

# Marco Polo Marine (MPM SP)

## Exciting times ahead

### Maintain BUY with SGD0.08 TP

FY24 core profit of SGD26.3m is in line with our forecast. Going forward, we reckon that exciting times are just starting for MPM. Its CSOV is 91% completed and will likely start operating by March 25. We also expect utilisation for the first 2 years to be close to 95% with average rates of around USD50k/day. Charter rates are also expected to increase by 5-10% next year. The manpower shortage issue has also improved with 3<sup>rd</sup> party repairs likely to rebound in FY25E. We also expect orders for 1-2 CTV in 2025. We retain our BUY rating and SGD0.08 TP based on 10.5x FY25E P/E. Following the results, we raise our FY25E-27E earnings by 9-14%

### CSOV completion on track for end-Jan 2025

FY24 revenue dipped 2.8% YoY to SGD123.5m, mainly due to the drop in repair and maintenance revenue caused by the delay of its CSOV. Excluding unrealized FX losses from outstanding receivables and a SGD1.7m one-off provision for its CSOV delay, core PATMI would have risen 4.4% to SGD26.3m. We expect half of the provision to be written back in FY25E.

### All engines starting to fire for FY25E

The CSOV delay led to fewer 3rd-party repair works in 3QFY24, which also caused a shortage of staff to work on 3rd-party repairs. These issues have been resolved and utilisation of its repair capacity has risen from 50% to about 75%. We also expect more volume driven by expansion of its 4th dry dock, which could see revenue rise 25% (with revenue recognition from Apr-25 onwards). The CTVs that it acquired are operational and will also help to boost profitability with rates expected at around USD8,000/day. We expect MPM to add another 1-2 CTVs by end-2025, increasing its CTV fleet to 4-5 vessels. The CSOV is close to completion and should sail to Taiwan by end-Jan 2025. Issues may arise in the first 6-8 months which could bring down its initial utilisation rate but it should be smooth sailing by FY26E. All in all, we understand that the utilisation for the first 2 years will be close to 95% with rates averaging around USD50,000/day. This should make a significant contribution to its profitability.

### Good time to accumulate

FY25E should be a good year for MPM as all engines will start firing. We think this is a good time to accumulate MPM with the outlook clear ahead.

FYE Sep (SGD m)	FY23A	FY24A	FY25E	FY26E	FY27E
Revenue	127	124	133	148	164
EBITDA	41	38	37	41	48
Core net profit	23	22	28	32	38
Core EPS (cts)	0.6	0.6	0.8	0.9	1.0
Core EPS growth (%)	(2.0)	(3.9)	30.6	12.7	18.2
Net DPS (cts)	0.0	0.1	0.1	0.1	0.1
Core P/E (x)	8.6	9.3	6.9	6.1	5.2
P/BV (x)	1.1	1.0	0.8	0.7	0.6
Net dividend yield (%)	0.0	1.8	1.9	1.9	1.9
ROAE (%)	14.6	12.3	14.2	13.9	14.2
ROAA (%)	10.8	8.6	9.6	9.7	10.2
EV/EBITDA (x)	3.9	5.1	4.7	3.7	2.5
Net gearing (%) (incl perps)	net cash	net cash	net cash	net cash	net cash
Consensus net profit	-	-	27	30	na
MIBG vs. Consensus (%)	-	-	4.6	7.5	na

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# BUY

Share Price	SGD 0.05
12m Price Target	SGD 0.08 (+48%)
Previous Price Target	SGD 0.08

### Company Description

Marco Polo Marine is a reputable operator in the region. It charters, builds, converts, maintains and repairs vessels.

