Marco Polo Marine Ltd

4 January 2022

BUY
Target Price: S$0.032
(Initiation)

BBG	MPM SP
Market cap	S$95.2 m
Price (3 Jan 2021)	S$0.027
52-week range	S$0.012 – S$0.031
Target Price	S$0.032
Shares Outstanding	3,526.8m
Free Float	48 %
Major Shareholder	Apricot Capital 17.24% Nautical International Holdings 10.43% Yanlord Group 8.63% Penguin International 8.62%

P/BV (09/21)	0.8x
Net Debt to EBITDA (09/21)	Net cash

Source: Company data, Bloomberg, SAC Capital

Analyst:
Lim Shu Rong

Tides turning in favor of Marco Polo

Marco Polo Marine Ltd primarily engages in ship chartering and shipyard businesses. It has a fleet of 37 OSVs, tugboats and barges for charter. The Group does ship repair and shipbuilding works at its 34 ha Batam shipyard. Revenue from Ship chartering/Shipyard segments are split 44%/56% each.

Promising potential in Taiwan windfarm market. MPM will be increasing the no of vessels chartered to Taiwan from 2 to 4 end 2022 as Taiwan ramps up its offshore wind capacity. Taiwan is aiming for 15GW by 2035. Local content requirements (i.e. Vessels' age < 12 years old, Ban of China-built vessels) are raising the barriers to entry for competitors. Reflagging exercise will give the Group an edge to securing more contracts as well. Windfarm projects offer 15-20% price premium to O&G projects.

Enjoying higher charter and utilization rate. Brent crude oil is up 54.8% YTD hovering above US$70/barrel as at 28 Dec. Oil majors (i.e. TotalEnergies, ExxonMobil etc) have preliminary plans to increase CAPEX by 8-25% to capitalize on the current robust price environment. On the other hand, competing interests for OSVs from offshore renewables and decommissioning projects are snapping up available vessels in the market. With ~50% of MPM's vessels due for charter renewal in 1H22, further upside in charter rates will help with revenue growth and margin expansion.

Boosted capacity for growing ship repair works. Expansion of the Group's dry dock 1 is 54% done and due for completion by Jan 22. This will contribute an additional ~20% capacity which allows the Group to take on additional works. MPM continues to receive more installation works for ballast water management for the next 2 years as deadline approaches. Utilization rate of its 3 dry docks is ~86%.

We initiate at a target price of S$0.032, pegging it to 8.0x FY22E EV/EBITDA, median for the offshore sector and trading closely to that of its closest comparable, ASL Marine (8.0x). The stock is currently trading at forward PE of 23.2x and 17.3x for FY22E and FY23E respectively.

Risks: Omicron variant curtailing oil demand

Key Financials

FY ended 30 Sept	FY2019A	FY2020A	FY2021A	FY2022E	FY2023E
Revenue (S$'mil)	30.2	30.8	46.1	55.3	63.6
EBIT (S$'m)	1.7	-6.2	15.2	4.4	5.8
Net profit (S$'m)	-3.9	-9.2	14.8	4.1	5.5
Basic EPS (S cents)	-0.1	-0.3	0.4	0.1	0.2
Dividend per share (S cents)	-	-	-	-	-
Net cash / (debt)	13.6	13.6	16.1	24.2	32.9
Valuation					
EBIT margin (%)	5.7	-19.9	33.0	7.9	9.1
ROIC (%)	-9.9	-10.7	1.8	4.2	5.8
EV/EBITDA (x)	8.9	70.0	3.6	6.3	5.0
P/E (x)	-24.6	-10.3	6.4	23.1	17.3
Dividend yield (%)	-	-	-	-	-

Investment Highlights

Promising potential in Taiwan wind farm market

Currently, MPM has 2 vessels working on renewable projects in Taiwan. It plans to increase the units to 4 (40% of its OSV fleet) by end 2022. As of Oct 2021, Taiwan has 237.2MW of capacity in operation and the government plans to increase the amount to 15GW by 2035. Windfarm projects offers better margin at 15-20% premium to O&G projects. Taiwan market also has a higher barrier to entry because of its stricter local content requirements. One such restriction prohibits China-built vessels from partaking in their windfarm projects. This hinders contracting of newer built vessels in the market as these vessels are typically manufactured by Chinese shipyards. Another requires vessels employed to not exceed 12 years old. These 2 requirements effectively limit the pool of deployable OSVs. MPM's OSVs have an average age of 7 years. Additionally, MPM is also reflagging the 4 vessels which give them an edge in scoring more windfarm projects given that Taiwanese contractors prefer Taiwanese flagged vessels over foreign flagged. Costs of the reflagging exercise is insignificant.

