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**INITIATION | 5 APRIL 2024**

# MARCO POLO MARINE

## BUY

| | |
|---|---|
| **Share Price:** | **S$0.066** |
| **Target Price:** | **S$0.083** |
| **Upside:** | **25.8%** |

## COMPANY DESCRIPTION

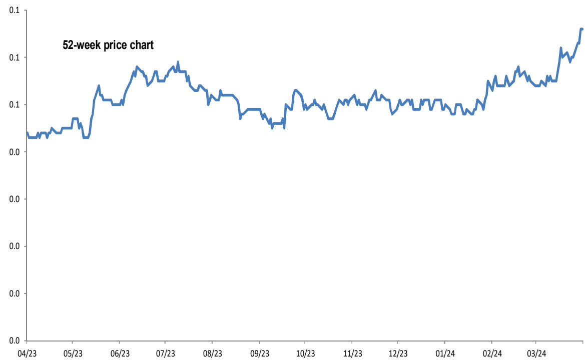
Marco Polo Marine has been listed on SGX-ST since 2007. Since then, Marco Polo Marine has expanded to become a reputable player in the marine industry in the region through their ship chartering and shipyard businesses.

| | |
|---|---|
| **Name** | **MARCO POLO MARINE LTD** |
| **Bloomberg Code** | **MPM SP EQUITY** |
| **3M Avg Daily Trading Vol (k)** | **10,677.0** |
| **3M Avg Daily Trading Val (S$'000)** | **602.2** |
| **Major Shareholder / Holdings** | **Apricot Capital (16.2%)<br>Sean & Family (12.9%)<br>Penguin I'ntl (8.1%)** |
| **Shares Outstanding (m)** | **3,753.6** |
| **Market Capitalisation (S$m)** | **251.5** |
| **52 week Share Price High/Low** | **S$0.067 / S$0.043** |

## STOCK PRICE PERFORMANCE

| | 1M | 3M | 12M |
|---|---|---|---|
| **Absolute Return (%)** | 24.1 | 36.5 | 55.1 |

## PRICE CHART




*Source : Bloomberg*

## SAILING TOWARDS SUCCESS

We initiate a BUY recommendation on Marco Polo Marine (MPM) with a TP of S$0.083, based on 11.0x FY24F PE. MPM is currently firing on both engines, as its ship chartering segment is buoyed by high rates and its shipbuilding segment is backed by a substantial order book pipeline.

**Continued Growth in Ship Chartering.** There continues to be a mismatch of demand and supply in AHTS, even in 2024, despite the influx of new builds entering the market, leading to a continued surge in OSV charter rates. MPM's strategy of opting for relatively shorter renewal rates positions them advantageously to recalibrate pricing more frequently, thereby enabling them to capitalize on the ongoing upswing. This strategic maneuver is bolstered by Taiwan's sustained commitment to the wind farm market, further enhancing MPM's market positioning and profitability.

**Shipbuilding.** MPM's shipbuilding segment remains robust, supported by a substantial order book pipeline that ensures revenue visibility for the coming years. This stability is further bolstered by the recent addition of Vesta's Crew Transfer Vessel (CSOV) and the Siemens Crew Transfer Vessel (CTV) framework agreement, both of which are set to commence contributing to revenue from the fiscal year ending Sep-25 onwards.

Moreover, there has been a notable uptick in ship repair utilization, with utilization rates trending upwards and expected to remain consistently high, hovering around the 90% mark. To address the growing and sustained demand, MPM is proactively expanding its infrastructure by constructing a fourth dock, slated to become operational by 1H25 - This will augment MPM's repair capacities by another impressive 25%

**Net Cash Position.** Since undergoing restructuring in 2017, MPM has emerged as a significantly more robust and well-structured company. With a healthy net cash position of S$60.8mln, MPM is well poised to capitalize on the ongoing O&G upcycle. Following its turnaround in 2021, MPM has demonstrated its strengthened financial position and confidence in future prospects by recently reinstating dividends in FY23. This decision not only underscores the company's improved performance but also signals brighter times ahead, reflecting MPM's renewed stability and potential for sustained growth.

**Undemanding Valuations.** MPM today trades at 8.7x FY24PE (Ex-Cash FY24 PE: 6.5x) and 1.3x PB, which is undemanding compared to peers valuations of 13.9x FY24PE. Given the higher potential of the current upcycle, we think that MPM can trade up to at least 11.0x PE, representing a c.20% discount to the previous peak and current peers.

