

27 May 2024

Energy & Petrochemicals | Oil & Gas Services

Marco Polo Marine (MPM SP)

Buy (Maintained)

Firm Outlook Ahead; Maintain BUY

- **Keep BUY and SGD0.081 TP, 20% upside and c.2% FY24F (Sep) yield.** We are upbeat on Marco Polo Marine as we remain positive on growth prospects going forward. The group's new Commissioning Service Operation vessel (CSOV) is due to be deployed in FY25F, and with construction of offshore windfarms in growing demand, we are positive on the vessels' strong utilisation and charter rate growth driven by CSOV. Earnings are also expected to be supported by firm Offshore Support Vessels (OSV) demand for ship chartering.
- **1HFY24 in line.** MPM reported 1HFY24 revenue of SGD62m (+10% YoY) and net profit of SGD12m (+106%), which are within our estimates. Revenue was mainly driven by higher charter rates in the ship chartering segment (SGD33m, +34% YoY). Average charter rates grew 17% YoY, while average utilisation rates softened to 60% due to timing issues in temporal project deployment. The shipbuilding and repair segment declined by 9% YoY to SGD29m. There was softer ship repair volume as China shipyards reopened, but higher shipbuilding revenue from outstanding orders and existing orderbook. Gross margin expanded to 22% (+4.5ppts) largely due to higher charter rates and operating leverage. As earnings are in line with our estimates, we make no changes to our earnings forecasts and TP.
- **Firm outlook ahead.** Our outlook for MPM remains positive. For chartering of OSVs, we see strong exploration and production activities fuelling strong demand and utilisation for ship charters, while a tight supply situation should keep charter rates lofted for the next few quarters. MPM's fleet size should increase as well after it inked a crew transfer vessel (CTV) arrangement with Siemens Gamesa to supply CTVs for the latter's offshore wind projects in Taiwan and South Korea from 2024 to 2026. MPM's CSOV is now approximately 69% complete (as of 31 Mar 2024) and is scheduled for deployment and operations in Oct 2024 and revenue recognition in 1HFY25F. With CSOV vessels in short supply, the CSOV's utilisation going forward is positive as MPM continues to receive and sign charter arrangements with hirers for their development of offshore windfarms. We believe any further plans to construct another CSOV would be a stock catalyst. In the shipyard segment, the expansion into a fourth dry dock scheduled for completion in 1HFY25 will increase its capacity for more ship repair projects.
- **Key risks.** Our forecasts and TP are premised on improved charter rates, stronger utilisation rates, and the successful deployment of MPM's CSOV – all over the next two years. We believe any underperformance in these aspects represent downside risks to our earnings estimates and TP.
- **ESG.** As MPM's ESG score is 3.1 out of 4 – on par with the country median – we apply 0% discount/premium to its intrinsic value to derive our TP.

Target Price (Return): SGD0.081 (+20%)
 Price (Market Cap): SGD0.07 (USD186m)
 ESG score: 3.1 (out of 4)
 Avg Daily Turnover (SGD/USD) 1.05m/0.78m

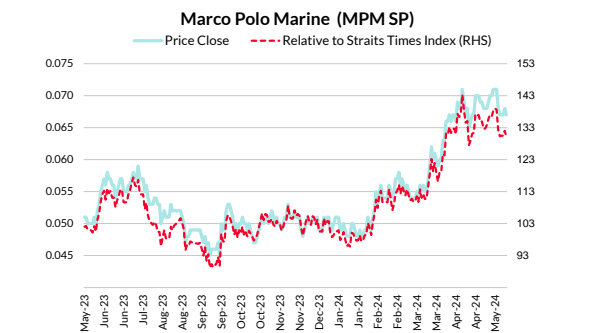
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Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	31.4	1.5	19.6	28.8	28.8
Relative	29.0	0.8	15.5	21.6	25.6
52-wk Price low/high (SGD)				0.05	-0.07



Source: Bloomberg

Overall ESG Score: 3.1 (out of 4)

E: EXCELLENT

MPM is committed to reduce energy and water consumption, and is always exploring ways to improve its energy efficiency and water usage. In 2023, MPM's energy and water consumption per SGD1,000 revenue reduced to 0.49 GJ and 0.33m³ from 1.32 GJ and 0.76m³ in 2021.

S: EXCELLENT

MPM adopts fair employment practices and treats all employees equally. It complies with local labour regulations across all geographic operations, including minimum wage laws, where such laws exist. In 2022, both male and female entry-level employees in the Batam shipyard operations were paid the local minimum wage amounting to IDR 4.19m.