### Statistics

52w high/low (SGD)	0.07/0.05
3m avg turnover (USDm)	0.5
Free float (%)	68.4
Issued shares (m)	3,683
Market capitalisation	SGD195.2M USD145M

### Major shareholders:

Apricot Capital Pte Ltd. (SG)	16.2%
Penguin International Ltd.	8.1%
Nautical International Holdings Ltd.	3.8%

### Price Performance



Absolute (%)	(7)	2	10
Relative to index (%)	(12)	(5)	(9)

Source: FactSet

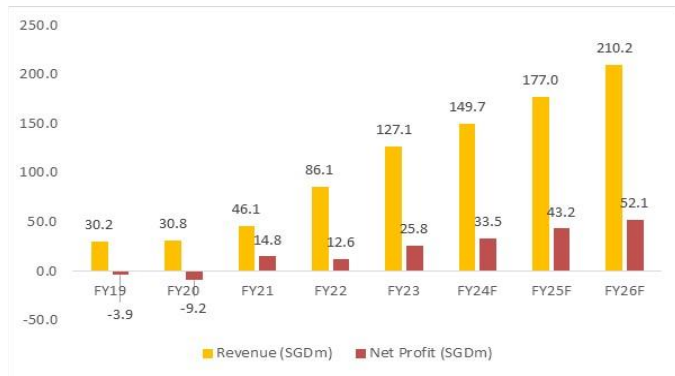
### Abbreviations explained

CTV - crew transfer vessel  
CSOV - commissioning service operation vessel  
O&G - oil and gas

## Value Proposition

- MPM is a growing integrated marine logistics group in Southeast Asia.
- MPM is benefiting from strong demand from both the O&G and renewable energy sectors for its chartering services as well as ship repair and maintenance.
- MPM has recovered since its restructuring in 2017 and is now riding the boom in chartering demand.
- MPM pivoted to serve offshore windfarms in Taiwan, and aims to grow in this space as well as chartering vessels to other renewable operators in the region.
- Trading at just 7.4x FY24E P/E with a forecast FY23-26 NPAT CAGR of 26.5% from rising utilisation and charter rates, we believe MPM is significantly undervalued.

### Revenue and NPAT forecasts (SGDm)

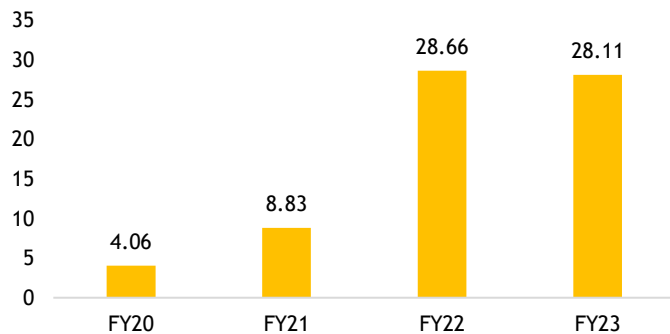


Source: Maybank IBG Research

## Financial Metrics

- We expect chartering and ship repair revenue to continue to increase strongly due to stronger demand and higher rates.
- The new CSOV should contribute about 15-20% NPAT growth YoY in FY25E.
- MPM likely to continue to acquire vessels to service offshore windfarm operators in Taiwan as demand is increasing due to new project launches around the region.
- We also expect increasing dividends as profitability rises.
- Operating cash flow should remain positive, unless there's huge capex for acquiring vessels.

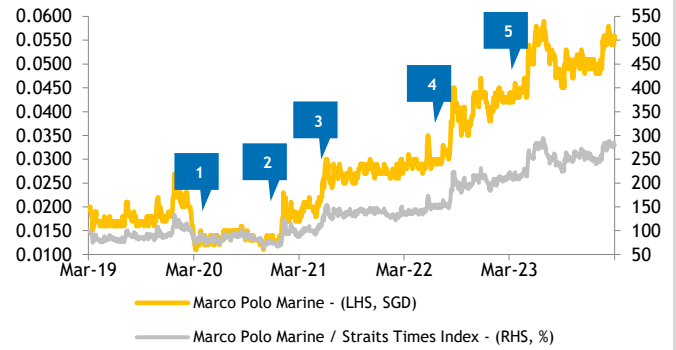
### Strong net cash from operations (SGD m)



Source: Company, Maybank Research

## Price Drivers

### Historical share price trend



Source: Company, Maybank IBG Research

- Oil price crash and Covid led to share price decline.
- Turnaround to profitability.
- Charter rates and utilisation started to pick up, leading to strong profitability.
- Strong results reported, with charter rates rising YoY for 2 years in a row. Utilisation rate of vessels also increased, from 50-60% to 70-80% for FY23.
- Announced that its new CSOV has signed a 3-year take up by its key windfarm customer, Vestas.