## KEY FINANCIALS

| September YE | FY21 | FY22 | FY23 | FY24F | FY25F |
|---|---|---|---|---|---|
| Revenue | 46.1 | 86.1 | 127.1 | 144.0 | 170.0 |
| Gross Profit | 12.0 | 27.5 | 45.7 | 54.7 | 64.6 |
| EBITDA | 22.4 | 32.4 | 42.8 | 34.0 | 42.8 |
| EBITDA Margin (%) | 48.6 | 37.7 | 33.7 | 23.6 | 25.2 |
| Net Income | 14.8 | 21.3 | 22.6 | 28.4 | 36.6 |
| Net Margin (%) | 32.0 | 24.8 | 17.8 | 19.7 | 21.5 |
| EPS (S cts) | 0.4 | 0.6 | 0.7 | 0.8 | 1.0 |
| Dividend Per Share | 0.0 | 0.0 | 0.10 | 0.13 | 0.17 |
| Dividend Yield | 0.0 | 0.0 | 1.5 | 2.0 | 2.6 |
| PE (x) | 17.4 | 12.0 | 11.4 | 8.7 | 6.8 |
| PB (x) | 1.3 | 1.5 | 1.4 | 1.3 | 1.2 |

*Source: MPM, Lim & Tan Research*

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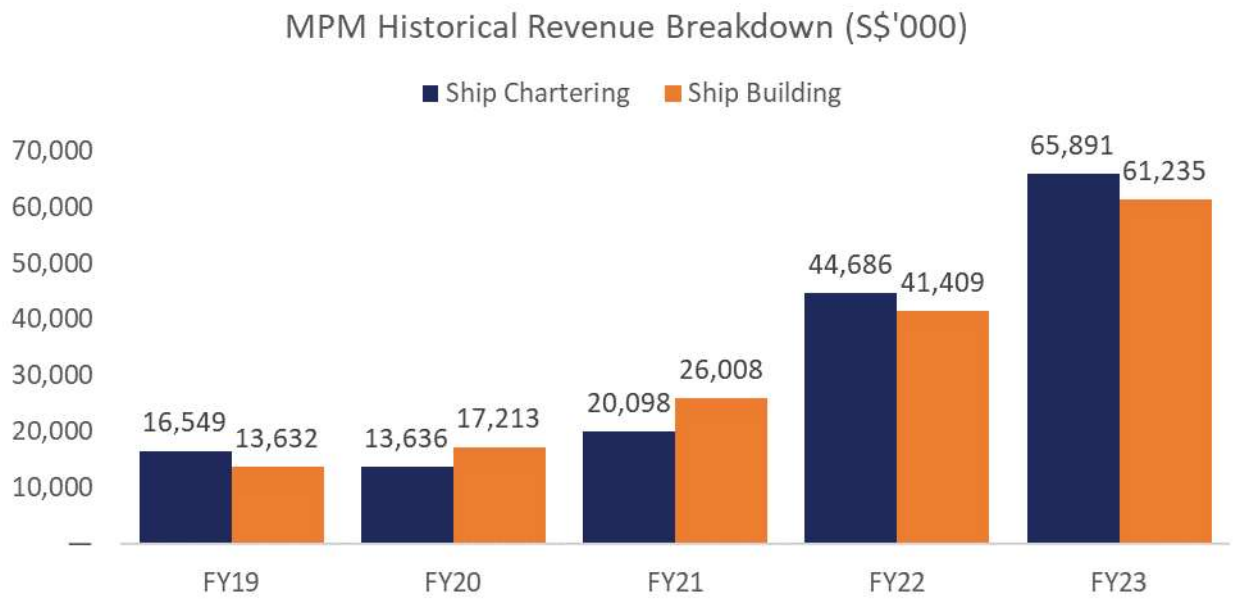
## Business Segments

- Marco Polo Marine (MPM) primarily reports under 2 segments: Ship Chartering (52%/66% of FY23 Revenue/Op. Profit) – MPM owns 14 Offshore Service Vessels(OSVs), including 2 Maintenance Work vessels (MWVs) and average age of MPM's OSV fleet is 9 years. MPM also owns 10 tugboats and 8 barges with vessel age ranging from 5-14 years.

  Ship Building (48%/34% of FY23 Revenue/Op.Profit) – As one of the larger shipyards in Indonesia, MPM does ship building, conversion, outfitting, offshore fabrication works and green ship recycling. MPM also repairs and does maintenance works for vessels with more than 1,000 repair projects completed in the last decade. While previously a loss-making segment for MPM, it has recently turned around in FY22

