16 June 2021

Energy & Petrochemicals | Oil & Gas Services

Marco Polo Marine (MPM SP)

Buy

Turnaround On Renewable Energy; Initiate BUY

Target Price (Return):	SGD0.041 (+33%)
Price:	SGD0.03
Market Cap:	USD77.0m
Avg Daily Turnover (SGD/USD)	0.51m/0.38m

- **Initiate coverage with BUY and a DCF-based TP of SGD0.041, 33% upside.** We believe that Marco Polo Marine's diversification into servicing the renewable energy (RE) sector will bear fruit in the next 1-2 years. In the meantime, the oil & gas (O&G) sector remains the major source of income for the group. As such, we expect to see an earnings rebound, and the group to record a turnaround back to strong profitability in the next 2-3 years.
- **RE: A new significant growth area.** Management has been actively diversifying and expanding MPM's activities beyond the O&G industry. As of 1H21, 20% of its utilised vessels are working on offshore windfarm projects in Taiwan. It has an edge there as: i) The vessels working on the Taiwanese windfarm projects must not be made in China; ii) the ages of its ships are also below 12 years (80-90% of the OSVs in the region that are below 12 years old are built in China); iii) MPM's vessels are more than well-equipped, as offshore O&G activities have more stringent requirements. We believe RE is a potential major growth driver – especially with the influx of investments coming into this space. We believe that MPM will expand its operations in Taiwan, and will likely look to double its chartering fleet in this space by end-1Q22 – then have at least 50% of its fleet servicing the RE sector by 4Q22. We expect the utilisation rate of its chartering fleet – which is around 60% currently – to rise to about 80% by 2H22. This would also lift its charter rates, thereby further improving its margins and profitability.
- **Surging demand for shipbuilding, repair, and upgrades.** MPM's shipyard division has seen strong growth, due to the resumption of O&G activities globally and its foray into RE. In 1HFY21 (Sep), its shipbuilding and repair revenue surged 34.5% YoY, and we expect this strong growth to extend into FY22. To cope with surging demand, it aims to expand the area of its Dry Dock 1 from 150m which will increase capacity by 20% by 2QFY22.
- **A rare net cash turnaround story correlated with the O&G sector's recovery.** The O&G industry has been recovering since the oil price crash in 2014-2016. However, this recovery has been dampened by the COVID-19 pandemic. That said, the WTI crude price surged to a high of USD72.00 per barrel as of Jun 2021 – as the world is recovering from the pandemic, and O&G activities gradually pick up again. As such, MPM has also seen an uptick in ship charter utilisation rates and its shipyard operations. We believe that the continued recovery will be positive for MPM, across all its business segments. With the pivot towards RE, we are confident MPM will record a strong turnaround in numbers. It is also trading below its greatly impaired NAV, and white knights' and creditors' entry price (which ranges between 3.2 and 3.3 SG cents).

Analyst

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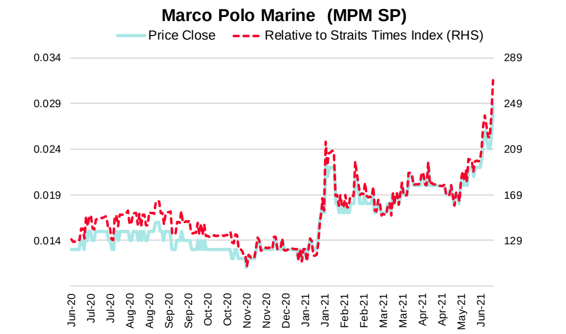
Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	123.1	61.1	70.6	107.1	123.1
Relative	112.2	57.9	68.7	96.8	105.6
52-wk Price low/high (SGD)					0.01 – 0.03



