

COMPANY UPDATE

Marco Polo Marine (MPM SP)

Encouraging Times Ahead

MPM has improved its financials on higher fleet charter and utilisation rates, as well as contributions from its Taiwan-based JV and Indonesian subsidiary acquired in FY22. Minimal newbuilds and increased demand in Asia have also driven up charter rates. With this, together with its strong balance sheet and expansion efforts in the offshore windfarm sector with the construction of its CSOV, MPM is poised to benefit in the coming years. Upgrade to BUY with a 25% higher target price of S\$0.060.

WHAT'S NEW

- Increased oil & gas and offshore windfarm activity driving charter rates.** The pickup in oil & gas activity, from exploration and production to decommissioning of rigs, is presenting opportunities to offshore support vessels (OSV) market players with oil prices remaining high. Offshore wind in the Asia-Pacific (APAC) region is also progressing ahead, with more large-scale projects forecasted. Additionally, per Mordor Intelligence, the APAC OSV market is expected to record a CAGR of >7% from 2022 to 2027, putting MPM in a favourable position given its operating markets. In 1HFY23, we have already seen a 65% yoy increase in average charter rates, and an 8ppt yoy increase in Marco Polo Marine's (MPM) vessel utilisation rates to 66%.
- Minimal newbuilds on smaller-sized vessels provide support for dayrates.** While increasing demand typically leads to newbuilding, tight access to bank finance has led to limited possibility of newbuilds. This squeezes supply of available quality OSVs, which will drive further increases in charter rates and utilisation levels moving forward. Industry utilisation rates have continued to rise since 2H21 from higher demand due to the confluence of factors listed above.
- Commendable growth across both business segments undermined by one-off items.** In 1HFY23, MPM reported a 167% yoy jump in core EBITDA to S\$15.5m. This is driven by the rise in revenue in the ship chartering segment from S\$10.5m to S\$24.5m (+133.3% yoy), as a result of S\$12.9m in revenue consolidated from both its Indonesian subsidiary PT BBR Tbk (PT BBR) and Taiwan-based PKR Offshore, as well as higher average charter rates and utilisation rate for its fleet. Its ship building & repair operations also registered a significant 83.6% yoy revenue growth to S\$31.4m, owing to higher contract values of repair projects as well as new shipbuilding projects. Upon adjusting for one-off items: a) S\$5.2m in remeasurement gain on previously held equity interest in PT BBR in 1HFY22, b) S\$4.2m in reversal of impairment loss on receivables due from PT BBR in 1HFY22, and c) S\$2.6m in unrealised foreign exchange loss in 1HFY23, we see that core net profit has in fact surged 372% yoy from S\$1.8m to S\$8.5m.

KEY FINANCIALS

Year to 30 Sep (S\$m)	2021	2022	2023F	2024F	2025F
Net turnover	46	86	113	130	144
EBITDA	9	30	25	28	21
Operating profit	2	21	16	18	21
Net profit (rep./act.)	15	21	15	17	20
Net profit (adj.)	3	14	15	17	20
EPS (S\$ cents)	0.1	0.4	0.4	0.5	0.6
PE (x)	62.8	13.6	12.4	10.8	9.6
P/B (x)	1.6	1.4	1.2	1.1	1.0
EV/EBITDA (x)	17.2	4.9	5.9	5.2	7.2
Dividend yield (%)	0.0	0.0	0.0	0.0	0.0
Net margin (%)	32.0	24.8	13.3	13.4	13.7
Net debt/(cash) to equity (%)	(13.8)	(35.8)	(32.7)	(35.7)	(44.4)
Interest cover (x)	n.a.	n.a.	n.a.	n.a.	n.a.
ROE (%)	13.8	16.8	10.3	10.6	10.8
Consensus net profit	-	-	16	18	18
UOBKH/Consensus (x)	-	-	0.93	0.98	1.07

Source: Marco Polo Marine, Bloomberg, UOB Kay Hian

BUY

(Upgraded)

Share Price	S\$0.053
Target Price	S\$0.060
Upside	+14.1%
(Previous TP)	S\$0.048

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):	198.9
Market cap (US\$m):	148.0
3-mth avg daily t'over (US\$m):	0.7

Price Performance (%)

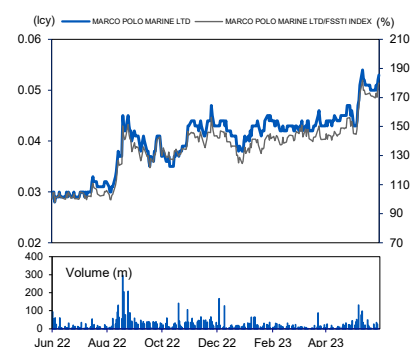
52-week high/low S\$0.054/S\$0.028

1mth	3mth	6mth	1yr	YTD
17.8	23.3	23.3	65.6	29.3

Major Shareholders

	%
Apricot Capital Pte	16.2
Nautical International	12.9
Watiga Trust Pte Ltd	4.3
FY23 NAV/Share (S\$)	0.04
FY23 Net Cash/Share (S\$)	0.02

PRICE CHART



Source: Bloomberg

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STOCK IMPACT

- Continued development in renewable energy sector and newbuild contracts secured till 1HFY24.** MPM has previously announced its plans to build, own and operate a new Commissioning Service Operation Vessel (CSOV), as a shortage of such vessels in the market is observed. Demand for CSOVs is on the rise, with increased construction of new projects and projects near their final commissioning dates. According to management, the CSOV is at 13% completion as at end-1HFY23 and is expected to be completed in 1QFY24, in time to meet the increasing demand for support vessels in Asia's offshore windfarm industry. The group has also successfully secured several new build contracts for the construction of barges to be delivered up till 1HFY24, ensuring sustained shipyard utilisation levels. As at 2Q23, the shipyard was operating at a higher average utilisation rate of 84% (1Q23: 74%%).
- Healthy cash balance provides buffer.** MPM has shown excellent cash management, with a strong cash position of S\$53.0m as at end-1HFY23 (FY22: S\$53.5m). This provides a comfortable level of support for our valuation.