G: EXCELLENT

MPM has aligned governance policies and practices with the principles and guidelines set out in the Code of Corporate Governance issued by the Monetary Authority of Singapore on 6 Aug 2018 and has formalised the Enterprise Risk Management (ERM) process starting from the financial year ended 30 Sep 2019.

Note:

Small cap stocks are defined as companies with a market capitalisation of less than USD0.5bn.

Forecasts and Valuation	Sep-22	Sep-23	Sep-24F	Sep-25F	Sep-26F
Total turnover (SGDm)	86	127	139	151	159
Recurring net profit (SGDm)	12	21	24	27	29
Recurring net profit growth (%)	329.8	81.9	12.7	14.9	5.6
Recurring P/E (x)	20.55	11.67	10.68	9.30	8.81
P/B (x)	1.7	1.5	1.3	1.2	1.1
P/CF (x)	11.47	6.24	5.95	5.33	5.09
Dividend Yield (%)	na	1.5	1.5	1.5	1.5
EV/EBITDA (x)	9.61	5.11	4.64	3.77	3.19
Return on average equity (%)	16.8	14.7	13.3	13.6	12.8
Net debt to equity (%)	net cash	net cash	net cash	net cash	net cash

Source: Company data, RHB

Financial Exhibits

Asia	Financial summary (SGD)	Sep-22	Sep-23	Sep-24F	Sep-25F	Sep-26F
Singapore	Recurring EPS	0.00	0.01	0.01	0.01	0.01
Energy & Petrochemicals	DPS	-	0.00	0.00	0.00	0.00
Marco Polo Marine	BVPS	0.04	0.04	0.05	0.06	0.06
MPM SP	Return on average equity (%)	16.8	14.7	13.3	13.6	12.8
BUY						
	Valuation metrics	Sep-22	Sep-23	Sep-24F	Sep-25F	Sep-26F
	Recurring P/E (x)	20.55	11.67	10.68	9.30	8.81
	P/B (x)	1.7	1.5	1.3	1.2	1.1
	FCF Yield (%)	6.8	2.8	2.5	11.6	12.5
	Dividend Yield (%)	-	1.5	1.5	1.5	1.5
	EV/EBITDA (x)	9.61	5.11	4.64	3.77	3.19
	EV/EBIT (x)	16.54	7.30	6.47	5.21	4.41
	Income statement (SGDm)	Sep-22	Sep-23	Sep-24F	Sep-25F	Sep-26F
	Total turnover	86.1	127.1	138.6	151.5	159.1
	Gross profit	27.5	45.7	52.7	58.3	61.3
	EBITDA	20.7	40.2	46.4	52.0	54.5
	Depreciation and amortisation	(8.7)	(12.1)	(13.2)	(14.4)	(15.1)
	Operating profit	12.0	28.1	33.3	37.6	39.4
	Net interest	0.6	0.2	(2.5)	(2.2)	(2.0)
	Pre-tax profit	23.3	30.5	31.0	35.6	37.5
	Taxation	(1.2)	(4.7)	(4.1)	(4.7)	(5.0)
	Reported net profit	21.3	22.6	23.6	27.1	28.6
	Recurring net profit	11.5	20.9	23.6	27.1	28.6
	Cash flow (SGDm)	Sep-22	Sep-23	Sep-24F	Sep-25F	Sep-26F
	Cash flow from operations	20.6	39.2	42.3	47.2	49.4
	Capex	(4.6)	(32.4)	(36.0)	(18.0)	(18.0)
	Cash flow from investing activities	3.4	(22.8)	(36.0)	(18.0)	(18.0)
	Dividends paid	0.0	0.0	(3.8)	(3.8)	(3.8)
	Cash flow from financing activities	(0.8)	6.0	32.2	(3.8)	(3.8)
	Cash at beginning of period	20.3	53.5	63.1	98.7	122.1
	Net change in cash	23.3	22.4	38.6	25.5	27.7
	Ending balance cash	42.7	78.9	104.7	127.1	152.8
	Balance sheet (SGDm)	Sep-22	Sep-23	Sep-24F	Sep-25F	Sep-26F
	Total cash and equivalents	54	63	99	122	148
	Total investments	108	110	133	136	139
	Total assets	188	229	290	319	350
	Short-term debt	1	1	1	1	1
	Total long-term debt	2	6	42	42	42
	Total liabilities	36	45	83	85	87
	Total equity	152	184	207	234	263
	Total liabilities & equity	188	229	290	319	350
	Key metrics	Sep-22	Sep-23	Sep-24F	Sep-25F	Sep-26F
	Revenue growth (%)	86.7	47.6	9.1	9.3	5.0
	Recurrent EPS growth (%)	329.2	76.1	9.3	14.9	5.6
	Gross margin (%)	31.9	36.0	38.0	38.5	38.5
	Operating EBITDA margin (%)	24.1	31.6	33.5	34.3	34.2
	Net profit margin (%)	24.8	17.8	17.0	17.9	18.0
	Dividend payout ratio (%)	0.0	16.6	15.9	13.9	13.1
	Capex/sales (%)	5.3	25.5	26.0	11.9	11.3
	Interest cover (x)	93.4	91.9	10.9	12.3	12.9

