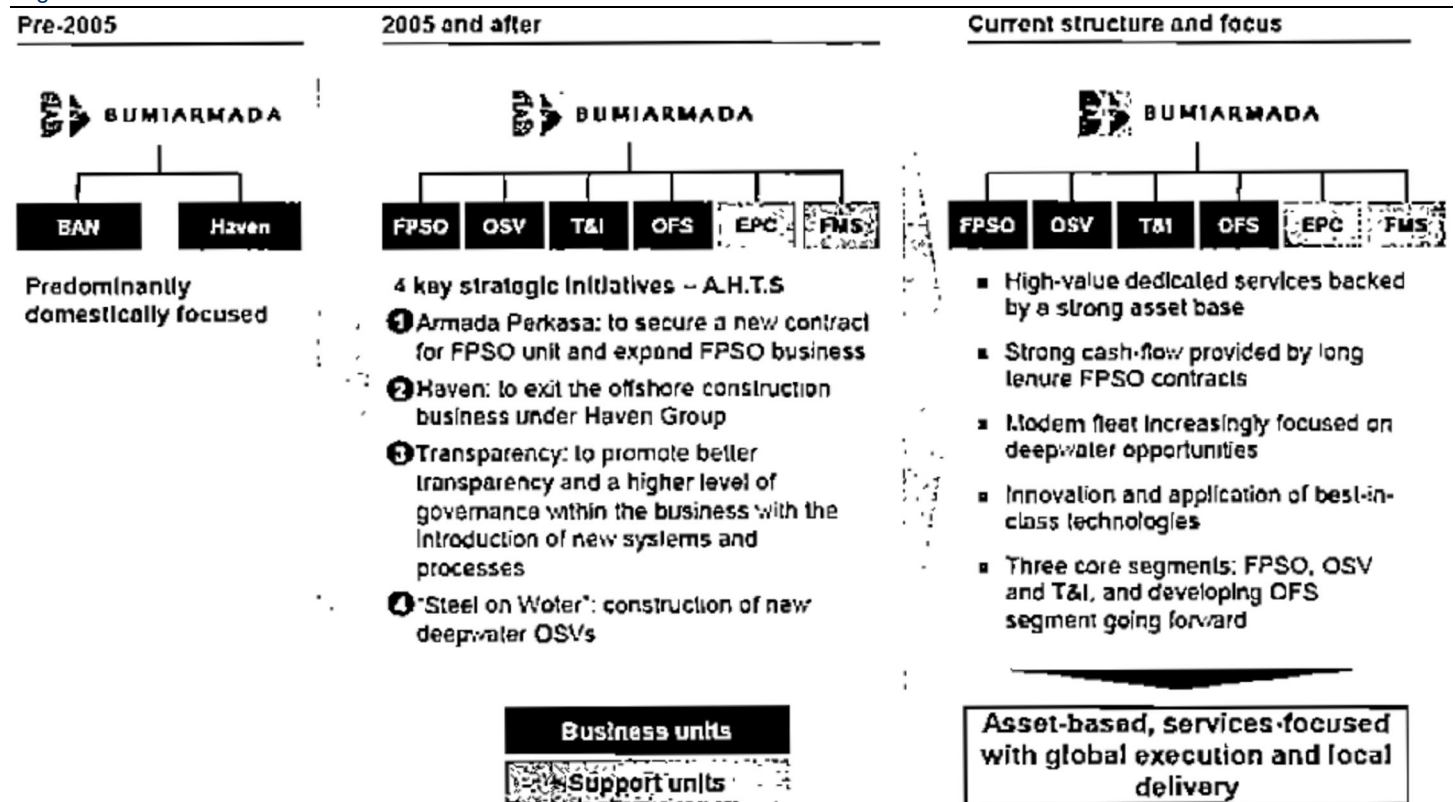
Objectif Bersatu Sdn Bhd	42.45%
Ombak Damai Sdn Bhd	11.64%
Wijaya Sinar Sdn Bhd	7.27%
Karisma Mesra Sdn Bhd	5.40%
Wijaya Baiduri Sdn Bhd	3.24%

