

COMPANY UPDATE

**Marco Polo Marine (MPM SP)**

Tailwinds From Favourable Charter Rates And Maiden Expansion Into Korea

As oil and gas activities pick up and oil prices remain favourable, MPM will continue to enjoy good demand and favourable charter rates for its OSVs, which are at a nine-year high. The low fleet growth in the OSV industry will keep day rates elevated. As new offshore wind projects begin, MPM is primed to capture growth opportunities in the APAC region with its OSVs and new CSOV. It will also be making its maiden charter in Korea starting in 4Q24. Maintain BUY with a higher target price of S\$0.086.

WHAT'S NEW

- **Higher demand for OSVs as oil and gas activities pick up.** Oil & gas activities have continued to see improvement, enabling oil and gas prices to increase. This has led to positive motivation for the recovery of the offshore support vessels (OSV) industry. Moreover, we observed a rapid rise in offshore wind energy projects, particularly in the Asia-Pacific (APAC) region, where Marco Polo Marine (MPM) operates. According to the Global Wind Energy Council (GWEC), the global offshore wind industry is projected to add 380GW of capacity by 2032, with almost 50% of the growth arising from the APAC region. MPM will likely enjoy higher demand for its OSVs and in turn, more favourable charter rates moving forward. From the Offshore Intelligence Network, we note that MPM's ship chartering revenue growth is largely in line with the rising average charter rates.
- **Benefit from OSV supply squeeze and expansion into Korea starting 4Q24.** While there is a dramatic uptake in new offshore wind projects, the lack of supply of necessary OSVs remains a challenge. Access to bank financing remains tight, leading to minimal newbuilds. The gap in vessel supply will therefore further push up charter rates and utilisation levels for OSV market players like MPM. On the other hand, MPM has secured the Asia-Pacific Crew Transfer Vessel (CTV) framework agreement with Siemens Gamesa for projects spanning Taiwan and Korea. Its maiden CTV charter in Korea will start in 4Q24, marking MPM's successful entry into a new market.
- **Well-positioned to capture demand with new CSOV.** MPM is building a new commissioning service operation vessel (CSOV) designed to provide charter services in Taiwan, Japan and South Korea. From MPM's recent Vestas Framework Agreement, we understand that the CSOV will be deployed over three years at an agreed utilisation rate per annum once the vessel is fully constructed. As CSOVs are now 40% more costly to construct than when MPM initiated, the limited options that windfarms have point to better day rates and utilisation for MPM's CSOV. To recap, the CSOV was 34% completed as of 4QFY23, with expected completion in 3QFY24. Also, each new windfarm project requires a new group of maintenance vessels over the course of its lifetime. Therefore, MPM could secure more contracts for other types of vessels to keep pace with growing demand.

KEY FINANCIALS

Year to 30 Sep (S\$m)	2022	2023	2024F	2025F	2026F
Net turnover	86	127	146	159	173
EBITDA	31	40	50	53	43
Operating profit	22	28	37	39	43
Net profit (rep./act.)	21	23	29	31	36
Net profit (adj.)	14	25	29	31	36
EPS (S\$ cents)	0.4	0.7	0.8	0.8	0.9
PE (x)	15.9	9.3	8.0	7.4	6.6
P/B (x)	1.6	1.4	1.2	1.1	0.9
EV/EBITDA (x)	5.3	4.1	3.3	3.1	3.8
Dividend yield (%)	0.0	1.6	2.4	3.2	3.2
Net margin (%)	24.8	17.8	20.1	19.8	20.6
Net debt/(cash) to equity (%)	(35.8)	(35.3)	(35.3)	(42.8)	(54.4)
Interest cover (x)	241.9	n.a.	n.a.	n.a.	n.a.
ROE (%)	16.8	14.7	16.3	15.3	15.3
Consensus net profit	-	-	27	31	36
UOBKH/Consensus (x)	-	-	1.07	1.00	1.00

Source: Marco Polo Marine, Bloomberg, UOB Kay Hian

BUY

(Maintained)

Share Price	S\$0.062
Target Price	S\$0.086
Upside	+38.2%
(Previous TP)	S\$0.070)

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):	3,753.6
Market cap (S\$m):	232.7
Market cap (US\$m):	173.7
3-mth avg daily t'over (US\$m):	0.3