## Swing Factors

### Upside

- MPM is trading at just 6.9x FY24E P/E, a significant discount to global and regional peers (average of 15x-25x).
- Rising charter rates and utilisation of vessels should continue to boost NPAT growth by 30% YoY in FY24E.
- Contributions from new CSOV should bump up FY25E NPAT growth.
- Potential new long-term contract may lead to acquisitions to service offshore renewable players around the region.
- Shipyard expansion will lead to increase in capacity to capture the high demand for its repair business.

### Downside

- Global recession or slowdown could lead to a drop in charter rates and demand for vessels.
- Decline in oil price will affect sentiment in the vessel chart and building sector.
- Conflict between China and Taiwan could impact charter operations.

**Fig 1: Changes in our MPM forecasts**

	FY25E			FY26E			FY27E		
	New	Old	Chg (%)	New	Old	Chg (%)	New	Old	Chg (%)
Revenue (SGDm)	133.3	133.6	-0.2	147.9	136.9	8.0	164.4	152.0	8.1
Gross profit (SGDm)	55.5	51.0	8.7	62.4	57.4	8.8	70.4	64.6	8.9
EBIT (SGDm)	33.2	30.4	9.0	37.4	34.4	8.7	43.2	38.8	11.4
EBITDA (SGDm)	37.2	34.4	7.9	41.4	38.4	7.8	48.2	42.8	12.6
Core net profit (SGDm)	28.3	26.0	9.0	31.9	29.4	8.7	37.8	33.1	13.9
EPS (SGD)	0.01	0.01	9.0	0.01	0.01	8.7	0.01	0.01	13.9
			Chg (ppt)			Chg (ppt)			Chg (ppt)
Gross Margin	41.6%	38.2%	3.4	42.2%	41.9%	0.3	42.8%	42.5%	0.3
Net Margin	21.3%	19.5%	1.8	21.6%	21.5%	0.1	23.0%	21.8%	1.2

Source: Maybank IBG Research

FYE 30 Sep	FY23A	FY24A	FY25E	FY26E	FY27E
<b>Key Metrics</b>					
P/E (reported) (x)	7.5	9.5	7.0	6.2	5.3
Core P/E (x)	8.6	9.3	7.0	6.2	5.3
P/BV (x)	1.1	1.0	0.8	0.7	0.6
P/NTA (x)	1.0	1.0	0.8	0.7	0.6
Net dividend yield (%)	0.0	1.8	1.9	1.9	1.9
FCF yield (%)	nm	nm	9.3	16.4	19.5
EV/EBITDA (x)	3.9	5.1	4.8	3.7	2.6
EV/EBIT (x)	5.2	7.0	5.4	4.1	2.8

**INCOME STATEMENT (SGD m)**

Revenue	127.1	123.5	133.3	147.9	164.4
EBITDA	41.1	37.8	37.2	41.4	48.2
EBIT	30.8	27.3	33.2	37.4	44.2
Net interest income / (exp)	(0.3)	(1.6)	0.0	0.0	0.0
Associates & JV	0.0	0.0	0.0	0.0	0.0
Exceptionals	0.0	0.0	0.0	0.0	0.0
Other pretax income	0.0	0.0	0.0	0.0	0.0
Pretax profit	30.5	25.7	33.2	37.4	44.2
Income tax	(4.7)	(1.8)	(0.8)	(0.9)	(1.1)
Minorities	3.2	2.2	4.0	4.5	5.4
Perpetual securities	0.0	0.0	0.0	0.0	1.0
Discontinued operations	0.0	0.0	0.0	0.0	0.0
Reported net profit	22.6	21.7	28.3	31.9	37.8
Core net profit	22.6	21.7	28.3	31.9	37.8

