

COMPANY RESULTS

Marco Polo Marine (MPM SP)

3QFY24: Temporary Setback From CSOV Delay; Await Recovery In FY25

MPM's 3QFY24 performance was below our expectations, posting lower revenue and marginal growth in gross profit. The impact of lower ship repair volumes was partially offset by higher yoy ship chartering revenue. We expect a soft 4QFY24 as ship repair volumes have yet to recover. Its CSOV delivery has also been delayed by four months and is expected to contribute from 2QFY25 together with its new dry dock. Maintain BUY with target price lowered to S\$0.061 on lower earnings and valuation peg.

3QFY24 UPDATE

Year to 30 Sep (S\$m)	3QFY24	3QFY23	yoy % chg	9MFY24	9MFY23	yoy % chg
Revenue	34.9	36.8	(4.6)	96.5	92.7	4.0
Gross profit	14.6	14.2	2.6	36.8	31.9	15.4
Gross margin (%)	41.8	38.7	+3.1ppt	38.2	34.4	+3.8ppt

Source: Marco Polo Marine, UOB Kay Hian

RESULTS

- Results below expectations.** Marco Polo Marine (MPM) posted higher 3QFY24 gross profit of S\$14.6m (+3% yoy), bringing 9MFY24 gross profit up to S\$36.8m (+15% yoy). This makes up 66% of our full-year forecast and is below expectations. 3QFY24 gross profit margin rose 3.1ppt yoy to 41.8%, on higher average charter rates despite lower utilisation rates of its offshore support vessels (OSVs).
- Shipyard revenue falls; expect recovery from FY25.** The 5% yoy decline in revenue stemmed from lower shipyard revenue, as ship repair volumes and third-party shipbuilding activities fell with only two out of its three docks available for use. The third dock was occupied for its commissioning service operation vessel (CSOV) construction, the remaining of which will be shifted to and completed on the slipway from end-Aug 24. Management expects ship repair volumes to recover moving forward.
- Ship chartering remains robust as charter rates still high.** While average utilisation rates fell 6% yoy to 86% from timely vessel maintenance, ship chartering revenue continued to grow in 3QFY24. This was driven by elevated average charter rates, from the scarcity of available vessels. MPM's OSV fleet continued to enjoy higher charter rates, while third-party vessels were also rechartered at higher rates for short-term offshore projects.

KEY FINANCIALS

Year to 30 Sep (S\$m)	2022	2023	2024F	2025F	2026F
Net turnover	86	127	130	138	151
EBITDA	31	40	44	47	36
Operating profit	22	28	31	32	36
Net profit (rep./act.)	21	23	24	26	30
Net profit (adj.)	14	25	24	26	30
EPS (S\$ cents)	0.4	0.7	0.6	0.7	0.8
PE (x)	13.1	7.6	7.9	7.4	6.5
P/B (x)	1.3	1.1	1.0	0.9	0.8
EV/EBITDA (x)	3.9	3.1	2.8	2.6	3.5
Dividend yield (%)	0.0	2.0	2.9	3.9	3.9
Net margin (%)	24.8	17.8	18.5	18.8	19.6
Net debt/(cash) to equity (%)	(35.8)	(35.3)	(36.3)	(45.0)	(58.3)
Interest cover (x)	241.9	n.a.	n.a.	n.a.	n.a.
ROE (%)	16.8	14.7	13.6	13.1	13.5
Consensus net profit	-	-	26	31	34
UOBKH/Consensus (x)	-	-	0.92	0.85	0.87

Source: Marco Polo Marine, Bloomberg, UOB Kay Hian

BUY

(Maintained)

Share Price	S\$0.051
Target Price	S\$0.061
Upside	+19.6%
(Previous TP)	S\$0.086

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):	191.4
Market cap (US\$m):	146.9
3-mth avg daily t'over (US\$m):	0.7

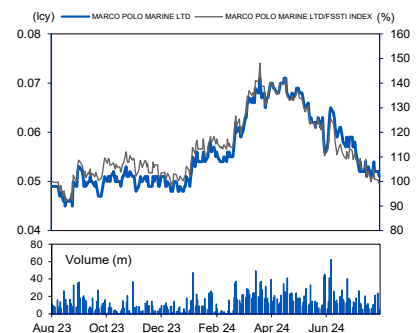
Price Performance (%)

