INITIATE COVERAGE

Marco Polo Marine (MPM SP)

Second Wind Temporarily Disrupted

Close to the completion of its corporate restructuring efforts, a successful transition to new revenue sources would be a key turning point for Marco Polo Marine. We like its lean operations and revitalised debt structure, providing promptness and flexibility to navigate the current tough environment. Initiate coverage with BUY and target price of S$0.020.

- **Corporate restructuring almost completed; full focus on operations.** Following a S$60m cash injection in Nov 17 and a massive corporate restructuring, Marco Polo Marine (MPM) has proven its resilience and is returning to full-scale operations. Already EBITDA positive, the only drag to the group's turnaround is its loss-making 34.8%-owned Indonesian ship chartering associate.
- **Revenue base marked in FY19; further upside dependent on diversification.** FY19 marked an improvement in sales quality and appropriately reflects the business environment post the 2014 oil crisis. MPM is striving to diversify from the oil & gas industry into the offshore infrastructure and renewable energy sectors, which include submarine cable installations and services to offshore wind farms in Taiwan. The group has one remaining offshore support vessel under warm lay-up that is immediately available should it clinch a new charter contract.
- **Charter rates may have signalled a bottom.** Since the oil crisis in 2014, Clarksons data suggests that 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 sector. The rate stabilisation since mid-17 has helped lift MPM's EBITDA back into positive territory in FY19.
- **Initiate coverage with BUY and target price of S$0.020.** Having undergone the worst in 2017, we believe share price for MPM has seen its bottom. On the back of a more rational environment in the offshore support sector, we initiate coverage with a BUY and target price of S$0.020, pegged to a 31% discount to a severely-impaired book value of S$0.029/share. Currently trading at 0.56x its NAV/share, MPM could garner renewed interest should the group be able to diversify its revenue sources or navigate back to a positive bottom line.

KEY FINANCIALS

Year to 30 Sep (S$m)	2018	2019	2020F	2021F	2022F
Net turnover	26.6	30.2	30.1	36.0	43.6
EBITDA	2.0	7.8	7.9	8.4	9.5
Operating profit	(5.3)	0.3	1.2	1.7	2.7
Net profit (rep./act.)	169.0	(3.9)	(4.2)	(3.8)	(2.8)
Net profit (adj.)	169.0	(3.9)	(4.2)	(3.8)	(2.8)
EPS (S cent)	6.7	(0.1)	(0.1)	(0.1)	(0.1)
PE (x)	0.2	n.a.	n.a.	n.a.	n.a.
P/B (x)	0.3	0.5	0.5	0.5	0.5
EV/EBITDA (x)	17.4	4.5	4.4	4.1	3.7
Dividend yield (%)	0.0	0.0	0.0	0.0	0.0
Net margin (%)	636.3	(12.8)	(13.9)	(10.5)	(6.4)
Net debt/(cash) to equity (%)	(15.7)	(12.4)	(17.4)	(19.9)	(21.9)
ROE (%)	(857.1)	n.a.	n.a.	n.a.	n.a.
Consensus net profit	-	-	-	-	-
UOBKH/Consensus (x)	-	-	-	-	-

Source: MPM, Bloomberg, UOB Kay Hian

BUY

Share Price	S$0.016
Target Price	S$0.020
Upside	+25%

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):	3,524.9
Market cap (S$m):	56.3
Market cap (US$m):	39.0
3-mth avg daily t'over (US$m):	0.1

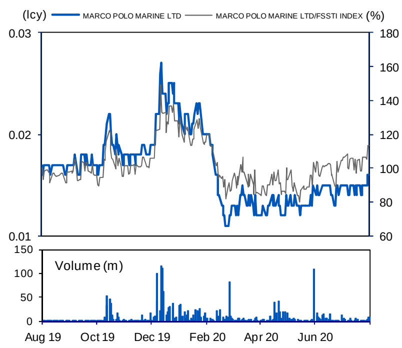
Price Performance (%)

52-week high/low S$0.027/S$0.011

1mth	3mth	6mth	1yr	YTD
7.1	25.0	(25.0)	(11.8)	(21.1)

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

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This report uses the closing prices of 26 August 2020

Investment Highlights

Completion of corporate restructuring. Following a S$60m cash injection by nine investors in Nov 17 and a massive corporate restructuring, MPM has proven its strong resilience and is close to returning back to full-scale operations.

Proven its strong resilience following a close shave in 2017.

Already EBITDA positive, the only drag to the group's turnaround is its loss-making 34.8%-owned Indonesian ship chartering associate.

Revenue base marked in FY19; further upside dependent on diversification. FY19 marked an improvement in sales quality and appropriately reflects the current business environment post the 2014 oil crisis.

MPM is striving to diversify from the oil & gas industry into offshore infrastructure and the renewable energy sectors, which include submarine cable installations and services to offshore wind farms in Taiwan.

The group is striving to diversify from the O&G sector.

The group has one remaining offshore support vessel currently under warm lay-up should a new charter contract is clinched.

Charter rates may have signalled a bottom. Since the oil crisis in 2014, Clarksons data suggests that charter rates have rationalised, helped by minimal newbuilds and more vessels on lay ups.