**BALANCE SHEET (SGD m)**

Cash & Short Term Investments	63.1	68.8	82.8	110.9	145.2
Accounts receivable	22.8	20.5	34.3	38.1	42.3
Inventory	8.4	3.7	3.7	3.7	3.7
Reinsurance assets	0.0	0.0	0.0	0.0	1.0
Property, Plant & Equip (net)	92.8	148.1	92.8	92.8	92.8
Intangible assets	0.0	0.0	0.0	0.0	0.0
Investment in Associates & JVs	0.0	0.0	0.0	0.0	0.0
Other assets	42.0	35.9	98.0	100.3	107.1
<b>Total assets</b>	<b>229.1</b>	<b>276.9</b>	<b>311.6</b>	<b>345.7</b>	<b>392.2</b>
ST interest bearing debt	1.0	18.6	18.6	18.6	18.6
Accounts payable	15.0	15.4	15.4	15.4	15.4
Insurance contract liabilities	0.0	0.0	0.0	0.0	0.0
LT interest bearing debt	1.3	14.4	14.4	14.4	14.4
Other liabilities	20.0	19.0	19.0	19.0	19.0
<b>Total Liabilities</b>	<b>37.7</b>	<b>67.7</b>	<b>67.7</b>	<b>67.7</b>	<b>67.7</b>
Shareholders Equity	183.9	201.1	235.8	269.9	315.4
Minority Interest	16.1	17.4	21.5	26.0	31.3
<b>Total shareholder equity</b>	<b>199.9</b>	<b>218.5</b>	<b>257.3</b>	<b>295.9</b>	<b>346.7</b>
<b>Total liabilities and equity</b>	<b>229.1</b>	<b>276.9</b>	<b>311.6</b>	<b>345.7</b>	<b>392.2</b>

**CASH FLOW (SGD m)**

Pretax profit	30.5	25.7	33.2	37.4	44.2
Depreciation & amortisation	10.3	10.4	4.0	4.0	4.0
Adj net interest (income)/exp	0.0	0.0	0.0	0.0	0.0
Change in working capital	0.0	0.0	0.0	0.0	0.0
Cash taxes paid	0.0	0.0	0.0	0.0	0.0
Other operating cash flow	0.0	0.0	0.0	0.0	0.0
Cash flow from operations	28.1	37.6	22.6	36.7	42.9
Capex	(32.4)	(61.8)	(4.0)	(4.0)	(4.0)
Free cash flow	(4.3)	(24.2)	18.6	32.7	38.9
Dividends paid	(1.1)	29.4	(3.7)	(3.7)	(3.7)
Equity raised / (purchased)	0.0	0.0	0.0	0.0	0.0
Perpetual securities	7.5	0.0	0.0	0.0	0.0
Change in Debt	0.0	0.0	0.0	0.0	1.0
Perpetual securities distribution	7.5	0.0	0.0	0.0	0.0
Other invest/financing cash flow	8.2	5.7	0.0	0.0	4.0
Effect of exch rate changes	0.0	0.0	0.0	0.0	1.0
Net cash flow	11.3	6.9	14.1	28.0	34.4