Source: Bloomberg

Forecasts and Valuation	Sep-19	Sep-20	Sep-21F	Sep-22F	Sep-23F
Total turnover (SGDm)	30	31	42	57	73
Recurring net profit (SGDm)	(4)	(9)	1	7	11
Recurring net profit growth (%)	(102.3)	138.4	-	1,045.5	60.5
Recurring P/E (x)	na	na	173.27	15.13	9.43
P/B (x)	0.9	1.0	1.0	1.0	0.9
P/CF (x)	60.01	na	173.27	15.13	9.43
Dividend Yield (%)	na	na	na	na	na
EV/EBITDA (x)	(2.39)	na	3.27	(0.49)	(1.17)
Return on average equity (%)	(3.5)	(8.8)	0.6	6.5	9.6
Net debt to equity (%)	net cash	net cash	net cash	net cash	net cash

Source: Company data, RHB

Note:
Small cap stocks are defined as companies with a market capitalization of less than USD1bn.

Financial Exhibits

Asia
Singapore
Energy & Petrochemicals
Marco Polo Marine
MPM SP
Buy

Valuation basis

DCF, with the following assumptions:

i. WACC of 7%;
ii. Terminal growth rate of 0%.

Key drivers

i. Oil & gas activities ramping up again;
ii. Moving into renewable energy, eg windfarm projects.

Key risks

i. Increase in oil prices;
ii. Negative impact of a change in government regulations

Company Profile

Marco Polo Marine is a growing integrated marine logistics group that is facilitating the growth of investments in South-East Asia. Its amalgamation of ship chartering, ship building, conversion, repair and maintenance services under one roof has enabled it to exercise greater flexibility and achieve cost efficiencies for clients.

Financial summary (SGD)	Sep-19	Sep-20	Sep-21F	Sep-22F	Sep-23F
Recurring EPS	(0.00)	(0.00)	0.00	0.00	0.00
BVPS	0.03	0.03	0.03	0.03	0.03
Return on average equity (%)	(3.5)	(8.8)	0.6	6.5	9.6

Valuation metrics	Sep-19	Sep-20	Sep-21F	Sep-22F	Sep-23F
Recurring P/E (x)	na	na	173.27	15.13	9.43
P/B (x)	0.9	1.0	1.0	1.0	0.9
FCF Yield (%)	(3.2)	(13.3)	(2.4)	2.7	6.7
EV/EBITDA (x)	(2.39)	na	3.27	(0.49)	(1.17)
EV/EBIT (x)	(2.39)	na	3.27	(0.49)	(1.17)

Income statement (SGDm)	Sep-19	Sep-20	Sep-21F	Sep-22F	Sep-23F
Total turnover	30.2	30.8	41.8	56.7	72.6
Gross profit	5.7	4.4	11.1	18.0	24.3
EBITDA	1.7	(6.2)	0.6	6.9	11.1
Operating profit	1.7	(6.2)	0.6	6.9	11.1
Net interest	(0.0)	(0.0)	0.0	0.0	0.0
Pre-tax profit	(3.7)	(9.0)	0.6	6.9	11.1
Taxation	(0.2)	(0.2)	(0.0)	(0.2)	(0.3)
Reported net profit	(3.9)	(9.2)	0.6	6.8	10.8
Recurring net profit	(3.9)	(9.2)	0.6	6.8	10.8

Cash flow (SGDm)	Sep-19	Sep-20	Sep-21F	Sep-22F	Sep-23F
Cash flow from operations	1.5	(6.6)	0.6	6.8	10.8
Capex	(4.3)	(7.0)	(3.0)	(4.0)	(4.0)
Cash flow from investing activities	0.8	(4.4)	(0.4)	(1.4)	(1.4)
Cash flow from financing activities	0.1	0.4	0.0	0.0	0.0
Cash at beginning of period	17.9	13.6	13.6	13.2	18.6
Net change in cash	2.4	(10.6)	0.1	5.3	9.4
Ending balance cash	13.3	14.0	12.7	18.5	28.0

