COMPANY UPDATE

Marco Polo Marine (MPM SP)

Reeling In Revenue With Higher Shipping Rates And Expansion Efforts

MPM's business has stayed resilient amid the uncertain macro environment, due to better-than-expected fleet charter and utilisation rates, as well as its acquisitions during the year. Vessel utilisation has been improving, helped by minimal newbuilds and increased demand in Asia. Together with its strong balance sheet and expansion efforts in the offshore windfarm sector, MPM will likely reap greater benefits in the long term. Downgrade to HOLD with target price slightly raised to S$0.048.

WHAT'S NEW

- **Strong demand from both oil & gas and offshore windfarm sectors drive charter rates.** Since the end of the COVID-19 pandemic, vessel charter and utilisation rates for tugboats, barges and offshore support vessels (OSV) have been on the rise. Additionally, the ongoing geopolitical tensions continue to drive oil prices up to their strongest levels in almost eight years. The elevated crude oil prices of above US$100 during the year have led to oil majors looking to increase production in the commodity. This resulted in higher capex towards reactivating offshore production platforms and further raised industry utilisation positively for OSV. On top of this, the group was awarded more contracts in the shipyard business and higher-value repair projects during the year, as observed in the segmental revenue's 59.2% yoy increase from S$26.0m in FY21 to S$41.4m in FY22.
- **Minimal newbuilds on smaller-sized vessels provide support on dayrates.** The lack of investment in the offshore oil industry since 2014 is expected to lead to upward pressure on utilisation and dayrates of support vessels going forward. Industry utilisation rates have begun to rise since 2H21 from higher demand due to the confluence of factors listed above, in line with industry expert Clarksons' expectations for 2022.
- **Diversification efforts bear fruit for ship chartering business.** In 2HFY22, Marco Polo Marine (MPM) reported a 196% yoy jump in core EBITDA to S$18.1m. This is mainly driven by the rise in revenue in the ship chartering operations segment, from S$10.7m to S$34.3m (+219.6% yoy) in the same period. MPM's path of expansion into the booming offshore windfarm sector constitutes the group's joint venture with Oceanic Crown Offshore Marine Services Ltd. and the acquisition of PKR Offshore Co. Ltd. in May 22 thus far. This has helped establish its market presence in Taiwan and greatly contributed to the improved financial performance, with about 40% or 5 of the group's 13 OSVs chartered out for the market.

KEY FINANCIALS

Year to 30 Sep (S$m)	2021	2022	2023F	2024F	2025F
Net turnover	46	86	81	90	93
EBITDA	9	30	25	27	18
Operating profit	2	21	16	18	18
Net profit (rep./act.)	15	21	15	17	17
Net profit (adj.)	3	14	15	17	17
EPS (S$ cents)	0.1	0.4	0.4	0.5	0.5
PE (x)	55.7	12.0	11.0	9.8	9.7
P/B (x)	1.4	1.2	1.1	1.0	0.9
EV/EBITDA (x)	15.0	4.3	5.2	4.8	7.2
Dividend yield (%)	0.0	0.0	0.0	0.0	0.0
Net margin (%)	32.0	24.8	18.8	18.9	18.5
Net debt/(cash) to equity (%)	(13.8)	(35.8)	(47.1)	(55.6)	(62.7)
Interest cover (x)	n.a.	n.a.	n.a.	n.a.	n.a.
ROE (%)	13.8	16.8	10.4	10.5	9.5
Consensus net profit	-	-	7	7	-
UOBKH/Consensus (x)	-	-	2.24	2.40	-

Source: Marco Polo Marine, Bloomberg, UOB Kay Hian

HOLD

(Downgraded)

Share Price	S$0.047
Target Price	S$0.048
Upside	+1.8%
(Previous TP	*S$0.043)*

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):	3,549.2
Market cap (S$m):	166.8
Market cap (US$m):	123.0
3-mth avg daily t'over (US$m):	1.1

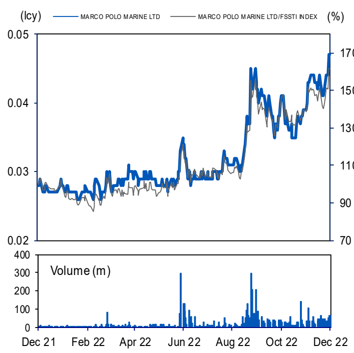
Price Performance (%)