52-week high/low	S\$0.071/S\$0.045			
1mth	3mth	6mth	1yr	YTD
(13.6)	(26.1)	(7.3)	4.1	0.0

Major Shareholders

Lee Family	22.6
Apricot Capital	16.5
Penguin International	8.1
FY24 NAV/Share (S\$)	0.05
FY24 Net Cash/Share (S\$)	0.02

PRICE CHART



Source: Bloomberg

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STOCK IMPACT

- CSOV delivery delayed to 2QFY25.** MPM has delayed its CSOV delivery by four months from Oct 24 to Feb 25. This is due to a shortage of workers, which has since eased. Consequently, management expects to incur liquidated damages in accordance with the charter contract signed with Vestas Taiwan Co. Management does not expect material impact on its PATMI for FY24, and we have incorporated around S\$1m in compensation costs to be recognised in 4QFY24.
- New dry dock to contribute from 2QFY25.** MPM's new 240-metre-long Dry Dock 4 commenced construction in May 24, and is projected to be completed by Feb 25. This is funded via both operational cash flows and bank financing. The fourth dry dock is expected to increase ship repair capacity by up to 25%, allowing MPM to take on more high-margin ship repair activities. As of end-3QFY24, MPM's shipyard utilisation rate remained high at 96% (+3ppt yoy).
- Beneficiary of higher charter rates.** The APAC offshore windfarm market is poised to see further increase in activity. According to Rystad Energy, global offshore wind installations grew 7% in 2023 and are forecast to surge to 520GW by 2040, of which APAC is expected to make up 20% excluding China. The active OSV fleet in the region is now slightly above 500 while vessels are increasingly tied to long-term contracts, thereby reducing availability. With notable projects across both the traditional O&G and the renewable sectors in its operating markets like Taiwan and Korea, MPM stands to benefit from higher demand for OSVs and sustained higher charter rates.
- New CTVs begin maiden deployment.** In Mar 24, MPM announced its Asia-Pacific Crew Transfer Vessel (CTV) framework agreement with Siemens Gamesa for projects across Taiwan and Korea. Its first CTV charter in Korea will start in Sep 24, marking MPM's successful entry into a new market, while the second will be deployed soon. We think that this partnership will help diversify MPM's customer base and provide more opportunities for growth.
- Healthy net cash position provides buffer.** MPM has shown excellent cash management, with a strong net cash position of S\$48.1m as at end-Mar 24 (FY23: S\$60.8m). This translates to S\$0.013/share, or 25% of market cap and provides a comfortable level of support for our valuation.

EARNINGS REVISION/RISK

- We lower our FY24F/25F/26F revenue forecasts by 11%/14%/11%** after factoring in the lower ship repair volumes from lesser shipyard availability, the four-month delay in revenue from the CSOV and the potential continued labour shortage. As a result, FY24F/25F/26F earnings forecasts have been cut by 18%/20%/16%, as we also include an estimated S\$1m in liquidated damages to be recognised in 4QFY24.

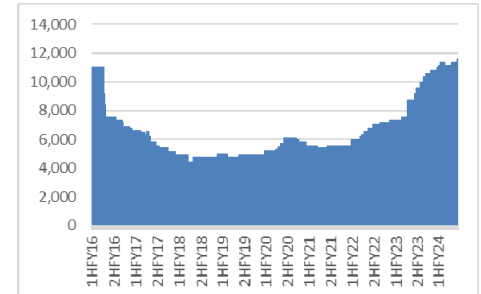
VALUATION/RECOMMENDATION

- Maintain BUY with a lower target price of S\$0.061 (S\$0.086 previously)**, pegged to 9.5x FY24F PE, based on +1SD above its historical three-year PE range. We lower our valuation peg from +2SD to account for near-term headwinds, despite industry tailwinds.

