

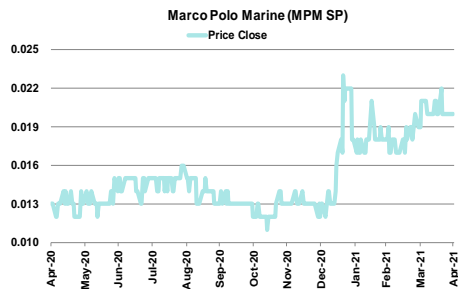


Marco Polo Marine

Oil & Gas Turnaround Play With Net Cash Balance Sheet

Fair value: Not Rated

Price: SGD 0.02



Source: Bloomberg

Stock Profile

Bloomberg Ticker	MPM SP
Avg Turnover (SGD/USD)	0.01m/0.01m
Net Gearing (%)	Net Cash
Market Cap (SGDm)	70.5m
Beta (x)	1.2
BVPS (SGD)	0.03
52-wk Price low/high (SGD)	0.01 – 0.03
Free float (%)	44.1

Major Shareholders (%)

Apricot Capital	17.2
Nautical International	10.2
Zhong Sheng Jian	8.6

Share Performance (%)

	1m	3m	6m	12m
Absolute	11.3	31.1	(14.5)	(68.5)
Relative	10.5	27.2	(27.6)	(79.8)

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Investment Merits

- Net cash balance sheet with zero debt;
- Trading below significantly impaired NAV, and white knights' and creditors' entry price;
- Turnaround in FY21F (Sep) with a shift into renewable energy and wind farm projects.

Company Profile

Established in 1991, Marco Polo Marine was listed on the then-SGX SESDAQ in 2007. This reputable regional integrated marine logistics company is principally engaged in shipping and shipyard activities.

The shipping business consists of the chartering of its OSV fleet, which are mainly made up of anchor-handling tug supply vessels (AHTS), as well as tugboats and barges. Its shipyard business is engaged in ship-building, and providing ship maintenance, repair, outfitting and conversion services.

Highlights

Oil & gas activities picking up after a hiatus (since the oil price crash). With oil prices stabilising since the crash in 2014, activities across the whole oil & gas chain have been steadily recovering. Marco Polo Marine's ship-chartering operations revenue grew 44% YoY in FY19, due to the improved utilisation rate of its fleet of OSVs. We understand that this trend is likely to continue, despite the growth of its fleet to eight vessels presently, from five in FY19. There are also two vessels left to be reinstated/upgraded, which should further boost the profitability of its ship-chartering business. Its shipbuilding and repair operations revenue declined by 10% YoY in 2019, mainly due to the absence of ship-building jobs. However, with the uplift in oil & gas activities, the company stands a solid chance of winning shipbuilding tenders this year – it has already participated by aggressively bidding for some of these tenders.

Diversifying into new growth areas – renewable energy (RE). Marco Polo Marine is actively diversifying and expanding its activities beyond the oil & gas industry, including supporting the installation of submarine cables and offshore wind farm projects. Tapping on this core expertise, it is pivoting to the RE industry, providing customised solutions in the chartering, development, fabrication, and construction of bespoke RE assets for customers. The company has been actively pursuing contracts in the region. About 20% of utilised vessels are working on wind farm projects. In 2020, they secured shipbuilding contracts from Singapore Aquaculture Technologies (SAT) to construct two smart fish farms. Construction is set to be completed by the end of FY2021.

Trading below greatly impaired NAV, and white knights and creditors' entry price. Marco Polo Marine's NAV per share was at 3.1 SG cents as at 30 Sep 2019, which was massively discounted after its debt restructuring exercise. This, in turn, was determined previously when oil & gas asset prices hit rock-bottom levels during the trough of the crisis. The white knights entered at an effective price of 3.2-3.3 SG cents during its latest debt restructuring exercise. At current share price levels, this is still well below the levels of the white knights' costs, as well as the company's NAV.

Operating EBITDA was positive in FY19; targeting to be PATMI-positive in FY21F. The group's performance reversed from a loss of SGD3.9m in FY18 to a positive EBITDA of SGD2.4m in FY19. With a brighter outlook ahead, a return to profitability in FY20-21F is highly possible. This is a significant achievement, since Marco Polo Marine almost went under in 2017.

Company Report Card

Latest results. FY20 revenue grew by 2% to SGD30.8m, but PATMI losses further widened as a result of the poorer performance from the ship chartering segment, due to the impact of COVID-19. This was partially offset by an increase in margins from ship repair jobs undertaken.

Balance sheet/cash flow. As at end-FY20, Marco Polo Marine's net cash amounted to SGD13m. We expect its net cash position to continue improving, as it continues to generate positive cash flow.

ROE. The group's ROE was impacted by the downturn of the oil & gas sector, but we are confident that this will improve, due to the restructuring and the new ventures into RE.

Dividends. With a turnaround ahead, the company may look to set a dividend policy to reward shareholders in the near future.

Management. Sean Lee is the Group CEO and a key co-founder. He is responsible for the overall management, daily operations and formulation of the company's business direction, strategies and policies.

Investment Case

Turnaround aided by move into RE. This net cash company, which survived the oil price crash years ago, may be on the verge of a comeback to profitability. It returned to being EBITDA-positive in FY19, after a debt restructuring exercise in Feb 2018 – which led to a clean balance sheet. A continued pick-up in its ship-chartering and ship repair/building businesses should stand it in good stead to be in the black in FY21. The stock is trading well below its NAV of 3.1 SG cents, and could re-rate strongly if profitability starts kicking in. It has also moved into a new growth area other than oil & gas, and has already started chartering ships for wind farm clients.

Profit & Loss	Dec-18	Dec-19	Dec-20
Total turnover (SGDm)	27	30	31
Reported net profit (SGDm)	(10.9)	(3.9)	(9.2)
Recurring net profit (SGDm)	(10.9)	(3.9)	(9.2)
Recurring net profit growth (%)	NA	NA	NA
Recurring EPS (SGD)	(0.00)	(0.00)	(0.00)
DPS (SGD)	0.00	0.00	0.00
Dividend Yield (%)	0.0	0.0	0.0
Recurring P/E (x)	NA	NA	NA
Return on average equity (%)	NA	NA	NA
P/B (x)	1.4	1.3	1.2
P/CF (x)	NA	5.5	3.4

Source: Company data, RHB

Balance Sheet (SGDm)	Dec-18	Dec-19	Dec-20
Total current assets	211	240	247
Total assets	233	266	273
Total current liabilities	119	145	141
Total non-current liabilities	5	7	6
Total liabilities	124	151	147
Shareholder's equity	100	104	115
Minority interest	9	11	12
Other equity	0	0	0
Total liabilities & equity	233	266	273
Total debt	20	23	5
Net debt	(36)	(36)	(73)

Source: Company data, RHB

Cash Flow (SGDm)	Dec-18	Dec-19	Dec-20
Cash flow from operations	2	9	49
Cash flow from investing activities	(4)	2	(2)
Cash flow from financing activities	3	(5)	(27)
Cash at beginning of period	57	50	51
Net change in cash	(7)	0	17
Ending balance cash	50	51	68

Source: Company data, RHB