FYE 30 Sep	FY23A	FY24A	FY25E	FY26E	FY27E
<b>Key Ratios</b>					
<b>Growth ratios (%)</b>					
Revenue growth	47.7	(2.8)	7.9	10.9	11.2
EBITDA growth	28.2	(8.0)	(1.7)	11.3	16.5
EBIT growth	31.6	(11.2)	21.2	12.7	18.2
Pretax growth	31.0	(15.6)	28.9	12.7	18.2
Reported net profit growth	2.5	(3.9)	30.6	12.7	18.2
Core net profit growth	2.5	(3.9)	30.6	12.7	18.2
<b>Profitability ratios (%)</b>					
EBITDA margin	32.3	30.6	27.9	28.0	29.3
EBIT margin	24.2	22.1	24.9	25.3	26.9
Pretax profit margin	24.0	20.8	24.9	25.3	26.9
Payout ratio	0.0	17.0	13.0	11.5	9.8
<b>DuPont analysis</b>					
Net profit margin (%)	17.8	17.6	21.3	21.6	23.0
Revenue/Assets (x)	0.6	0.4	0.4	0.4	0.4
Assets/Equity (x)	1.2	1.4	1.3	1.3	1.2
ROAE (%)	14.6	12.3	14.2	13.9	14.2
ROAA (%)	10.8	8.6	9.6	9.7	10.2
<b>Liquidity &amp; Efficiency</b>					
Cash conversion cycle	19.3	19.2	20.0	38.9	43.3
Days receivable outstanding	56.9	63.2	74.1	88.2	88.1
Days inventory outstanding	22.1	28.9	17.0	15.5	14.1
Days payables outstanding	59.8	72.9	71.0	64.7	58.8
Dividend cover (x)	nm	5.9	7.7	8.7	10.3
Current ratio (x)	3.3	2.2	3.9	4.5	5.4
<b>Leverage &amp; Expense Analysis</b>					
Asset/Liability (x)	6.1	4.1	4.6	5.1	5.8
Net gearing (%) (incl perps)	net cash	net cash	net cash	net cash	net cash
Net gearing (%) (excl. perps)	net cash	net cash	net cash	net cash	net cash
Net interest cover (x)	100.6	16.8	nm	nm	nm
Debt/EBITDA (x)	0.1	0.9	0.9	0.8	0.7
Capex/revenue (%)	25.5	50.0	3.0	2.7	2.4
Net debt/ (net cash)	(60.8)	(35.8)	(49.9)	(77.9)	(112.3)

Source: Company; Maybank IBG Research

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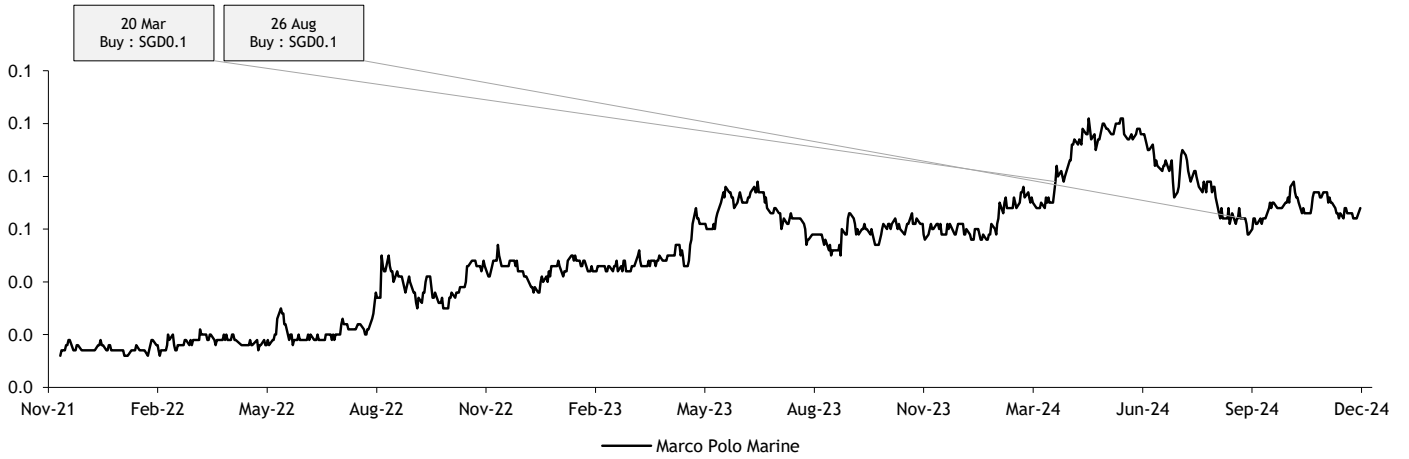
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