

COMPANY RESULTS

Marco Polo Marine (MPM SP)

FY21: Green Shoots Appearing On Tighter Utilisation; Primed For Entry

FY21 results were a strong beat due to better-than-expected fleet utilisation rates, as well as shipbuilding and repair operations. Channel checks suggest vessel utilisation has been improving, helped by minimal newbuilds. We like MPM for its lean operations following the completion of its corporate restructuring efforts, and believe the company is primed to benefit from positive operating leverage. Maintain BUY with target price slightly raised to S\$0.038.

FY21 RESULTS

Year to 30 Sep (\$m)	FY21	FY20	yoy % chg
Revenue	46.1	30.8	+49.5
Gross profit	12.0	4.4	+171
Gross margin (%)	26.1	14.3	11.7ppt
Net profit / (loss)	14.8	(9.2)	n.m.
Adjusted net profit / (loss)	3.0	(8.9)	n.m.
Adjusted net margin (%)	6.5	n.m.	n.m.

Source: Marco Polo Marine, UOB Kay Hian

RESULTS

- Swung into positive territory in FY21.** Marco Polo Marine (MPM) reported a turnaround in adjusted FY21 net profit to S\$3.0m from loss of S\$8.9m in FY20. The positive set of financials came on the back of higher revenue of S\$46.1m (+49.5% yoy), attributed to the commencement of two new construction projects under its shipbuilding division (+51%) and increased ship repair jobs, as well as higher average utilisation rate for both tugboats and barges and offshore support vessels (OSV), which resulted in the 48% yoy growth in the ship chartering operations division. Overall gross margin spiked to 26.1% from 14.3% in FY20. The positive set of results is considered in line with industry expert Clarksons' expectations, suggesting that vessel charter rates have rationalised, helped by minimal newbuilds and more vessels on lay ups.
- Diversification efforts pulling through.** The shift away from supporting the oil & gas industry towards the renewable energy segment has been successful for MPM. Currently, two of MPM's charter fleet of 11 OSVs now supports offshore windfarm projects in the Asia Pacific region. The diversification provides a new utilisation base for MPM's vessels, particularly on the growing demand specifically from the offshore wind energy industry in Asia, which is in its nascent stage where structures are installed in shallow waters with depth of up to 50-60 metres. This presents a tremendous opportunity for MPM, whose fleet specialises in support in those depth regions.

KEY FINANCIALS

Year to 30 Sep (\$m)	2020	2021	2022F	2023F	2024F
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.	6.7	16.4	14.6	14.0
P/B (x)	1.0	0.9	0.8	0.8	0.7
EV/EBITDA (x)	n.m.	8.2	6.4	6.0	5.9
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	6.2	-
UOBKH/Consensus (x)	-	-	1.40	1.09	-

Source: Marco Polo Marine, Bloomberg, UOB Kay Hian

BUY

(Maintained)

Share Price	S\$0.028
Target Price	S\$0.038
Upside	+34.7%
(Previous TP)	S\$0.036)

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):	3,522.6
Market cap (\$m):	98.6
Market cap (US\$m):	72.2
3-mth avg daily t'over (US\$m):	0.2

Price Performance (%)

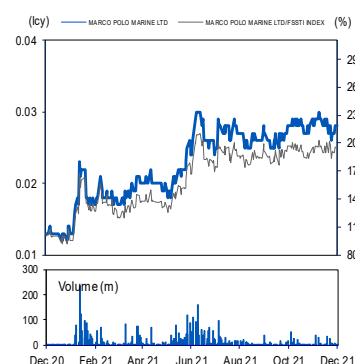
52-week high/low S\$0.030/S\$0.012

1mth	3mth	6mth	1yr	YTD
0.0	3.7	7.7	100.0	115.4

Major Shareholders

	%
Apricot Capital	17.2
Nautical International Holdings (Lee Family)	15.0
Yanlord Holdings	8.6
Penguin International	8.6
FY20 NAV/Share (S\$)	0.03
FY20 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 to increase its share in the offshore windfarm market.
- **Clean from debt and balance sheet impaired.** 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-FY21 standing at S\$20.3m. Furthermore, the group undertook massive asset impairments during the corporate restructuring carried out at the bottom of the industry downturn, which provides a comfortable level of support for our valuation.
- **Tailwind from rising crude oil prices.** In the past six months, the Brent forward oil price for delivery in end-25 has risen from US\$54/bbl to US\$60/bbl. This supports the improving trends in rig utilisation and day rates, and is also a strong reflection that more projects should come on-stream due to decent project IRRs, which is favourable for the increasing oil industry capex. This will lead to improving fundamentals for MPM's two key metrics for - charter rates and vessel utilisation.

