

# Marco Polo Marine (MPM SP)

# Superb 1H24, outlook positive

# Maintain BUY and TP of SGD0.088

MPM's 1H24 revenue grew 10% YoY to SGD61.6m due to strong chartering rates and utilisation while PATMI surged by 800% YoY to SGD10.6m, in line with our estimate. Going forward, we expect the CSOV to come on stream in Oct'24 and expect utilisation across its fleet to remain high, which would make up for the drop in repairs and maintenance revenue from its yard. We also expect charter rates to continue to trend up due to the strong demand for vessels. Maintain BUY and TP of SGD0.088, based on 11.2x FY24E P/E.

# Huge potential from CTV

MPM's subsidiary, PKR Offshore, in Taiwan signed an APAC CTV agreement to charter CTVs to support windfarm customer Siemens Gamesa's offshore wind projects in Taiwan and S. Korea. We expect MPM to start supplying 2 CTVS by end-2024 and eventually grow to a sizable fleet of 10-15 within 4-5 years. Each CTV is likely to cost about USD5m and generate up to USD1.7m pa at an average 80% utilisation rate. We expect gross profit of USD1.1-1.3m/pa/vessel, which will be significant if the fleet size grows.

# Bank deal unlocks potential for faster growth

MPM has a net cash balance sheet and it had been growing using its own cash. But this did not allow it to expand its fleet size at a faster pace. With the landmark financing deal with Bank Sinopac, we believe MPM can secure funding for acquisition of new vessels for the offshore windfarm market, differentiating it from peers that have no/low access to bank financing. Our channel checks lead us to expect financing of up to 70-80% of a vessel at an interest rate of below 4% pa. We expect MPM to secure longer-term contracts for other vessel types like SOV and another CSOV.

# Positive outlook

We believe MPM has strengthened its strategic relationship with Vestas, especially in Taiwan, and Vestas should remain a core charter partner for MPM. Key potential catalysts include: 1) potential new vessels with long-term contracts with Vestas, and new clients; 2) CSOV building completion; and 3) strong FY24E earnings growth. Trading at just 8.8x FY24E P/E, MPM remains undervalued vs global/regional peers at 15x and 25x on average.

FYE Dec (SGD m)	FY22A	FY23A	FY24E	FY25E	FY26
Revenue	86	127	150	177	21
EBITDA	32	41	38	48	5
Core net profit	22	23	29	38	4
Core EPS (cts)	0.6	0.6	0.8	1.0	1.
Core EPS growth (%)	49.1	(2.0)	30.1	28.8	20.
Net DPS (cts)	0.0	0.0	0.1	0.1	0.
Core P/E (x)	6.6	8.3	8.8	6.8	5.
P/BV (x)	1.0	1.0	1.2	1.0	0.
Net dividend yield (%)	0.0	0.0	1.4	1.4	1.
ROAE (%)	17.2	14.6	16.0	17.4	17.
ROAA (%)	13.4	10.8	11.9	13.3	13.
EV/EBITDA (x)	3.7	3.7	5.6	3.9	2.
Net gearing (%) (incl perps)	net cash	net cash	net cash	net cash	net cas
Consensus net profit	-	-	na	na	n
MIBG vs. Consensus (%)	-	-	na	na	n

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# BUY

Share Price SGD 0.07

12m Price Target SGD 0.088 (+28%)
Previous Price Target SGD 0.088

### **Company Description**

Marco Polo Marine is a reputable operator in the region. It charters, builds, converts, maintains and repairs vessels.

### **Statistics**

52w high/low (SGD)	0.07/0.04
3m avg turnover (USDm)	0.7
Free float (%)	60.3
Issued shares (m)	3,683
Market capitalisation	SGD257.8M
	LICD400M

#### Major shareholders:

Apricot Capital Pte Ltd. (SG)	16.2%
Aleph Tav Ltd.	8.1%
Penguin International Ltd.	8.1%

#### Price Performance



	-1M	-3M	-12M
Absolute (%)	4	30	52
Relative to index (%)	3	24	50

Source: FactSet

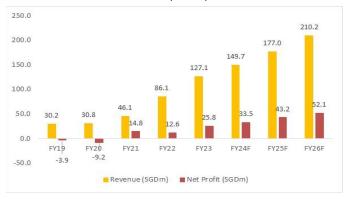
Other companies mentioned in this report Vestas (VWS CPH, CP DKK177, Not Rated) Bank Sinopac (2890 TT, CP TWD21.25, Not Rated) SOV - Service operation Vessel CSOV - Commissioning service operational vessel



# **Value Proposition**

- MPM is a growing integrated marine logistics group in Southeast Asia.
- MPM is benefiting from strong demand from both the O&G and renewable energy sectors for its chartering services as well as ship repair and maintenance.
- MPM has recovered since its restructuring in 2017 and it's now riding the boom in chartering demand.
- MPM pivoted to serve offshore windfarms in Taiwan, which has boded well and it aims to grow more in that area as well as chartering vessels to other renewable operators in the region.
- Trading at just 6.9x FY24E P/E with a forecast FY23-26 NPAT CAGR of 26.5% from rising utilisation and charter rates, we believe MPM is significantly undervalued.

