

Company Focus

Bumi Armada

Bloomberg: BAB MK EQUITY | Reuters: N/A

Malaysia Equity Research PP 11272/04/2012(029344)

6 Jul 2011

RETAIL PRICE: RM3.15*

FAIR VALUE: RM4.05

Closing date: 7 Jul 2011

Tentative listing date: 21 Jul 2011

Analyst

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AT A GLANCE

LISTING DETAIL

Issue Manager:	CIMB IB, Maybank IB, RHB IB
Funds Raised (RMm)	2,029.4
Shares on Offer (m):	878.5
New Shares (m):	644.3
Vendor Shares (m):	234.3
Placement Shares (m):	798.7
Public Issue (m):	79.8

POST LISTING

Ordinary share cap (m shares):	2,928.5
Par value (sen):	20.0
Mkt Cap (RMm)^:	11,860.3
Est Free Float %:	30.0

^Based on our fair value of RM4.05

USE OF PROCEEDS (RMm)

Loan repayment	775
Capital expenditures	592
Working capital	562
Estimated listing expenses	100

Forecasts and Valuation

FY Dec (RM m)	FY10	FY11F	FY12F	FY13F
Turnover	1,241.4	1,664.6	1,935.0	2,231.8
EBITDA	704.0	917.4	1,071.5	1,241.0
Pretax Profit	383.3	502.5	616.0	716.8
Net Profit	350.8	442.2	542.1	630.8
EPS (RM)	0.12	0.15	0.19	0.22
EPS growth (%)	26.4	26.1	22.6	16.3
PE Ratio (x) @	33.8	26.8	21.9	18.8
Gross DPS (RM)	-	-	-	-
Net Div Yield (%)	-	-	-	-
Book Value (RM)	0.30	1.24	1.43	1.64
P/Book Value (x) @	13.6	3.3	2.8	2.5

* The final retail price will equal to the lower of RM3.15 or the institutional price subject to bookbuilding exercise, whichever is lower

@ - based on our fair value of RM4.05

F - based on HDBSVR forecasts

Source of all data: Company, DBS Vickers

INITIAL PUBLIC OFFERING – Main Market

- Integrated offshore service provider with FPSO unit generating long-term recurring income
- Long term earnings visibility with RM5.8bn firm order book, and RM2.5bn extension option
- Deserves premium valuation; fair value is RM4.05

Integrated offshore service provider. Bumi Armada is expected to benefit substantially from increasing global O&G activities given its expanding FPSO, OSV, T&I and OFS businesses. Its integrated fleet of 43 OSVs, 4 FPSOs, and a DLB operating in Malaysia, West Africa, Central Asia and Latin America has enabled the company to offer value-added services across the value chain. Its proven execution track record coupled with in-house expertise had resulted in superior EBIT margins of 32%-37% over the past three years.

Long-term earnings visibility from FPSO. Its RM5.8bn order book implies 4.6x book-to-bill, and will ensure long-term earnings visibility given that 61% of the backlog is anchored by FPSO long-term contracts. Its order book could also rise with the RM2.5bn extension option. And this excludes two FPSO projects in India and Australia potentially worth over RM1.5bn for which it had secured award letters in Mar11 and Jun11, respectively.

Expansion plans on track. Bumi Armada plans to acquire Acergy Hawk, a cost-effective DP2 subsea installation vessel that would allow it to offer SURF services as an expansion of its synergistic services to FPSO installations. It is constructing a PSV after being awarded the first PSV deepwater contract for Malaysia's Gumusut field, and is bidding for 6 FPSO projects, which should rise along with the projected 100% increase in global FPSO demand for the next 5 years. It is also planning the second OSV expansion program, mostly for workboats and MPSVs, estimated to cost over US\$300m.

Fair value is RM4.05, based on 22x FY12 EPS, which is the average FY12 PE multiple for big-cap O&G stocks in Malaysia. We believe that the valuation is justified given that Bumi Armada is Malaysia's leading OSV player and sole FPSO player, and has an impressive track record with superior margins. Our projected 3-year earnings CAGR of 23% include potential contributions from FPSO projects in India and Australia as well as from Acergy Hawk under its T&I business.