Charter rates have rationalised following supply reduction from fewer newbuilds and more vessel 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 sector.

The rate stabilisation since mid-17 has helped lift MPM's EBITDA back into positive territory in FY19.

Vessel reactivation is immediately earnings accretive. The improved industry dynamics resulted in the reactivation of five OSVs that were on warm lay-up in FY19, which brought the active fleet size to seven. Consequently, ship chartering revenue jumped 44% yoy on improved utilisation to 33% (FY18: 17%) and helped lift the group to above EBITDA breakeven.

The reactivation of one remaining vessel on warm lay-up would further bolster earnings.

One vessel currently remain on warm lay-up, which would further bolster bottom line and improve earnings visibility should MPM clinch new chartering contracts.

Lean operating expenses. The restructuring efforts have also 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 at 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.

Restructuring efforts resulted in an improved cost structure and higher profitability.

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. Over the last 30 months to end-Mar 20, MPM has shown good cash management amid the industry consolidation, with its latest net cash at S$15.2m.

Balance sheet has been impaired at the bottom of the 2014 oil crisis.

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.

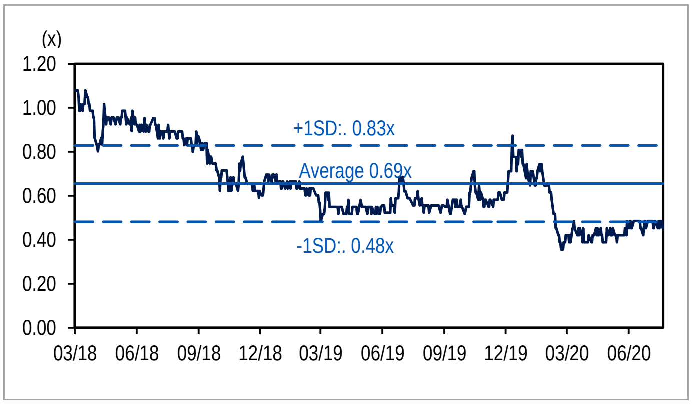
Valuation

Initiate coverage with BUY and target price of S$0.020. We value MPM at its 3-year historical average P/B of 0.69x, or a 31% discount to an already-impaired book value of S$0.029/share. This is backed by the improved supply-demand outlook in the offshore support sector.

Currently trading at 0.56x P/B, renewed interest in MPM could be reignited should the group be able to navigate back to positive net profit.

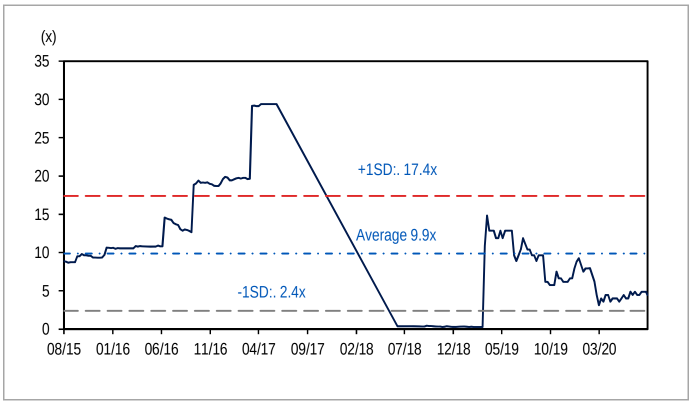
Valuations are supported by the massive writedown on its assets during the corporate restructuring, which coincided with the bottom of the industry cycle at end-17.

FIGURE 1: HISTORICAL P/B BAND



Source: Bloomberg, UOB Kay Hian

FIGURE 2: HISTORICAL EV/EBITDA BAND



Source: Bloomberg, UOB Kay Hian

FIGURE 3: PEER COMPARISON

Company	Ticker	Trading Curr	Price @ 26 Aug 20 (lcy)	Market Cap (US$m)	-- PE -- 2019 (x)	2020F (x)	2021F (x)	-- PB -- Curr (x)	2020F (x)	2021F (x)	-- EV/EBITDA -- 2019 (x)	2020F (x)	2021F (x)	Net Gearing (%)	ROE 2020F (%)
Marco Polo Marine	MPM SP	S$	0.016	39	n.a.	n.a.	n.a.	0.5	0.5	0.5	16.3	13.7	4.8	(0.1)	2.4
Malaysian Peers															
Malaysia Marine and Heavy Engineering	MMHE MK	RM	0.38	443	n.a.	n.a.	37.5	0.3	0.3	0.3	n.a.	n.a.	n.a.	(20.3)	(3.6)
Coastal Contracts	COCO MK	RM	0.67	258	6.6	6.8	6.7	0.8	n.a.	n.a.	1.0	0.5	0.1	(17.7)	4.3
Bumi Armada	BAB MK	RM	0.24	1,020	n.a.	4.9	4.5	0.5	0.4	0.4	8.8	8.1	7.7	262.6	6.8
Sapura Energy	SAPE MK	RM	0.13	1,473	n.a.	n.a.	n.a.	0.2	0.2	0.3	20.6	21.2	16.8	103.6	(5.1)
Deleum Bhd	DLUM MK	RM	0.62	182	7.6	6.2	5.6	0.7	n.a.	n.a.	n.a.	n.a.	n.a.	(18.7)	9.9
Dayang Enterprise	DEHB MK	RM	1.21	1,033	6.3	14.4	10.5	0.9	0.8	0.7	8.7	8.6	5.8	27.9	5.8
Average					6.9	8.5	6.9	0.6	0.5	0.5	12.7	12.6	10.1	93.8	4.3