Balance sheet (SGDm)	Sep-19	Sep-20	Sep-21F	Sep-22F	Sep-23F
Total cash and equivalents	14	14	13	19	28
Total investments	93	88	87	87	87
Total assets	124	113	115	124	138
Total long-term debt	0	0	0	0	0
Total liabilities	15	14	15	17	20
Total equity	109	100	100	107	118
Total liabilities & equity	124	113	115	124	138

Key metrics	Sep-19	Sep-20	Sep-21F	Sep-22F	Sep-23F
Revenue growth (%)	13.6	2.2	35.4	35.8	28.0
Recurrent EPS growth (%)	(101.1)	104.6	0.0	1045.5	60.5
Gross margin (%)	18.8	14.3	26.7	31.7	33.5
Operating EBITDA margin (%)	5.7	(19.9)	1.4	12.2	15.3
Net profit margin (%)	(12.8)	(29.9)	1.4	11.9	14.9
Capex/sales (%)	14.1	22.6	7.2	7.1	5.5
Interest cover (x)	191	(171)			

Source: Company data, RHB

Investment Merits

RE presents major new growth drivers. Management has been actively diversifying and expanding MPM's activities beyond the O&G industry. These include facilitating the installation of submarine cables and offshore windfarm projects. As of 1H21, 20% of its currently utilised vessels are working on windfarm projects in Taiwan, where it has an edge. This is because:

i. Vessels working on the projects must not made in China (a key requirement);

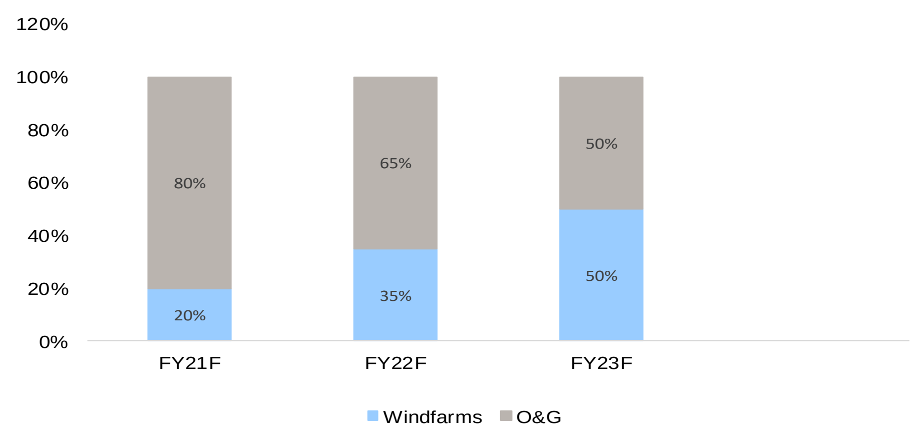
ii. The ages of its ships are also below 12 years old. In contrast, 80-90% of the OSVs in the region that are below 12 years old are built in China, so pickings are slim;

iii. Its vessels are more than well-equipped, as offshore O&G activities have more stringent requirements.

RE offers a huge potential space for MPM to venture into, in view of the influx of investments entering this space. In 2020, the group secured shipbuilding contracts from Singapore Aquaculture Technologies (SAT) to construct two smart fish farms. Construction is set to be completed by the end of FY2021.