With more countries ramping up their renewables capacities, there will be more charter opportunities for MPM as those offshore projects come onstream.

Enjoying higher charter rates and utilization rate

Brent crude oil is up 54.8% YTD hovering above US$70/barrel as at 28 Dec.

Oil majors such as TotalEnergies, ExxonMobil and Royal Dutch Shell are hiking their capital spending in upstream O&G activities in 2022. Preliminary plans showed a minimal increase of 8%-25% in CAPEX to capitalize on the current robust price environment. Closer to home, Petronas is expected to give the green light for 10-15 projects coming 2022 and 2023 after ~85% yoy decline in final investment decisions from 2019 level. On the supply side, competing interests for OSVs from offshore renewables and decommissioning projects are snapping up available vessels in the market. We see further upside to charter rates and utilization rate with more investments in the pipeline. ~50% of MPM's vessels will be due for charter renewal by 1H22. Favorable rates will help to boost charter revenue and margin after renewal.

Boosted capacity for growing ship repair works

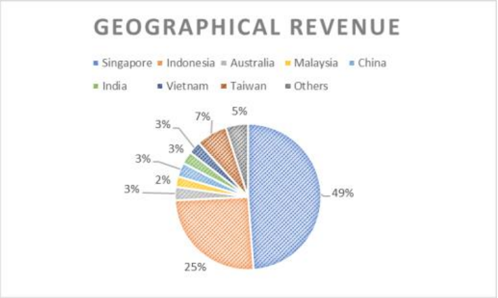
Expansion of the Group's dry dock 1 is 54% done and is expected to be completed by Jan 22. This will contribute an additional ~20% capacity which allows the Group to take on more shipyard works. Uptick in activities comes from more installation of ballast water management system in the next 2 years as deadline looms. Ship owners are to comply to the IMO regulation by 2024. MPM has installed the system for ~8 units in FY21.

COVID-19 has also prompted the shift of labor-intensive projects by Singapore customers to Indonesia shipyards including MPM and Beng Kuang Marine. Higher labor costs (i.e. foreign worker levy) and labor shortage locally are cementing the shift permanently. Indonesia shipyards offer up to 20% cost savings to Singapore customers. Quality works and cost savings are incentives in retaining these customers. Ship repairs are recurring in nature. We can expect more repeat orders with an increased customer base. Current utilization rate of its 3 dry docks is ~86%.

Background

Marco Polo Marine Limited is a marine logistics company which engages in both shipyard and ship chartering activities.

Source: Company data



Source: Company data

<u>Ship building and repairs</u>

MPM's shipyard is located in Batam, Indonesia with a seafront of 650 meters. Its shipyard houses 3 dry docks with the following measurements:

Drydock 1: 150m X 40m X 8.5m
Drydock 2: 175m X 40m X 8.5m
Drydock 3: 220m X 45m X 9.0m

Extension of dry dock 1 is expected to complete by Jan 2022 and will increase the dimension from 150m to 240m and add on an additional 20% capacity. Average FY21 utilization rate for its 3 dry docks stands at around 86%. Bulk of its shipyard works relates to ship repairs & maintenance and much less of ship building. In FY21, the Group has completed the construction of 2 smart fish farms from Singapore Aquaculture Technologies, representing ~9% of total revenue. Ship building works usually generate ~8-12% margin while ship repairs bring about 25-30%.