# Revenue and NPAT forecasts (SGDm)

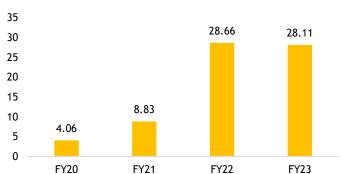


# **Financial Metrics**

Source: Maybank IBG Research

- We expect chartering and ship repair revenue to continue to increase strongly due to stronger demand and higher rates.
- The new CSOV should contribute about 15-20% NPAT growth YoY in FY25E.
- MPM likely to continue to acquire vessels to service the offshore windfarm operators in Taiwan as demand is increasing due to new project launches around the region.
- We also expect increasing dividends as profitability rises.
- Operating cash flow should remain positive, unless there's huge capex for acquiring vessels.

# Strong net cash from operations (SGD m)



Source: Company, Maybank Research

# **Price Drivers**

#### Historical share price trend 0.0600 0.0550 500 0.0500 450 0.0450 **4**00 0.0400 350 0.0350 300 0.0300 250 0.0250 200 0.0200 150 0.0150 100 0.0100 + Mar-19 Mar-20 Mar-22 Mar-23

Source: Company, Maybank IBG Research

1. Oil price crash and Covid led to share price decline.

Marco Polo Marine - (LHS, SGD)

Marco Polo Marine / Straits Times Index - (RHS, %)

- 2. Turnaround to profitability.
- 3. Charter rates and utilisation started to pick up, leading to strong profitability.
- 4. Strong results reported, with charter rates rising YoY for 2 years in a row. Utilisation rate of vessels also increased, from 50-60% to 70-80% for FY23
- 5. Announced that its new CSOV has signed a 3-year take up by its key windfarm customer, Vestas.

# **Swing Factors**

# Upside

- MPM is trading at just 6.9x FY24E P/E, a significant discount to global and regional peers (average of 15x-25x).
- Rising charter rates and utilisation of vessels should continue to boost NPAT growth by 30% YoY in FY24E.
- Contributions from new CSOV should bump up FY25E NPAT growth.
- Potential new long-term contract may lead to acquisitions to service offshore renewable players around the region.
- Shipyard expansion will lead to increase in capacity to capture the high demand for its repair business.

# Downside

- Global recession or slowdown could lead to a drop in charter rates and demand for vessels.
- Decline in oil price will affect sentiment in the vessel chart and building sector.
- Conflict between China and Taiwan could impact charter operations.

FYE 31 Dec	FY22A	FY23A	FY24E	FY25E	FY26E
Key Metrics					
P/E (reported) (x)	5.3	7.9	8.8	6.8	5.6
Core P/E (x)	6.6	8.3	8.8	6.8	5.6
P/BV (x)	1.0	1.0	1.2	1.0	0.8
P/NTA (x)	0.9	1.0	1.1	1.0	0.8
Net dividend yield (%)	0.0	0.0	1.4	1.4	1.4
FCF yield (%)	16.7	nm	6.9	14.0	16.9
EV/EBITDA (x)	3.7	3.7	5.6	3.9	2.8
EV/EBIT (x)	5.1	5.0	6.3	4.3	3.0
INCOME STATEMENT (SGD m)					
Revenue	86.1	127.1	149.7	177.0	210.2
EBITDA	32.1	41.1	38.4	48.2	57.4
EBIT	23.4	30.8	34.4	44.2	53.4
Net interest income /(exp)	(0.1)	(0.3)	0.0	0.0	0.0
Associates & JV	0.0	0.0	0.0	0.0	0.0
Exceptionals	9.4	0.0	0.0	0.0	0.0
Other pretax income	0.0	0.0	0.0	0.0	0.0
Pretax profit	23.3	30.5	34.4	44.2	53.4
Income tax	(1.2)	(4.7)	(0.8)	(1.1)	(1.3)
Minorities	0.0	3.2	4.2	5.4	6.5
Discontinued operations	0.0	0.0	0.0	0.0	0.0
Reported net profit	22.0	22.6	29.4	37.8	45.7
Core net profit	22.0	22.6	29.4	37.8	45.7
BALANCE SHEET (SGD m)					
Cash & Short Term Investments	53.5	63.1	74.9	106.6	144.2
Accounts receivable	17.4	22.8	38.6	45.6	54.1
Inventory	1.6	8.4	8.4	8.4	8.4
Reinsurance assets	0.0	0.0	0.0	0.0	0.0
Property, Plant & Equip (net)	94.7	92.8	92.8	92.8	92.8
Intangible assets	0.0	0.0	0.0	0.0	0.0
Investment in Associates & JVs	0.0	0.0	0.0	0.0	0.0
Other assets	20.9	42.0	48.0	52.5	58.4
Total assets	188.1	229.1	262.6	305.8	357.9
ST interest bearing debt	1.0	1.0	1.0	1.0	1.0
Accounts payable	12.0	15.0	15.0	15.0	15.0
Insurance contract liabilities	0.0	0.0	0.0	0.0	0.0
LT interest bearing debt	2.3	1.3	1.3	1.3	1.3
Other liabilities	18.0	20.0	20.0	20.0	20.0
Total Liabilities	33.4	37.7	37.7	37.7	37.7
Shareholders Equity	151.7	183.9	217.4	260.6	312.7
Minority Interest	12.8	16.1	20.2	25.6	32.0
Total shareholder equity	164.4	199.9	237.6	286.2	344.8
Total liabilities and equity	188.1	229.1	262.6	305.8	357.9
CASH FLOW (SGD m)					
Pretax profit	23.3	30.5	34.4	44.2	53.4
Depreciation & amortisation	8.7	10.3	4.0	4.0	4.0
Adj net interest (income)/exp	0.0	0.0	0.0	0.0	0.0
Change in working capital	0.0	0.0	0.0	0.0	0.0
Cash taxes paid	0.0	0.0	0.0	0.0	0.0
Other operating cash flow	0.0	0.0	0.0	0.0	0.0
Cash flow from operations	28.7	28.1	21.8	40.1	47.6
Capex	(4.6)	(32.4)	(4.0)	(4.0)	(4.0)
Free cash flow	24.1	(4.3)	17.8	36.1	43.6
Dividends paid	(1.4)	(1.1)	(3.7)	(3.7)	(3.7)
Equity raised / (purchased)	0.0	0.0	0.0	0.0	0.0
Perpetual securities	0.5	7.5	0.0	0.0	0.0
Change in Debt	0.0	0.0	0.0	0.0	0.0
Perpetual securities distribution	0.5	7.5	0.0	0.0	0.0
Other invest/financing cash flow	7.1	8.2	0.0	0.0	0.0
Effect of exch rate changes	0.0	0.0	0.0	0.0	0.0
Net cash flow	31.3	11.3	11.8	31.7	37.6