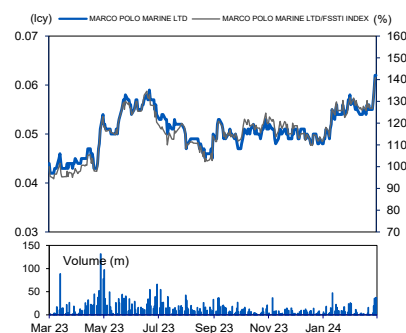
Price Performance (%)

52-week high/low	S\$0.062/S\$0.042			
<b>1mth</b>	<b>3mth</b>	<b>6mth</b>	<b>1yr</b>	<b>YTD</b>
8.8	24.0	37.8	47.6	21.6

Major Shareholders

	%
Lee Family	22.6
Apricot Capital	16.2
Penguin International	8.1
FY24 NAV/Share (S\$)	0.05
FY24 Net Cash/Share (S\$)	0.02

PRICE CHART



Source: Bloomberg

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**STOCK IMPACT**

- **New dry dock to boost ship repair capacity; China's reopening to stabilise.** MPM's new 240-metre-long Dry Dock 4 is expected to be completed by 1QFY25 and will increase ship repair capacity by up to 25%. The group has also successfully secured several new build contracts for vessel construction to be delivered up till 2HFY24, ensuring sustained shipyard utilisation levels. The stabilisation of China's reopening will also allow MPM to capture growing demand for ship repairs and shipbuilding and achieve top-line growth. As of end-1QFY24, MPM's shipyard utilisation rate remained high at 79% (+5ppt yoy).
- **Healthy net cash position provides buffer.** MPM has shown excellent cash management, with a strong net cash position of S\$61m as at end-FY23 (FY22: S\$54m). This provides a comfortable level of support for our valuation.

**EARNINGS REVISION/RISK**

- **None.**

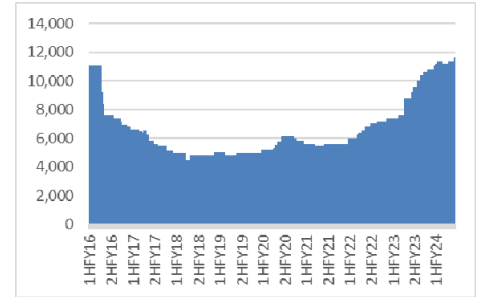
**VALUATION/RECOMMENDATION**

- **Maintain BUY with a 23% higher target price of S\$0.086 (S\$0.070 previously).** The rise in target price is due to the rerating of its long-term PE mean multiple. Therefore, we have raised our PE peg multiple to 11x FY24F PE (9x FY24F PE previously), based on +2SD above its historical three-year PE range. We apply this valuation peg on the back of higher charter rates and vessel utilisation rates. MPM currently trades at an attractive 7x FY24F PE (5x ex-cash).

**SHARE PRICE CATALYST**

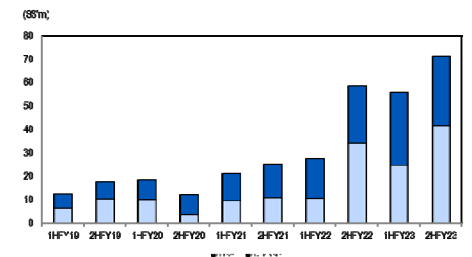
- Higher-than-expected ship charter rates and vessel utilisation.
- Award of new ship chartering contracts.
- Higher value of repair projects during the year.

**OSV CHARTER RATES ARE INCREASING TO A NINE-YEAR HIGH (1HFY16 – PRESENT)**



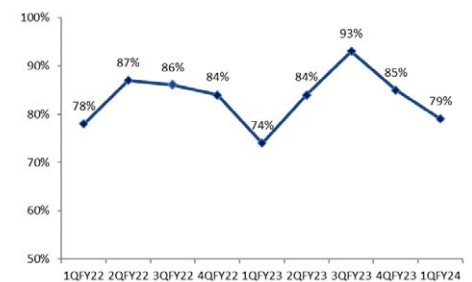
Source: Offshore Intelligence Network, UOB Kay Hian

