

5 December 2023

Energy & Petrochemicals | Oil & Gas Services

## Marco Polo Marine (MPM SP)

**BUY** (Maintained)

### Fair Winds For Operating Leverage; Maintain BUY

Target Price (Return): SGD0.07 (+39%)  
 Price (Market Cap): SGD0.05 (USD135m)  
 ESG score: 3.0 (out of 4)  
 Avg Daily Turnover (SGD/USD) 0.52m/0.38m

- **Maintain BUY, new SGD0.07 TP from SGD0.06 TP, 39% upside with c.2% FY24F (Sep) yield.** We continue to like Marco Polo Marine, as it remains in a sweet spot to deploy and operate its first commissioning service operation vessel (CSOV) in FY24F, in an environment where such vessels (used to build offshore windfarms) are in short supply. We expect earnings to be buoyant, on the back of increased oil & gas activities for ship chartering and new customers for its shipyard division.

- **FY23 outperforms estimates.** FY23 core earnings amounted to SGD22m (+97% YoY), and this came on the back of a 48% YoY revenue surge to SGD127m. Revenue growth was driven by: i) Both the ship chartering and shipbuilding & repair segments, whose turnover spiked up by 47% and 48% YoY to SGD66m and SGD61m; and ii) higher average utilisation and charter rates for its vessels in Ship Chartering. There was also an increase in third-party vessels that were rechartered and a full year consolidation impact of Bina Buana Raya and PKR Offshore's results compared to a partial year in FY22. MPM's shipyard revenue growth was due to higher contract values for repair projects and new ship-building projects. GPM expanded from 31.9% in FY22 to 36% in FY23 (+4.1ppt) on better operating leverage on a revenue increase over its relatively fixed cost of sales, particularly in ship chartering. A final dividend of 0.1 SG cents per share was declared, amounting to a c.17% payout ratio, which is above estimates.

- **Buoyant outlook.** MPM's ship chartering business continues to be in support of offshore windfarms in Taiwan, with OSV charter rates expected to remain robust. The company is also targeting to increase ship repair and maintenance orders for the shipyard division through new customers, especially local shipowners in Indonesia. Newbuild contracts secured include the construction of barges due for delivery until as far as 2HFY24. As at FY23, MPM's CSOV is c.34% completed and targeted for deployment in 2HFY24.

- **We now lift our FY24-25 earnings estimates by 14-17% on a higher FY23 earnings base, after FY23's core earnings outperformance.** With a stronger-than-expected gross margin of 39% for 2H23, we now ascribe better operating leverage on our forecasts, which also implies a stronger GPM assumption. While earnings for FY24 is expected to remain flattish due to increased expenses for the deployment of MPM's new CSOV, we expect FY25 earnings growth to ramp up. Our SOP-based TP, correspondingly, rises to SGD0.07.

- **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.

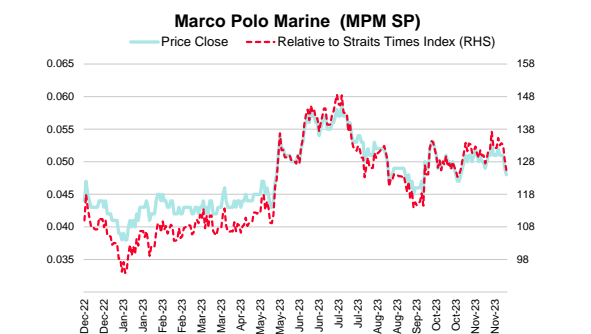
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#### Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	17.1	(5.9)	(2.1)	(4.0)	11.6
Relative	22.1	(6.3)	2.3	(1.6)	17.8
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 reducing energy and water consumption, and is always exploring ways to improve its energy efficiency and water usage. In 2022, its electricity and water consumption per S\$1,000 revenue decreased 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 its geographic operations, including minimum wage laws, where such laws exist. In 2022, both male and female entry-level employees at their Batam shipyard operations were paid the local minimum wage amounting to IDR4.19m.

##### G: GOOD

MPM has 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 FYE 30 Sep 2019.

