

24 August 2023

Energy & Petrochemicals | Oil & Gas Services

## Marco Polo Marine (MPM SP)

**Buy** (Maintained)

### Vessel Demand Remains Firm; Maintain BUY

Target Price (Return): SGD0.06 (37.4%)  
 Price (Market Cap): SGD0.05 (USD130m)  
 ESG score: 3.0 (out of 4)  
 Avg Daily Turnover (SGD/USD) 1.14m/0.85m

- **Maintain BUY, SGD0.06 TP and 37% upside.** We stay upbeat on Marco Polo Marine as 3Q23 revenue and margins validate that the outlook continues to trend in the right direction. MPM remains in a sweet spot to deploy and operate its first commissioning service operation vessel (CSOV) in FY24, in an environment where such vessels (used to build offshore windfarms) are in short supply. Our earnings growth forecast for FY22-25F (Sep) remains at 18% CAGR, led by the new vessel's deployment at attractive charter rates.
- **Growth led by better chartering utilisation and rates.** We see MPM as a beneficiary of robust CSOV demand in North Asia – to develop offshore windfarms, against short supply of CSOV vessels – when it deploys its CSOV vessel in FY24F. There is a shortage of tier-1 CSOVs, with only c.10 operating in Europe and another c.30 on order. Hence, we expect rates and utilisation to be attractive once MPM deploys its new CSOV in FY24F, driving earnings growth. Supplementing the offshore windfarm sector's growth in ship chartering would be higher demand for offshore vessels in the oil and gas (O&G) sector. With increasing regional O&G exploration against tight supply for vessels, both utilisation and rates should further support growth. MPM's shipyard is also currently operating at close to full capacity. Productivity and expansion can further support growth.
- **We see minimal risks to MPM's windfarm charter demand** despite recent reports of offshore wind projects discontinuing due to high development costs – including higher cost of developing newer and better design specification turbines. While the latest turbines would cost more and affect project returns, other cost-effective projects using more affordable equipment remain viable. Given North Asian nations' demand to meet green or renewable energy environmental targets, offshore windfarms continue to develop. We see demand for MPM's CSOV holding firm.
- **3Q23 tracking to estimates.** 3Q23 revenue grew 29% YoY to SGD37m – within expectations, on the back of higher charter rates and utilisation (92%, +8ppt) for its vessels in Ship Chartering, and increase in shipbuilding and ship repair activities for Shipyard (93% utilisation, +9ppt). Gross margins expanded from 33.9% in 3Q22 to 38.7% in 3Q23 (+4.8ppt) on better operating leverage of revenue increase over its relatively fixed cost of sales. We keep our earnings and TP unchanged as 3Q23 is tracking in-line with our earnings forecast.
- **Key risks.** Our forecasts and TP are premised on improved charter rates, stronger utilisation rates, and the successful deployment of MPM's CSOV – all over the next two years. We believe any underperformance in these aspects would present downside risks to our earnings estimates and TP. As MPM's ESG score is 3 out of 4 – on par with our country median – we apply a 0% discount/premium to its intrinsic value to derive our new TP.

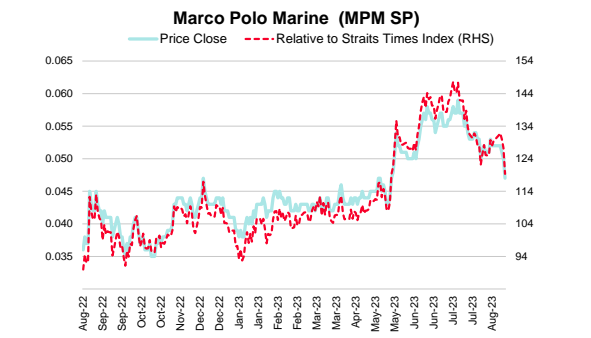
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#### Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	14.6	(13.0)	(9.6)	9.3	38.2
Relative	17.0	(9.8)	(8.2)	12.1	40.4
52-wk Price low/high (SGD)	0.04 – 0.06				



Source: Bloomberg

#### Overall ESG Score: 3.0 (out of 4)

##### E: GOOD

MPM is committed to reduce energy and water consumption, and is always exploring ways to improve its energy efficiency and water usage. In 2022, MPM's electricity and water consumption per SGD1,000 revenue reduced to 0.07MWH and 0.61m3 from 0.26MWH and 1.39m3 in 2020.

