

COMPANY UPDATE

Marco Polo Marine (MPM SP)

Beneficiary Of Higher Activity In The Offshore Sector

The rationalised oil & gas offshore support industry has shown resilience during the COVID-19 pandemic. Channel checks suggest vessel utilisation has been improving, helped by minimal newbuilds and increased offshore activity in the region. MPM will benefit from positive operating leverage from higher charter and utilisation rates and a lean operating structure. Maintain BUY with a higher target price of S\$0.043 (from S\$0.038), after rolling forward the valuation base year to FY23.

WHAT'S NEW

- Increased offshore activity driving charter rates.** Increased activity in the oil & gas industry has driven up vessel charter rates and utilisation, since the global economic resumption following the end of COVID-19 pandemic lockdowns towards late 20. Bullish expectations driven by elevated crude oil prices above US\$100 have also resulted in oil majors looking to increase production in the commodity. This translated to higher capex towards reactivating offshore production platforms and further raised industry utilisation for offshore supply vessels (OSV). Furthermore, the nascent offshore wind farm market in Southeast Asia, particularly in Taiwan, has taken up supply of OSVs for vessel operators repositioning towards the relatively longer term charter contracts.
- Minimal newbuilds on smaller-sized vessels provide support to dayrates.** The lack of investment in the offshore oil industry since 2014 is expected to lead to upward pressure on utilisation and dayrates of support vessels going forward. Industry utilisation rates have begun to rise since 2H21 from higher demand due to the confluence of factors listed above.
- Improving financials and diversification efforts pulling through.** In 1HFY22, Marco Polo Marine (MPM) reported a 47.8% yoy jump in core EBITDA to S\$5.8m. The positive set of financials came on the back of higher revenue of S\$27.6m (+30.9% yoy), attributed to increased fleet utilisation and charter rates, as well as a rise in repair projects under the ship building & repair segment. Additionally, gross margin expanded to 29.6% (1HFY21: 23.8%) from more activity at the shipyard. The shift away from supporting the oil & gas industry towards the renewable energy segment has been successful for MPM. Currently, five out of 13 OSVs owned by MPM are chartered within the offshore wind farm projects in Taiwan.

KEY FINANCIALS

Year to 30 Sep (\$m)	FY20	FY21	FY22F	FY23F	FY24F
Net turnover	30.8	46.1	49.9	53.7	55.8
EBITDA	(0.1)	10.0	12.9	13.7	14.1
Operating profit	(7.1)	3.4	6.2	7.0	7.3
Net profit (rep./act.)	(9.2)	14.8	6.0	6.8	7.1
Net profit (adj.)	(9.2)	14.8	6.0	6.8	7.1
EPS (S\$ cents)	(0.3)	0.4	0.2	0.2	0.2
PE (x)	n.m.	7.2	17.6	15.7	15.0
P/B (x)	1.1	0.9	0.9	0.8	0.8
EV/EBITDA (x)	n.m.	8.6	6.7	6.3	6.1
Dividend yield (%)	0.0	0.0	0.0	0.0	0.0
Net margin (%)	(29.9)	32.0	12.1	12.6	12.7
Net debt/(cash) to equity (%)	(13.0)	(13.8)	(16.7)	(27.3)	(34.8)
Interest cover (x)	n.a.	12.1	n.a.	n.a.	n.a.
ROE (%)	n.a.	13.8	5.1	5.4	5.4
Consensus net profit	-	-	4.3	6.8	9.3
UOBKH/Consensus (x)	-	-	1.40	0.99	0.76

Source: Marco Polo Marine, Bloomberg, UOB Kay Hian

BUY

(Maintained)

Share Price	S\$0.028
Target Price	S\$0.043
Upside	+53.6%
(Previous TP)	S\$0.038

COMPANY DESCRIPTION

Marco Polo Marine is an integrated marine logistics group that provides ship chartering of OSVs in regional waters, as well as ship building and maintenance at its shipyard in Batam, Indonesia.