<u>Ship chartering</u>

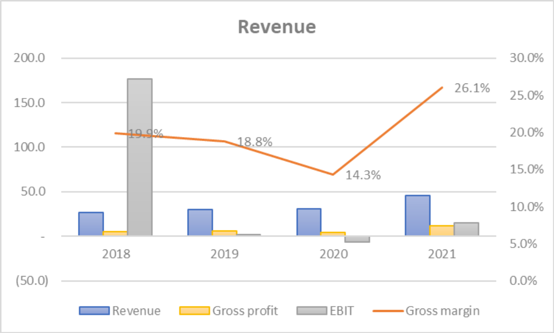
MPM has a fleet of 11 OSVs, 2 Maintenance Work vessels and 24 tugs and barges (t&g). Its OSVs are mainly deployed to offshore o&g projects in regional waters. Its t&g are used in various industries including construction, mining, land reclamation, infrastructure etc. Recovery of local construction scene will aid in utilisation of t&g. As part of its diversification plan, the Group has ventured into windfarm market in Taiwan with 2 OSVs supporting the installation of monopiles. Current vessel utilisation rate is at ~70%.

Rights issue in PT Pelayaran Nasional Bina Buana Raya Tbk (PT BBR)

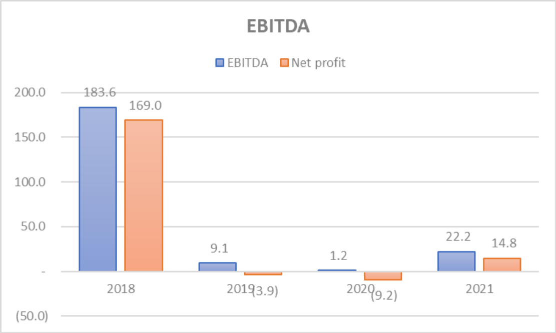
Post rights issue will see MPM has an effective interest in PT BBR of up to 72% (from 34.8%). The transaction is supported by the Group's shareholders whom hold a combined of 51.21% voting rights. PT BBR will become a key subsidiary of MPM giving the Group more opportunities to participate in Indonesia offshore market. Following the completion of its debt restructuring program, PT BBR is currently in a net cash position of US$3.4 as at 30 June 2021.

MPM has also acquired debt of US$7.4m owed to UOB by PT BBR for cash consideration of US$2.8m, a 61.9% discount to the debt. The debt was secured to UOB by an AHTS "MP Prevail". By taking over the debt, MPM is able to secure the continued usage of AHTS in line with the Group's strategic plan to grow in Indonesian market.

Financial summary



Source: Company data
Included in 2018's EBIT is a waiver of debt of S$179.9m



Source: Company data

<u>Rebounding from the trough</u>

FY21 saw MPM turned into the black since its restructuring in 2017. FY21 revenue rose 49% yoy to S$46.1m as both the shipyard (+51.1%) and chartering segments (+47.4%) registered strong growth. Gross margin expanded to 26.1% (+11.8 ppt) due to higher charter rates. Other income includes a one-off S$6.2m gain on acquisition of debt owed by PT BBR and a S$6.3m gain on disposal of PPE. Nevertheless, adjusted for one-off items and government grant (S$0.5m), MPM still turned in a net profit of S$1.7m on higher gross profits generated.

We expect a slower growth for its chartering revenue for 1H22 as its vessels that were previously working in Taiwan windfarm, are off-chartered till Feb due to monsoon season. The vessels are due to return to work in February 22 and play catch up in 2H22 with 2 additional vessels planned to be deployed to service Taiwan windfarms. Charter margin for renewable projects are 15-20% higher than for O&G projects. Margin is expected to take a minor hit, mitigated by renewal of charter contracts for ~50% of its fleet in 1H22. As for Its shipyard business, MPM continues to enjoy robust repair works and benefits from the completion of its drydock expansion which allows it to take on even more contracts.

MPM remains in a net cash position of S$16.1m despite taking on a temporary bridging loan of S$5.0m.

Peer comparison

Name	YE	Mkt Cap	Revenue (S$ m)	EBITDA (S$ m)	EBIT (S$ m)	Net profit (S$ m)	EBIT margin %	Net margin %	ROE %	ROIC %	EV/EBITDA (x)	EBIT/EV %	PER (x)	PBR (x)
Marco Polo Marine (BBG: MPM)	09/21	95.2	46.1	22.2	15.2	14.8	33.0	32.0	12.9	1.8	3.6	19.2	6.4	0.8
ASL Marine (BBG: ASL)	06/21	39.0	193.0	44.7	(14.3)	(35.0)	-7.4	-18.1	-35.7	-6.8	7.5	-4.3	-1.1	0.4

Source: Companies' data

Valuation

We initiate at a target price of S$0.032, pegging it to 8.0x FY22E EV/EBITDA, median for the offshore sector and trading closely to that of its closest comparable, ASL Marine. The stock is currently trading at forward PE of 23.2x and 17.3x for FY22E and FY23E respectively.