Summary Earnings Table

FYE Dec (RM m)	2010A	2011E	2012E	2013E
Turnover	1,241	1,720	2,201	2,610
EBIT	427	1,149	1,098	1,315
Pre-tax Profit	383	489	649	769
Rpt. net profit	351	440	549	649
Norm. net profit	329	440	549	649
Rpt. EPS (sen)	15.8	15.0	18.8	22.2
Norm. EPS (sen)	14.9	15.0	18.8	22.2
P/E (x)	21.2	21.0	16.8	14.2
Book Value (RM)	0.39	1.14	1.33	1.57
P/B (x)	8.0	2.8	2.4	2.0
Net Div Yield (%)	0.0	0.0	0.0	0.0
Net Gearing (%)	359.2	54.5	60.0	57.5
ROE (%)	45.4	27.8	16.1	16.3
ROA (%)	19.4	15.1	14.3	16.2

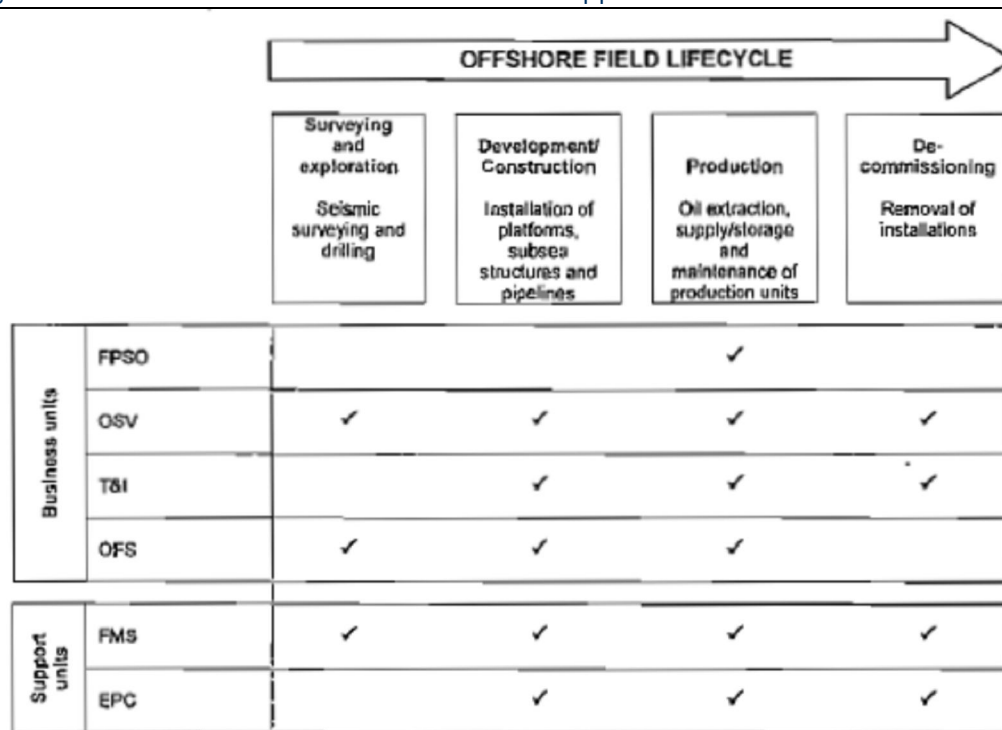
HLIB

Figure #1: Bumi Armada Business Transformation



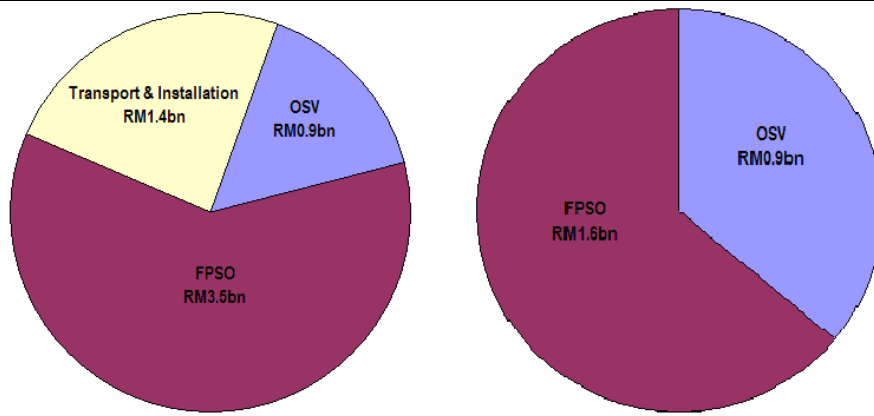
Company, HLIB

Figure #2: Bumi Armada Business Units and Support Units



Company, HLIB

Figure #3: Bumi Armada Orderbook



Company, HLIB

Figure #4: Bumi Armada IPO Proceeds

Details of utilization	Estimated timeframe for utilization upon listing	Amount (RM m)	(%)
Repayment of bank borrowings	Within 6 months	775	38.2
Capital expenditures	Within 24 months	592	29.2
Working capital	Within 24 months	562	27.7
Estimated listing expenses	Within 3 months	100	4.9
Total		2,029	100.0

Company, HLIB

Figure #5: Peers Valuation

Malaysia Largest O&G Players	FYE	Price		Market Cap (m)		P/E (x)			P/B (x)		ROE (%)		Gross DY (%)		EV/EBIDTA
		(Local Currency)		(LC)	(USD)	2011	2012	2013	2011	2012	2011	2012	2011	2012	
Petronas Chemical	Mar	MYR	7.09	57,200	19,002	14.2	13.5	11.4	2.6	2.5	19.4	18.8	2.7	4.1	8.5
MISC Shipping	Dec	MYR	7.35	32,675	10,859	31.0	23.4	16.6	1.5	1.5	4.8	6.4	3.7	3.5	16.5