At A Glance

Issued Capital (m shrs)	2,928.5
Major Shareholders	
Objective Bersatu Sdn Bhd (%)	42.5
Ombak Damai Sdn Bhd (%)	11.6
Free Float (%)	N/A

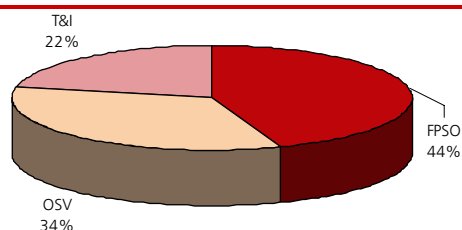
Integrated Offshore Service Provider

International O&G player. Bumi Armada, incorporated in 1995, was previously listed on Bursa Malaysia on 25 Jun 1997 and subsequently de-listed on 18 Apr 2003. Initially a Malaysia-centric offshore service provider player, Bumi Armada has evolved into a Malaysia-based international O&G offshore services provider with operations in Asia, Africa and Latin America. It currently provides O&G offshore services via four main business units:

- (i) Floating production, storage and offloading vessels (FPSO),
- (ii) Offshore support vessel (OSV),
- (iii) Transport and installation (T&I); and
- (iv) Oilfield services (OFS)

Its businesses are supported by two units - fleet management services (FMS) and engineering, procurement and construction (EPC) - to enhance its operational efficiency and for better cost control. With 43 OSVs, 4 FPSOs, and a DLB under its belt, Bumi Armada is a leading integrated O&G player in ASEAN region.

FY10 Revenue breakdown



Source: DBS Vickers, Company

Niche FPSO market. The company ventured into the FPSO business in 1997 with its maiden FPSO, Armada Perkasa. It is believed to be the only FPSO operator that has redeployed the same FPSO three times, which is impressive

given that each field is unique and requires a tailored solution. Its FPSO business is important because it generates stable and recurring cashflow for the company.

Armada Perkasa and Armada Perdana are currently servicing their respective 5-year contracts (with 5 extension options of 1 year each) in Nigeria. Its third FPSO, Armada TGT 1, is currently undergoing conversion and expected to be operational in 3Q11. It has secured a 7-year charter contract from Hoang Long Joint Operating Company for production in Vietnam. Meanwhile, Bumi Armada will deploy its fourth FPSO, Griffin Venture (acquired in Dec10) for the Balnaves development, for which it had secured a conditional letter of award in Mar11.

Largest OSV fleet in Malaysia. Bumi Armada is the largest OSV owner and operator in Malaysia, as well as one of the leading players in ASEAN. Its "Steel on Water" fleet expansion program, which started in 2006, involves the addition of 20 new deepwater-capable OSVs mostly 8,000 bhp or more. Currently, its entire OSV fleet of 43 vessels has an average age of 7 years, and more than half are 5 years old or younger.

T&I unit complements group business. Armada Installer, Bumi Armada's key marine asset – a Derrick Lay Barge (DLB) with 800MT lifting capability - has been operational since 2Q10. It is servicing its 8-year contract from Petronas Carigali in the Caspian Sea, where only two pipe-lay barges are available.

Bumi Armada's penetrating the Caspian is no mean feat given that the 12,000 DWT vessel has to be transported into the land-locked region. The DLB was built, then split into two hull sections, before being separately transported to the Caspian Sea via the narrow Volga Don canal system, and rejoined on the Caspian.

The T&I business also provides floater installation expertise for the FPSOs, which complements its FPSO business. So far, Bumi Armada has managed the installation of the FPSO Armada Perkasa and FPSO Armada Perdana in Nigeria. It will soon be installing the FPSO Armada TGT 1 in Vietnam.