Offshore sector	Market cap (S$ 'mil)	EV/EBITDA (x)	PE (x)	PB (x)
ES Group Holdings	8.9	-	-	0.3
NauticAwt Ltd	9.5	25.2	-	3.8
Teho International Inc	10.4	5.3	3.2	0.6
Jason Marine Group	14.2	-	-	0.6
Annica Holding	16.7	-	-	6.5
Beng Kuang Group	17.1	-	-	0.3
Amos Group	25.9	-	-	0.3
Cosmosteel Holdings	26.4	3.2	11.3	0.3
Atlantic Navigation	31.9	8.4	-	0.4
ASL Marine	37.8	8	-	0.4
CH Offshore	43	-	-	0.6
Viking Offshore	43.9	-	-	16.7
MTQ Corp Ltd	50.8	-	-	0.9
Kim Heng Ltd	55.2	112.4	-	1.1
Baker Technology	79.1	-	-	0.4
Marco Polo Marine	95.1	3.4	6.4	0.8
CSE Global	251.1	5.3	10.9	1.3
Sembcorp Marine	2,574	-	-	0.4
Keppel Corp	9,280	33	28.3	0.8
	Sector average	12.6*	10.7	1.1**
	Sector median	8.0*	11.1	0.6**

Source: Companies' data from latest annual reports, Bloomberg

** Calculations exclude Kim Heng's (outlier)*
*** Calculations exclude Viking Offshore's (outlier)*

Income statement

YE 30 Sept S$m	FY2019A	FY2020A	FY2021A	FY2022E	FY2023E
Revenue	**30.2**	**30.8**	**46.1**	**55.3**	**63.6**
Cost of sales	(24.5)	(26.4)	(34.1)	(39.9)	(45.8)
Gross profit	**5.7**	**4.4**	**12.0**	**15.5**	**17.8**
Other op income	7.5	1.5	14.2	1.1	1.1
Other op expenses	(11.5)	(12.1)	(11.0)	(12.2)	(13.1)
EBIT	**1.7**	**(6.2)**	**15.2**	**4.4**	**5.8**
Share of results of associates	(5.4)	(2.8)	0.2	(0.1)	(0.1)
Interest expense	(0.0)	(0.0)	(0.1)	-	-
Profit before tax	**(3.7)**	**(9.0)**	**15.3**	**4.3**	**5.7**
Tax expense	(0.2)	(0.2)	(0.5)	(0.1)	(0.2)
Minority interests	0	0	0	0	0
Net profit	**(3.9)**	**(9.2)**	**14.8**	**4.1**	**5.5**

Ratios

YE 30 Sept	FY2019A	FY2020A	FY2021A	FY2022E	FY2023E
Profitability (%)					
Gross margin	18.8	14.3	26.1	27.9	27.9
Pretax margin	-12.1	-29.2	33.1	7.7	8.9
Liquidity (x)					
Current ratio	2.5	2.5	3.7	4.5	4.9
Quick ratio	2.4	2.4	3.6	4.4	4.8
Interest coverage ratio	190.8	-170.9	111.9	32.3	42.8
Net Debt to Equity (%)	Net cash	Net cash	Net cash	Net cash	Net cash
Valuation (x)					
P/E	-24.6	-10.3	6.4	23.1	17.3
P/B	0.9	1.0	0.8	0.8	0.8
EV/EBITDA	8.9	70.0	3.6	6.3	5.0
Cash Conversion Cycle					
Trade receivable days	101	120	79	79	79
Inventory days	20	15	12	12	12
Trade payable days	83	69	57	57	57
CCC days	39	66	33	33	33