52-week high/low S$0.047/S$0.026

1mth	3mth	6mth	1yr	YTD
20.5	9.3	34.3	74.1	74.1

Major Shareholders	%
Lee Wan Tang	56.1
FY23 NAV/Share (S$)	0.04
FY23 Net Cash/Share (S$)	0.02

PRICE CHART



Source: Bloomberg

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STOCK IMPACT

- **Management continues to expand in offshore windfarm sector.** In Sep 22, MPM has announced its plans to build, own and operate a new Commissioning Service Operation Vessel (CSOV) as a shortage in such vessels in the market is observed. Demand for CSOVs is on the rise, with increased construction of new projects and projects near the final commissioning date. The CSOV is expected to be completed in 1QFY24, with the management hoping to meet the increasing demand for support vessels required to service Asia's offshore windfarm industry. The group also signed a MoU with "K" Line Wind Service, Ltd., an offshore support vessel services provider in Japan in Dec 22, successfully extending its reach to the Japan market. According to the Global Wind Energy Council's Global Wind Report 2022, the annual global offshore market is expected to grow from 21.1GW in 2021 to 31.4GW in 2026 (+49%), demonstrating the market's strong growth potential in the long term. Additionally, the group recently expanded its dry-docking capacity, with the completion of the dock 1 extension program in 2HFY22. This will likely improve its revenue moving forward.

- **Clean from debt and balance sheet impaired.** MPM has shown excellent cash management, with a strong cash position of S$53.5m as at end-FY22. This provides a comfortable level of support for our valuation.

EARNINGS REVISION/RISK

- We have raised our FY23-24 revenue forecasts by 50-62%, on higher margin assumptions and improving charter rates.

- Accordingly, our net profit estimates have increased 125% and 141% to S$15.2m and S$17.0m for FY23 and FY24 respectively, while adding our FY25 forecasts.

VALUATION/RECOMMENDATION

- **Downgrade to HOLD with a higher target price of S$0.048 (S$0.038 previously).** We value MPM at 1.1x FY23F P/B, in line to +2SD of its historical five-year average on the back of: a) improving charter rates, b) better vessel utilisation rate, and c) expanded shipyard capacity.

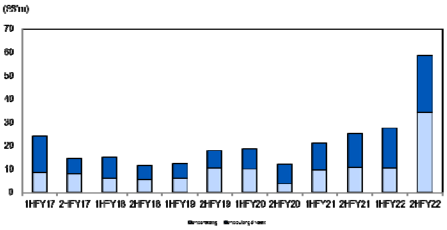
SHARE PRICE CATALYST

- Higher-than-expected ship charter rates and vessel utilisation.

- Award of new ship chartering contracts.

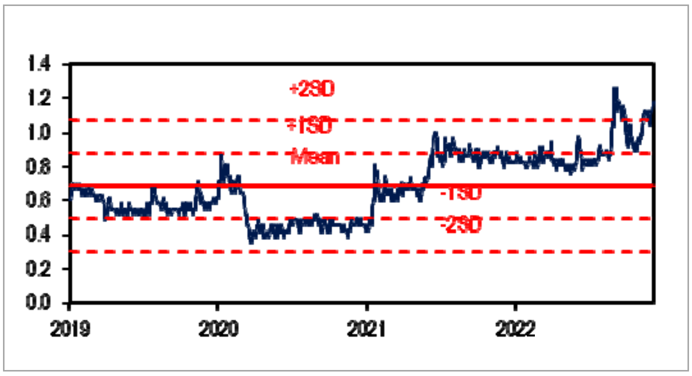
- Higher value of repair projects during the year.

SEGMENTAL CONTRIBUTION (1HFY17 – 2HFY22)