Bumi Armada's fleet of FPSOs

FPSO	Location	Field/Development	Tenure	Extension	Client	Production capacity ('000 bpd)	Storage capacity ('000 bdp)
Armada Perkasa	Nigeria	Okoro-Setu field	2008-2013	2018	Afren	30	298
Armada Perdana	Nigeria	Oyo field	2009-2014	2019	N.A.E	40	1,100
Armada TGT1	Vietnam	Te Giac Trang field	2011-2018	2026	HLJOC	55	620
Armada Prima	Australia	Balnaves development	*conditional letter of award		Apache Julimar	n.a.	805
Under conversion	India	D1 field	2012-2019	2025	ONGC	n.a.	n.a.

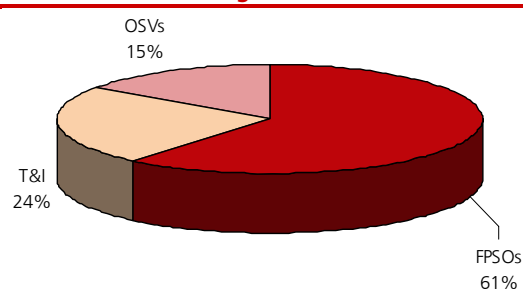
Source: DBS Vickers, Company

OFS - new business. Its involvement in the OFS segment started with the conversion and sale of an FSO to Petrofac for the Sepat marginal field early this year. Bumi Armada can also offer its services in marginal field production solutions such as enhanced oil recovery (EOR), process modules to enhance hydrocarbon extraction, as well as specific services such as surveying, which could also be supported by its OSVs.

FMS and EPC support units. Bumi Armada manages all its FPSOs and OSVs from Malaysia via operational shore bases under its FMS unit. The EPC unit, on the other hand, focuses on engineering and procurement services for its marine assets and major projects. The supporting units enable Bumi Armada to draw in-house expertise throughout the value chain. It is currently developing its own turret mooring system, which will create significant value accretion to the company.

Long-term earnings visibility. Strong order book of RM5.8bn as at Jun11 will underpin its long-term earnings visibility. Currently, 61% or RM3.5bn of its outstanding order book is derived from the FPSO segment, and these are normally long term contracts due to the production phase. The company also recently secured two more FPSO projects in Australia and India from Apache and Oil & Natural Corp (ONGC), respectively, which has not been included in its order book. The Turkmenistan T&I job from Petronas forms the RM1.4bn outstanding order book, while OSV charters makes up the remaining RM0.8bn.

RM5.8bn order book segmental breakdown

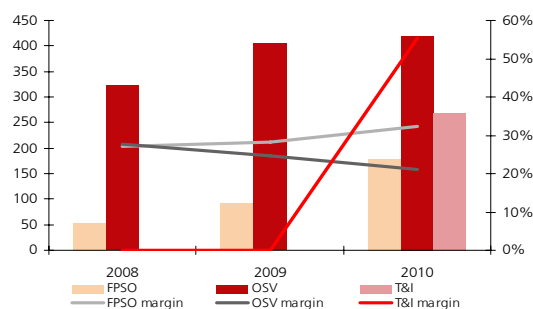


Source: DBS Vickers, Company

Robust financial track record. Bumi Armada has been enjoying strong operating margins (excluding other income) of 29%-34% over FY08-10, despite the global financial crisis in 2008. In addition, it registered strong 68% 2-year earnings CAGR over FY08-10 underpinned by its expanding FPSO and OSV businesses in that period. Its T&I business,

only commenced in FY10, but made commendable 35% contribution to FY10 EBIT because of superior margins.

Segmental revenue and EBIT margin breakdown



Source: DBS Vickers, Company

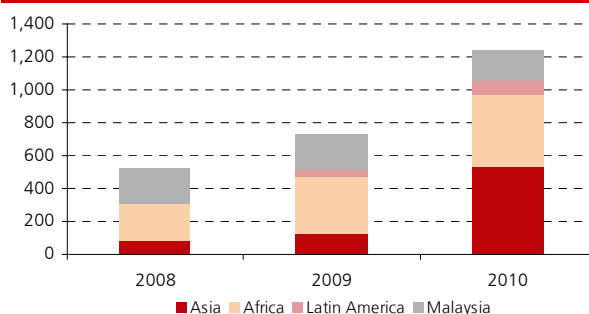
Next growth phase

Growth strategy. Bumi Armada has a four-pronged expansion plan to grow its four core business units:

- FPSO - Secure at least one new FPSO project annually. Aims to be the 4th largest FPSO player in the world by fleet size by 2013.
- OSV - Focus on deepwater-capable vessels with higher value charters.
- T&I - Expand into subsea umbilicals, risers & flowlines (SURF) and inspection, repair & marine (IRM) services
- OFS - Develop EOR and marginal field engineered production solutions

The company plans to venture into new markets in Latin America, Africa and Asia, which it has done successfully in the past. As at FY10, revenue contribution from Malaysia was only 15% compared to 40% in FY08.