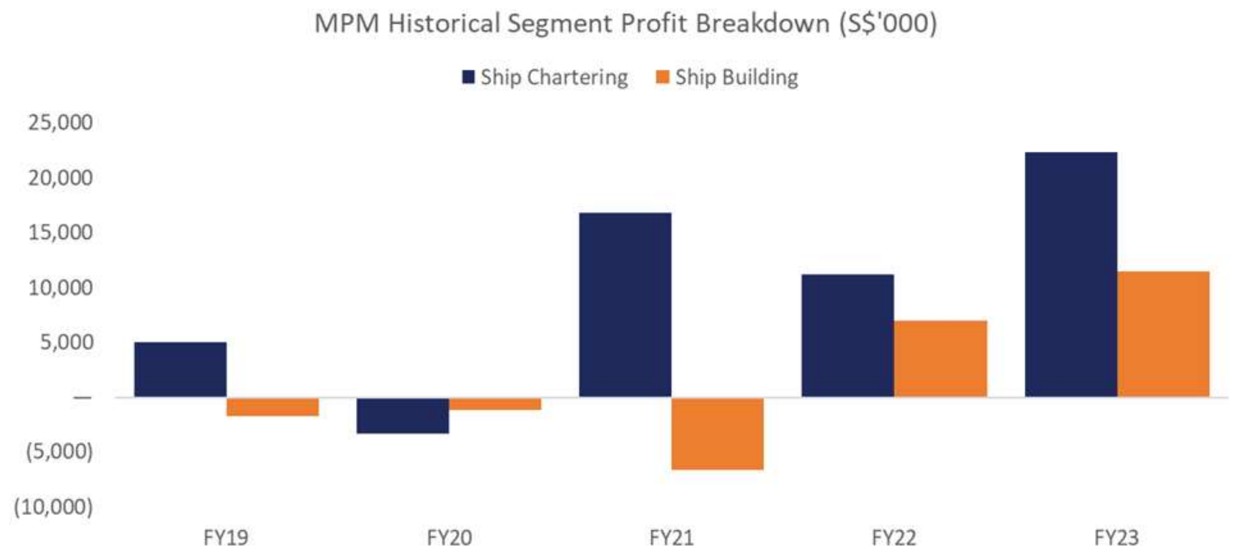
**Exhibit 1: MPM's revenue split evenly between chartering and building**




*Source: MPM, LTS Research*

## MARCO POLO MARINE

**Exhibit 2: MPM's chartering continues to grow and shipbuilding turns around**



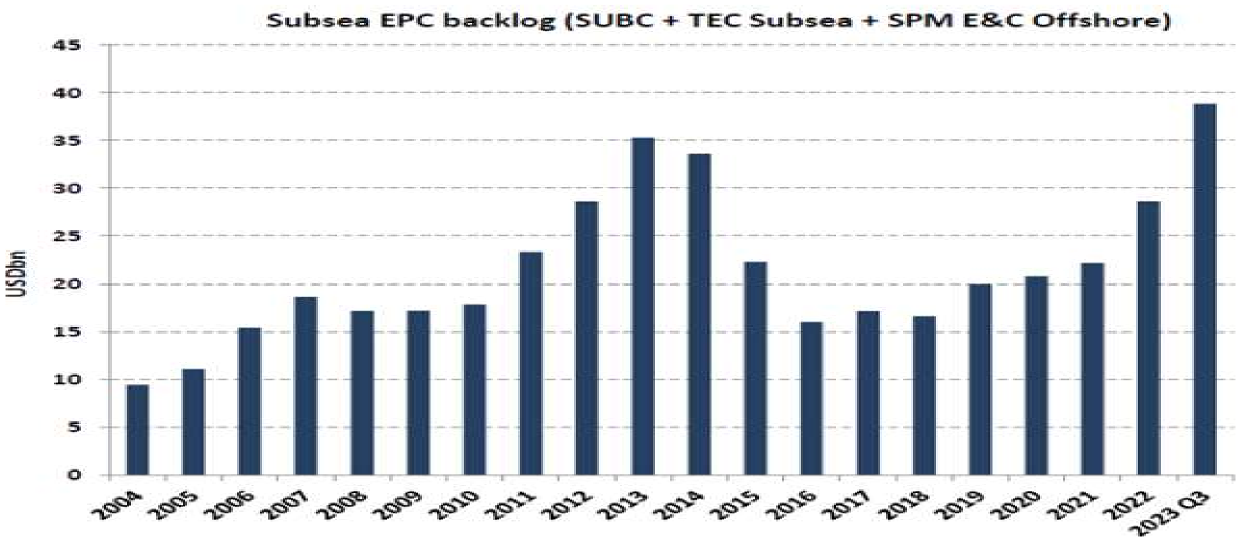

*Source: MPM, LTS Research*

## O&G sector

- Oil prices have surged due to a convergence of factors including heightened post-COVID travel spending, escalating geopolitical tensions, and OPEC oil output cuts. This uptick has spurred O&G firms to seize the opportunity presented by elevated oil prices. However, the industry is grappling with a dearth of investment stemming from the pre-COVID era of low oil prices compounded by the pandemic itself.

  As a consequence, there has been a noticeable uptick in CapEx, with an estimated $125 billion earmarked for offshore O&G projects in 2024 according to Clarksons. This surge in CapEx signifies a growing demand for supporting assets such as Offshore Support Vessels (OSVs), a market segment where MPM holds a competitive advantage.