Source: Company data, RHB

Emissions And ESG

Trend analysis

MPM is able to reduce energy consumption over three years (based on a ratio per dollar of revenue earned metric) by switching to inverter technology in the welding sets and graving dock pumps in our shipyard. It has also switched its general lighting from fluorescent/mercury lights to low energy savings LED lights. In addition, it is currently exploring installing solar panels at its shipyard.

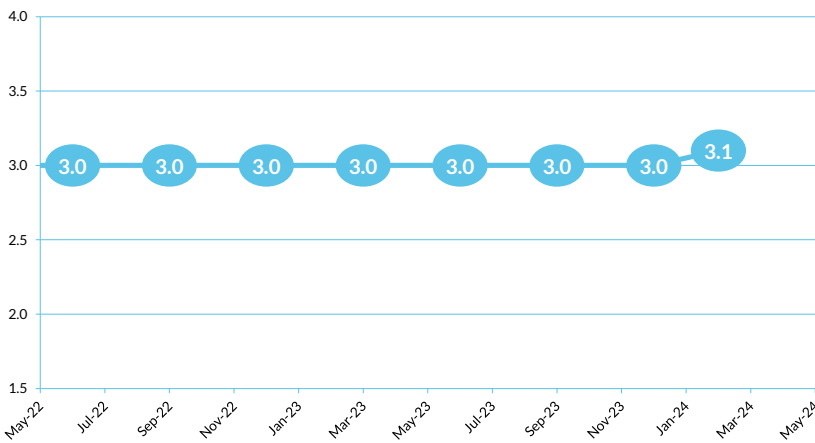
Emissions (tCO2e)	Sep-21	Sep-22	Sep-23
Scope 1	3,282	6,569	4,617
Scope 2	3,640	4,602	5,260
Scope 3	-	-	-
Total emissions	6,922	11,171	9,877

Source: Company data, RHB

Latest ESG-Related Developments

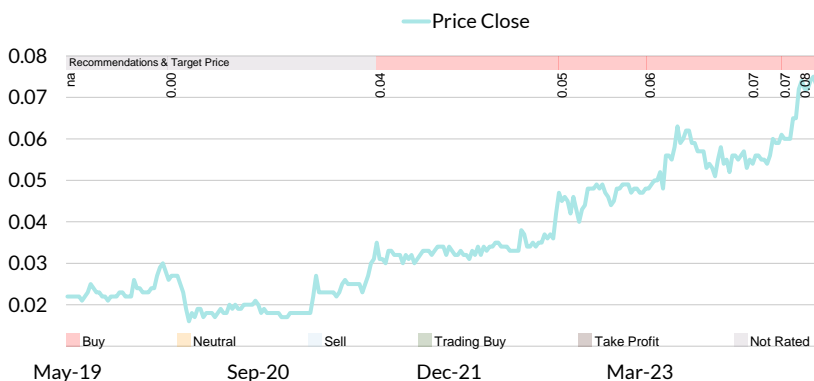
- MPM has taken steps to reduce emissions, where the engines on its vessels run on Marine Gas Oil (MGO) which has lower amounts of sulphur content.
- However, MPM does not track the sulphur dioxide emitted from its vessels as the charterers are responsible for supplying the vessels with bunkers.
- MPM will continue to monitor the emissions from its vessels by ensuring that charterers use only fuel oil that complies with the sulphur content limit as stipulated by ISO 8127:2017 and the International Convention for the Prevention of Pollution from Ships or MARPOL.

ESG Rating History



Source: RHB

Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2024-04-08	Buy	0.08	0.07
2024-02-19	Buy	0.07	0.06
2023-12-05	Buy	0.07	0.05
2023-08-24	Buy	0.06	0.05
2023-05-29	Buy	0.06	0.05
2023-03-30	Buy	0.06	0.04
2022-08-30	Buy	0.05	0.05
2022-01-20	Buy	0.04	0.03
2021-11-29	Buy	0.04	0.03
2021-08-31	Buy	0.04	0.03
2021-06-15	Buy	0.04	0.03
2020-01-29	Not Rated	na	0.02

Source: RHB, Bloomberg

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Neutral:	Share price may fall within the range of +/- 10% over the next 12 months
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