FY10 revenue breakdown by geographical locations



Source: DBS Vickers, Company

Expanding T&I. Bumi Armada is seeking to increase its presence in existing markets, namely West Africa, India and Brazil. It has acquired the Acergy Hawk, a cost-effective DP2 subsea installation vessel that will allow it to offer SURF capabilities and services as an expansion of its synergistic services to FPSO installation. Bumi Armada can ride on its strength in West Africa to expand its T&I business there.

Aggressively bidding for FPSO projects. Bumi Armada is also tendering for 6 FPSO projects - two in Malaysia and the rest in Angola, Nigeria and Indonesia. We understand it has been pre-qualified for Shell's chemical EOR project which may necessitate the chartering of a FPSO. Global demand outlook for FPSO is expected to remain bullish over the next five years with peak levels of investments, led by West Africa and Latin America.

OSV making inroads into Brazil. It landed its first contract in Brazil from Petrobras with a 4-year charter of Armada Tuah 104 earlier this year. On top of that, Bumi Armada has been awarded the first deepwater PSV contract for the Gumusut project by Shell Sarawak in 2010. It also planning the second OSV expansion program, mostly for workboats and MPSVs and estimated to cost over US\$300m.

Malaysia has strong potential for OFS. Bumi Armada was recently awarded, together with partner Petrofac, the contract to develop the Sepat marginal oilfield off Malaysia. This project has a tight schedule and the tanker to be converted into Sepat's floating storage and offloading vessel is already at Keppel in Singapore. We expect the company to secure more OFS jobs going forward, especially from Malaysia's marginal fields and EOR works in collaboration with Petrofac on a risk-based service contract basis. Petronas' committed RM300bn capex and the Malaysian government's focus on the O&G sector to arrest declining hydrocarbon output will create demand for OFS business.

Risk factors. High oil prices remain the most important factor for a thriving O&G offshore services industry. In addition, the FPSO business is capital intensive and requires strong financial capabilities as well as technical expertise. Execution track record is also an important consideration for Bumi Armada's project bids.

Valuation

Fair value is RM4.05, based on 22x FY12 EPS, which is the average FY12 PE multiple for big-cap O&G stocks in Malaysia. We believe that the valuation is justified given that Bumi Armada is Malaysia's leading OSV player and sole FPSO player which will ensure recurring stream of income.

While its valuation appear to be relatively demanding compared to its global peers, we think Bumi Armada deserves higher valuation in view of its unrivalled ROE and EBIT margin of 39% and 37% respectively vis-à-vis global peers' average of 21% ROE and 11% EBIT margin. In addition, Bumi Armada's track record has been impressive where it has been delivering superior margins consistently over the past three years.

3-year earnings CAGR of 23%. We project Bumi Armada would achieve 3-year earnings CAGR of 23% over FY11-13F, premised on increasing capex in the O&G sector boosting demand for offshore services. We imputed contribution from its two new secured FPSO projects in India and Australia, which are expected to have full-year impact in FY12. We also assumed full-year contribution from a new FPSO project in FY13, in line with the management's target to secure at least one new FPSO project annually.

Re-rating catalyst for the industry. Bumi Armada's listing is set to be the biggest IPO this year, raising RM2.8bn in the capital market. At RM9.2bn market cap (based on RM3.15 offer price), Bumi Armada will be the second biggest O&G stock in Malaysia after MMHE (RM13.6bn market cap).