#### Note:

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

Forecasts and Valuation	Sep-22	Sep-23	Sep-24F	Sep-25F	Sep-26F
Total turnover (SGDm)	86	127	136	143	147
Recurring net profit (SGDm)	12	21	21	23	24
Recurring net profit growth (%)	329.8	81.9	0.6	9.6	5.3
Recurring P/E (x)	14.73	8.36	8.57	7.82	7.42
P/B (x)	1.2	1.1	1.0	0.9	0.8
P/CF (x)	8.21	4.47	4.60	4.31	4.15
Dividend Yield (%)	na	2.1	2.1	2.1	2.1
EV/EBITDA (x)	6.38	3.39	3.40	2.79	2.28
Return on average equity (%)	16.8	14.7	11.9	11.8	11.3
Net debt to equity (%)	net cash	net cash	net cash	net cash	net cash

Source: Company data, RHB

See important disclosures at the end of this report

Market Dateline / PP 19489/05/2019 (035080)

## Financial Exhibits

Asia	Financial summary (SGD)	Sep-22	Sep-23	Sep-24F	Sep-25F	Sep-26F
Singapore	Recurring EPS	0.00	0.01	0.01	0.01	0.01
Energy & Petrochemicals	DPS	-	0.00	0.00	0.00	0.00
<b>Marco Polo Marine</b>	BVPS	0.04	0.04	0.05	0.05	0.06
MPM SP	Return on average equity (%)	16.8	14.7	11.9	11.8	11.3
BUY						
	<b>Valuation metrics</b>	<b>Sep-22</b>	<b>Sep-23</b>	<b>Sep-24F</b>	<b>Sep-25F</b>	<b>Sep-26F</b>
	Recurring P/E (x)	14.73	8.36	8.57	7.82	7.42
	P/B (x)	1.2	1.1	1.0	0.9	0.8
	FCF Yield (%)	9.5	3.9	1.8	14.9	15.8
	Dividend Yield (%)	-	2.1	2.1	2.1	2.1
	EV/EBITDA (x)	6.38	3.39	3.40	2.79	2.28
	EV/EBIT (x)	10.97	4.84	4.87	3.96	3.22
	<b>Income statement (SGDm)</b>	<b>Sep-22</b>	<b>Sep-23</b>	<b>Sep-24F</b>	<b>Sep-25F</b>	<b>Sep-26F</b>
	Total turnover	86.1	127.1	136.0	143.3	147.4
	Gross profit	27.5	45.7	48.9	52.5	54.5
	EBITDA	20.7	40.2	42.9	45.9	47.7
	Depreciation and amortisation	(8.7)	(12.1)	(12.9)	(13.6)	(14.0)
	Operating profit	12.0	28.1	30.0	32.3	33.8
	Net interest	0.6	0.2	(2.5)	(2.2)	(2.0)
	Pre-tax profit	23.3	30.5	27.6	30.3	31.9
	Taxation	(1.2)	(4.7)	(3.7)	(4.0)	(4.3)
	Reported net profit	21.3	22.6	21.0	23.1	24.3
	Recurring net profit	11.5	20.9	21.0	23.1	24.3
	<b>Cash flow (SGDm)</b>	<b>Sep-22</b>	<b>Sep-23</b>	<b>Sep-24F</b>	<b>Sep-25F</b>	<b>Sep-26F</b>
	Cash flow from operations	20.6	39.2	39.2	41.9	43.5
	Capex	(4.6)	(32.4)	(36.0)	(15.0)	(15.0)
	Cash flow from investing activities	3.4	(22.8)	(36.0)	(15.0)	(15.0)
	Dividends paid	0.0	0.0	(3.8)	(3.8)	(3.8)
	Cash flow from financing activities	(0.8)	6.0	32.2	(3.8)	(3.8)
	Cash at beginning of period	20.3	53.5	63.1	96.4	117.3
	Net change in cash	23.3	22.4	35.4	23.1	24.7
	Ending balance cash	42.7	78.9	101.5	122.5	145.1
	<b>Balance sheet (SGDm)</b>	<b>Sep-22</b>	<b>Sep-23</b>	<b>Sep-24F</b>	<b>Sep-25F</b>	<b>Sep-26F</b>
	Total cash and equivalents	54	63	96	117	140
	Total investments	108	110	133	134	136
	Total assets	188	229	287	311	336
	Short-term debt	1	1	1	1	1
	Total long-term debt	2	6	42	42	42
	Total liabilities	36	45	83	84	85
	Total equity	152	184	204	227	250
	Total liabilities & equity	188	229	287	311	336
	<b>Key metrics</b>	<b>Sep-22</b>	<b>Sep-23</b>	<b>Sep-24F</b>	<b>Sep-25F</b>	<b>Sep-26F</b>
	Revenue growth (%)	86.7	47.6	7.0	5.4	2.8
	Recurrent EPS growth (%)	329.2	76.1	(2.4)	9.6	5.3
	Gross margin (%)	31.9	36.0	36.0	36.6	37.0
	Operating EBITDA margin (%)	24.1	31.6	31.5	32.0	32.4
	Net profit margin (%)	24.8	17.8	15.5	16.1	16.5
	Dividend payout ratio (%)	0.0	16.6	17.9	16.3	15.5
	Capex/sales (%)	5.3	25.5	26.5	10.5	10.2
	Interest cover (x)	93.4	91.9	9.8	10.6	11.0

