Maybank

Marco Polo Marine (MPM SP)

Landmark financing secured

Maintain BUY with TP of SGD0.088

MPM said its subsidiary, PKR Offshore, secured financing from Bank Sinopac for its first commissioning service operation vessel (CSOV) MP WindArcher - due to be operational by Oct 2024. This is the first financing secured by MPM for a new vessel since its restructuring and demonstrates access to bank financing which frees up cash flow and enables faster expansion. The same subsidiary earlier signed an Asia Pacific crew transfer vessel (CTV) pact with Siemens Gamesa to provide CTVs to support offshore wind projects in Taiwan and Korea from 2024-26 with an option to extend to 2030. We believe MPM's outlook is bright and maintain BUY our SGD0.088 TP at just 8.5x FY24E P/E. Downside risks include a slowdown that leads to a drop in charter rates and demand for vessels

Financing signals faster expansion potential

MPM had been growing using its own cash with a net cash balance sheet which did not allow it to expand its fleet size at a faster pace. With this landmark financing, we believe MPM will be able to secure financing for acquisition of new vessels for the offshore windfarm market, differentiating it from existing market players who have no/low access to bank financing. Our channel checks lead us to expect financing of up to 70-80% of the vessel at an interest rate below 4% pa. We expect MPM to secure longer-term contracts for other vessels types like special operation vessels (SOV) and another CSOV.

CTV framework - huge potential

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 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 CTVS will likely 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.

Potential catalysts ahead

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 ahead include 1) potential new vessels with long-term contracts with Vestas, and new clients. 2) Strong 1H24E earnings 3) CSOV building completion. Trading at just 8.5x FY24E P/E, MPM remains undervalued vs global/regional peers at 15x and 25x on average.

FYE Dec (SGD m)	FY22A	FY23A	FY24E	FY25E	FY26E
Revenue	86	127	150	177	210
EBITDA	32	41	38	48	57
Core net profit	22	23	29	38	46
Core EPS (cts)	0.6	0.6	0.8	1.0	1.2
Core EPS growth (%)	49.1	(2.0)	30.1	28.8	20.8
Net DPS (cts)	0.0	0.0	0.1	0.1	0.1
Core P/E (x)	6.6	8.3	8.5	6.6	5.5
P/BV (x)	1.0	1.0	1.2	1.0	0.8
Net dividend yield (%)	0.0	0.0	1.5	1.5	1.5
ROAE (%)	17.2	14.6	16.0	17.4	17.6
ROAA (%)	13.4	10.8	11.9	13.3	13.8
EV/EBITDA (x)	3.7	3.7	5.4	3.8	2.6
Net gearing (%) (incl perps)	net cash				
Consensus net profit	-	-	na	na	na
MIBG vs. Consensus (%)	-	-	na	na	na

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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.

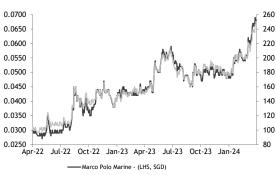
Statistics

52w high/low (SGD)	0.07/0.04
3m avg turnover (USDm)	0.5
Free float (%)	60.3
Issued shares (m)	3,683
Market capitalisation	SGD250.5M
	USD184M

Major shareholders:

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

Price Performance



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

	- 1741	-2141	- 1 2/1
Absolute (%)	24	39	55
Relative to index (%)	23	39	60
Source: FactSet			

Other companies mentioned in this report Vestas (VWS CPH, CP DKK177, not rated) Bank Sinopac (2890 TT, CP TWD21.25, not rated)

> Co. Reg No: 198700034E MICA (P): 099/03/2012

Marco Polo Marine

Maybank

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.

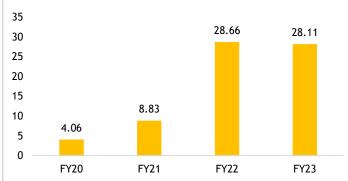
Revenue and NPAT forecasts (SGDm)



Financial Metrics

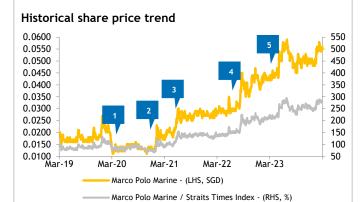
- We expect chartering and ship repair revenue to continue to increase strongly due to stronger demand and higher rates.
- The new CSOV should contribute about 15-20% NPAT growth YoY in FY25E.
- MPM likely to continue to acquire vessels to service the offshore windfarm operators in Taiwan as demand is 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



Source: Company, Maybank Research

Price Drivers



Source: Company, Maybank IBG Research

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

April 17, 2024

FYE 31 Dec	FY22A	FY23A	FY24E	FY25E	FY26E
Key Metrics			^ -		- -
P/E (reported) (x)	5.3	7.9	8.5	6.6	5.5
Core P/E (x)	6.6	8.3	8.5	6.6	5.5
P/BV (x)	1.0	1.0	1.2	1.0	0.8
P/NTA (x)	0.9	1.0	1.1	0.9	0.8
Net dividend yield (%)	0.0	0.0	1.5	1.5	1.5
FCF yield (%)	16.7	nm	7.1	14.4	17.4
EV/EBITDA (x) EV/EBIT (x)	3.7 5.1	3.7 5.0	5.4 6.1	3.8 4.1	2.6 2.8
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
	0.0	0.0	0.0	0.0	0.0
Discontinued operations 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
core net pront	22.0	22.0	29.4	37.0	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 Total liabilities and equity	164.4 188.1	199.9 229.1	237.6 262.6	286.2 305.8	344.8 357.9
CASH FLOW (SGD m)	22.2	20.5	24.4	44.0	53 4
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

April 17, 2024

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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Malaysia

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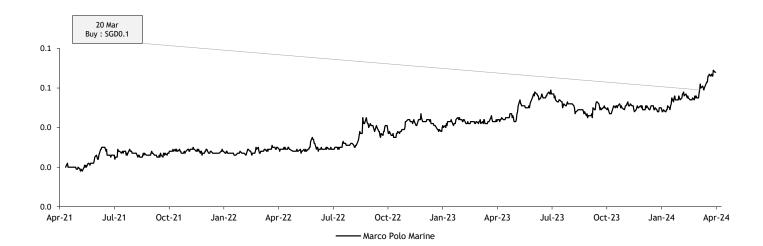
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