

### SMALL/MID CAP HIGHLIGHTS

#### Marco Polo Marine (MPM SP)

Strong Tailwinds In Charter Rates, Vessel Utilisation And Ship Repairs

The rationalised oil & gas offshore support industry has shown resilience over the COVID-19 pandemic. Channel checks suggest vessel utilisation has been improving, helped by minimal newbuilds and more vessels on lay ups. We like MPM for its lean operations following completion of its corporate restructuring efforts. A successful transition to new revenue sources would be a key turning point for MPM. Maintain BUY with target price raised to S\$0.036.

#### WHAT'S NEW

- Rationalised vessel chartering industry.** Since the oil crisis in 2014, Clarksons data suggests that vessel charter rates have rationalised, helped by minimal newbuilds and more vessels on lay ups. Furthermore, rising vessel utilisation from demand in the infrastructure and renewable energy sectors in Southeast Asia has benefitted the remaining players in the offshore support industry. In 1HFY21, Marco Polo Marine (MPM) reported an 88% yoy jump in core EBITDA to S\$4.0m. The positive set of financials came on the back of higher revenue of S\$21.1m (+13.8% yoy) attributed to the commencement of two new construction projects under its ship building division and increased ship repair jobs, as well as gross margin expansion to 23.8% (1HFY20: 18.4%) from the absence of one-off reactivation costs.
- Diversification efforts pulling through.** The shift away from supporting the oil & gas industry towards the renewable energy segment has been successful for MPM. Currently, close to 20% of MPM's charter fleet of 11 offshore support vessels (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 50-60m. This presents a tremendous opportunity for MPM, whose fleet specialises in support in those depth regions.
- Tailwind from rising crude oil prices.** In the past six months, the Brent forward oil price for delivery in end-25 has risen 23% from US\$48/bbl to US\$59/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; thus being in favour of the increasing oil industry capex. This will lead to improving fundamentals for the two key metrics for MPM-charter rates and vessel utilisation.

#### KEY FINANCIALS

Year to 30 Sep (S\$m)	2019	2020	2021F	2022F	2023F
Net turnover	30.2	30.8	44.2	47.1	50.7
EBITDA	7.8	(0.1)	5.1	12.0	12.7
Operating profit	0.3	(7.1)	(2.0)	4.8	5.4
Net profit (rep./act.)	(3.9)	(9.2)	4.2	4.9	5.6
Net profit (adj.)	(3.9)	(9.2)	4.2	4.9	5.6
EPS (S\$ cents)	(0.1)	(0.3)	0.1	0.1	0.2
PE (x)	n.m.	n.m.	20.7	17.8	15.8
P/B (x)	0.8	0.9	0.8	0.8	0.8
EV/EBITDA (x)	8.7	n.m.	13.2	5.6	5.3
Dividend yield (%)	0.0	0.0	0.0	0.0	0.0
Net margin (%)	(12.8)	(29.9)	9.6	10.5	11.0
Net debt/(cash) to equity (%)	(12.4)	(13.0)	(20.0)	(26.7)	(37.0)
Interest cover (x)	n.a.	n.a.	n.a.	n.a.	n.a.
ROE (%)	n.a.	n.a.	4.2	4.6	5.0
Consensus net profit	-	-	-	-	-
UOBKH/Consensus (x)	-	-	-	-	-

Source: Marco Polo Marine, Bloomberg, UOB Kay Hian

### BUY

(Maintained)

Share Price	S\$0.028
Target Price	S\$0.036
Upside	+28.6%
(Previous TP)	S\$0.020)

#### 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 (S\$m):	88.1
Market cap (US\$m):	65.1
3-mth avg daily t'over (US\$m):	0.6

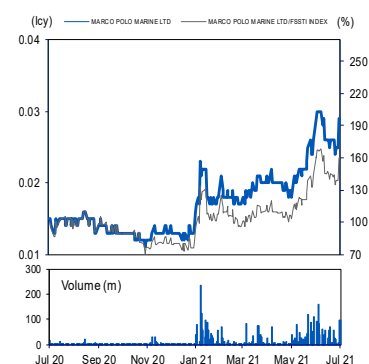
#### Price Performance (%)

52-week high/low	S\$0.030/S\$0.011			
<b>1mth</b>	<b>3mth</b>	<b>6mth</b>	<b>1yr</b>	<b>YTD</b>
(3.8)	25.0	92.3	66.7	92.3

#### Major Shareholders

Major Shareholders	%
Apricot Capital	17.2
Nautical International Holdings	10.2
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)