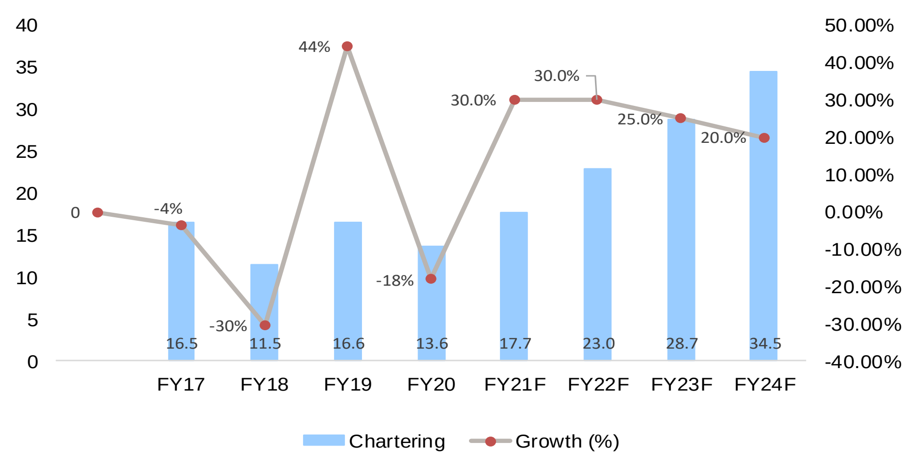
We believe that MPM will expand its operations in Taiwan, and will likely look to double its chartering fleet into this space by the end of December. In addition, we are confident that it will likely look towards growing its chartering fleet once the utilisation rate exceeds 85%. It will also likely aim to have at least 50% of the fleet serving the RE sector. We expect its chartering fleet utilisation rate, which is currently around 60%, to eventually rise to about 80% by 2H22. This would improve its charter rates and profitability.

Figure 1: Usage of MPM's chartering fleet



Source: Company data, RHB

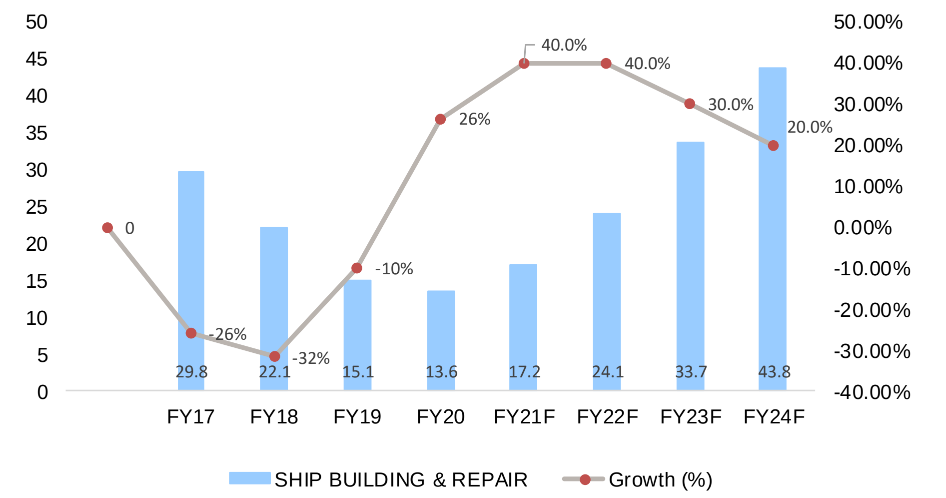
Figure 2: Chartering revenue and growth (%)



Source: Company data, RHB

Spiking demand for shipbuilding, repair, and upgrades. MPM's shipyard operations have grown in tandem with the gradual resumption of O&G activities globally, as well as its foray into servicing the RE sector. In 1H21, its shipbuilding and repair revenue surged by 34.5% YoY – and this growth should continue into FY22F. Management has announced plans to expand Dry Dock 1 to 240m from 150m, which will boost its ship-repairing capacity by 20%. Construction for the dock extension is scheduled to begin in July, with completion targeted by Jan 2022. The dock will operate as normal during the construction period. The extension is also to include space and facilities for container ships, bulkers and tankers – reflecting MPM's expansion into RE related services.

Figure 3: MPM's shipyard revenue and growth (%)



Source: Company data, RHB

O&G sector recovery is positive for utilisation and chartering rates. The O&G industry has been recovering since oil prices crashed from mid-2014 to 2016, but this rebound has been hampered by the COVID-19 pandemic. However, the WTI crude price has surged to a high of USD72.00 per barrel as of June, as the world recovers from the pandemic and O&G activities resume. As such, MPM's ship chartering and utilisation rates and shipyard operations have picked up, too. We believe that the continued recovery will be positive for MPM across all its business segments.