EARNINGS REVISION/RISK

- We have raised our FY23-25 revenue forecasts by 41-55%, on higher charter rates.
- Accordingly, our net profit estimates have increased 2%/15% to S\$17.4m and S\$19.7m for FY24 and FY25 respectively.

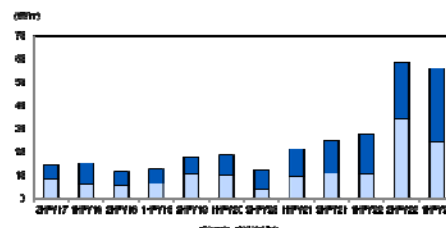
VALUATION/RECOMMENDATION

- Upgrade to BUY with a 25% higher target price of S\$0.060 (S\$0.048 previously).** We value MPM at 1.3x FY23F P/B, in line with +2SD of its historical five-year average on the back of improving charter rates and vessel utilisation rates.

SHARE PRICE CATALYST

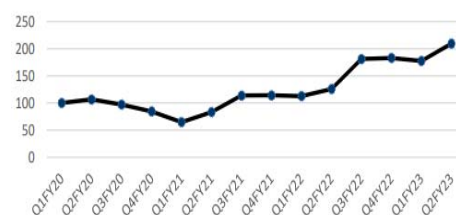
- Higher-than-expected ship charter rates and vessel utilisation.
- Award of new ship chartering contracts.
- Higher value of repair projects during the year.

SEGMENTAL CONTRIBUTION (2HFY17 – 1HFY23)



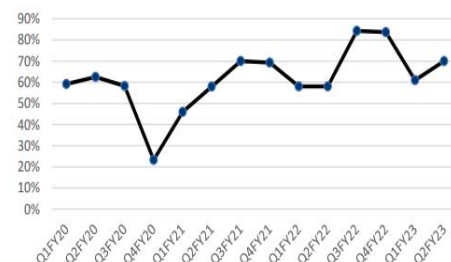
Source: MPM, UOB Kay Hian

AVERAGE CHARTER RATES (1Q20 – 2Q23)



Source: MPM

AVERAGE UTILISATION RATES (1Q20 – 2Q23)



Source: MPM

PROFIT & LOSS

Year to 30 Sep (\$m)	2022	2023F	2024F	2025F
Net turnover	86.1	113.4	129.6	143.6
EBITDA	30.1	25.2	28.3	31.2
Deprec. & amort.	8.7	9.2	10.0	10.5
EBIT	21.4	16.0	18.3	20.7
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	16.0	18.3	20.7
Tax	(1.2)	(0.8)	(1.0)	(1.1)
Minorities	(0.7)	0.0	0.0	0.0
Net profit	21.3	15.1	17.3	19.6
Net profit (adj.)	13.8	15.1	17.3	19.6

CASH FLOW

Year to 30 Sep (\$m)	2022	2023F	2024F	2025F
Operating	20.8	28.6	28.9	31.5
Pre-tax profit	23.3	16.0	18.3	20.7
Tax	(0.1)	(1.8)	(0.8)	(0.9)
Deprec. & amort.	8.7	9.2	10.0	10.5
Working capital changes	3.5	5.2	1.4	1.3
Non-cash items	(14.5)	0.0	0.0	0.0
Investing	3.4	(28.0)	(18.0)	(8.0)
Capex (growth)	(4.6)	(28.0)	(18.0)	(8.0)
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	(0.7)	10.9	23.5
Beginning cash & cash equivalent	20.3	53.5	52.8	63.7
Changes due to forex impact	9.7	0.0	0.0	0.0
Ending cash & cash equivalent	53.5	52.8	63.7	87.2

BALANCE SHEET

Year to 30 Sep (\$m)	2022	2023F	2024F	2025F
Fixed assets	94.7	113.5	121.4	118.9
Other LT assets	16.9	13.5	13.5	13.5
Cash/ST investment	53.5	52.8	63.7	87.2
Other current assets	23.0	34.6	38.9	41.4
Total assets	188.1	214.4	237.5	261.1
ST debt	1.3	0.0	0.0	0.0
Other current liabilities	29.3	38.4	43.3	48.3
LT debt	2.5	2.5	2.5	2.5
Other LT liabilities	3.4	19.5	20.4	19.3
Shareholders' equity	138.9	154.0	171.3	191.0
Minority interest	12.8	0.0	0.0	0.0
Total liabilities & equity	188.1	214.4	237.5	261.1

KEY METRICS

Year to 30 Sep (%)	2022	2023F	2024F	2025F
Profitability				
EBITDA margin	35.0	22.2	21.9	21.7
Pre-tax margin	27.0	14.1	14.1	14.4
Net margin	24.8	13.3	13.4	13.7
ROA	13.0	7.5	7.7	7.9
ROE	16.8	10.3	10.6	10.8
Growth				
Turnover	86.7	31.7	14.2	10.8
EBITDA	248.1	(16.3)	12.3	10.2
Pre-tax profit	52.3	(31.3)	14.4	13.3
Net profit	44.4	(29.1)	14.4	13.3
Net profit (adj.)	365.2	9.4	14.4	13.3
EPS	363.1	9.4	14.4	13.3
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)	(32.7)	(35.7)	(44.4)
Interest cover (x)	n.a.	n.a.	n.a.	n.a.

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