

COMPANY UPDATE

Marco Polo Marine (MPM SP)

Virtual Call Takeaways: Thriving On Upswing In Offshore Industry

MPM has highlighted the promising future of offshore wind with rising global capacity targets. Average dayrates and utilisation rates are also likely to remain on the uptrend, supported by growing demand and limited vessel supply. We believe this allows MPM to continue securing ship chartering contracts and expanding into new markets, with its fleet and shipyard growth expected to contribute from FY25. Maintain BUY with a target price of S\$0.086.

WHAT'S NEW

- **Charter and utilisation rates for OSVs continue upward momentum**, underpinned by higher offshore drilling activity. According to Clarksons Research, global offshore support vessel (OSV) utilisation stood at 73% in 2023, while dayrates have surpassed previous peaks in 2013-14. On top of this, OSV supply has dropped 5% from 2017 as newbuilds are minimal from limited bank financing. As offshore oil and gas activities pick up and fleet supply remains constrained, Marco Polo Marine (MPM) stands to benefit from the strengthening rates.
- **Capturing growth in APAC offshore wind capacity.** In the Global Wind Energy Council's (GWEC) view, global installed offshore wind capacity is expected to grow by more than five-fold to 447 GW by end-32, with nearly 50% from APAC. This is mainly driven by Taiwan, whose National Development Council is targeting an ambitious 5.7GW offshore wind generation capacity by 2025 and 20.5GW by 2035 in pursuit of net zero carbon emissions. MPM has established a long track record from supporting the offshore wind market in Taiwan via Oceanic Crown Offshore Marine Services and PKR Offshore, and continues to expand its presence with its new commissioning service operation vessel (CSOV) slated to be operational in 2H24. We think that this is key leverage for MPM to achieve growth with Taiwan's burgeoning offshore windfarm projects.
- **Maiden deployment of new CSOV and CTV in FY25 may unlock more opportunities.** MPM's new CSOV construction progress is on schedule, with its christening ceremony set on 3 Sep 24 according to management. Designed to provide charter services in Taiwan, Japan and South Korea, it will first be deployed in Taiwan in 2H24 under its Vestas Framework Agreement. Having successfully entered the Taiwan offshore wind market, MPM is also drawing on its expertise to serve the Korea market this year. In Mar 24, MPM announced its Asia-Pacific Crew Transfer Vessel (CTV) framework agreement with Siemens Gamesa for projects across Taiwan and Korea. Its maiden CTV charter in Korea will start in 4Q24, marking MPM's successful entry into a new market. We think that these partnerships will further boost MPM's track record and potentially provide more opportunities to accelerate its growth.

KEY FINANCIALS

Year to 30 Sep (S\$m)	2022	2023	2024F	2025F	2026F
Net turnover	86	127	146	160	171
EBITDA	31	40	50	54	42
Operating profit	22	28	37	40	42
Net profit (rep./act.)	21	23	29	32	35
Net profit (adj.)	14	25	29	32	35
EPS (S\$ cents)	0.4	0.7	0.8	0.9	0.9
PE (x)	17.2	10.0	8.6	7.8	7.2
P/B (x)	1.7	1.5	1.3	1.1	1.0
EV/EBITDA (x)	5.9	4.6	3.6	3.4	4.3
Dividend yield (%)	0.0	1.5	2.2	3.0	3.0
Net margin (%)	24.8	17.8	20.1	20.3	20.7
Net debt/(cash) to equity (%)	(35.8)	(35.3)	(35.3)	(42.7)	(54.2)
Interest cover (x)	241.9	n.a.	n.a.	n.a.	n.a.
ROE (%)	16.8	14.7	16.3	15.6	15.1
Consensus net profit	-	-	27	32	37
UOBKH/Consensus (x)	-	-	1.07	1.01	0.96

Source: Marco Polo Marine, Bloomberg, UOB Kay Hian

BUY

(Maintained)

Share Price	S\$0.067
Target Price	S\$0.086
Upside	+27.9%

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):	251.5
Market cap (US\$m):	186.9
3-mth avg daily t'over (US\$m):	0.5

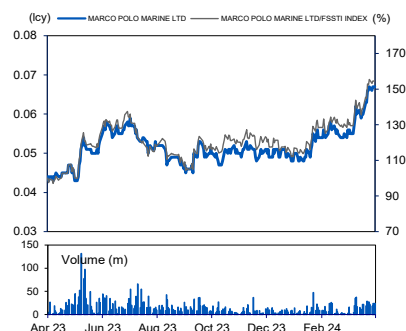
Price Performance (%)