Figure 4: MPM's vessel chartering and utilisation rates

	Rates for Windfarm (USD/HP)	Rates for O&G (USD/HP)	Tugs/Barges (USD/Month)	Utilisation (%)
Current	0.70-1.00	0.60-0.80	40000	55-65
Estimated Rates FY22	1.10-1.40	1.00-1.20	50000	75-85
Highest achieved	nil	1.50-1.80	60000	90-100

Source: Company data, RHB

Recovery in construction activities to further boost rates, as well. MPM has a fleet of 24 tug and barge vessels, and offers customised solutions for bulk handling and transportation (coal, iron ores, sand, aggregates, and other commodities), chartering and transhipment services. It primarily (more than 80%) serves the construction industry in Singapore, which have seen a downturn due to the COVID-19 pandemic as the Government mandated restrictions and put a halt to construction activities. As such, construction activities plunged, and MPM's utilisation rates fell to close to 0% for a few months in 2020. However, as the nationwide vaccination programme is being implemented and as construction activities resume island-wide, the utilisation rate for MPM's tugs and barges is currently around 50-60%. We expect ti rate to rise to 70-80% by the end of 2022. Rates per vessel average around SGD40,000 a month currently, and we expect this to recover to SGD50,000-60,000 a month by the end of 2022 as well, which will help to strengthen margins and profitability.

Net cash and a strong balance sheet despite COVID-19. After raising SGD60m from nine strategic investors and a debt restructuring exercise which converted all of its existing debt to shares, MPM was given a clean slate in FY18. It has remained in a robust net cash position ever since, with zero debt. Management has kept close tabs on costs and cash flow. The strong focus on resource management has helped the group to maintain a robust net cash position, allowing it to ride through the worst of the COVID-19 pandemic and emerge stronger than before. MPM is one of the rare few listed O&G service providers to emerge from the O&G crisis and the COVID-19 pandemic with no debt and a net cash balance sheet. It is one of a very small handful of O&G service providers listed in Singapore that has net cash.

Trading below greatly impaired NAV, and white knights' and creditors' entry price. MPM's NAV per share was at 3 SG cents as at 31 Mar. This implies a massive discount post its debt restructuring exercise. This, in turn, was determined previously when O&G asset prices hit rock-bottom levels during the trough of the oil crisis. The white knights entered at an effective price of 3.2-3.3 SG cents per share, during its latest debt restructuring exercise – well below MPM's current share price level.

Valuation

We initiate coverage on MPM with a BUY rating, and DCF-derived TP of SGD0.041 (WACC of 7%). Our TP implies 12.5x FY23F P/E. The stock is now trading at c.9.5x FY23F P/E.

Our DCF assumptions are:

i. WACC of 7%;

ii. Terminal growth rate of 0%.

Figure 5: DCF valuation

		FY21F	FY22F	FY23F	FY24F	FY25F	Terminal Value
EBIT		0.6	6.9	11.1	14.7	17.2	
EBIT(1-T)		0.6	6.8	10.8	14.3	16.8	
Less: Capex		(3.0)	(4.0)	(4.0)	(4.0)	(4.0)	
Add: Depreciation & Amortisation		4.0	4.0	4.0	4.0	4.0	
Less: Change in Non-cash WC		(1.6)	(1.4)	(1.3)	(0.9)	(1.0)	
FCFF		0.0	5.3	9.6	13.4	15.7	136.8
Present Value of FCFF		0.0	4.6	7.8	10.3	11.2	97.5
Total FCFF	**131.5**						
Add: Cash	**13.6**						
Less: Value of Debt	**-**						
Less: Minority Interest	**-**						
Target Equity Value	**145.1**						
No.of shares (basic)	**3,522.6**						
Intrinsic Share Price (SGD)	**0.041**						

Source: Company data, RHB

Figure 6: Underlying assumptions for our WACC

Cost of equity		**Cost of debt**	
Expected market return	7%	Pre-Tax Cost of Debt	0%
Risk free	2.75%	1 - Effective Tax Rate	83%
Beta	1	Weight	0%
Weight	100%		
WACC (Estimated)	7%		

Source: RHB

Key Risks

Oil prices crashing. Earnings of companies operating in the O&G industry are heavily impacted by a decline in oil prices. A decrease in oil prices makes exploration projects less lucrative – and as such, activities in the O&G space will decrease.