STOCK DATA

GICS sector	Industrials
Bloomberg ticker:	MPM SP
Shares issued (m):	3,538.3
Market cap (S\$m):	106.1
Market cap (US\$m):	76.3
3-mth avg daily t'over (US\$m):	0.5

Price Performance (%)

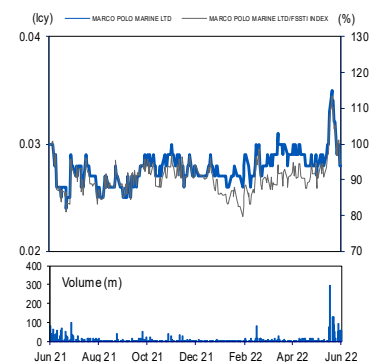
52-week high/low	S\$0.035/S\$0.024				
1mth	3mth	6mth	1yr	YTD	
7.1	7.1	11.1	3.4	11.1	

Major Shareholders

	%
Apricot Capital	17.2
Lee family (founders)	16.0
Yanlord Holdings	8.6
Penguin International	8.6

FY22 NAV/Share (S\$)	0.03
FY22 Net Cash/Share (S\$)	0.01

PRICE CHART



Source: Bloomberg

ANALYST(S)

Clement Ho
+65 6590 6630
clementho@uobkayhian.com

STOCK IMPACT

- **Operating expenses already lean, primed for positive operational leverage.** The restructuring efforts carried out in FY17 have resulted in improved profitability, with higher gross margin and a reduction in administrative expenses. Going forward, we believe margins should remain elevated due to improved sector dynamics after the 2014 oil crisis, as well as management's focus on increasing its share in the offshore windfarm market.
- **Debt-free and assets marked at historical low.** Closing in on the five-year mark since a capital injection in FY17, MPM has shown excellent cash management amid the industry consolidation, with its net cash as of end-1HFY22 standing at S\$27.9m. Balance sheet is clean and asset values are marked considerably low as the group undertook the massive impairments during the corporate restructuring exercise during the bottom of the industry downturn, which provides a comfortable level of support for our valuation.
- **Growing recurring income from shipyard.** Apart from the ship chartering revenue of S\$17.1m which constituted 62% of 1HFY22, MPM derived S\$10.5m from the shipbuilding & repairs segment at its shipyard in Batam, Indonesia. Prior to the tail-end of the 1HFY22 financial period, the shipyard completed the extension of its dry dock in Feb 22, which lifted repair capacity by 20% to 450m across three dry docks. This is expected to continue driving growth for the shipbuilding & repairs segment, which is expected to see higher workload from the shift in repairs from the Singapore yards. Revenue from the ship repair business is relatively sticky, with most of its business coming from repeat customers.

EARNINGS REVISION/RISK

- No changes to our forecasts.

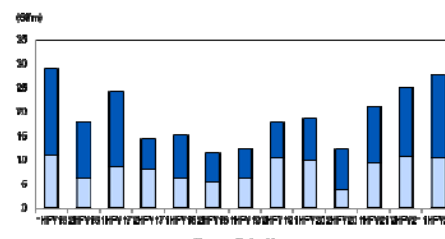
VALUATION/RECOMMENDATION

- **Maintain BUY with target price raised to S\$0.043 (from S\$0.038).** We have rolled forward our valuation base year to FY23 and kept our peg at 1.1x P/B, or +2SD of its historical five-year average. This is supported by improving charter rates and better vessel utilisation. We believe MPM's already-impaired book value of S\$0.03/share would provide a strong level of support for the share price, and the anticipated improvement in financial numbers should lift share price above its book value.

SHARE PRICE CATALYST

- Higher-than-expected ship charter rates and vessel utilisation.
- Increased activity at shipyard.
- Award of new ship chartering contracts.