52-week high/low	S\$0.067/S\$0.043			
1mth	3mth	6mth	1yr	YTD
21.8	39.6	34.0	55.8	31.4

Major Shareholders

	%
Lee Family	22.6
Apricot Capital	16.2
Penguin International	8.1
FY24 NAV/Share (S\$)	0.05
FY24 Net Cash/Share (S\$)	0.02

PRICE CHART



Source: Bloomberg

ANALYST(S)

Heidi Mo
+65 6590 6630
heidimo@uobkayhian.com

John Cheong
+65 6590 6623
johncheong@uobkayhian.com

STOCK IMPACT

- CSOV to be key contributor from FY25.** Under its Vestas Framework Agreement, MPM's CSOV will be deployed over three years at an agreed utilisation rate per annum upon construction completion. According to 4C Offshore Market Intelligence, there are 14 CSOVs and 29 service operation vessels (SOVs) in operation worldwide as of 8 Mar 24, with the majority contracted in Europe. In line with larger capacity turbines furthering offshore, such vessels with larger capacity are seeing increasing demand. We note that 53 CSOVs/SOVs are in the pipeline, of which few are ordered by companies serving the APAC region like MPM. As the cost of building such vessels rise, the limited supply points to better day rates and utilisation for MPM's CSOV moving forward.
- New dry dock to boost ship repair capacity by 25% from FY25.** MPM's new 240-metre-long Dry Dock 4 is expected to be completed by 1QFY25 and will increase ship repair capacity by up to 25%. The group has also successfully secured several new build contracts for vessel construction to be delivered up till 2HFY24, ensuring sustained shipyard utilisation levels. The stabilisation of China's reopening will also allow MPM to capture growing demand for ship repairs and shipbuilding and achieve top-line growth. As of end-1QFY24, MPM's shipyard utilisation rate remained high at 79% (+5ppt yoy).
- Healthy net cash position provides buffer.** MPM has shown excellent cash management, with a strong net cash position of S\$61m as at end-FY23 (FY22: S\$54m). This provides a comfortable level of support for our valuation.

EARNINGS REVISION/RISK

- None.

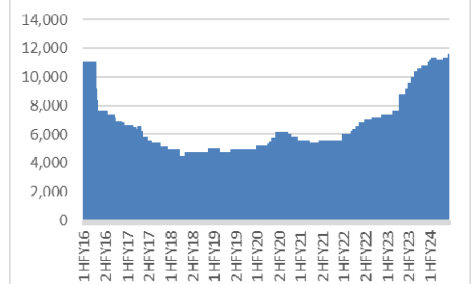
VALUATION/RECOMMENDATION

- Maintain BUY with a target price of S\$0.086**, pegged to 11x FY24F PE, based on +2SD above its historical three-year PE range. We apply this valuation peg on the back of higher charter rates and vessel utilisation rates. MPM currently trades at an attractive 9x FY24F PE.

SHARE PRICE CATALYST

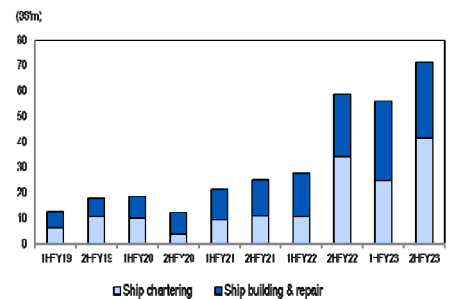
- Higher-than-expected ship charter rates and vessel utilisation.
- Award of new ship chartering contracts.
- Higher value of repair projects during the year.