**Exhibit 3: Subsea EPC Backlog at elevated levels**

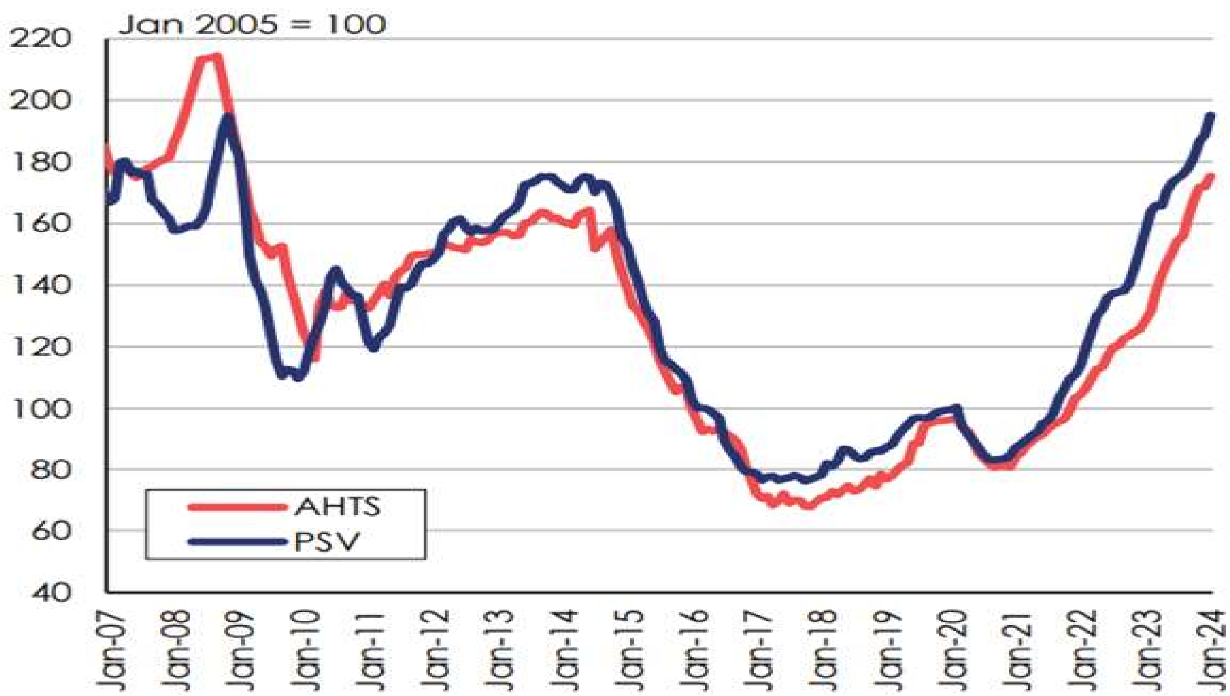



*Source: MMA Offshore, Clarksons*

## *Bright OSV Sector*

- According to Clarksons OSV Rate Index, OSV rates have continued its surge in 2024, breaking past the previous peak last seen in 2014 levels just before the oil rout.

**Exhibit 4: Clarksons OSV Rate Index**




*Source: Clarksons*

The growth trajectory of Offshore Support Vessels (OSVs) is anticipated to persist throughout 2024, as indicated by Clarksons' report. Despite a seasonal easing in the number of active units, OSV utilization rates stood at a commendable 72% in February 2024, marking a significant 22% increase from the levels observed at the beginning of 2021.

This robust utilization rate underscores the enduring strength of underlying demand, which continues to be buoyed by the sustained uptick in offshore drilling activity. Projections suggest a further 6% increase in the number of active rigs in 2024, further bolstering demand for OSVs.

Moreover, elevated levels of field development and production support activity are anticipated throughout 2024, fueled by the ongoing upswing in investment in offshore oil and gas projects.

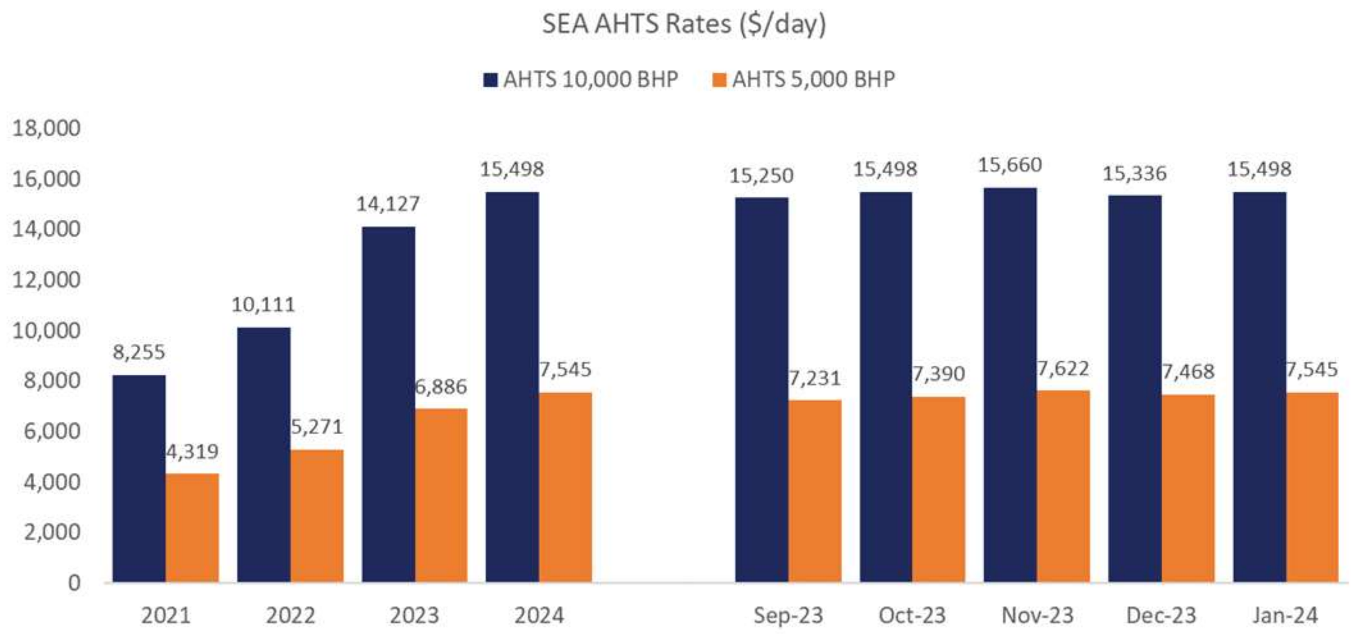
This confluence of factors points towards a favorable operating environment for OSVs, characterized by sustained demand and ample opportunities for growth and expansion in the sector. In particular, OSV rates in South East Asia (SEA) continue to be supported by high levels of offshore drilling activity across the region, with global AHTS rates rising