Source: Bloomberg, UOB Kay Hian

Industry Outlook

OIL DEMAND VS SUPPLY

COVID-19 resulted in a supply-demand mismatch, which dampened oil prices.

The COVID-19 pandemic has greatly dampened demand in the oil market in a period when the industry was already facing challenges.

As at early-Jul 20, the US Energy Information Administration (EIA) forecasted WTI crude and Brent crude prices to fall 34% and 37% to US$37.55/bbl and US$40.50/bbl respectively, due mainly to the supply-demand mismatch arising from COVID-19 disruptions.

FIGURE 4: OIL INDUSTRY DATA

	2018	2019	2020F	2021F
Price (US$/bbl)				
WTI crude oil	65.06	57.02	37.55	45.70
Brent crude oil	71.19	64.37	40.50	49.70
Supply & consumption (mmbpd)				
OPEC production	36.78	34.67	30.85	33.90
Non-OPEC production	64.04	65.98	63.74	64.85
Total world production	100.81	100.65	94.59	98.76
OECD consumption	47.66	47.39	42.65	45.61
Non-OECD consumption	52.78	53.65	50.25	54.26
Total world consumption	100.44	101.04	92.89	99.88

Source: US Energy Information Administration

US EIA sees oil consumption picking up in 3Q20 through to 2021 on normalisation in economic activity.

For 2020, EIA forecasts consumption will average 92.89mmbpd, with demand picking up starting 3Q20 through to 2021. The increase in oil consumption resulted from a normalisation of economic activity following COVID-19 disruptions.

OFFSHORE WIND SECTOR PROVIDES VAST OPPORTUNITIES

The International Energy Agency (IEA) estimates global offshore wind power's installed capacity at only 23GW as at end-18, accounting for just 4% of total installed wind power of 564GW, and 0.3% of global electricity generation.

Over the next 10 years, offshore wind power is expected to form a larger proportion of total wind power, up to nearly a 10% share by 2030. Importantly, under current plans and policies, the global offshore wind market will pass 20GW of additions per year, thus requiring capital spending of over US$850b in the next two decades, according to the IEA.

The offshore wind and offshore oil & gas industries both share technologies and elements of their supply chains. The IEA estimates 40% of the full-lifetime costs of an offshore wind project, including construction, has significant synergy with the offshore oil & gas sector.

This translates to a market opportunity of up to US$300b or more in Europe and China over the next two decades, assuming a total addressable market of over US$1t.

Of particular interest is the Taiwan offshore wind market, one of the fastest growing in the world. The government targets to produce 15.5GW of electricity through offshore wind by 2035, making it the most sought after destination for the world's top offshore wind developers as they seek a foothold in Asia.

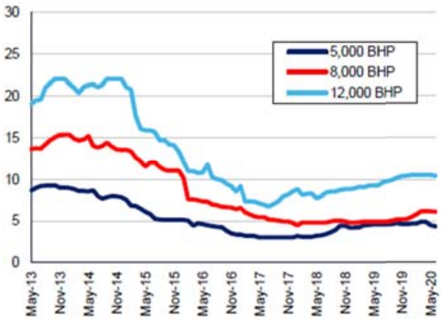
The burgeoning offshore wind energy industry in Asia is in its nascent stage where structures are still installed in shallow waters with depth of up to 50-60m. This presents a tremendous area of opportunity for MPM whose fleet specialises in those depth regions.

HEALTHY SPOT CHARTER RATES

Prior to the OPEC+ disagreement on production levels in Mar 20, upstream oil producers have already maintained capital discipline following the 2014 oil crisis, which has yielded supply rationalisation.

This resulted in a steady and healthy uptrend in spot charter rates since Jun 18 on the back of increased activity in the region.

FIGURE 5: AHTS SOUTHEAST ASIA TERM RATES (US$,000/DAY)



Source: Clarksons Research, Clarksons Platou

Earnings Outlook

FY19 marked an improvement in sales quality. Following the lapse of old contracts clinched prior to the 2014 oil crisis, FY19 revenue of S$30.2m more appropriately reflects the current business environment.

For instance, FY18 revenue of S$26.6m consisted of a contract close to S$8m for a bareboat time charter, which was clinched just before charter spot rates softened over the subsequent three years.

Excluding that, MPM recorded a noteworthy FY19 revenue growth of 295%, albeit on a low base, mainly due to the reactivation of OSVs from warm lay-up.