SHARE PRICE CATALYST

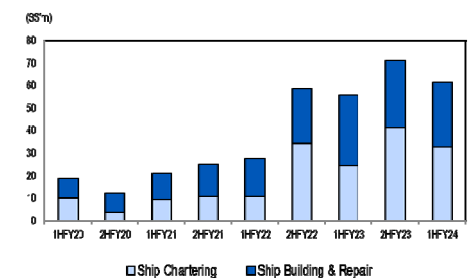
- Higher-than-expected ship charter rates and vessel utilisation.
- Award of new ship chartering contracts.
- Higher value of repair projects during the year.

OSV CHARTER RATES REMAIN ELEVATED AT NINE-YEAR HIGH (1HFY16 – PRESENT)



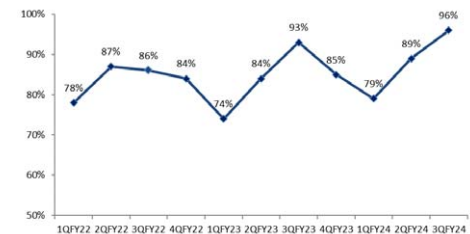
Source: Offshore Intelligence Network, UOB Kay Hian

SEGMENTAL CONTRIBUTION (1HFY20 – 1HFY24)



Source: Marco Polo Marine, UOB Kay Hian

SHIPYARD UTILISATION RATES (1QFY22 – 3QFY24)



Source: Marco Polo Marine, UOB Kay Hian

PROFIT & LOSS

Year to 30 Sep (\$m)	2023	2024F	2025F	2026F
Net turnover	127.1	130.5	137.8	151.1
EBITDA	39.8	44.0	46.8	35.7
Deprec. & amort.	12.1	13.4	14.5	0.0
EBIT	27.8	30.6	32.2	35.7
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	32.6	34.8	39.2
Tax	(4.7)	(5.0)	(5.3)	(6.0)
Minorities	(3.2)	(3.5)	(3.5)	(3.5)
Net profit	22.6	24.1	25.9	29.7
Net profit (adj.)	25.2	24.1	25.9	29.7

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	46.7	52.1	55.6
Total assets	229.1	256.6	281.0	318.0
ST debt	2.5	0.0	0.0	0.0
Other current liabilities	33.5	35.8	37.1	41.3
LT debt	1.3	2.6	2.6	2.6
Other LT liabilities	7.9	30.0	32.7	43.5
Shareholders' equity	167.8	188.2	208.5	230.6
Minority interest	16.1	0.0	0.0	0.0
Total liabilities & equity	229.1	256.6	281.0	318.0

CASH FLOW

Year to 30 Sep (\$m)	2023	2024F	2025F	2026F
Operating	28.1	50.9	34.3	48.3
Pre-tax profit	30.5	32.6	34.8	39.2
Tax	(1.0)	(5.1)	(5.0)	(5.3)
Deprec. & amort.	12.1	13.4	14.5	14.9
Working capital changes	(25.3)	12.0	(7.5)	2.0
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)	(5.6)	(7.5)
Dividend payments	0.0	(3.8)	(5.6)	(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	5.1	23.4	36.4
Beginning cash & cash equivalent	53.5	63.1	68.2	91.5
Changes due to forex impact	(1.8)	0.0	0.0	0.0
Ending cash & cash equivalent	63.1	68.2	91.5	128.0

KEY METRICS

Year to 30 Sep (%)	2023	2024F	2025F	2026F
Profitability				
EBITDA margin	31.3	33.7	33.9	23.6
Pre-tax margin	24.0	25.0	25.2	25.9
Net margin	17.8	18.5	18.8	19.6
ROA	10.8	9.9	9.6	9.9
ROE	14.7	13.6	13.1	13.5
Growth				
Turnover	47.7	2.6	5.6	9.6
EBITDA	27.6	10.5	6.3	(23.7)
Pre-tax profit	31.0	7.1	6.5	12.7
Net profit	5.8	6.8	7.4	14.5
Net profit (adj.)	81.9	(4.2)	7.4	14.5
EPS	72.2	(4.2)	7.4	14.5
Leverage				
Debt to total capital	2.0	1.4	1.2	1.1
Debt to equity	2.3	1.4	1.2	1.1
Net debt/(cash) to equity	(35.3)	(36.3)	(45.0)	(58.3)
Interest cover (x)	n.a.	n.a.	n.a.	n.a.

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