According to Fearnley Offshore Supply, expenditure on vessel charters for exploration and production activities in Asia is projected to surge to US$2.6 billion in 2024, marking a substantial 40% increase compared to 2023.

Notably, large Platform Supply Vessels (PSVs) and Anchor Handling Tug Supply (AHTS) vessels have commanded rates surpassing US$30,000 per day, while medium-sized vessels have been fetching approximately US$18,000-20,000 per day.

Even smaller AHTS vessels have been earning in the range of US$10,000-15,000 per day. These rates represent the highest levels witnessed since 2014, underscoring a robust recovery within the industry amidst a constrained vessel supply market. The below data exhibit from Clarksons corroborates Fearnley's view.

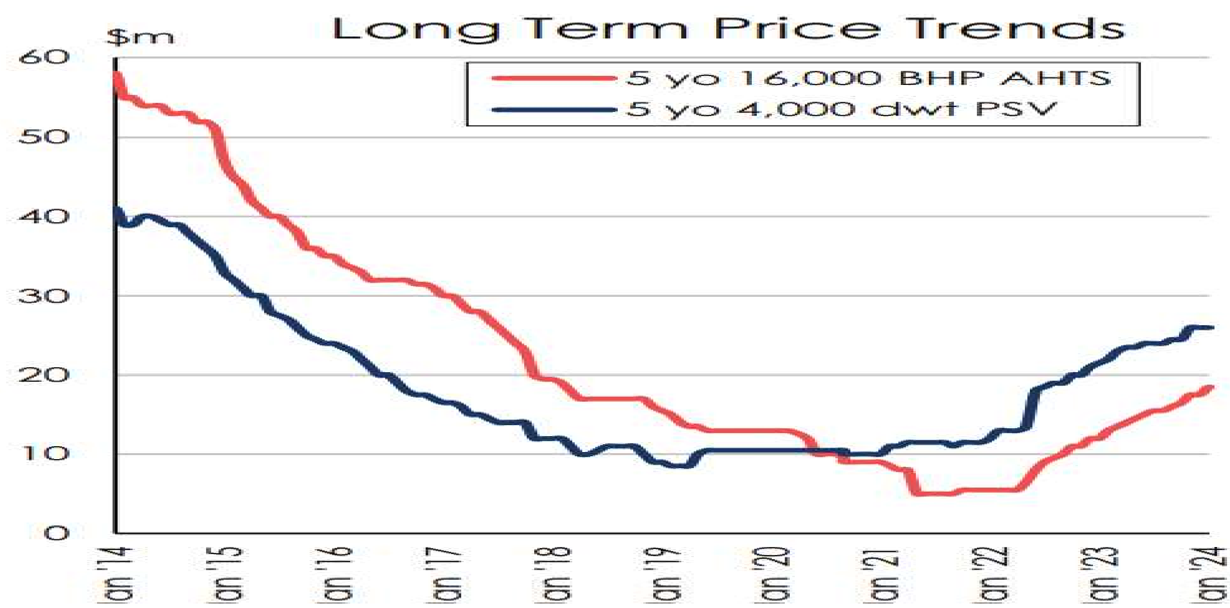
**Exhibit 5: SEA AHTS Rates trending up**




*Source: Clarksons*

Considering the OSV sales trend, it's evident that OSV asset prices are on an upward trajectory. This rise in OSV prices is a clear reflection of the heightened demand for OSVs in the market, while at the same time driving charter rates and benefitting MPM along the way.