OSV CHARTER RATES ARE INCREASING TO A NINE-YEAR HIGH (1HFY16 – PRESENT)



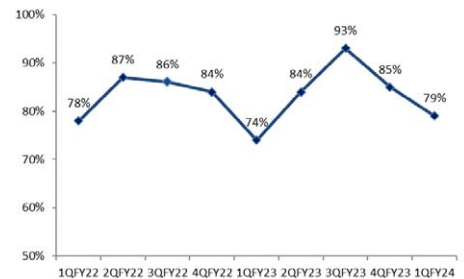
Source: Offshore Intelligence Network, UOB Kay Hian

SEGMENTAL CONTRIBUTION (1HFY19 – 2HFY23)



Source: MPM, UOB Kay Hian

SHIPYARD UTILISATION RATES (1QFY22 – 1QFY24)



Source: MPM

PROFIT & LOSS

Year to 30 Sep (\$m)	2023	2024F	2025F	2026F
Net turnover	127.1	145.9	159.7	170.6
EBITDA	39.8	50.2	54.4	42.4
Deprec. & amort.	12.1	13.4	14.5	0.0
EBIT	27.8	36.9	39.9	42.4
Associate contributions	0.2	0.0	0.0	0.0
Net interest income/(expense)	1.5	2.0	2.5	3.5
Pre-tax profit	30.5	38.9	42.4	45.9
Tax	(4.7)	(6.0)	(6.5)	(7.1)
Minorities	(3.2)	(3.5)	(3.5)	(3.5)
Net profit	22.6	29.4	32.4	35.3
Net profit (adj.)	25.2	29.4	32.4	35.3

BALANCE SHEET

Year to 30 Sep (\$m)	2023	2024F	2025F	2026F
Fixed assets	92.8	122.3	115.6	108.6
Other LT assets	20.3	16.8	16.8	16.8
Cash/ST investment	63.1	70.9	96.5	137.1
Other current assets	53.0	52.2	60.3	62.8
Total assets	229.1	262.1	289.2	325.2
ST debt	2.5	0.0	0.0	0.0
Other current liabilities	33.5	40.4	43.4	46.9
LT debt	1.3	2.6	2.6	2.6
Other LT liabilities	7.9	25.6	23.1	27.7
Shareholders' equity	167.8	193.5	220.2	247.9
Minority interest	16.1	0.0	0.0	0.0
Total liabilities & equity	229.1	262.1	289.2	325.2

CASH FLOW

Year to 30 Sep (\$m)	2023	2024F	2025F	2026F
Operating	28.1	56.6	39.7	54.4
Pre-tax profit	30.5	38.9	42.4	45.9
Tax	(1.0)	(5.0)	(5.9)	(6.5)
Deprec. & amort.	12.1	13.4	14.5	14.9
Working capital changes	(25.3)	11.3	(8.9)	2.6
Non-cash items	12.0	(2.0)	(2.5)	(2.5)
Investing	(22.8)	(40.9)	(5.4)	(4.4)
Capex (growth)	(13.4)	(42.9)	(7.9)	(7.9)
Proceeds from sale of assets	0.0	0.0	0.0	0.0
Others	(9.5)	2.0	2.5	3.5
Financing	6.0	(5.0)	(5.7)	(7.5)
Dividend payments	0.0	(3.8)	(5.7)	(7.5)
Issue of shares	7.5	0.0	0.0	0.0
Loan repayment	0.1	(1.2)	0.0	0.0
Others/interest paid	(1.5)	0.0	0.0	0.0
Net cash inflow (outflow)	11.3	10.8	28.6	42.5
Beginning cash & cash equivalent	53.5	63.1	73.9	102.5
Changes due to forex impact	(1.8)	0.0	0.0	0.0
Ending cash & cash equivalent	63.1	73.9	102.5	145.1

KEY METRICS

Year to 30 Sep (%)	2023	2024F	2025F	2026F
Profitability				
EBITDA margin	31.3	34.4	34.1	24.8
Pre-tax margin	24.0	26.6	26.5	26.9
Net margin	17.8	20.1	20.3	20.7
ROA	10.8	12.0	11.7	11.5
ROE	14.7	16.3	15.6	15.1
Growth				
Turnover	47.7	14.8	9.5	6.8
EBITDA	27.6	26.1	8.3	(22.1)
Pre-tax profit	31.0	27.6	9.1	8.2
Net profit	5.8	30.2	10.1	9.1
Net profit (adj.)	81.9	16.7	10.1	9.1
EPS	71.5	16.7	10.1	9.1
Leverage				
Debt to total capital	2.0	1.3	1.2	1.0
Debt to equity	2.3	1.3	1.2	1.0
Net debt/(cash) to equity	(35.3)	(35.3)	(42.7)	(54.2)
Interest cover (x)	n.a.	n.a.	n.a.	n.a.