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### 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 shave-off of excess spending in administrative expenses. FY19 was the year of turnaround for EBITDA margin back to positive territory of 8%. Going forward, we believe margins should remain positive due to improved sector dynamics post the 2014 oil crisis as well as effective cost control.
- Clean from debt and balance sheet impaired.** Of the S\$60m cash injection, S\$45m was used to offset its net debt of S\$246.6m in FY17 while the remaining S\$15m was for working capital. Closing in on the 5-year mark, MPM has shown good cash management amid the industry consolidation, with its latest net cash at S\$8.8m. Furthermore, the group undertook massive asset impairments during the corporate restructuring at the bottom of the industry downturn, which provides a comfortable level of support for our valuation.
- Growing recurring income from ship repairs.** 1HFY21 revenue from ship repairs business continued to see strong growth (+37% yoy), which we attribute to a shift in repair works away from the Singapore yards due to the relatively higher costs. We view the ship repair business as a growing source of stable recurring income, with most of its business coming from repeat customers. Historically, the segment saw contribution increase at a steady pace from an average 49% in 2HFY17-2HFY19 to 57% in 1HFY20-1HFY21. Furthermore, MPM's recent capacity expansion in ship repair by 20% to 450m across three dry docks in mid-Jun 21 is a strong signal that workload in the ship repair division is expected to grow.

### EARNINGS REVISION/RISK

- No changes to our forecasts.

### VALUATION/RECOMMENDATION

- Maintain BUY with raised target price of S\$0.036.** We value MPM at 1.1x FY22F P/B, in line with +2 SD 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\$5m in FY21 to S\$13m in FY23, or a 15% CAGR over the 2-year period. MPM is currently trading at 0.87x FY22F P/B. Valuations are supported by the massive writedown on its assets undertaken during the corporate restructuring in FY17, which coincided with the bottom of the industry cycle at end-17.

### SHARE PRICE CATALYST

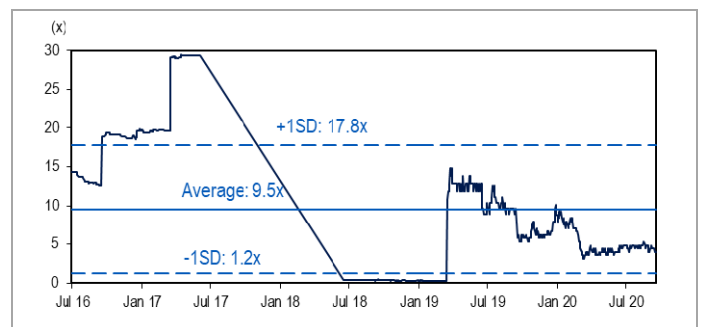
- Higher-than-expected vessel utilisation rates.
- Award of new ship chartering contracts.

### HISTORICAL P/B BAND



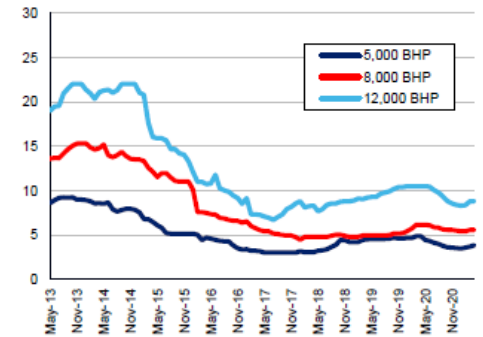
Source: Bloomberg, UOB Kay Hian

### HISTORICAL EV/EBITDA BAND



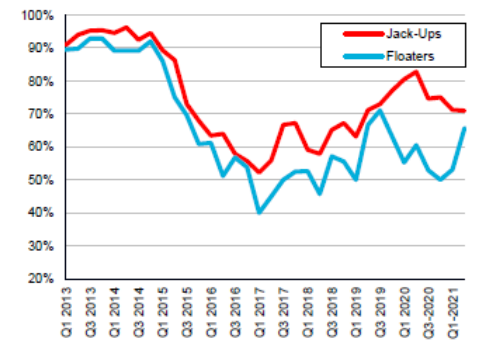
Source: Bloomberg, UOB Kay Hian

### AHTS SOUTHEAST ASIA TERM RATES (US\$,000/DAY)



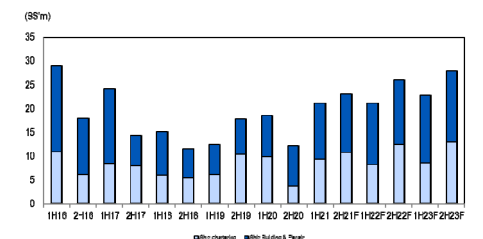
Source: Clarksons Research, Clarksons Platou