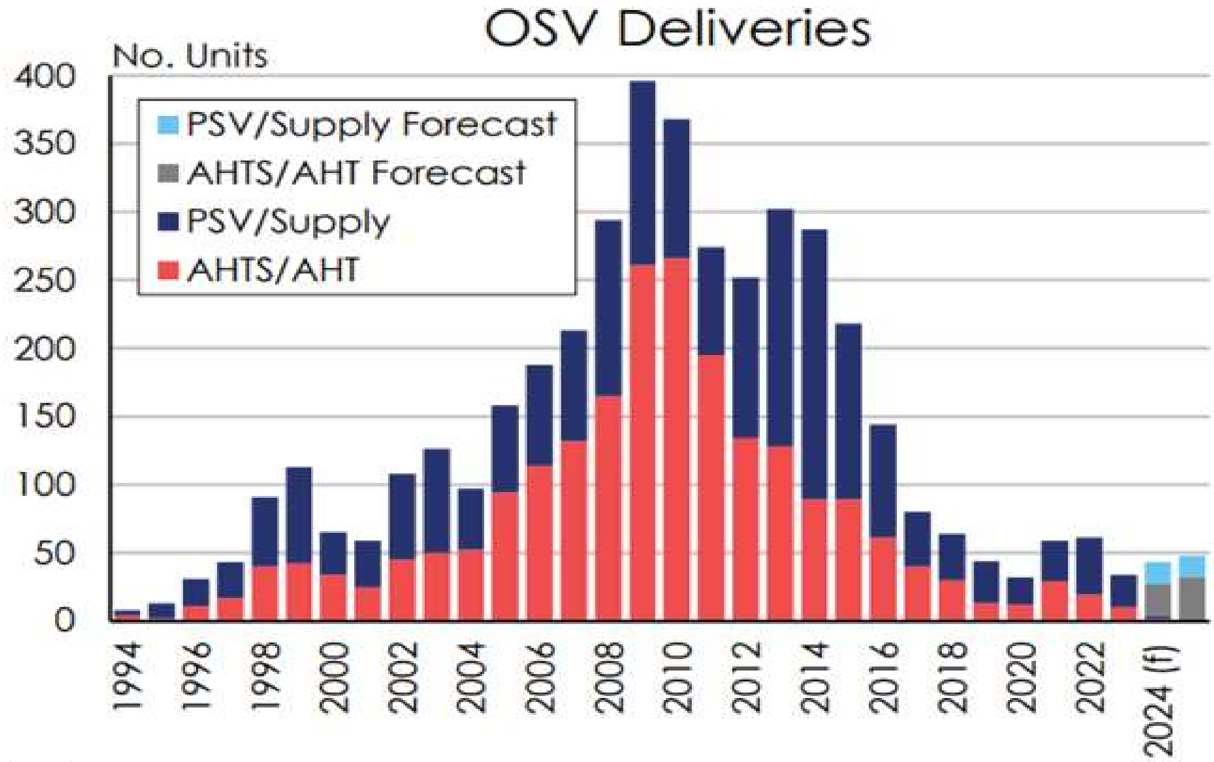
**Exhibit 6: OSV Prices trending up**




*Source: Clarksons*

Despite projected increases in deliveries of OSVs in 2024, the supply of AHTS remains tight. This scarcity is particularly notable as the bulk of vessels available in the market are aged 10 years or older.

**Exhibit 7: Tight supply of OSVs**




*Source: Clarksons*

## Taiwan Offshore Windfarms

MPM has strategically diversified its operations from the cyclical O&G sector into Taiwan's rapidly expanding offshore wind farm industry, marking a significant shift towards renewable energy. According to the Global Wind Energy Council (GWEC), it forecasts a substantial installation of 680 GW of new wind power capacity from 2023 to 2027, averaging 136 GW annually until 2027.

In the APAC region, Taiwan has embarked on an ambitious drive to emerge as a leader in offshore wind energy within the APAC region. This initiative aligns with the nation's broader objectives of powering its burgeoning tech industry and diversifying its energy sources, particularly as it seeks to phase out nuclear power, which poses inherent risks.

To leverage its geographical advantage and abundant wind resources, Taiwan has prioritized the development of offshore wind energy. This commitment is evidenced by the government's allocation of numerous offshore wind farm projects, aiming to increase offshore wind capacity by 5.7 GW by 2025. The implementation of these projects will involve installing over 700 turbines in the Taiwan Strait, necessitating investments of approximately US$20 billion.

Recognizing its limited experience in the offshore wind industry, Taiwan is actively engaging global players by offering firm policy commitments, attractive subsidized rates, and innovative financing models. Such measures are crucial for mitigating the high development costs and investment risks associated with establishing and expanding the offshore wind market. This concerted effort reflects Taiwan's determination to capitalize on its renewable energy potential and achieve sustainable growth in the sector.

**Exhibit 8: Offshore Wind Projects in Taiwan**


| Project name | Developers | Capacity |
|---|---|---|
| Formosa 1 | Ørsted, SRE | 128 MW |
| TPC | Taiwan Power Company | 109 MW |
| Fuhai | | 120 MW |
| Changfang | CIP | 552 MW |
| Hai Long II (2A) | Northland Power | 300 MW |
| Hai Neng (Formosa II) | Jera, SRE | 378 MW |
| Zhong Neng 1 | CIP | 300 MW |
| Greater Changhua 1 (SE) | Ørsted, CDPQ, Cathay Capital | 605 MW |
| Greater Changhua 2 (SW) | Ørsted | 295 MW |
| TPC II (2a) Changhua Phase II | Taiwan Power Company | 300 MW |
| Xidao | CIP | 48 MW |
| Yunlin | wpd | 708 MW |
| Liwei / Guanyin | wpd | 350 MW |
| Hai Long II (2B) | Northland Power | 232 MW |
| Hai Long III | Northland Power | 512 MW |
| Greater Changhua 4 (NW) | Ørsted | 583 MW |
| Greater Changhua 2b (SW) | Ørsted | 337 MW |

*Source: Aegirinsights*

With Taiwan's ongoing efforts to expand its wind farm installations and MPM's successful transition to servicing the offshore wind farm sector since the 1HFY21, this segment continues to represent a promising opportunity for MPM.