Bad weather, natural disasters and pandemics will impact operations. As MPM's vessels operate offshore, any negative or volatile weather conditions will impact operations and put the wellbeing of its workers at risk – even with safety guidelines in place and protocols being followed. In addition, a pandemic that causes lockdowns will halt all activities – just like what COVID-19 did in 2020 – and pull down vessel utilisation rates. This would negatively impact margins significantly.

Exposure to government regulations. As MPM operates in a few countries like Indonesia and Taiwan, changes in government regulations will affect their operations. Government regulations are crucial, especially when they impact vital sectors like energy – and MPM has to be compliance with laws of countries its vessels are operating in.

Company Background

Listed on the Mainboard of the SGX-ST since 2007, MPM is a reputable regional integrated marine logistics company that principally engages in shipping and shipyard operations. Its business is in the chartering of OSVs that are deployed in regional waters, including the Gulf of Thailand, Malaysia, Indonesia and Taiwan. It also has tugboats and barges for charter – these are principally for customers in the mining, commodities, construction, infrastructure and land reclamation industries.

Chartering

Under its chartering operations, the group has diversified its activities beyond the O&G industry, to include facilitating the construction of offshore windfarm projects. The burgeoning offshore wind energy industry in Asia is at a nascent stage where structures are in the process of being installed, which presents tremendous opportunities for MPM.

Figure 7: Overview of MPM's ship chartering business

	Tug and Barge Operations	Offshore Division
Description	Managing a sizeable and well-equipped fleet of tugs and barges, this division offers customised solutions for bulk handling and transportation (coal, iron ores, sand, aggregates and other commodities), chartering and transshipment services.	The offshore division was established in end-2010 with the objective of venturing into the Offshore Oil and Gas sector. The offshore division currently operates a fleet of 17 OSVs, including 2 Maintenance Work Vessels (MWV) co-owned on a joint-venture basis, and is poised to grow further within the next 3-5 years.
Fleet	Owns 24 vessels Average vessel age: Range from 2 – 12 years	Owns 11 OSVs and 2 MWVs Vessel age range: 4 – 13 years
Typical Contract Type	Short term charters	Mix of spot, short & long term charters