Source: Company data, RHB

Figure 1: DCF valuation

SGDm	FY24F	FY25F	FY26F	FY27F	Terminal
EBIT	30.0	32.3	33.8	34.4	
<b>EBIT(1-T)</b>	<b>34.0</b>	<b>36.6</b>	<b>38.3</b>	<b>39.0</b>	
Less: Capex	(36.0)	(15.0)	(15.0)	(20.0)	
Add: DD&A	12.9	13.6	14.0	14.3	
Less: Chg in Non-cash WC	0.3	0.0	(0.0)	(0.0)	
<b>FCFF</b>	<b>11.2</b>	<b>35.3</b>	<b>37.2</b>	<b>33.2</b>	<b>254.3</b>
Present Value of FCFF	9.9	27.6	29.1	20.3	155.6
<b>Total FCFF</b>	<b>242.5</b>				
Add: Cash	63.1				
Less: Value of Debt	(38.3)				
Less: Minority Interest	(16.1)				
<b>Target Equity Value</b>	<b>251.3</b>				
No. of shares (basic)	3,758				
<b>Intrinsic Share Price (SGD)</b>	<b>0.07</b>				

Source: RHB

## Emissions And ESG

### Trend analysis

MPM has yet to disclose Scope 1 and Scope 2 data.

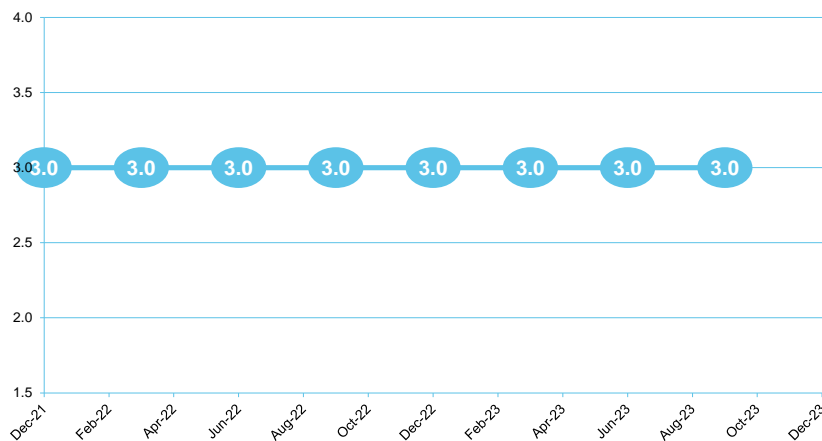
Emissions (tCO2e)	Sep-21	Sep-22	Sep-23
Scope 1	-	-	na
Scope 2	-	-	na
Scope 3	-	-	na
Total emissions	na	na	na

Source: Company data, RHB

## Latest ESG-Related Developments

- MPM has taken steps to reduce emissions, where the engines on its vessels run on Marine Gas Oil, which has a lower amount of sulphur content.
- However, MPM does not track the sulphur dioxide emitted from its vessels as the charterers are responsible for supplying the vessels with bunkers.
- MPM will continue to monitor the emissions from its vessels by ensuring that charterers use only fuel oil that complies with the sulphur content limit as stipulated by ISO 8127 2017 and the International Convention for the Prevention of Pollution from Ships or MARPOL.

## ESG Rating History



Source: RHB

## Recommendation Chart



Source: RHB, Bloomberg

Source: RHB, Bloomberg

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