SEGMENTAL CONTRIBUTION (1HFY16 – 1HFY22)



Source: Marco Polo Marine, UOB Kay Hian

PROFIT & LOSS

Year to 30 Sep (S\$m)	FY21	FY22F	FY23F	FY24F
Net turnover	46.1	49.9	53.7	55.8
EBITDA	10.0	12.9	13.7	14.1
Deprec. & amort.	6.6	6.7	6.7	6.8
EBIT	3.4	6.2	7.0	7.3
Associate contributions	0.2	0.0	0.0	0.0
Net interest income/(expense)	(0.8)	0.0	0.0	0.0
Pre-tax profit	15.3	6.2	7.0	7.3
Tax	(0.5)	(0.2)	(0.2)	(0.2)
Minorities	0.0	0.0	0.0	0.0
Net profit	14.8	6.0	6.8	7.1
Net profit (adj.)	14.8	6.0	6.8	7.1

BALANCE SHEET

Year to 30 Sep (S\$m)	FY21	FY22F	FY23F	FY24F
Fixed assets	60.9	55.8	50.5	45.3
Other LT assets	22.6	22.6	22.6	22.6
Cash/ST investment	20.3	23.5	38.1	50.1
Other current assets	35.7	40.8	40.3	41.4
Total assets	139.6	142.6	151.5	159.4
ST debt	1.2	0.0	0.0	0.0
Other current liabilities	14.1	12.8	14.4	14.6
LT debt	3.3	3.3	3.3	3.3
Other LT liabilities	6.1	5.7	6.2	6.7
Shareholders' equity	114.9	120.9	127.7	134.7
Minority interest	0.0	0.0	0.0	0.0
Total liabilities & equity	139.6	142.6	151.5	159.4

CASH FLOW

Year to 30 Sep (S\$m)	FY21	FY22F	FY23F	FY24F
Operating	8.8	5.9	16.1	13.5
Pre-tax profit	15.3	6.2	7.0	7.3
Tax	(0.4)	(0.8)	(0.2)	(0.2)
Deprec. & amort.	6.6	6.7	6.7	6.8
Working capital changes	2.6	(6.3)	2.6	(0.4)
Non-cash items	(15.3)	0.0	0.0	0.0
Investing	(2.2)	(1.5)	(1.5)	(1.5)
Capex (growth)	(2.2)	(1.5)	(1.5)	(1.5)
Proceeds from sale of assets	0.0	0.0	0.0	0.0
Others	0.0	0.0	0.0	0.0
Financing	(3.2)	(1.2)	0.0	0.0
Dividend payments	0.0	0.0	0.0	0.0
Issue of shares	0.0	0.0	0.0	0.0
Loan repayment	3.9	(1.2)	0.0	0.0
Others/interest paid	(7.1)	0.0	0.0	0.0
Net cash inflow (outflow)	3.4	3.2	14.6	12.0
Beginning cash & cash equivalent	13.6	20.3	23.5	38.1
Changes due to forex impact	3.4	0.0	0.0	0.0
Ending cash & cash equivalent	20.3	23.5	38.1	50.1

KEY METRICS

Year to 30 Sep (%)	FY21	FY22F	FY23F	FY24F
Profitability				
EBITDA margin	21.8	25.9	25.5	25.2
Pre-tax margin	33.1	12.5	13.0	13.1
Net margin	32.0	12.1	12.6	12.7
ROA	11.7	4.3	4.6	4.6
ROE	13.8	5.1	5.4	5.4
Growth				
Turnover	49.5	8.2	7.6	3.9
EBITDA	n.a.	28.6	6.2	2.7
Pre-tax profit	n.a.	(59.2)	12.2	4.7
Net profit	n.a.	(59.2)	12.2	4.7
Net profit (adj.)	n.a.	(59.2)	12.2	4.7
EPS	n.a.	(59.2)	12.2	4.7
Leverage				
Debt to total capital	3.7	2.7	2.5	2.4
Debt to equity	3.9	2.7	2.6	2.5
Net debt/(cash) to equity	(13.8)	(16.7)	(27.3)	(34.8)
Interest cover (x)	12.1	n.a.	n.a.	n.a.

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