Global peer comparison

	Share price	Market cap	PE (x)		PB (x)		EV/ EBITDA	PEG	ROE	EBIT margin
	(local)	(US\$m)	CY11	CY12	CY11	CY12	(x)	(x)	(%)	(%)
BW Offshore	12.60	1,619	13.8	9.8	1.2	1.1	8.0	0.2	1.7	16.5
SBM Offshore	18.99	4,707	14.1	12.4	2.1	1.9	8.3	0.9	11.3	11.9
Modec	1,413	813	17.5	14.0	1.1	1.1	24.2	0.6	4.7	2.4
Petrofac	15.49	8,593	16.7	14.4	7.6	5.5	10.3	0.9	71.6	12.4
Technip	74.97	11,972	18.8	15.7	2.5	2.2	8.4	0.8	13.0	10.2
Bumi Armada	3.15	3,065	20.9	17.0	2.5	2.2	12.5	0.8	38.8	36.7
Simple average (ex-Bumi Armada)			16.2	13.2	2.9	2.4	11.8	0.7	20.5	10.7

Source: Bloomberg, DBS Vickers

Malaysia O&G big-cap peer comparison

Company	Rating	Price	TP	Mkt Cap	PE (x)		PBV (x)		EV/ EBITDA	PEG	ROE	EBIT margin
		(RM)	(RM)	(RMm)	CY11	CY12	CY11	CY12	(x)	(x)	(%)	(%)
MMHE	NR	8.52	NR	13,632	31.4	26.0	5.4	4.5	30.1	1.2	21.3	6.2
Bumi Armada	NR	3.15	4.05	9,225	20.9	17.0	2.5	2.2	12.5	0.8	38.8	36.7
Sapura Crest	NR	4.34	NR	5,541	16.5	15.8	3.4	3.0	9.8	3.4	16.0	11.3
Dialog	NR	2.70	NR	5,389	32.5	26.7	8.5	7.2	30.2	1.2	23.1	10.2
Kencana	NR	2.79	NR	5,127	21.4	17.4	4.0	3.2	16.1	0.8	18.0	16.1
Simple average (ex-Bumi Armada)					26.2	21.7	5.5	4.6	21.5	1.1	19.7	11.1

Source: Bloomberg, DBS Vickers

Malaysia O&G small-mid cap peer comparison

Company	Rating	Price	TP	Mkt Cap	PE (x)		PBV (x)		EV/ EBITDA	PEG	ROE	EBIT margin
		(RM)	(RM)	(RMm)	CY11	CY12	CY11	CY12	(x)	(x)	(%)	(%)
KNM	Buy	1.84	3.35	1,842	11.5	8.0	1.0	0.9	12.9	0.2	6.8	6.3
Wah Seong	Buy	2.37	3.10	1,747	15.9	12.9	1.9	1.7	7.3	0.6	5.4	7.4
Coastal Contract	Buy	3.61	5.20	1,308	6.4	5.5	1.7	1.3	5.5	0.4	33.3	30.1
Dayang Enterprise	Buy	2.04	2.70	1,122	14.3	11.7	2.1	1.9	7.7	0.5	18.2	32.6
BHIC	Buy	3.89	6.55	967	10.4	7.1	1.9	1.6	10.0	0.2	14.7	13.0
Alam Maritim	Buy	0.98	1.30	771	17.0	10.3	1.5	1.3	13.6	0.2	0.2	3.2
Perisai Petroleum	UR	0.79	UR	540	19.7	18.0	1.8	1.6	12.5	1.9	4.4	25.3
EPIC	NR	2.60	NR	441	8.1	7.6	1.0	1.0	3.9	1.2	13.9	28.8
Scomi Group	NR	0.32	NR	379	5.8	4.9	0.1	0.1	4.7	0.3	-18.8	n.m.
Petra Perdana	Hold	0.83	0.95	374	25.5	10.3	0.8	0.7	9.3	0.1	-14.3	n.m.
Sealink Int'l	NR	0.62	NR	310	8.9	7.6	0.3	0.3	6.0	0.4	7.6	20.2
Tanjung Offshore	FV	1.04	0.90	304	18.2	13.7	0.8	0.8	10.5	0.4	1.8	7.0
Simple average					13.2	9.8	1.2	1.1	8.5	0.6	5.5	16.1