Disclosures/Disclaimers

This report is prepared by UOB Kay Hian Private Limited ("UOBKH"), which is a holder of a capital markets services licence and an exempt financial adviser in Singapore.

This report is provided for information only and is not an offer or a solicitation to deal in securities or to enter into any legal relations, nor an advice or a recommendation with respect to such securities.

This report is prepared for general circulation. It does not have regard to the specific investment objectives, financial situation and the particular needs of any recipient hereof. Advice should be sought from a financial adviser regarding the suitability of the investment product, taking into account the specific investment objectives, financial situation or particular needs of any person in receipt of the recommendation, before the person makes a commitment to purchase the investment product.

This report is confidential. This report may not be published, circulated, reproduced or distributed in whole or in part by any recipient of this report to any other person without the prior written consent of UOBKH. This report is not directed to or intended for distribution to or use by any person or any entity who is a citizen or resident of or located in any locality, state, country or any other jurisdiction as UOBKH may determine in its absolute discretion, where the distribution, publication, availability or use of this report would be contrary to applicable law or would subject UOBKH and its connected persons (as defined in the Financial Advisers Act, Chapter 110 of Singapore) to any registration, licensing or other requirements within such jurisdiction.

The information or views in the report ("Information") has been obtained or derived from sources believed by UOBKH to be reliable. However, UOBKH makes no representation as to the accuracy or completeness of such sources or the Information and UOBKH accepts no liability whatsoever for any loss or damage arising from the use of or reliance on the Information. UOBKH and its connected persons may have issued other reports expressing views different from the Information and all views expressed in all reports of UOBKH and its connected persons are subject to change without notice. UOBKH reserves the right to act upon or use the Information at any time, including before its publication herein.

Except as otherwise indicated below, (1) UOBKH, its connected persons and its officers, employees and representatives may, to the extent permitted by law, transact with, perform or provide broking, underwriting, corporate finance-related or other services for or solicit business from, the subject corporation(s) referred to in this report; (2) UOBKH, its connected persons and its officers, employees and representatives may also, to the extent permitted by law, transact with, perform or provide broking or other services for or solicit business from, other persons in respect of dealings in the securities referred to in this report or other investments related thereto; (3) the officers, employees and representatives of UOBKH may also serve on the board of directors or in trustee positions with the subject corporation(s) referred to in this report. (All of the foregoing is hereafter referred to as the "Subject Business"); and (4) UOBKH may otherwise have an interest (including a proprietary interest) in the subject corporation(s) referred to in this report.

As of the date of this report, no analyst responsible for any of the content in this report has any proprietary position or material interest in the securities of the corporation(s) which are referred to in the content they respectively author or are otherwise responsible for.

IMPORTANT DISCLOSURES FOR U.S. PERSONS

This research report was prepared by UOBKH, a company authorized, as noted above, to engage in securities activities in Singapore. UOBKH is not a registered broker-dealer in the United States and, therefore, is not subject to U.S. rules regarding the preparation of research reports and the independence of research analysts. This research report is provided for distribution by UOBKH (whether directly or through its US registered broker dealer affiliate named below) to "major U.S. institutional investors" in reliance on the exemption from registration provided by Rule 15a-6 of the U.S. Securities Exchange Act of 1934, as amended (the "Exchange Act"). All US persons that receive this document by way of distribution from or which they regard as being from UOBKH by their acceptance thereof represent and agree that they are a major institutional investor and understand the risks involved in executing transactions in securities.

Any U.S. recipient of this research report wishing to effect any transaction to buy or sell securities or related financial instruments based on the information provided in this research report should do so only through UOB Kay Hian (U.S.) Inc ("UOBKHUS"), a registered broker-dealer in the United States. Under no circumstances should any recipient of this research report effect any transaction to buy or sell securities or related financial instruments through UOBKH.

UOBKHUS accepts responsibility for the contents of this research report, subject to the terms set out below, to the extent that it is delivered to and intended to be received by a U.S. person other than a major U.S. institutional investor.

The analyst whose name appears in this research report is not registered or qualified as a research analyst with the Financial Industry Regulatory Authority ("FINRA") and may not be an associated person of UOBKHUS and, therefore, may not be subject to applicable restrictions under FINRA Rules on communications with a subject company, public appearances and trading securities held by a research analyst account.