Source: Company

Figure 8: Overview of MPM's offshore fleet

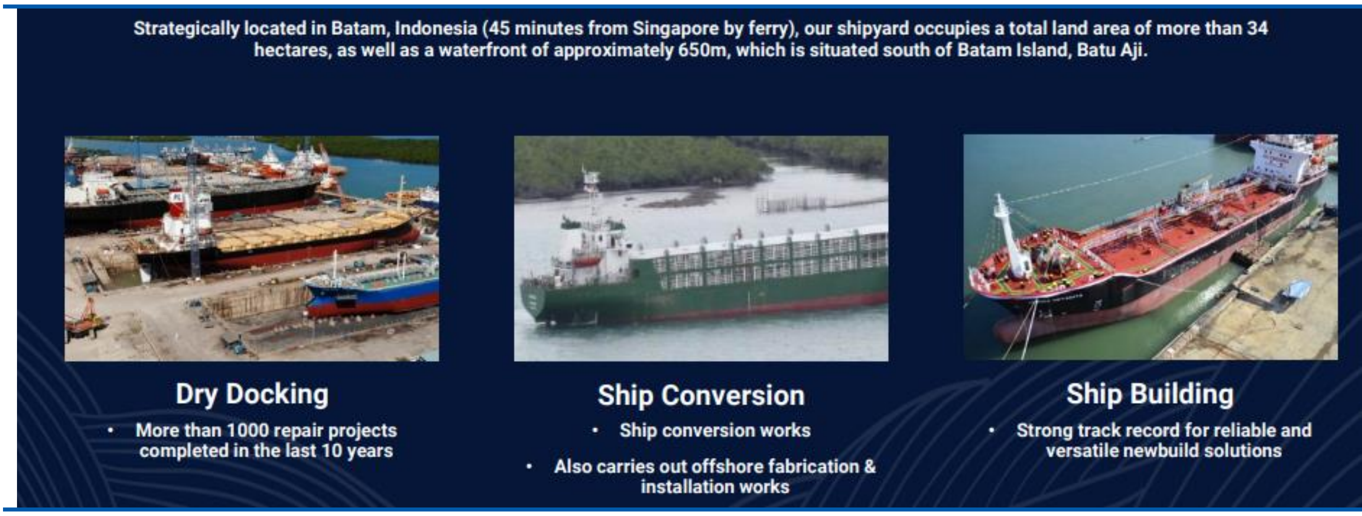
	Offshore Supply Vessels (OSV)	Maintenance Workboat Vessels (MWV)
Description	AHT, AHTS, PSV: Shallow to mid water oilfield operations in exploration, development, construction and production phases.	Maintenance Workboats (Under Joint Venture): Offshore accommodation, construction and maintenance.
Fleet	Owns 11 vessels Average vessel age: Range from 4 to 8 years	Owns 2 vessels: Average vessel age: 4 years
Typical Contract Type	Mix of short & long term charters and spot charters	Mid to longer term contracts

Source: Company

Shipyard operations

The group's shipyard business relates to shipbuilding, as well as the provision of ship maintenance, repair, outfitting and conversion services – which are carried out through its shipyard in Batam, Indonesia. Occupying 34 ha with a seafront of approximately 650 metres, the modern shipyard also houses three dry docks – these have boosted MPM's technical capabilities and service offerings, and enabled it to undertake projects involving mid-sized and sophisticated vessels.

Figure 9: Overview of MPM's shipyard operations



Source: Company

Figure 10: Marco Polo's management team

Name and designation	Profile
Michael Tan Hai Peng, Non-Executive Chairman and Independent Director	Tan is also a Non-Executive Director of Pacific Star Development, which is listed on the SGX's Catalist board. He graduated with a Bachelor of Science in Computer Engineering degree with the highest honours, from the Florida Institute of Technology in the US, in Aug 1990. He also earned a MBA (Senior Executive) degree from the National University of Singapore in Dec 2004
Sean Lee Yun Feng, CEO	Lee is responsible for the overall management and day-to-day operations of the group. He also formulates business strategies, policies and direction of MPM. He is instrumental in initiating and penetrating new markets for both MPM's shipping and shipyard businesses. He has spearheaded the shipyard unit since it began operating in Dec 2005. Lee also established MPM's offshore ship chartering business in 2011 – and this arm has been the group's main growth engine.
Liely Lee, Executive Director and CFO	Lee oversees all finance, accounting, treasury areas of the group, as well as its strategic development. Prior to joining MPM, she co-owned a food and beverage chain in Singapore, where she oversaw the strategic growth, development, finance and human resource matters, and grew the chain to 13 outlets.

Source: Company data, RHB

Recommendation Chart

Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2020-01-29	Not Rated	na	0.02

Source: RHB, Bloomberg

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Trading Buy:	Share price may exceed 15% over the next 3 months, however longer-term outlook remains uncertain
Neutral:	Share price may fall within the range of +/- 10% over the next 12 months
Take Profit:	Target price has been attained. Look to accumulate at lower levels
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Not Rated:	Stock is not within regular research coverage

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