Vessel reactivation is immediately earnings accretive. The improved industry dynamics resulted in the reactivation of five OSVs in FY19, which brought MPM's active fleet size to seven. Consequently, ship chartering revenue jumped 44% yoy on improved utilisation to 33% (FY18: 17%) and lifted the group to above EBITDA breakeven.

As at end-1HFY20, one vessel remained on warm lay-up following the reactivation of one OSV during the period. This provides additional headway for bottom-line growth should MPM clinch new chartering contracts.

Lean operating expenses. The restructuring efforts have resulted in improved profitability, with higher gross margin and a shave-off of excess spending in administrative expenses. The improved cost control resulted in a turnaround back into profitability, with FY19 EBITDA margin of 8%.

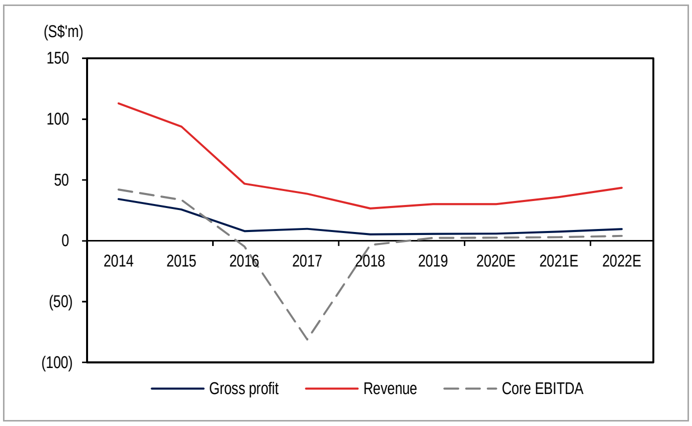
In the near term, however, 2HFY20 gross margin is expected to dip on lower charter rates, mainly impacted by reduced activity due to lockdowns in the region from the COVID-19 impact. Meanwhile, a positive EBITDA for the period is still anticipated due to reduced fixed overheads.

Going forward, we believe margins should remain positive due to improved sector dynamics post the 2014 oil crisis as well as effective cost control.

Associate remains a drag on earnings. A negative FY20 bottom line for the group is still expected due to losses at 34.8%-owned PT BBR.

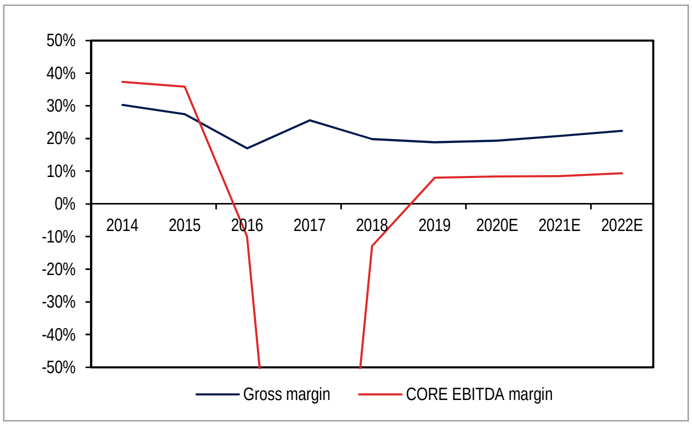
Clean and impaired balance sheet. Following the S$60m cash injection and massive impairments from the corporate restructuring, net cash for MPM stood at S$15.2m as at end-Mar 20. However, a limiting factor in the longer term would be the lack of credit facilities given its track record, in the event an upward cycle comes around.