Although MPM's vessels were initially tailored for O&G projects, the specifications required for supporting offshore wind farm projects differ. However, MPM has found ways to leverage its existing fleet for wind farm operations. While certain modifications may be necessary to align with project requirements, MPM can deploy its vessels to support various aspects of wind farm installations without significant additional CapEx. This adaptability has allowed MPM to establish a solid foundation for vessel utilization in the wind farm sector.

Despite the higher operational costs associated with operating in the wind farm sector, such as specialized equipment and crew training, MPM is able to offset these expenses through higher charter rates. This dynamic ensures that MPM's foray into the offshore wind farm market remains financially viable and we think the continued growth of the wind farm sector in Taiwan presents a bright and sustainable opportunity for MPM's business expansion and long-term success.

**Vestas Framework Agreement**
On 20th Nov 2023, MPM announced that it had signed the Vestas Framework Agreement, which finalises the previous landmark MOU inked in December 2022 between its Taiwan-based subsidiary, PKR Offshore Co., Ltd and Vestas Taiwan Co., Ltd for the maiden deployment of its new Commissioning Service Operations Vessel (CSOV).

This CSOV can accommodate up to 110 persons and will be deployed across various offshore wind farms in the Asia Pacific region over three years, based on a minimum utilization commitment per annum. The vessel is currently under construction at Marco Polo and is expected to commence operations in the East China Sea in the second half of 2024.

We like that MPM has utilization visibility over their newbuild in the next few years, and that this can unlock more opportunities for MPM if this project is executed well.

**Siemens Gamesa CTV Framework Agreement**
On 21st March 2024, MPM announced that it has secured the Asia-Pacific Crew Transfer Vessel ("CTV") framework agreement with Siemens Gamesa for projects spanning Taiwan and Korea.

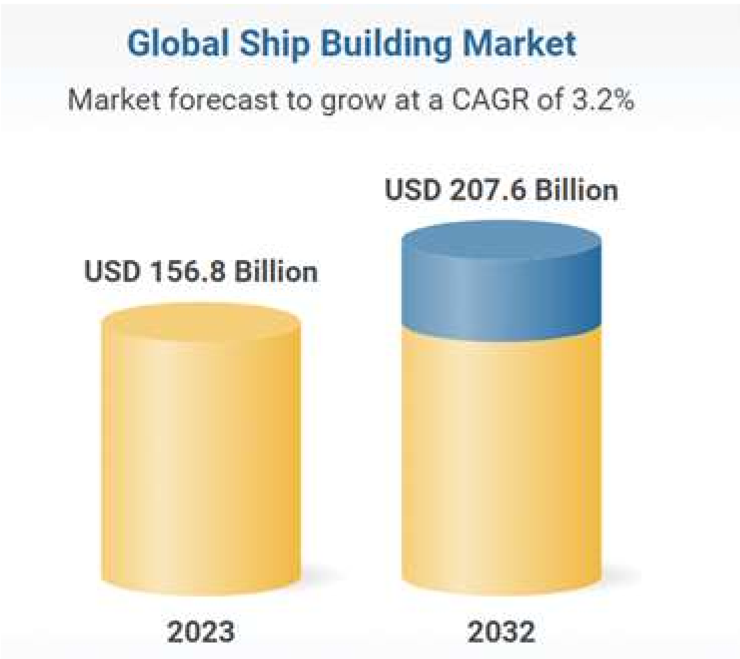
This achievement underscores MPM's commendable capabilities, demonstrated through its fruitful collaboration with Siemens Gamesa in Taiwan since 2018. Effective from 2024 to 2026, with an optional extension to 2030, this agreement signifies a strategic partnership poised for substantial growth.

Leveraging Siemens Gamesa's esteemed reputation and expertise in offshore wind projects, MPM stands well-positioned to seize additional opportunities, building upon its proven track record of successful collaboration.

## Shipbuilding

- Riding on the tailwinds of the O&G sector, the shipbuilding space is also set to grow. According to Research And Markets, the global shipbuilding market has reached US$156.8bln in 2023. The market is projected to reach US$ 207.6 billion by 2032, exhibiting a CAGR of 3.17% during 2023-2032. The rising international trade, increasing construction of military vessels, and adoption of modular construction approach represent some of the key factors driving the market.

**Exhibit : Global Shipbuilding Market**




*Source: Research And Markets*

Likewise, Mordor Intelligence similarly forecasts a robust growth trajectory for the global shipping market, projecting a CAGR of 4.8% from USD 145.67 billion in 2024 to USD 184.5 billion in 2029. Several secular trends, including a significant contraction in shipbuilding capacity and a surge in demand for eco-friendly vessels underpin this anticipated expansion.