FYE 31 Dec	FY22A	FY23A	FY24E	FY25E	FY26E
Key Ratios					
Growth ratios (%)					
Revenue growth	86.7	47.7	17.8	18.3	18.7
EBITDA growth	45.5	28.2	(6.7)	25.8	19.1
EBIT growth	51.8	31.6	11.6	28.7	20.8
Pretax growth	52.3	31.0	12.7	28.7	20.8
Reported net profit growth	49.1	2.5	30.1	28.7	20.8
Core net profit growth	49.1	2.5	30.1	28.7	20.8
Profitability ratios (%)					
EBITDA margin	37.2	32.3	25.6	27.2	27.3
EBIT margin	27.2	24.2	22.9	25.0	25.4
Pretax profit margin	27.0	24.0	22.9	25.0	25.4
Payout ratio	0.0	0.0	12.5	9.7	8.1
DuPont analysis					
Net profit margin (%)	25.6	17.8	19.6	21.4	21.7
Revenue/Assets (x)	0.5	0.6	0.6	0.6	0.6
Assets/Equity (x)	1.2	1.2	1.2	1.2	1.1
ROAE (%)	17.2	14.6	16.0	17.4	17.6
ROAA (%)	13.4	10.8	11.9	13.3	13.8
Liquidity & Efficiency					
Cash conversion cycle	11.3	19.3	47.7	62.5	65.7
Days receivable outstanding	61.4	56.9	73.8	85.6	85.4
Days inventory outstanding	8.8	22.1	32.8	29.0	24.8
Days payables outstanding	59.0	59.8	59.0	52.0	44.5
Dividend cover (x)	nm	nm	8.0	10.3	12.4
Current ratio (x)	2.6	3.3	4.3	5.5	6.9
Leverage & Expense Analysis					
Asset/Liability (x)	5.6	6.1	7.0	8.1	9.5
Net gearing (%) (incl perps)	net cash				
Net gearing (%) (excl. perps)	net cash				
Net interest cover (x)	nm	100.6	nm	nm	nm
Debt/EBITDA (x)	0.1	0.1	0.1	0.0	0.0
Capex/revenue (%)	5.3	25.5	2.7	2.3	1.9
Net debt/ (net cash)	(50.3)	(60.8)	(72.7)	(104.3)	(142.0)

Source: Company; Maybank IBG Research

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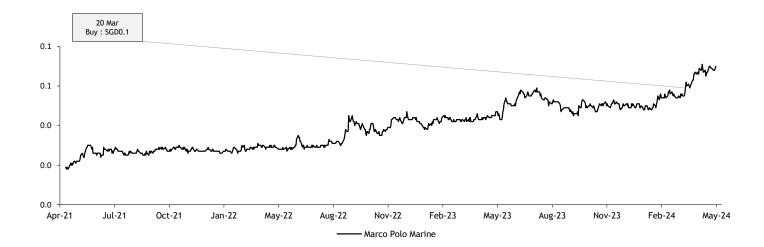
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# Historical recommendations and target price: Marco Polo Marine (MPM SP)



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