

COMPANY UPDATE

Marco Polo Marine (MPM SP)

Riding On The Offshore Boom

MPM reported strong top-line growth in 3QFY23, from an uptick in utilisation rates in both its ship chartering and shipyard segments. MPM continues to expand into the APAC offshore sector, with its CSOV expected to be ready by 3Q24 and partnerships in Japan and South Korea. It has also recently announced the construction of a new dry dock, boosting ship repair capacity by up to 25% to capitalise on higher demand for ship repairs. Maintain BUY with a target price of S\$0.06.

3QFY23 UPDATE

Year to 30 Sep (\$m)	3QFY23	3QFY22	yoy % chg	9MFY23	9MFY22	yoy % chg
Revenue	36.8	28.5	28.9	92.7	56.2	65.1
Gross profit	14.2	9.7	47.2	31.9	17.8	78.9
Gross margin (%)	38.7	33.9	+4.8ppt	34.4	31.6	+2.8ppt

Source: Marco Polo Marine, UOB Kay Hian

WHAT'S NEW

- Significant top-line growth from increased utilisation rates.** Marco Polo Marine (MPM) has reported a strong improvement in 3QFY23 revenue to S\$36.8m (+28.9% yoy) due to an uptick in utilisation levels in both its core businesses, bringing 9MFY23 revenue up to S\$92.7m (+65.1% yoy). For the ship chartering segment, vessel utilisation rates rose to 92% (+8% yoy) on the back of a better demand environment. This was positively impacted by higher energy prices, increased offshore windfarm activity and continued shortness in the supply of offshore support vessels (OSV). Besides this, contributions from both its Indonesian subsidiary PT BBR Tbk (PT BBR) and Taiwan-based PKR Offshore (PKRO) further lifted utilisation levels and charter rates for the segment. As for MPM's shipyard, its utilisation rate remained robust at 93% (+7% yoy), as a result of increased shipbuilding and ship repairs activities. Together with higher contract values for ship repair projects, this has driven revenue growth for the segment.
- Benefitting from minimal newbuilds on smaller-sized vessels and increased offshore activity.** Though the surge in demand should lead to newbuilding, vessel supply is set to remain constrained on the horizon. Securing financing remains challenging, resulting in limited possibility of newbuilds. This will drive further increases in charter rates and utilisation rates, which will be beneficial for MPM. The APAC offshore windfarm market is also garnering more attention and attracting increased investments in offshore wind projects. Per Mordor Intelligence, the APAC OSV market is expected to record a CAGR of >7% from 2022 to 2027. With its growing presence in the region such as recent partnerships into Japan and South Korea, MPM is placed in a favourable position.

KEY FINANCIALS

Year to 30 Sep (\$m)	2021	2022	2023F	2024F	2025F
Net turnover	46	86	121	130	144
EBITDA	9	30	29	30	34
Operating profit	2	21	19	20	23
Net profit (rep./act.)	15	21	16	17	20
Net profit (adj.)	3	14	16	17	20
EPS (S\$ cents)	0.1	0.4	0.4	0.5	0.5
PE (x)	59.3	12.8	11.6	10.8	9.6
P/B (x)	1.5	1.3	1.2	1.1	1.0
EV/EBITDA (x)	16.1	4.6	4.9	4.6	4.1
Dividend yield (%)	0.0	0.0	0.0	0.0	0.0
Net margin (%)	32.0	24.8	13.4	13.4	13.7
Net debt/(cash) to equity (%)	(13.8)	(35.8)	(31.1)	(33.7)	(42.5)
Interest cover (x)	n.a.	n.a.	n.a.	n.a.	n.a.
ROE (%)	13.8	16.8	11.0	10.6	10.8
Consensus net profit	-	-	16	18	20
UOBKH/Consensus (x)	-	-	1.00	0.97	1.00

Source: Marco Polo Marine, Bloomberg, UOB Kay Hian

BUY

(Maintained)

Share Price	S\$0.050
Target Price	S\$0.060
Upside	+19.4%

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):	187.7
Market cap (US\$m):	137.5
3-mth avg daily t'over (US\$m):	0.7