FIGURE 6: REVENUE, GROSS PROFIT & CORE EBITDA



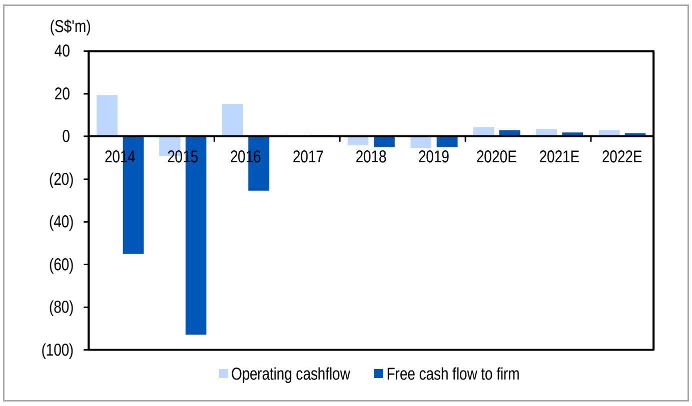
Source: MPM, UOB Kay Hian

FIGURE 7: PROFIT MARGINS



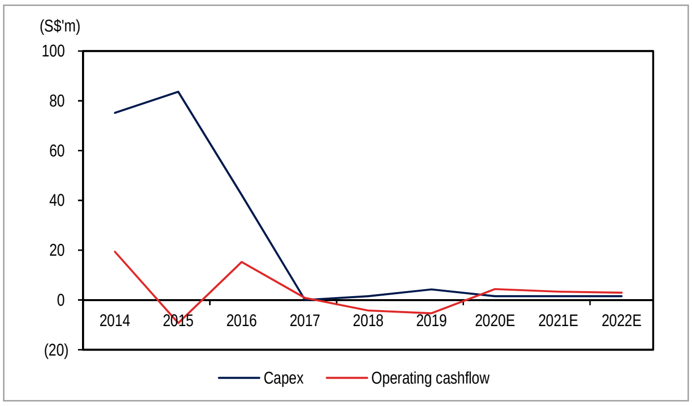
Source: MPM, UOB Kay Hian

FIGURE 8: OPERATING CASH FLOW, FREE CASH FLOW TO FIRM



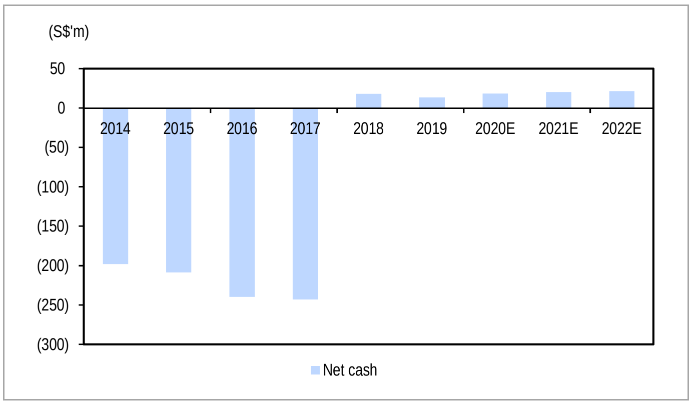
Source: MPM, UOB Kay Hian

FIGURE 9: OPERATING CASHFLOW VS CAPEX SPENDING



Source: MPM, UOB Kay Hian

FIGURE 10: CASH AND CASH EQUIVALENTS



Source: MPM, UOB Kay Hian

FIGURE 11: PROFIT & LOSS

Year to 30 Sep (S$m)	2018	2019	2020F	2021F	2022F
Revenue, net	26.6	30.2	30.1	36.0	43.6
Operating expenses	(31.9)	(29.8)	(28.9)	(34.4)	(40.9)
EBIT	(5.3)	0.3	1.2	1.7	2.7
Associate contributions	(5.4)	(5.4)	(5.4)	(5.4)	(5.4)
Net interest income/(expense)	(2.7)	0.3	0.0	0.0	0.0
Exceptional items	181.5	1.1	0.0	0.0	0.0
Pre-tax profit	168.0	(3.7)	(4.2)	(3.7)	(2.7)
Tax	0.9	(0.2)	0.0	(0.1)	(0.1)
Minorities	0.0	0.0	0.0	0.0	0.0
Net profit(rep./act.)	169.0	(3.9)	(4.2)	(3.8)	(2.8)
Net profit(adj.)	169.0	(3.9)	(4.2)	(3.8)	(2.8)
Deprec. & amort.	7.3	7.4	6.7	6.8	6.8
EBITDA	2.0	7.8	7.9	8.4	9.5
Per share data (S cent)					
EPS - diluted	6.7	(0.1)	(0.1)	(0.1)	(0.1)
Reported EPS - diluted	6.7	(0.1)	(0.1)	(0.1)	(0.1)
Book value per share (BVPS)	4.5	3.1	3.0	2.9	2.8
Dividend per share (DPS)	0.0	0.0	0.0	0.0	0.0

Source: UOB Kay Hian

FIGURE 12: BALANCE SHEET

Year to 30 Sep (S$m)	2018	2019	2020F	2021F	2022F
Cash/Near cash equiv.	17.9	13.6	18.3	20.2	21.6
Accounts receivable/debtors	5.6	14.1	8.5	11.6	15.5
Stocks	1.4	1.3	1.5	1.8	2.1
Other current assets	0.7	1.9	0.0	0.0	0.0
Current assets	25.7	30.9	28.3	33.5	39.2
Fixed assets	87.6	75.4	70.1	64.9	59.6
Investments	11.5	5.5	5.5	5.5	5.5
Other financial assets	0.0	12.5	12.5	12.5	12.5
Total non-current assets	99.1	93.4	88.2	82.9	77.6
Total assets	124.8	124.3	116.5	116.5	116.8
Accounts payable/creditors	8.3	10.8	10.1	12.5	14.8
Short-term debt/borrowings	0.1	0.0	0.0	0.0	0.0
Other current liabilities	1.5	1.3	(0.0)	0.3	0.3
Current liabilities	9.8	12.2	10.1	12.8	15.1
Long-term debt	0.1	0.1	0.1	0.1	0.1
Deferred tax liability	0.0	0.0	0.0	0.0	0.0
Other non-current liabilities	1.6	3.2	1.7	2.7	3.4
Total non-current liabilities	1.7	3.3	1.8	2.8	3.5
Total liabilities	11.5	15.5	11.8	15.6	18.6
Minority interest - accumulated	0.0	0.0	0.0	0.0	0.0
Shareholders' equity	113.2	108.8	104.7	100.9	98.1
Liabilities and shareholders' funds	124.8	124.3	116.5	116.5	116.8