*UR – Under review

Source: Bloomberg, DBS Vickers

Key Assumptions

FY Dec	2009A	2010A	2011F	2012F	2013F
FPSO contract	N/A	N/A	80.0	260.0	410.0
Operating margin %	N/A	N/A	33.2	33.6	33.8

Sensitivity Analysis

	2012
FPSO contract +/- RM50m	Net Profit +/- 3%
EBIT margin +/- 1%	Net Profit +/- 3%

Segmental Breakdown

FY Dec	2009A	2010A	2011F	2012F	2013F
Revenues (RM m)					
FPSO	328	553	592	675	840
OSV	404	420	427	506	544
T&I	0	268	408	458	478
OFS	0	0	237	297	371
Others	0	0	0	0	0
Total	732	1,241	1,665	1,935	2,232

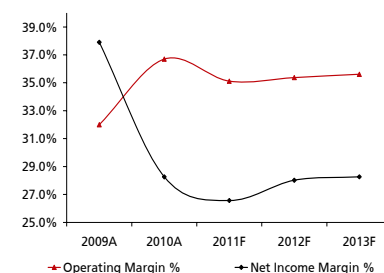
Armada Prima starts contributing from FY11

EBIT (RM m)					
FPSO	93	179	195	229	294
OSV	100	89	85	111	130
T&I	0	148	245	275	287
OFS	0	0	17	24	33
Others	18	10	10	10	10
Total	210	427	553	649	755

Included contribution from Acergy Hawk

EBIT Margins (%)					
FPSO	28.3	32.4	33.0	34.0	35.0
OSV	24.6	21.2	20.0	22.0	24.0
T&I	N/A	55.3	60.0	60.0	60.0
OFS	N/A	N/A	7.0	8.0	9.0
Total	28.7	34.4	33.2	33.6	33.8

Margins Trend



Income Statement (RM m)

FY Dec	2009A	2010A	2011F	2012F	2013F
Revenue	732	1,241	1,665	1,935	2,232
Cost of Goods Sold	(399)	(636)	(866)	(999)	(1,147)
Gross Profit	333	605	799	936	1,085
Other Opng (Exp)/Inc	(99)	(150)	(214)	(251)	(290)
Operating Profit	234	456	585	684	795
Other Non Opg (Exp)/Inc	0	0	0	0	0
Associates & JV Inc	40	(1)	3	22	23
Net Interest (Exp)/Inc	(51)	(82)	(85)	(90)	(101)
Exceptional Gain/(Loss)	60	12	0	0	0
Pre-tax Profit	284	383	503	616	717
Tax	(6)	(33)	(60)	(74)	(86)
Minority Interest	0	0	0	0	0
Preference Dividend	0	0	0	0	0
Net Profit	277	351	442	542	631
Net Profit before Except.	217	339	442	542	631
EBITDA	461	703	921	1,094	1,264

Contribution from D1 FPSO in India

Growth					
Revenue Gth (%)	40.8	69.6	34.1	16.2	15.3
EBITDA Gth (%)	68.8	52.6	31.1	18.8	15.6
Opg Profit Gth (%)	41.5	94.5	28.3	17.1	16.1
Net Profit Gth (%)	84.9	26.4	26.1	22.6	16.3

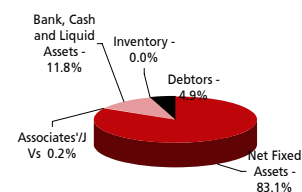
Margins & Ratio					
Gross Margins (%)	45.5	48.7	48.0	48.4	48.6
Opg Profit Margin (%)	32.0	36.7	35.1	35.4	35.6
Net Profit Margin (%)	37.9	28.3	26.6	28.0	28.3
ROAE (%)	50.4	45.4	19.6	13.9	14.0
ROA (%)	8.8	8.1	7.2	6.5	6.5
ROCE (%)	8.7	10.9	9.4	8.0	8.0
Div Payout Ratio (%)	0.0	0.0	0.0	0.0	0.0
Net Interest Cover (x)	4.6	5.5	6.9	7.6	7.9