**SEGMENTAL CONTRIBUTION (1HFY19 – 2HFY23)**



Source: MPM, UOB Kay Hian

**SHIPYARD UTILISATION RATES (1QFY22 – 1QFY24)**



Source: MPM

### PROFIT & LOSS

Year to 30 Sep (\$m)	2023	2024F	2025F	2026F
Net turnover	127.1	145.9	159.1	173.4
EBITDA	39.8	50.2	53.4	42.8
Deprec. & amort.	12.1	13.4	14.5	0.0
EBIT	27.8	36.9	38.8	42.8
Associate contributions	0.2	0.0	0.0	0.0
Net interest income/(expense)	1.5	2.0	2.5	3.5
Pre-tax profit	30.5	38.9	41.3	46.3
Tax	(4.7)	(6.0)	(6.4)	(7.1)
Minorities	(3.2)	(3.5)	(3.5)	(3.5)
Net profit	22.6	29.4	31.5	35.7
Net profit (adj.)	25.2	29.4	31.5	35.7

### CASH FLOW

Year to 30 Sep (\$m)	2023	2024F	2025F	2026F
Operating	28.1	56.6	38.6	54.8
Pre-tax profit	30.5	38.9	41.3	46.3
Tax	(1.0)	(5.0)	(5.9)	(6.3)
Deprec. & amort.	12.1	13.4	14.5	14.9
Working capital changes	(25.3)	11.3	(8.8)	2.4
Non-cash items	12.0	(2.0)	(2.5)	(2.5)
Investing	(22.8)	(40.9)	(5.4)	(4.4)
Capex (growth)	(13.4)	(42.9)	(7.9)	(7.9)
Proceeds from sale of assets	0.0	0.0	0.0	0.0
Others	(9.5)	2.0	2.5	3.5
Financing	6.0	(5.0)	(5.7)	(7.5)
Dividend payments	0.0	(3.8)	(5.7)	(7.5)
Issue of shares	7.5	0.0	0.0	0.0
Loan repayment	0.1	(1.2)	0.0	0.0
Others/interest paid	(1.5)	0.0	0.0	0.0
Net cash inflow (outflow)	11.3	10.8	27.6	42.9
Beginning cash & cash equivalent	53.5	63.1	73.9	101.5
Changes due to forex impact	(1.8)	0.0	0.0	0.0
Ending cash & cash equivalent	63.1	73.9	101.5	144.5

### BALANCE SHEET

Year to 30 Sep (\$m)	2023	2024F	2025F	2026F
Fixed assets	92.8	122.3	115.6	108.6
Other LT assets	20.3	16.8	16.8	16.8
Cash/ST investment	63.1	70.9	96.5	137.1
Other current assets	53.0	52.2	60.1	63.8
<b>Total assets</b>	<b>229.1</b>	<b>262.1</b>	<b>289.0</b>	<b>326.2</b>
ST debt	2.5	0.0	0.0	0.0
Other current liabilities	33.5	40.4	43.1	47.6
LT debt	1.3	2.6	2.6	2.6
Other LT liabilities	7.9	25.6	24.0	28.5
Shareholders' equity	167.8	193.5	219.3	247.5
Minority interest	16.1	0.0	0.0	0.0
<b>Total liabilities &amp; equity</b>	<b>229.1</b>	<b>262.1</b>	<b>289.0</b>	<b>326.2</b>

### KEY METRICS

Year to 30 Sep (%)	2023	2024F	2025F	2026F
<b>Profitability</b>				
EBITDA margin	31.3	34.4	33.6	24.7
Pre-tax margin	24.0	26.6	26.0	26.7
Net margin	17.8	20.1	19.8	20.6
ROA	10.8	12.0	11.4	11.6
ROE	14.7	16.3	15.3	15.3
<b>Growth</b>				
Turnover	47.7	14.8	9.0	9.0
EBITDA	27.6	26.1	6.3	(19.7)
Pre-tax profit	31.0	27.6	6.4	12.1
Net profit	5.8	30.2	7.1	13.4
Net profit (adj.)	81.9	16.7	7.1	13.4
EPS	71.5	16.7	7.1	13.4
<b>Leverage</b>				
Debt to total capital	2.0	1.3	1.2	1.0
Debt to equity	2.3	1.3	1.2	1.1
Net debt/(cash) to equity	(35.3)	(35.3)	(42.8)	(54.4)
Interest cover (x)	n.a.	n.a.	n.a.	n.a.

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