Petronas Gas	Mar	MYR	13.22	26,198	8,704	17.6	16.6	14.3	2.8	2.7	15.6	16.6	3.8	3.8	9.0
Petronas Dagangan	Mar	MYR	16.10	16,054	5,334	18.2	16.3	14.2	3.3	3.4	16.5	18.3	3.0	5.0	10.4
Malaysia Marine & Heavy Eng	Mar	MYR	8.33	13,296	4,417	29.8	26.0	21.6	5.4	4.5	18.7	18.2	1.4	1.0	26.6
Dialog	Jun	MYR	2.76	5,488	1,823	37.3	30.0	25.1	9.5	8.0	27.8	27.6	1.4	1.6	31.0
Sapura Crest	Jan	MYR	4.20	5,464	1,815	18.8	16.3	15.0	3.7	3.3	23.8	23.6	2.0	2.5	10.3
Kencana	Jul	MYR	2.81	5,146	1,709	23.6	19.1	15.5	4.5	3.4	22.3	20.5	0.6	17.3	16.1
Dayang Enterprise	Dec	MYR	2.03	1,122	373	13.9	11.7	11.1	2.0	1.8	17.8	16.1	3.5	3.6	7.6
Alam Maritim	Dec	MYR	0.99	771	256	13.8	9.6	8.4	1.4	1.1	10.2	13.3	0.6	0.8	12.3
Petra Perdana	Dec	MYR	0.87	389	129	24.9	10.6	8.7	0.9	0.7	3.3	6.5	1.5	1.8	9.0
Average					4,947	22.1	17.6	14.7	3.4	3.0	16.4	16.9	2.2	4.1	14.3
Bumi Armada	Dec	MYR	3.15	9,225	3,075	21.0	16.8	14.2	2.8	2.4	20.9	15.2	0.0	0.0	12.6

Bloomberg, HLIB

Financial Projections

Income statement

FYE 31 Dec (RMm)	2009A	2010A	2011E	2012E	2013E
Revenue	732	1,241	1,720	2,201	2,610
Operating cost	-342	-575	-858	-1,103	-1,296
EBITDA	390	667	862	1,098	1,315
Depreciation	-180	-240	-303	-380	-457
EBIT	210	427	559	719	857
Interest income					
Interest expense	-51	-82	-87	-88	-106
Associates	40	-1	0	0	0
Exceptionals	63	22	0	0	0
Pretax profit	284	383	489	649	769
Taxation	-12	-1	-33	-49	-65
Minorities	0	0	0	-35	-43
Reported net profit	283	351	440	549	649
Normalized net profit	221	329	440	549	649
Basic shares (m)	2,215	2,216	2,928	2,928	2,928
Reported EPS (sen)	12.8	15.8	15.0	18.8	22.2
Normalized EPS (sen)	10.0	14.9	15.0	18.8	22.2