Source: UOB Kay Hian

FIGURE 13: CASH FLOW

Year to 30 Sep (S$m)	2018	2019	2020F	2021F	2022F
Operating cashflows	(4.2)	(5.3)	4.3	3.3	2.9
Pre-tax profit	168.0	(3.7)	(4.2)	(3.7)	(2.7)
Tax	(0.5)	(0.3)	(1.1)	0.3	(0.1)
Deprec. & amort.	7.3	7.4	6.7	6.8	6.8
Working capital changes	(3.3)	(4.3)	2.9	0.0	(1.1)
Non-cash items	(175.6)	(4.5)	0.0	0.0	0.0
Cash from investing activities	3.4	0.8	0.4	(1.5)	(1.5)
Capex (growth)	(1.5)	(4.3)	(1.5)	(1.5)	(1.5)
Proceeds from sale of assets	0.7	4.5	0.0	0.0	0.0
Others	4.3	0.5	1.9	0.0	0.0
Cash from financing activities	17.2	0.1	(0.0)	0.0	0.0
Dividend payments	0.0	0.0	0.0	0.0	0.0
Issue of shares	96.4	0.0	0.0	0.0	0.0
Loan repayment	(247.7)	(0.1)	(0.0)	0.0	0.0
Others/interest paid	168.4	0.2	0.0	0.0	0.0
Net increase/(decrease) in cash	16.4	(4.4)	4.8	1.8	1.4
Beginning cash	4.8	17.9	13.6	18.3	20.2
Changes due to forex impact	(3.2)	0.0	0.0	0.0	0.0
End cash	17.9	13.6	18.3	20.2	21.6

Source: UOB Kay Hian

FIGURE 14: KEY METRICS

Year to 30 Sep (%)	2018	2019	2020F	2021F	2022F
Growth					
Turnover	(31.3)	13.6	(0.2)	19.6	20.9
EBITDA	n.a.	291.5	1.6	6.6	12.3
Pre-tax profit	n.a.	(102.2)	n.a.	n.a.	n.a.
Net profit	n.a.	(102.3)	n.a.	n.a.	n.a.
Net profit (adj.)	n.a.	(102.3)	n.a.	n.a.	n.a.
EPS	n.a.	(101.6)	n.a.	n.a.	n.a.
Profitability					
EBITDA margin	7.5	25.8	26.2	23.4	21.7
EBIT margin	(20.0)	1.1	3.9	4.6	6.1
Gross margin	19.9	18.8	19.3	20.8	22.3
Pre-tax margin	632.7	(12.1)	(13.9)	(10.3)	(6.2)
Net margin	636.3	(12.8)	(13.9)	(10.5)	(6.4)
ROE	(857.1)	n.a.	n.a.	n.a.	n.a.
ROA	132.6	n.a.	n.a.	n.a.	n.a.
ROIC	169.8	1.1	1.1	1.6	2.6
RONTA	64.3	3.0	2.8	3.0	3.3
Leverage					
Interest cover (x)	0.7	n.a.	n.a.	n.a.	n.a.
Debt to total capital	0.1	0.1	0.1	0.1	0.1
Debt to equity	0.1	0.1	0.1	0.1	0.1
Net debt/(cash) to equity	(15.7)	(12.4)	(17.4)	(19.9)	(21.9)
Current ratio (x)	2.6	2.5	2.8	2.6	2.6

Source: UOB Kay Hian

Appendix I – Company Background

Listed on SGX-ST in 2007, MPM is a regional integrated marine logistics company that mainly operates in the shallow water regions. The group derives revenue from two segments, namely ship chartering and ship building & repair operations.

SHIP CHARTERING (55% of FY19 revenue)

The ship chartering segment offers four different types of offshore vessels that are classified under the offshore and tugs and barges divisions. Customers could hire the vessels either on a bareboat charter, voyage charter or time charter basis.

Due to budget constraints post the 2014 oil crisis, the industry has seen a shift towards the relatively less profitable voyage charters, where charterers pay a lump sum and the vessel owner undertakes most of the operational running costs (port costs, fuel, crew expenses).

Under the offshore division, MPM owns a fleet of 17 offshore supply vessels (OSVs) consisting of 15 anchor handling tug supply vessels (AHTS) and two maintenance work vessels. The AHTS fleet averages seven years in age and mainly operates in the 8,000hps segment, deployed in regional waters to customers that serve the oil & gas sector.

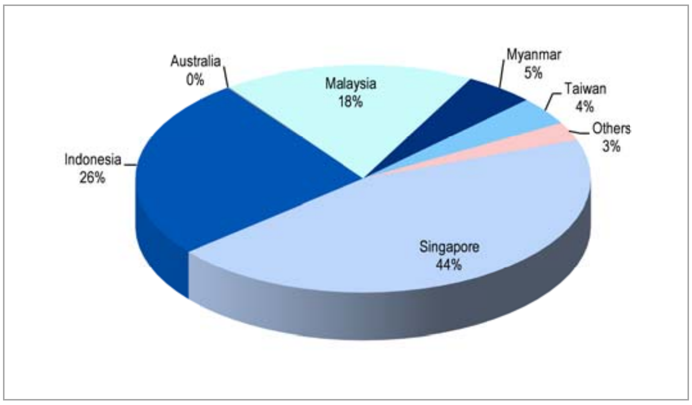
MPM's tugs and barges division consists of 23 vessels, which include 12 tugs and 11 barges. The fleet supports the transportation in the mining, commodities, construction and infrastructure sectors.