##### S: GOOD

MPM adopts fair employment practices and treats all employees equally. It complies with local labour regulations across geographic operations, including minimum wage laws, where such laws exist. In 2022, both male and female entry-level employees in its Batam shipyard operations were paid the local minimum wage amounting to IDR4.19m.

##### G: GOOD

MPM aligned its governance policies and practices with the principles and guidelines set out in the Code of Corporate Governance issued by the Monetary Authority of Singapore on 6 Aug 2018 and has formalised its Enterprise Risk Management ("ERM") process, starting from financial year ended 30 Sep 2019.

#### Note:

Small cap stocks are defined as companies with a market capitalisation of less than USD0.5bn.

Forecasts and Valuation	Sep-21	Sep-22	Sep-23F	Sep-24F	Sep-25F
Total turnover (SGDm)	46	86	115	126	137
Recurring net profit (SGDm)	3	12	17	18	20
Recurring net profit growth (%)	-	364.7	38.8	6.6	6.9
Recurring P/E (x)	61.88	13.34	9.63	9.05	8.47
P/B (x)	1.4	1.2	1.1	1.0	0.9
P/CF (x)	20.08	7.68	5.52	4.82	4.31
Dividend Yield (%)	na	na	na	na	na
EV/EBITDA (x)	17.28	5.92	4.24	3.71	2.57
Return on average equity (%)	13.8	16.8	11.7	11.1	10.7
Net debt to equity (%)	net cash	net cash	net cash	net cash	net cash

Source: Company data, RHB

## Financial Exhibits

Asia	Financial summary (SGD)	Sep-21	Sep-22	Sep-23F	Sep-24F	Sep-25F
Singapore	Recurring EPS	0.00	0.00	0.00	0.01	0.01
Energy & Petrochemicals	BVPS	0.03	0.04	0.04	0.05	0.05
<b>Marco Polo Marine</b>	Return on average equity (%)	13.8	16.8	11.7	11.1	10.7
MPM SP						
BUY						
<b>Valuation basis</b>	<b>Valuation metrics</b>	<b>Sep-21</b>	<b>Sep-22</b>	<b>Sep-23F</b>	<b>Sep-24F</b>	<b>Sep-25F</b>
DCF, with the following assumptions:	Recurring P/E (x)	61.88	13.34	9.63	9.05	8.47
i. WACC of 13%;	P/B (x)	1.4	1.2	1.1	1.0	0.9
ii. Terminal growth rate of 0%.	FCF Yield (%)	3.6	10.3	(3.5)	(0.9)	17.2
	EV/EBITDA (x)	17.28	5.92	4.24	3.71	2.57
	EV/EBIT (x)	74.12	9.87	7.49	7.00	5.04
<b>Key drivers</b>	<b>Income statement (SGDm)</b>	<b>Sep-21</b>	<b>Sep-22</b>	<b>Sep-23F</b>	<b>Sep-24F</b>	<b>Sep-25F</b>
i. Oil & gas activities picking up after a hiatus;	Total turnover	46.1	86.1	115.4	125.7	136.8
ii. Moving into renewable energy, like windfarm projects.	Gross profit	12.0	27.5	38.1	41.5	45.1
	EBITDA	8.7	21.7	31.1	35.5	39.7
	Depreciation and amortisation	(6.6)	(8.7)	(13.5)	(16.7)	(19.4)
	Operating profit	2.0	13.0	17.6	18.8	20.2
	Net interest	0.6	0.6	0.9	0.8	0.8
	Pre-tax profit	15.3	23.3	18.8	20.0	21.4
	Taxation	(0.5)	(1.2)	(0.9)	(1.0)	(1.1)
	Reported net profit	14.8	21.3	17.3	18.4	19.7
	Recurring net profit	2.7	12.4	17.3	18.4	19.7
<b>Key risks</b>	<b>Cash flow (SGDm)</b>	<b>Sep-21</b>	<b>Sep-22</b>	<b>Sep-23F</b>	<b>Sep-24F</b>	<b>Sep-25F</b>
i. Volatile oil prices;	Cash flow from operations	8.2	21.6	30.1	34.5	38.6
ii. Negative effect of any changes in government regulations.	Capex	(2.2)	(4.6)	(36.0)	(36.0)	(10.0)
	Cash flow from investing activities	(2.2)	3.4	(36.0)	(36.0)	(10.0)
	Cash flow from financing activities	(0.3)	(0.8)	0.0	0.0	0.0
	Cash at beginning of period	13.6	20.3	53.5	51.4	52.0
	Net change in cash	5.7	24.3	(5.9)	(1.5)	28.6
	Ending balance cash	18.3	43.6	50.6	53.0	83.6
<b>Company Profile</b>	<b>Balance sheet (SGDm)</b>	<b>Sep-21</b>	<b>Sep-22</b>	<b>Sep-23F</b>	<b>Sep-24F</b>	<b>Sep-25F</b>
Marco Polo Marine is a growing integrated marine logistics group facilitating the growth of investment in South-East Asia. Its amalgamation of ship chartering, ship building, conversion, repair, and maintenance services under one roof has empowered the company to exercise greater flexibility and achieve cost efficiencies for its customers.	Total cash and equivalents	20	54	51	52	83
	Total investments	83	108	131	151	141
	Total assets	140	188	215	237	261
	Short-term debt	1	1	1	1	1
	Total long-term debt	3	2	2	2	2
	Total liabilities	25	36	45	49	52
	Total equity	115	152	169	188	209
	Total liabilities & equity	140	188	215	237	261
	<b>Key metrics</b>	<b>Sep-21</b>	<b>Sep-22</b>	<b>Sep-23F</b>	<b>Sep-24F</b>	<b>Sep-25F</b>
	Revenue growth (%)	49.5	86.7	34.1	8.9	8.8
	Recurrent EPS growth (%)	0.0	364.0	38.5	6.4	6.9
	Gross margin (%)	26.1	31.9	33.0	33.0	33.0
	Operating EBITDA margin (%)	18.8	25.2	26.9	28.3	29.0
	Net profit margin (%)	32.0	24.8	15.0	14.6	14.4
	Capex/sales (%)	4.8	5.3	31.2	28.6	7.3
	Interest cover (x)	14.8	101.0	136.3	146.1	156.7