### ASIA PACIFIC RIG UTILISATION



Source: Clarksons Research

### SEGMENTAL CONTRIBUTION (1H16 - 2H23F)



Source: MPM, UOB Kay Hian

### PROFIT & LOSS

Year to 30 Sep (\$m)	2020	2021F	2022F	2023F
Net turnover	30.8	44.2	47.1	50.7
EBITDA	(0.1)	5.1	12.0	12.7
Deprec. & amort.	7.0	7.1	7.2	7.2
EBIT	(7.1)	(2.0)	4.8	5.4
Associate contributions	(2.8)	(0.0)	0.0	0.0
Net interest income/(expense)	0.5	0.0	0.0	0.0
<b>Pre-tax profit</b>	<b>(9.0)</b>	<b>4.2</b>	<b>4.8</b>	<b>5.4</b>
Tax	(0.2)	0.1	0.1	0.1
Minorities	0.0	0.0	0.0	0.0
<b>Net profit</b>	<b>(9.2)</b>	<b>4.2</b>	<b>4.9</b>	<b>5.6</b>
Net profit (adj.)	(9.2)	4.2	4.9	5.6

### CASH FLOW

Year to 30 Sep (\$m)	2020	2021F	2022F	2023F
<b>Operating</b>	<b>4.1</b>	<b>9.4</b>	<b>9.7</b>	<b>14.8</b>
Pre-tax profit	(9.0)	4.2	4.8	5.4
Tax	(0.4)	(1.0)	(0.0)	0.0
Deprec. & amort.	7.0	7.1	7.2	7.2
Working capital changes	3.1	(0.9)	(2.3)	2.1
Non-cash items	3.4	0.0	0.0	0.0
<b>Investing</b>	<b>(4.4)</b>	<b>(1.5)</b>	<b>(1.5)</b>	<b>(1.5)</b>
Capex (growth)	(7.0)	(1.5)	(1.5)	(1.5)
Proceeds from sale of assets	0.0	0.0	0.0	0.0
Others	2.6	0.0	0.0	0.0
<b>Financing</b>	<b>0.4</b>	<b>(0.3)</b>	<b>0.0</b>	<b>0.0</b>
Dividend payments	0.0	0.0	0.0	0.0
Issue of shares	0.1	0.0	0.0	0.0
Loan repayment	0.5	(0.3)	0.0	0.0
Others/interest paid	(0.2)	0.0	0.0	0.0
<b>Net cash inflow (outflow)</b>	<b>0.1</b>	<b>7.6</b>	<b>8.2</b>	<b>13.3</b>
Beginning cash & cash equivalent	13.6	13.6	21.2	29.4
Changes due to forex impact	(0.1)	0.0	0.0	0.0
<b>Ending cash &amp; cash equivalent</b>	<b>13.6</b>	<b>21.2</b>	<b>29.4</b>	<b>42.7</b>

### BALANCE SHEET

Year to 30 Sep (\$m)	2020	2021F	2022F	2023F
Fixed assets	74.9	69.3	63.6	57.9
Other LT assets	13.0	13.0	13.0	13.0
Cash/ST investment	13.6	21.2	29.4	42.7
Other current assets	11.8	18.2	20.8	20.6
<b>Total assets</b>	<b>113.3</b>	<b>121.6</b>	<b>126.8</b>	<b>134.2</b>
ST debt	0.3	0.0	0.0	0.0
Other current liabilities	9.9	13.4	12.9	14.5
LT debt	0.3	0.3	0.3	0.3
Other LT liabilities	3.1	4.0	4.7	4.9
Shareholders' equity	99.7	103.9	108.9	114.4
Minority interest	0.0	0.0	0.0	0.0
<b>Total liabilities &amp; equity</b>	<b>113.3</b>	<b>121.6</b>	<b>126.8</b>	<b>134.2</b>

### KEY METRICS

Year to 30 Sep (%)	2020	2021F	2022F	2023F
<b>Profitability</b>				
EBITDA margin	(0.3)	11.5	25.5	25.0
Pre-tax margin	(29.2)	9.5	10.3	10.7
Net margin	(29.9)	9.6	10.5	11.0
ROA	n.a.	3.6	4.0	4.3
ROE	n.a.	4.2	4.6	5.0
<b>Growth</b>				
Turnover	2.2	43.3	6.6	7.6
EBITDA	(101.2)	n.a.	136.0	5.3
Pre-tax profit	n.a.	n.a.	15.9	12.4
Net profit	n.a.	n.a.	16.3	12.7
Net profit (adj.)	n.a.	n.a.	16.3	12.7
EPS	n.a.	n.a.	16.3	12.7
<b>Leverage</b>				
Debt to total capital	0.6	0.3	0.3	0.3
Debt to equity	0.6	0.3	0.3	0.3
Net debt/(cash) to equity	(13.0)	(20.0)	(26.7)	(37.0)
Interest cover (x)	n.a.	n.a.	n.a.	n.a.

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