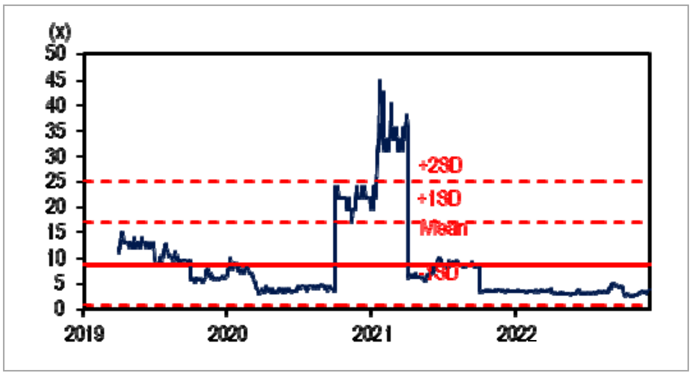
Source: MPM, UOB Kay Hian

HISTORICAL P/B BAND



Source: Bloomberg, UOB Kay Hian

HISTORICAL EV/EBITDA BAND



Source: Bloomberg, UOB Kay Hian

PROFIT & LOSS

Year to 30 Sep (S$m)	2022	2023F	2024F	2025F
Net turnover	86.1	80.7	90.3	92.6
EBITDA	30.1	24.8	26.8	18.1
Deprec. & amort.	8.7	8.8	8.8	0.0
EBIT	21.4	16.1	18.0	18.1
Associate contributions	0.3	0.0	0.0	0.0
Net interest income/(expense)	0.6	0.0	0.0	0.0
Pre-tax profit	23.3	16.1	18.0	18.1
Tax	(1.2)	(0.8)	(0.9)	(1.0)
Minorities	(0.7)	0.0	0.0	0.0
Net profit	21.3	15.2	17.0	17.1
Net profit (adj.)	13.8	15.2	17.0	17.1

BALANCE SHEET

Year to 30 Sep (S$m)	2022	2023F	2024F	2025F
Fixed assets	94.7	87.4	80.1	72.7
Other LT assets	16.9	13.5	13.5	13.5
Cash/ST investment	53.5	75.1	97.6	120.4
Other current assets	23.0	24.8	27.3	26.9
Total assets	188.1	200.8	218.5	233.5
ST debt	1.3	0.0	0.0	0.0
Other current liabilities	29.3	27.6	30.5	31.5
LT debt	2.5	2.5	2.5	2.5
Other LT liabilities	3.4	16.6	14.4	11.3
Shareholders' equity	138.9	154.1	171.1	188.2
Minority interest	12.8	0.0	0.0	0.0
Total liabilities & equity	188.1	200.8	218.5	233.5

CASH FLOW

Year to 30 Sep (S$m)	2022	2023F	2024F	2025F
Operating	20.8	24.4	26.8	26.1
Pre-tax profit	23.3	16.1	18.0	18.1
Tax	(0.1)	(1.8)	(0.8)	(0.9)
Deprec. & amort.	8.7	8.8	8.8	8.9
Working capital changes	3.5	1.4	0.8	0.0
Non-cash items	(14.5)	0.0	0.0	0.0
Investing	3.4	(1.5)	(1.5)	(1.5)
Capex (growth)	(4.6)	(1.5)	(1.5)	(1.5)
Proceeds from sale of assets	0.0	0.0	0.0	0.0
Others	8.0	0.0	0.0	0.0
Financing	(0.8)	(1.3)	0.0	0.0
Dividend payments	0.0	0.0	0.0	0.0
Issue of shares	0.5	0.0	0.0	0.0
Loan repayment	(0.7)	(1.3)	0.0	0.0
Others/interest paid	(0.6)	0.0	0.0	0.0
Net cash inflow (outflow)	23.5	21.6	25.3	24.6
Beginning cash & cash equivalent	20.3	53.5	75.1	100.4
Changes due to forex impact	9.7	0.0	0.0	0.0
Ending cash & cash equivalent	53.5	75.1	100.4	124.9

KEY METRICS

Year to 30 Sep (%)	2022	2023F	2024F	2025F
Profitability				
EBITDA margin	35.0	30.8	29.7	19.5
Pre-tax margin	27.0	19.9	19.9	19.5
Net margin	24.8	18.8	18.9	18.5
ROA	13.0	7.8	8.1	7.6
ROE	16.8	10.4	10.5	9.5
Growth				
Turnover	86.7	(6.2)	11.9	2.5
EBITDA	248.1	(17.6)	8.0	(32.7)
Pre-tax profit	52.3	(31.0)	12.0	0.4
Net profit	44.4	(28.8)	12.0	0.4
Net profit (adj.)	365.2	9.8	12.0	0.4
EPS	363.1	9.8	12.0	0.4
Leverage				
Debt to total capital	2.4	1.6	1.4	1.3
Debt to equity	2.7	1.6	1.5	1.3
Net debt/(cash) to equity	(35.8)	(47.1)	(55.6)	(62.7)
Interest cover (x)	n.a.	n.a.	n.a.	n.a.

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