Data from Clarkson Research also underscores the diminishing shipyard capacity, with a striking 40% reduction observed over the past decade. This decline has led to the dwindling number of large active shipyards, which now stands at 131, down from a previous peak of 321. Concurrently, there is a discernible uptick in orders for new eco-friendly vessels, signaling a shift away from ageing and polluting ships currently prevalent in the global fleet.

This transition towards eco-friendly ships presents a substantial opportunity for shipbuilders, as they will experience longer order books with higher prices compared to previous periods. Consequently, this trend not only fosters environmental sustainability but also drives innovation and growth within the shipbuilding sector, positioning it for a dynamic and prosperous future.

Unsurprisingly, this aligns well with MPM's strategy of prioritizing environmental sustainability. As the industry shifts towards greener practices and regulations, MPM's commitment to operating more sustainably positions it favorably to capitalize on emerging opportunities

## Valuations

MPM boasts a strong balance sheet with a net cash position of S$60.8mln, representing 25% of market cap. From its restructuring back in 2017 and turnaround in 2021, MPM has come a long way and is no longer the leveraged company it once was. As a show of affirmation towards continued profitability, MPM has resumed dividends with a 0.1 S ct/share dividend in FY23. We believe that MPM has the propensity to increase dividends as the company grows, which will be backed by strong cash flow generation capabilities from both operating segments during this predicted upcycle

We value MPM at 11.0x FY24F PE, pegged to c.20% discount to peers average FY24F PE of 14.1x. The target price of $0.083 represents a 26% upside to current share price. Based on the valuations table, MPM remains the cheapest in terms of FY24F PE for stocks that are covered by other analysts. Despite a 1.3x PB value (average), it boasts a superior ROE of 15% vs average peers ROE of 5%.

## MARCO POLO MARINE

**Exhibit : MPM Peer Valuations**

| Name | Market Cap (S$mln) | Stock Perf YTD% | Forward PE(x) | EPS Growth (1yr) | EPS Growth (2yr) | EV/ EBITDA fwd(x) | P/B(x) | ROE(x) | Div Yield |
|---|---|---|---|---|---|---|---|---|---|
| MARCO POLO MARINE LTD | 248 | 29.4% | 7.3 | 29% | 0% | 4.6 | 1.3 | 15% | 1.5% |
| YINSON HOLDINGS BHD | 2,048 | -4.8% | 9.5 | -11% | 11% | 8.4 | 1.0 | 14% | 1.3% |
| TIDEWATER INC | 6,916 | 35.9% | 19.4 | 174% | 69% | 8.7 | 4.9 | 10% | -- |
| PACIFIC RADIANCE LTD | 64 | 81.4% | -- | -- | -- | -- | 0.4 | 47% | -- |
| JAMES FISHER & SONS PLC | 217 | -17.9% | 19.0 | -50% | 62% | 4.9 | 0.6 | -11% | -- |
| MALAYSIA MARINE AND HEAVY EN | 223 | 2.1% | 24.5 | 107% | -15% | 5.0 | 0.6 | -32% | -- |
| COASTAL CONTRACTS BHD | 231 | -7.9% | 8.7 | -76% | 3% | 5.2 | 0.4 | 3% | -- |
| DELEUM BERHAD | 162 | 48.7% | 10.9 | 14% | 8% | 3.9 | 1.4 | 11% | 4.0% |
| SEACOR MARINE HOLDINGS INC | 533 | 15.4% | -- | -106% | 9% | 8.7 | 1.1 | -2% | -- |
| SAPURA ENERGY BHD | 261 | 11.1% | -- | 12% | -7% | 18.6 | -- | -- | -- |
| KIM HENG LTD | 65 | 15.0% | -- | -- | -- | -- | 1.2 | 3% | 3.1% |
| PETRA ENERGY BHD | 120 | 45.2% | -- | -- | -- | -- | 1.0 | 13% | 8.3% |
| XIN YUAN ENTERPRISES GROUP L | 303 | -19.7% | -- | -- | -- | -- | 1.6 | 9% | 7.1% |
| DAYANG ENTERPRISE HLDGS BHD | 830 | 57.5% | 12.0 | 11% | 12% | 6.3 | 1.8 | 14% | 2.4% |
| **Median** | | **15%** | **11.5** | **11%** | **8%** | **5.8** | **1.1** | **10%** | **3.1%** |
| **Average** | | **21%** | **13.9** | **10%** | **15%** | **7.5** | **1.3** | **7%** | **4.0%** |

### Risks

- There have been reports of Japanese companies dropping out of offshore wind projects in Taiwan due to increasing costs and delays that potentially threaten profitability, with costs rising roughly 50% in 2023 (according to Bloomberg) However, wind continues to be a more efficient clean power source relatively (1MW of offshore wind capacity can product 3x what a solar park can generate), and strong demand from the semiconductor chip industry should continue to support Taiwan's wind industry.

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