SHIP BUILDING & REPAIR (45% of FY19 Revenue)

The group's shipyard business undertakes ship building and maintenance & repair works in Batam, Indonesia. Occupying a total land area of some 34ha with a seafront of 650m, the modern shipyard also houses three dry docks which help to scale up MPM's technical capabilities and service offerings to undertake projects involving work on mid-sized and sophisticated vessels.

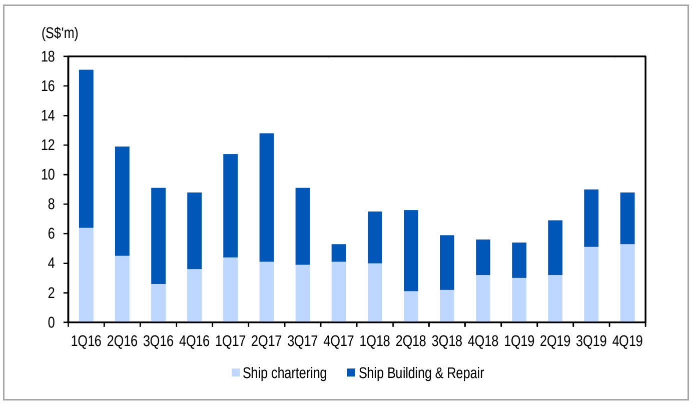
The shipyard also provides cost efficiencies for the repair, maintenance and conversions of the ship chartering fleet.

FY19 SALES BY GEOGRAPHY



Source: MPM, UOB Kay Hian

SEGMENTAL CONTRIBUTION (1Q16 - 4Q19)



Source: MPM, UOB Kay Hian

Prior to the oil price collapse in 2014, the shipbuilding segment was the main revenue driver. Back then, credit facilities from the banks were in abundance amid the 2009-14 economic recovery, alongside the jump in oil prices from US$53 to US$125/bbl. This led to massive capex budgets at the upstream majors, which consequently spilled over to downstream service providers, such as MPM.

The good times, however, rapidly reversed in tandem with the downward spiral in oil prices, mainly on the growth slowdown in Brazil, Russia, India and China. Additionally, the offshore industry was in an OSV oversupply due to the large number of newbuilds in prior years. This perfect storm caused a significant reduction in credit facilities for offshore-associated firms, particularly for downstream players.

By mid-15, MPM struggled with liquidity issues as credit facilities were increasingly withdrawn. As at Mar 17, its outstanding debt pile of over S$250m surpassed available cash of just under S$5m and by May 17, the group applied for a trading suspension to carry out a debt restructuring programme.

Briefly, the banks took a significant 70% haircut on the S$251.2m outstanding debt owed by MPM, following a S$60m cash injection from nine investors.

In addition to S$45m in cash to repay debt, lenders also received an equity swap at $0.035/share for the remaining loan amount.

Following that, a corporate restructuring took place over nine months and resulted in a lean balance sheet with net cash of S$16.9m in 2QFY18. The completion also marked the trading resumption in Feb 19.

SUMMARY OF DEBT RESTRUCTURING PROGRAMME AND SHAREHOLDER STRUCTURE

	Before restructuring (1QFY18)		After restructuring (2QFY18)	
Debt (S$m)	251.2		0.1	
Cash (S$m)	4.6		16.9	
Equity (S$m)	-157.6		114.2	
Number of shares	336,548,600		3,520,328,361	
Shareholding structure of substantial shareholders	Nautical International Holdings	62.0%	Apricot Capital (Cayman)	20.3%
	Free float	38.0%	Yanlord Capital	10.1%
			Penguin International	10.1%
			Nautical International Holdings	5.9%
			Chua Chuan Leong Ventures	5.1%
			Lim Chap Huat	5.1%
			Singapore Enterprises Private Limited	5.1%
			Azure All-Star Fund	2.5%
			Ho Lee Group	1.8%
			Low See Ching	1.0%
			Free float	32.9%

Source: MPM, UOB Kay Hian

Some 18 months have passed since the cash injection and MPM has returned its full focus to operations with an active fleet size of eight OSVs. The group has one remaining vessel on warm lay-up that is ready for reactivation should it clinch a new charter contract.

INDONESIA ASSOCIATE STILL LOSS-MAKING

34.8%-owned listed PT Pelayaran Nasional Bina Buana Raya (PT BBR) remains a drag to the group, contributing a loss of S$5.4m in FY19. The vessel chartering business continues to be weighed by an OSV oversupply, which resulted in sub-par charter and utilisation rates.

The corporate restructuring process is still underway for PT BBR, and is scheduled to end on 1 Jan 23. Till then, the company would not be required to make any loan repayments, except a mandatory monthly payment of US$2,000 to each of its five lending banks. PT BBR is also required to dispose at least one vessel from its tug and barge fleet each quarter, to reduce the group's outstanding loan amount of US$50.9m as of end-19. Currently, it has a fleet of 33 barges and tugs as well as six offshore support vessels.