EARNINGS REVISION/RISK

- We have raised our gross margin assumptions higher from 22.3% to 25.0% for FY22 and FY23, in line with the improving utilisation rates for MPM's charter fleet.
- Accordingly, our net profit estimates have increased 22.0% and 21.4% to S\$6.0m and S\$6.8m for FY22 and FY23 respectively. Similarly, core EBITDA estimates have risen 7.4% and 8.3% to S\$12.9m and S\$13.7m respectively.

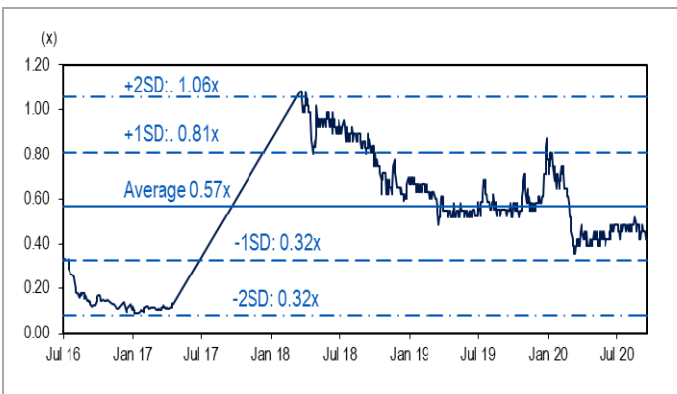
VALUATION/RECOMMENDATION

- **Maintain BUY with target price raised slightly to S\$0.038** (from S\$0.036). We value MPM at 1.1x FY22F P/B, in line to +2SD of its historical 5-year average on the back of: a) improving charter rates, b) better vessel utilisation rate, and c) an already-impaired book value of S\$0.03/share. This is supported by the anticipated rise in core EBITDA from S\$10.2m in FY21 to S\$14.1m in FY24, or a 11% CAGR over the 3-year period. MPM is currently trading at 0.82x 2022F P/B and we believe valuations are supported by the massive writedown on its assets undertaken during the corporate restructuring in FY17.

SHARE PRICE CATALYST

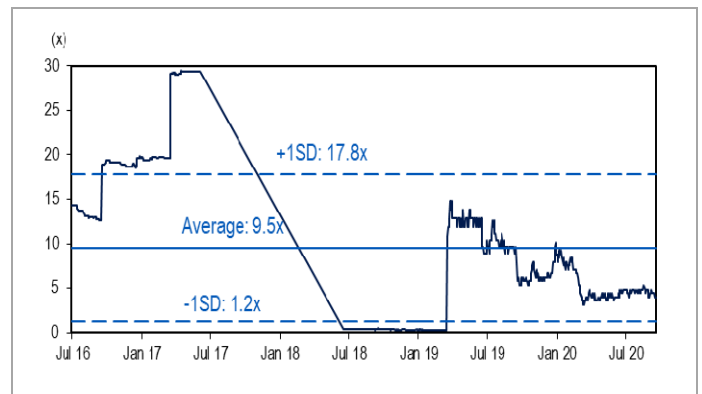
- Higher-than-expected vessel utilisation rates.
- Award of new ship chartering contracts.

HISTORICAL P/B BAND



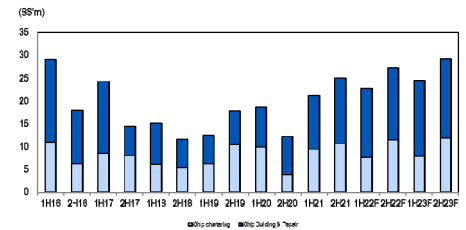
Source: Bloomberg, UOB Kay Hian

HISTORICAL EV/EBITDA BAND



Source: Bloomberg, UOB Kay Hian

SEGMENTAL CONTRIBUTION (1HFY16 – 2HFY23F)



Source: MPM, UOB Kay Hian

PROFIT & LOSS

Year to 30 Sep (\$m)	2021	2022F	2023F	2024F
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 (\$m)	2021	2022F	2023F	2024F
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 (\$m)	2021	2022F	2023F	2024F
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 (%)	2021	2022F	2023F	2024F
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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