Source: Company, DBS Vickers

Balance Sheet (RM m)

FY Dec	2009A	2010A	2011F	2012F	2013F
Net Fixed Assets	3,008	3,715	5,615	7,228	8,782
Invt in Associates & JVs	39	10	13	35	57
Other LT Assets	126	302	334	334	334
Cash & ST Invt	298	278	824	934	265
Inventory	1	1	2	2	2
Debtors	185	190	333	352	406
Other Current Assets	206	301	310	310	310
Total Assets	3,862	4,795	7,431	9,195	10,157
ST Debt	771	1,398	545	345	345
Other Current Liab	514	500	737	858	989
LT Debt	1,902	2,021	2,500	3,800	4,000
Other LT Liabilities	4	2	4	4	4
Shareholder's Equity	671	875	3,636	4,178	4,809
Minority Interests	1	1	10	10	10
Total Cap. & Liab.	3,862	4,795	7,431	9,195	10,157
Non-Cash Wkg. Capital	(123)	(8)	(92)	(194)	(271)
Net Cash/(Debt)	(2,375)	(3,141)	(2,221)	(3,211)	(4,080)
Debtors Turn (avg days)	70.2	55.1	57.3	64.6	62.0
Creditors Turn (avg days)	883.7	466.9	392.5	429.2	434.3
Inventory Turn (avg days)	2.0	0.9	1.0	1.2	1.2
Asset Turnover (x)	0.2	0.3	0.3	0.2	0.2
Current Ratio (x)	0.5	0.4	1.1	1.3	0.7
Quick Ratio (x)	0.4	0.2	0.9	1.1	0.5
Net Debt/Equity (X)	3.5	3.6	0.6	0.8	0.8
Net Debt/Equity ex MI (X)	3.5	3.6	0.6	0.8	0.8
Capex to Debt (%)	39.5	29.3	49.3	48.2	46.0
Z-Score (X)	NA	NA	NA	NA	NA

Asset Breakdown

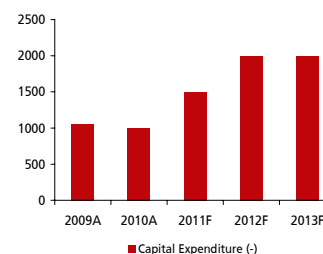


0.5x net gearing post-IPO; more room to gear up for expansion

Cash Flow Statement (RM m)

FY Dec	2009A	2010A	2011F	2012F	2013F
Pre-Tax Profit	284	383	503	616	717
Dep. & Amort.	186	248	333	387	446
Tax Paid	(17)	(29)	(15)	(60)	(74)
Assoc. & JV Inc/(loss)	(40)	1	(3)	(22)	(23)
Chg in Wkg.Cap.	0	0	125	89	64
Other Operating CF	(373)	(349)	0	0	0
Net Operating CF	40	255	942	1,010	1,131
Capital Exp.(net)	(1,056)	(1,000)	(1,500)	(2,000)	(2,000)
Other Invt.(net)	1	(4)	0	0	0
Invt in Assoc. & JV	0	0	0	0	0
Div from Assoc & JV	0	16	0	0	0
Other Investing CF	0	0	0	0	0
Net Investing CF	(1,055)	(988)	(1,500)	(2,000)	(2,000)
Div Paid	0	0	0	0	0
Chg in Gross Debt	1,179	734	341	1,100	200
Capital Issues	0	0	0	0	0
Other Financing CF	26	3	0	0	0
Net Financing CF	1,205	737	341	1,100	200
Currency Adjustments	(7)	(24)	0	0	0
Chg in Cash	183	(20)	(217)	110	(669)
Opg CFPS (sen)	1.4	8.7	27.9	31.4	36.4
Free CFPS (sen)	(34.7)	(25.4)	(19.0)	(33.8)	(29.7)

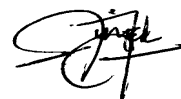
Capital Expenditure



Management's capex guidance

Source: Company, DBS Vickers

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