Appendix II – Risk Factors

Geopolitical issues that may negatively impact oil prices. Output discipline by OPEC members, particularly Saudi Arabia, dwindled in Sep 14 as the country boosted its crude production by 0.5% to 9.6m bpd amid the downward price environment. This coincided with the timing when international sanctions against Iran were being lifted, and prompted many analysts to believe the supply glut was politically motivated.

Ship chartering is highly cyclical. Utilisation and spot charter rates are quick to react to changes in oil prices and supply of and demand for vessels. Specifically, as MPM generally provides its customers with short-term or spot charters ranging from three to six months, it will expose the group to short-term fluctuations in charter rates. A decline in charter rates will negatively impact its financials.

Increasing EIA stockpiles. The peak of 500m barrels of US crude oil inventories in Sep 15 was a result of higher production and decreasing demand. On top of the traditional method of drilling, elevated crude prices made shale oil production economically viable, which added to supply.

Forex risk. As oil prices are denominated in US dollars, a stronger greenback would result in lower oil prices and the subsequent decline in spot charter rates.

Fallout of OPEC. One of the several factors which led to the 2014-15 oil crisis was the unwillingness of OPEC producers to cut back on supply.

Appendix III – Management Incentive Plan

The nine investors have agreed that following the debt restructuring exercise, there will be an incentive plan for the key management personnel of MPM based on a profit-sharing basis, both in consideration of cash and shares.

Operating EBITDA for a financial year	Aggregate Incentive Amount to be granted to all key management employees (measured as % of the Operating EBITDA)
For the first S$5m	10%
For the next amount that is in excess of S$5m and up to (and including) S$10m	12%
For the next amount that is in excess of S$10m and up to (and including) S$15m	15%
For the next amount that is in excess of S$15m and up to (and including) S$20m	18%
For the next amount that is in excess of S$20m and up to (and including) S$40m	20%
For the next amount that is in excess of S$40m	20%

Source: MPM

The incentive plan will expire after FY22 audited results, or when the total aggregate amount paid has reached S$10m.

Further, up to 15% of the 2,142.9m investment shares taken up by the investors shall be awarded to key management personnel, granted in three tranches as follows:

Award Tranche	% of Management Award Shares awarded
Upon the signing of the Service Agreements	5%
Upon the Group attaining positive Operating EBITDA in any of the FYs that falls within the Incentive Period	5%
Upon the Group attaining an Operating EBITDA of >S$1m in respect of any FY that falls within the Incentive Period	5%

Source: MPM

At any point within the 5-year period till Jan 23, if MPM attains operating EBITDA of S$5m or more in any financial year, all the management award shares which have not been granted shall be granted and vested in full.

Upon the award of all management incentive shares, shareholding interest for the nine investors will be diluted from 67.1% to 61.1%, while management's interest will increase from 5.9% to 15.1%.

Appendix IV – Key Management

Name	Position	Experience
Mr Sean Lee Yun Feng	CEO	Mr Sean Lee Yun Feng is the Group CEO. He is responsible for the overall management and day-to-day operations of the group as well as the formulation of the business directions, strategies and policies of the group. He is instrumental in initiating and penetrating new markets for both the shipping and shipyard operations. On the operational front, Mr Sean Lee introduced a slew of strategic operational measures which greatly improved the efficiency of its fleet of vessels. He also spearheads the shipyard operations since it commenced operations in Dec 05. Mr Sean Lee graduated with a Bachelor of Commerce degree from the Murdoch University (Western Australia) and a Master's degree from INSEAD and Tsinghua University (Beijing).
Mr Lee Wan Tang	Executive Chairman	Mr Lee Wan Tang is the Executive Chairman, responsible for the strategic positioning and business expansion of the group. Mr Lee has been instrumental in the development of the ship chartering operations and the initial planning and setting up of MP Shipyard. In 2005, having recognised the region's demand for ship building and ship repair and maintenance services, he established the shipyard business. Prior to his involvement with MPM, from 1979 to 1990, he was principally involved in the formulation of the business directions and strategies of other companies controlled by the Lee Family.
Ms Liely Lee	Executive Director	Ms Liely Lee joined as the Director (Finance) in 2006. Presently, Ms Lee oversees treasury, human resource and administration matters. Prior to joining, she was a co-owner of Gelare, a food and beverage chain in Singapore with 13 outlets where she oversaw the finance, accounting, legal, taxation and human resource matters for seven years. Ms Lee graduated with a Bachelor of Commerce degree from the Murdoch University (Western Australia) in 1995 and a Master's degree (Accounting) with Curtin University (Western Australia) in 2008.
Mdm Lai Qin Zhi	Non-Executive Director	Mdm Lai has been a director of MP Shipping since 2001, where she oversaw the financial and taxation matters of MP Shipping. Prior to her involvement with MP Shipping, she was the Finance Director of a few companies controlled by the Lee Family, a role she presently assumes.

Source: MPM

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