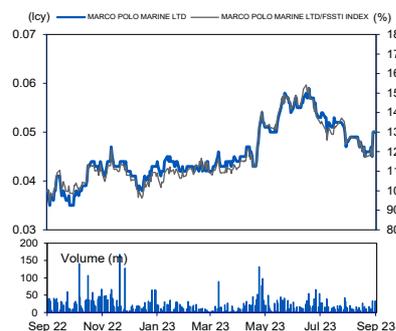
Price Performance (%)

52-week high/low	S\$0.059/S\$0.035			
1mth	3mth	6mth	1yr	YTD
0.0	(10.7)	13.6	22.0	22.0

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\$)	0.01

PRICE CHART



Source: Bloomberg

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STOCK IMPACT

- Construction of new dry dock to boost ship repair capacity.** MPM has recently announced plans to build a 240m Dry Dock 4 in Nov 23, funded by a mix of operational cashflows and external bank financing. This will increase ship repair capacity by up to 25%, allowing MPM to capture growing demand for ship repairs. As of 3QFY23, MPM's shipyard utilisation rate was at 93%. With completion expected to be in 1QFY25, it will likely contribute to higher earnings then.
- Sustaining high shipyard utilisation rates with newbuild contracts secured.** For its shipyard segment, MPM has continued to effectively market its business operations to regional ship owners in Indonesia to undertake more shipbuilding projects, while widening its customer network for ship repair activities to drive revenue growth. This has been demonstrated in its ability to secure newbuild contracts for vessel construction with deliveries are scheduled up till 1HFY24.
- New CSOV to boost ship chartering revenue.** MPM has previously announced its plans to build and operate a new Commissioning Service Operation Vessel (CSOV) as a shortage in such vessels in the market is observed. The CSOV is designed to support commissioning work for the construction and maintenance of offshore wind farms, and will provide charter services to support the Taiwan, Japan and South Korea markets. With increased construction of new projects, demand for CSOVs is on the rise. The CSOV's expected completion in 3QFY24 will therefore be timely to meet the growing offshore windfarm industry in Asia.
- Healthy net cash position provides buffer.** MPM has shown excellent cash management, with a strong net cash position of S\$50.2m as at end-1QFY23 (FY22: S\$53.5m). This provides a comfortable level of support for our valuation.

EARNINGS REVISION/RISK

- We have raised our FY23 revenue forecasts by 7%,** on higher charter rates and utilisation rates. Accordingly, our net profit estimates have increased 7% to S\$16.2m.

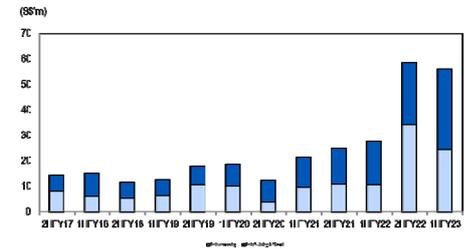
VALUATION/RECOMMENDATION

- Maintain BUY with a target price of S\$0.060.** We value MPM at 1.3x FY24F P/B, in line with +2SD of its historical five-year average on the back of improving charter rates and vessel utilisation rates. We have rolled over our valuation base year to 2024.

SHARE PRICE CATALYST

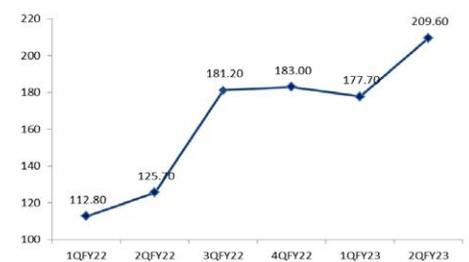
- Higher-than-expected ship charter rates and vessel utilisation.
- Award of new ship chartering contracts.
- Higher value of repair projects during the year.