Analyst Certification/Regulation AC

Each research analyst of UOBKH who produced this report hereby certifies that (1) the views expressed in this report accurately reflect his/her personal views about all of the subject corporation(s) and securities in this report; (2) the report was produced independently by him/her; (3) he/she does not carry out, whether for himself/herself or on behalf of UOBKH or any other person, any of the Subject Business involving any of the subject corporation(s) or securities referred to in this report; and (4) he/she has not received and will not receive any compensation that is directly or indirectly related or linked to the recommendations or views expressed in this report or to any sales, trading, dealing or corporate finance advisory services or transaction in respect of the securities in this report. However, the compensation received by each such research analyst is based upon various factors, including UOBKH's total revenues, a portion of which are generated from UOBKH's business of dealing in securities.

Reports are distributed in the respective countries by the respective entities and are subject to the additional restrictions listed in the following table.

General	This report is not intended for distribution, publication to or use by any person or entity who is a citizen or resident of or located in any country or jurisdiction where the distribution, publication or use of this report would be contrary to applicable law or regulation.
Hong Kong	This report is distributed in Hong Kong by UOB Kay Hian (Hong Kong) Limited ("UOBKHHK"), which is regulated by the Securities and Futures Commission of Hong Kong. Neither the analyst(s) preparing this report nor his associate, has trading and financial interest and relevant relationship specified under Para. 16.4 of Code of Conduct in the listed corporation covered in this report. UOBKHHK does not have financial interests and business relationship specified under Para. 16.5 of Code of Conduct with the listed corporation covered in this report. Where the report is distributed in Hong Kong and contains research analyses or reports from a foreign research house, please note: (i) recipients of the analyses or reports are to contact UOBKHHK (and not the relevant foreign research house) in Hong Kong in respect of any matters arising from, or in connection with, the analysis or report; and (ii) to the extent that the analyses or reports are delivered to and intended to be received by any person in Hong Kong who is not a professional investor, or institutional investor, UOBKHHK accepts legal responsibility for the contents of the analyses or reports only to the extent required by law.
Indonesia	This report is distributed in Indonesia by PT UOB Kay Hian Sekuritas, which is regulated by Financial Services Authority of Indonesia ("OJK"). Where the report is distributed in Indonesia and contains research analyses or reports from a foreign research house, please note recipients of the analyses or reports are to contact PT UOBKH (and not the relevant foreign research house) in Indonesia in respect of any matters arising from, or in connection with, the analysis or report.
Malaysia	Where the report is distributed in Malaysia and contains research analyses or reports from a foreign research house, the recipients of the analyses or reports are to contact UOBKHM (and not the relevant foreign research house) in Malaysia, at +603-21471988, in respect of any matters arising from, or in connection with, the analysis or report as UOBKHM is the registered person under CMSA to distribute any research analyses in Malaysia.
Singapore	This report is distributed in Singapore by UOB Kay Hian Private Limited ("UOBKH"), which is a holder of a capital markets services licence and an exempt financial adviser regulated by the Monetary Authority of Singapore. Where the report is distributed in Singapore and contains research analyses or reports from a foreign research house, please note: (i) recipients of the analyses or reports are to contact UOBKH (and not the relevant foreign research house) in Singapore in respect of any matters arising from, or in connection with, the analysis or report; and (ii) to the extent that the analyses or reports are delivered to and intended to be received by any person in Singapore who is not an accredited investor, expert investor or institutional investor, UOBKH accepts legal responsibility for the contents of the analyses or reports only to the extent required by law.
Thailand	This report is distributed in Thailand by UOB Kay Hian Securities (Thailand) Public Company Limited, which is regulated by the Securities and Exchange Commission of Thailand.
United Kingdom	This report is being distributed in the UK by UOB Kay Hian (U.K.) Limited, which is an authorised person in the meaning of the Financial Services and Markets Act and is regulated by The Financial Conduct Authority. Research distributed in the UK is intended only for institutional clients.
United States of America ('U.S.')	This report cannot be distributed into the U.S. or to any U.S. person or entity except in compliance with applicable U.S. laws and regulations. It is being distributed in the U.S. by UOB Kay Hian (US) Inc, which accepts responsibility for its contents. Any U.S. person or entity receiving this report and wishing to effect transactions in any securities referred to in the report should contact UOB Kay Hian (US) Inc. directly.

Copyright 2024, UOB Kay Hian Pte Ltd. All rights reserved.

<http://research.uobkayhian.com>

RCB Regn. No. 197000447W