Balance sheet

FYE 31 Dec (RMm)	2009A	2010A	2011E	2012E	2013E
Fixed assets	3,008	3,715	4,712	5,832	6,875
Other long-term assets	165	311	343	343	343
Other short-term assets	206	301	333	333	333
Working capital	-51	-37	-84	-109	-112
Receivables	185	190	258	308	339
Payables	-236	-227	-343	-419	-453
Inventory	1	1	2	2	3
Net cash	-2,375	-3,141	-1,673	-2,184	-2,489
Cash	298	278	1,005	1,127	1,472
ST debt	-771	-1,398	-1,248	-1,248	-1,248
LT debt	-1,902	-2,021	-1,430	-2,064	-2,713
Shareholders' funds	671	875	3,344	3,893	4,586
Share capital	63	63	586	586	586
Reserves	608	812	2,759	3,308	4,000
Minorities	1	1	10	44	88
Other liabilities	1,053	1,672	1,530	1,530	1,530

Assumption Metrics

FYE 31 Dec (RMm)	2009A	2010A	2011E	2012E	2013E
Revenue					
FPSO	328	553	595	1,035	1,398
OSV	404	420	439	480	526
T&I	0	268	369	369	369
OFS	0	0	317	317	317
Others	0	0	0	0	0
EBIT					
FPSO	93	179	190	331	447
OSV	100	89	88	106	126
T&I	0	148	240	240	240
OFS	0	0	25	25	25
Others	18	10	15	17	18

Company, HLIB

Cashflow

FYE 31 Dec (RMm)	2009A	2010A	2011E	2012E	2013E
EBITDA	396	675	862	1,098	1,315
Net interest received	-51	-89	-87	-88	-106
Working cap changes	-298	-331	-44	-25	-3
Taxation	-17	-29	-49	-65	-77
Others	10	30	-93	68	67
Operating cashflow	40	256	589	989	1,196
Capex & acquisitions	-1,300	-1,008	-1,300	-1,500	-1,500
Free cashflow	-1,260	-753	-711	-511	-304
Other inv cashflow	245	20	0	0	0
New borrowings	1,179	734	-590	633	649
Share issuance	0	0	2,029	0	0
Dividends paid	0	0	0	0	0
Other fin cashflow	0	0	0	0	0
Forex Translation	-7	-24	0	0	0
Net cashflow	157	-22	728	122	345
Beginning Cash	110	267	245	973	1,095
Ending Cash	267	245	973	1,095	1,439

Valuation ratios

FYE 31 Dec (RMm)	2009A	2010A	2011E	2012E	2013E
Reported basic EPS (sen)	12.8	15.8	15.0	18.8	22.2
Normalized basic EPS (sen)	10.0	14.9	15.0	18.8	22.2
Normalized FD EPS (sen)	-	-	-	-	-
PER (x)	24.6	19.9	21.0	16.8	14.2
FD PER (x)	-	-	-	-	-
Net DPS (sen)	0	0	0	0	0
Net DY (%)	0	0	0	0	0
BV/ share (sen)	0.3	0.4	1.1	1.3	1.6
P/BPS (x)	10.4	8.0	2.8	2.4	2.0
FCF/ share (sen)	-0.6	-0.3	-0.2	-0.2	-0.1
FCF yield (%)	NM	NM	NM	NM	NM
Market capitalization	6,978	6,979	9,225	9,225	9,225
Net cash	-2,375	-3,141	-1,673	-2,184	-2,489
Enterprise value	9,353	10,120	10,898	11,409	11,713
EV/ EBITDA (x)	23.6	15.0	12.6	10.4	8.9
ROE (%)	51.4	45.4	20.9	16.1	16.3

Other Ratios

FYE 31 Dec (%)	2009A	2010A	2011E	2012E	2013E
Growth (%)					
Sales Growth	40.8	69.6	38.6	21.0	18.2
EBITDA Growth	56.1	70.9	29.3	23.0	19.5
EBIT Growth	41.5	103.3	30.8	21.8	18.9
PBT Growth	67.7	63.4	35.2	24.8	18.2
Net Profit Growth	83.7	49.2	33.7	24.8	18.2
Margins (%)	0.0	0.0	0.0	0.0	0.0
EBITDA Margin	53.3	53.7	50.1	50.9	51.5
EBIT Margin	28.7	34.4	32.5	32.7	32.9
PBT Margin	30.2	29.1	28.4	29.3	29.3
Net Profit Margin	30.1	26.5	25.6	26.4	26.4
Net Debt/Equity (%)	354.1	359.2	54.5	60.0	57.5

Disclaimer

The information contained in this report is based on data obtained from sources believed to be reliable. However, the data and/or sources have not been independently verified and as such, no representation, express or implied, is made as to the accuracy, adequacy, completeness or reliability of the info or opinions in the report.