Balance Sheet

YE 30 Sept S$m	FY2019A	FY2020A	FY2021A	FY2022E	FY2023E
PPE	75.4	74.9	60.9	56.4	52.1
ROU assets	0	0.7	0.3	-	-
Investment in associate	5.5	0	0	0	0
Amt due from JV	12.5	12.3	22.2	22.2	22.2
Total non-current assets	**93.4**	**87.9**	**83.5**	**78.6**	**74.3**
Cash	13.6	13.6	20.3	28.4	37.1
Inventories	1.3	0.9	1.2	1.3	1.4
Trade receivables	12.4	7.9	12.0	12.0	13.8
Prepayment, deposits & other receivables	1.7	1.3	1.4	1.4	1.4
Amt due from JV (non-trade)	1.9	1.6	21.0	21.0	21.0
Current assets	**30.9**	**25.4**	**56.1**	**64.1**	**74.8**
Total assets	**124.3**	**113.3**	**139.6**	**142.7**	**149.1**
Bank borrowings	0	0	1.0	1.0	1.0
Trade payables	6.6	3.4	7.2	6.2	7.2
Accruals & other payables	4.2	4.4	5.3	5.3	5.3
Contract liabilities from contracts w cust	0.1	1.0	0.3	0.3	0.3
Deferred income	0.2	0.2	0.3	0.3	0.3
Lease liabilities	0.0	0.3	0.2	0.2	0.2
Income tax payable	1.1	0.8	0.9	0.9	0.9
Total current liabilities	**12.2**	**10.2**	**15.3**	**14.3**	**15.2**
Bank borrowings	0	0	3.3	3.3	3.3
Deferred income	3.2	3.1	6.1	6.1	6.1
Lease liabilities	0.1	0.3	0.1	0.1	0.1
Trade payables	0	0	0	0	0
Total non-current liabilities	**3.3**	**3.5**	**9.4**	**9.4**	**9.4**
Total liabilities	**15.5**	**13.6**	**24.7**	**23.7**	**24.6**
Share capital	155.7	155.8	155.8	155.8	155.8
Treasury shares	(1.2)	(1.2)	(1.2)	(1.2)	(1.2)
Reserves	2.6	2.5	3.0	3.0	3.0
Retained earnings	(48.2)	(57.4)	(42.6)	(38.5)	(33.0)
Total equity	**108.8**	**99.7**	**114.9**	**119.0**	**124.5**

Cash Flow Statement

YE 30 Sept S$m	FY2019A	FY2020A	FY2021A	FY2022E	FY2023E
PBT	(3.7)	(9.0)	15.3	4.3	5.7
Depreciation & amortization	7.4	7.3	7.0	6.9	6.6
Net interest expense	(0.3)	(0.5)	(0.6)	(0.5)	(0.5)
Share of losses in JV	5.4	2.8	(0.2)	-	-
Non-fund items	(6.4)	1.1	(5.7)	-	-
Working capital					
Trade & other receivables	(8.3)	4.8	(4.0)	0.0	(1.8)
Trade & other payables	1.0	(3.0)	4.6	(1.0)	0.9
Inventories	0.1	0	0.3	(0.0)	(0.2)
Contract liabilities from contracts w cust	(0.3)	0.9	(0.7)	-	-
Operating cashflow	**(5.1)**	**4.4**	**9.2**	**9.7**	**10.8**
Interest paid	0	0	0	(0.1)	(0.1)
Tax paid	(0.3)	(0.4)	(0.4)	(0.1)	(0.2)
Cash flow from operations	**(5.3)**	**4.1**	**8.8**	**9.5**	**10.5**
CAPEX	(4.3)	(7.0)	(2.2)	(2.0)	(2.3)
Net fixed assets disposal	5.2	0	0	-	-
Repayment from JV	1.4	2.6	0	-	-
Advances to JV	0	(1.8)	0	-	-
Cash inflow fr. step acq of JV	0	0.2	0	-	-
Free cashflow	**(4.5)**	**(0.3)**	**6.6**	**7.5**	**8.2**
Borrowings	0	0	5.0	-	-
Equity issue	0	0	0	-	-
Others	0.1	0.4	(5.3)	0.6	0.6
Net cash flow	**(4.4)**	**0.1**	**6.3**	**8.0**	**8.7**
Exch diff on consolidation	0.0	(0.1)	(0.0)	-	-
Opening cash balance	**17.9**	**13.6**	**13.6**	19.8	27.9
Ending cash balance	**13.6**	**13.6**	**19.8**	27.9	36.6

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