Source: Company data, RHB

## Recommendation Chart

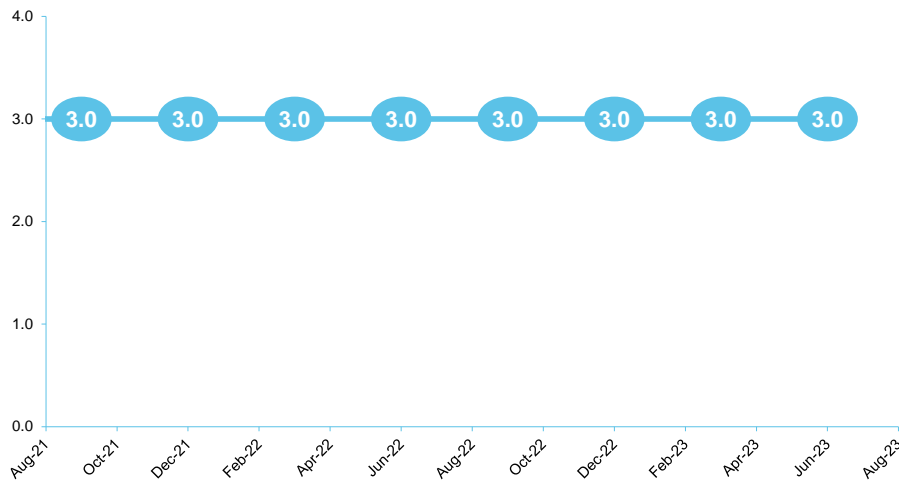


Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2023-05-29	Buy	0.06	0.05
2023-03-30	Buy	0.06	0.04
2022-08-30	Buy	0.05	0.05
2022-01-20	Buy	0.04	0.03
2021-11-29	Buy	0.04	0.03
2021-08-31	Buy	0.04	0.03
2021-06-15	Buy	0.04	0.03
2020-01-29	Not Rated	na	0.02

Source: RHB, Bloomberg

## ESG Rating History



Source: RHB

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