SEGMENTAL CONTRIBUTION (2HFY17 – 1HFY23)



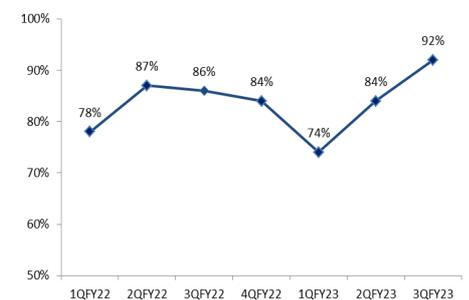
Source: Marco Polo Marine, UOB Kay Hian

AVERAGE CHARTER RATES (1QFY22 – 2QFY23)



Source: Marco Polo Marine, UOB Kay Hian

SHIPYARD UTILISATION RATES (1QFY22 – 3QFY23)



Source: Marco Polo Marine, UOB Kay Hian

PROFIT & LOSS

Year to 30 Sep (\$m)	2022	2023F	2024F	2025F
Net turnover	86.1	121.3	129.5	143.6
EBITDA	30.1	28.5	30.4	33.8
Deprec. & amort.	8.7	9.3	10.0	10.5
EBIT	21.4	19.2	20.4	23.4
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	19.2	20.4	23.4
Tax	(1.2)	(1.0)	(1.1)	(1.2)
Minorities	(0.7)	(2.0)	(2.0)	(2.5)
Net profit	21.3	16.2	17.3	19.6
Net profit (adj.)	13.8	16.2	17.3	19.6

BALANCE SHEET

Year to 30 Sep (\$m)	2022	2023F	2024F	2025F
Fixed assets	94.7	108.4	116.4	114.0
Other LT assets	16.9	13.5	13.5	13.5
Cash/ST investment	53.5	50.7	60.7	84.2
Other current assets	23.0	37.0	38.9	41.4
Total assets	188.1	209.6	229.5	253.1
ST debt	1.3	0.0	0.0	0.0
Other current liabilities	29.3	41.2	43.4	48.5
LT debt	2.5	2.5	2.6	2.6
Other LT liabilities	3.4	10.8	11.1	10.0
Shareholders' equity	138.9	155.1	172.4	192.0
Minority interest	12.8	0.0	0.0	0.0
Total liabilities & equity	188.1	209.6	229.5	253.1

CASH FLOW

Year to 30 Sep (\$m)	2022	2023F	2024F	2025F
Operating	20.8	25.4	28.0	31.5
Pre-tax profit	23.3	19.2	20.4	23.4
Tax	(0.1)	(1.8)	(1.0)	(1.0)
Deprec. & amort.	8.7	9.3	10.0	10.5
Working capital changes	3.5	6.1	0.6	1.2
Non-cash items	(14.5)	(7.4)	(2.0)	(2.5)
Investing	3.4	(23.0)	(18.0)	(8.0)
Capex (growth)	(4.6)	(23.0)	(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)	0.1	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)	0.1	0.0
Others/interest paid	(0.6)	0.0	0.0	0.0
Net cash inflow (outflow)	23.5	1.2	10.1	23.5
Beginning cash & cash equivalent	20.3	53.5	50.7	60.7
Changes due to forex impact	9.7	(4.0)	0.0	0.0
Ending cash & cash equivalent	53.5	50.7	60.7	84.2

KEY METRICS

Year to 30 Sep (%)	2022	2023F	2024F	2025F
Profitability				
EBITDA margin	35.0	23.5	23.5	23.6
Pre-tax margin	27.0	15.8	15.7	16.3
Net margin	24.8	13.4	13.4	13.7
ROA	13.0	8.2	7.9	8.1
ROE	16.8	11.0	10.6	10.8
Growth				
Turnover	86.7	40.9	6.8	10.9
EBITDA	248.1	(5.4)	6.6	11.4
Pre-tax profit	52.3	(17.3)	6.0	14.7
Net profit	44.4	(24.1)	6.8	13.5
Net profit (adj.)	365.2	17.1	6.8	13.5
EPS	363.1	10.5	6.8	13.5
Leverage				
Debt to total capital	2.4	1.6	1.5	1.3
Debt to equity	2.7	1.6	1.5	1.4
Net debt/(cash) to equity	(35.8)	(31.1)	(33.7)	(42.5)
Interest cover (x)	n.a.	n.a.	n.a.	n.a.

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