Accordingly, neither Hong Leong Investment Bank Berhad nor any of its related companies and associates nor person connected to it accept any liability whatsoever for any direct, indirect or consequential losses (including loss of profits) or damages that may arise from the use or reliance on the info or opinions in this publication.

Any information, opinions or recommendations contained herein are subject to change at any time without prior notice. Hong Leong Investment Bank Berhad has no obligation to update its opinion or the information in this report.

Investors are advised to make their own independent evaluation of the info contained in this report and seek independent financial, legal or other advice regarding the appropriateness of investing in any securities or the investment strategies discussed or recommended in this report. Nothing in this report constitutes investment, legal, accounting or tax advice or a representation that any investment or strategy is suitable or appropriate to your individual circumstances or otherwise represent a personal recommendation to you.

Under no circumstances should this report be considered as an offer to sell or a solicitation of any offer to buy any securities referred to herein.

Hong Leong Investment Bank Berhad and its related companies, their associates, directors, connected parties and/or employees may, from time to time, own, have positions or be materially interested in any securities mentioned herein or any securities related thereto, and may further act as market maker or have assumed underwriting commitment or deal with such securities and provide advisory, investment or other services for or do business with any companies or entities mentioned in this report. In reviewing the report, investors should be aware that any or all of the foregoing among other things, may give rise to real or potential conflict of interests.

This research report is being supplied to you on a strictly confidential basis solely for your information and is made strictly on the basis that it will remain confidential. All materials presented in this report, unless specifically indicated otherwise, is under copyright to Hong Leong Investment Bank Berhad. This research report and its contents may not be reproduced, stored in a retrieval system, redistributed, transmitted or passed on, directly or indirectly, to any person or published in whole or in part, or altered in any way, for any purpose.

This report may provide the addresses of, or contain hyperlinks to, websites. Hong Leong Investment Bank Berhad takes no responsibility for the content contained therein. Such addresses or hyperlinks (including addresses or hyperlinks to Hong Leong Investment Bank Berhad own website material) are provided solely for your convenience. The information and the content of the linked site do not in any way form part of this report. Accessing such website or following such link through the report or Hong Leong Investment Bank Berhad website shall be at your own risk.

1. As of 4 July 2011, Hong Leong Investment Bank Berhad has proprietary interest in the following securities covered in this report:

(a) -.

2. As of 4 July 2011, the analyst, _____ who prepared this report, has interest in the following securities covered in this report:

(a) -.

Published & Printed by
Hong Leong Investment Bank Berhad (43526-P)
 Level 8, Menara HLA
 No. 3, Jalan Kia Peng
 50450 Kuala Lumpur
 Tel 603 2168 1168 / 603 2710 1168
 Fax 603 2161 3880

Equity rating definitions

BUY	Positive recommendation of stock under coverage. Expected absolute return of more than +10% over 12-months, with low risk of sustained downside.
TRADING BUY	Positive recommendation of stock not under coverage. Expected absolute return of more than +10% over 6-months. Situational or arbitrage trading opportunity.
HOLD	Neutral recommendation of stock under coverage. Expected absolute return between -10% and +10% over 12-months, with low risk of sustained downside.
TRADING SELL	Negative recommendation of stock not under coverage. Expected absolute return of less than -10% over 6-months. Situational or arbitrage trading opportunity.
SELL	Negative recommendation of stock under coverage. High risk of negative absolute return of more than -10% over 12-months.
NOT RATED	No research coverage, and report is intended purely for informational purposes.

Industry rating definitions

OVERWEIGHT	The sector, based on weighted market capitalization, is expected to have absolute return of more than +5% over 12-months.
NEUTRAL	The sector, based on weighted market capitalization, is expected to have absolute return between ~ 5% and +5% over 12-months.
UNDERWEIGHT	The sector, based on weighted market capitalization, is expected to have absolute return of less than ~ 5% over 12-months.