SPECIAL REPORT | 3 JULY 2024

Mermaid Maritime

BUY

Share Price:	**S$0.19**
Target Price:	**S$0.30**
Upside:	**57.9%**

COMPANY DESCRIPTION

Listed on the Mainboard of the SGX-ST since 2007 and operating as a subsidiary of Thoresen Thai Agencies Public Company Limited, Mermaid Maritime is a reputable integrated marine logistics company which principally engages in subsea operations.

The Group provides a comprehensive range of subsea services such as Inspection, Repair, and Maintenance (IRM), Transportation and Installation (T&I), and cable laying. It specialises in hydrographic survey and positioning, as well as saturation diving, air diving, and ROV services.

Name	Mermaid Maritime
Bloomberg Code	MMT SP
3M Avg Daily Trading Vol (k)	7,379.2
3M Avg Daily Trading Vol (S$'000)	1,153.0
Major Shareholder / Holdings	Thoresen Thai (49.5%)
Shares Outstanding (m)	1,413.3
Market Capitalisation (S$m)	268.5
52 week Share Price High/Low	$0.21/$0.07

STOCK PRICE PERFORMANCE

	1M	3M	12M
Absolute Return (%)	6.7	49.6	175.4

PRICE CHART

Source : Bloomberg

Mermaid: Seas the day!

We initiate a "BUY" recommendation on Mermaid Maritime (MMT) with a target price of $0.30 based on 12.5x FY24PE, pegged to 15% discount to its peers. MMT boasts one of the world's largest DSV fleets and is a turnaround company strategically positioned to capitalise on the rising demand for decommissioning and IRM projects amidst higher oil prices and global sustainability initiatives. With high operating leverage due to their big fleet size amidst an industry upcycle, MMT has hit critical mass, and we expect further increases in revenue to significantly contribute to their bottom line.

The market has not yet fully acknowledged MMT's robust momentum in securing orders, promising significantly increased revenue and profit visibility in FY24 and FY25. The O&G downturn for the past seven years has also eliminated several of MMT's competitors. MMT has one of the largest and skilled dive teams and is thus positioned to secure delayed projects which are just resurfacing. Due to the scarcity of DSV vessels and elevated charter prices, MMT can now has pricing power.

Increase in decommissioning projects. With numerous oil wells expecting to cease production in the next decade across APAC/ Thailand, MMT is a prime beneficiary of the expected increase, as evidenced by its surge in decommissioning orders. Projects have a short life span, and MMT will have a 60%-65% current order book recognised in FY24. This excludes further contract wins.

Order book winning momentum. Despite more than doubling its order book in 6 months from US$337mln in 1HFY23 to US$734mln, MMT has continued to secure multiple contracts across SEA, the Middle East and Africa to replenish its order book. We expect MMT's win momentum to continue and the order book to cross S$1bln, giving further visibility beyond FY24.

Rise in OSV charter rates. With an extensive fleet, the operating leverage MMT has that worked against them in the past has now reversed as charter rates continue to soar. Charter rates are now near 2008's high, and any rate increase above MMT's cost structure directly feeds into MMT's bottom line. Older contracts entered before FY23 should also expire soon, and any new agreements made should reflect the higher charter rates seen in today's market.

Undemanding valuations. Despite the spike in share price, MMT's valuations continue to be undemanding and trade at 8x forward PE. Given our expected net profit of US$25mln for FY24, we value MMT at 12.5x PE by applying a 15% discount to peer estimates PE of 14.7x due to its small-cap nature. We also look forward to a possible dividend surprise, which can be well supported by MMT's current operating cash flow.

KEY FINANCIALS

December YE	FY21	FY22	FY23	FY24(F)	FY25(F)
Revenue (US$mln)	111.6	223.9	275.4	465.5	512.1
EBITDA (US$mln)	1.5	24.0	41.9	60.9	64.2
Net Profit (US$mln)	-15.7	-0.2	9.6	25.0	30.1
EPS (US cts)	-1.1	-0.01	0.7	1.8	2.1
EPS Growth (%)	N.A	N.A	N.A	160%	21%
P/E (x)	N.A	N.A	20.7	8.0	6.6
P/B (x)	1.2	1.2	1.1	1.0	0.9
ROE (%)	-9.8	-0.1	5.6	12.8	13.3
DPS (US¢)	N.A	N.A	N.A	N.A	N.A
Dividend Yield (%)	N.A	N.A	N.A	N.A	N.A

Source: Bloomberg, Lim & Tan Research

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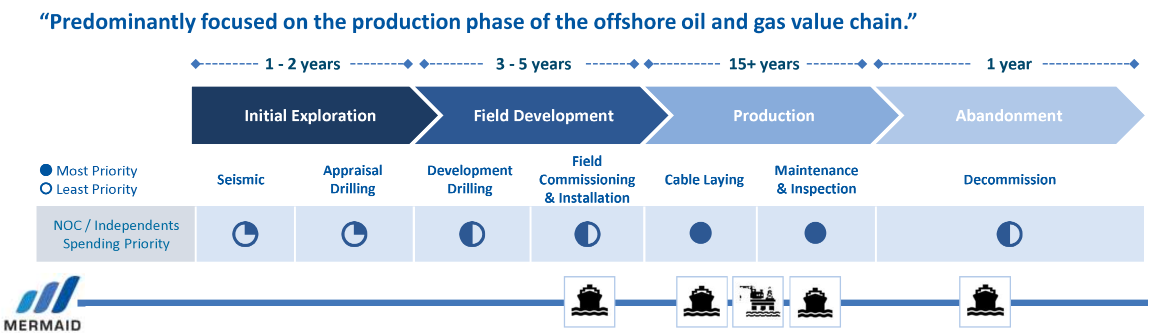
Mermaid Maritime

MMT's subsea fleet comprises 8 owned subsea vessels, 18 saturation/air diving systems, and 14 remotely operated vehicles. It also charters numerous vessels for other projects. MMT is predominantly focused on the production phase of the oil and gas value chain, and revenues are primarily generated from 3 segments: T&I (Transportation and Installation), Decommissioning, Cable Lay, and IRM (Inspection, Repair, and Maintenance).

Exhibit 1: O&G Value Chain



Source: Mermaid Maritime

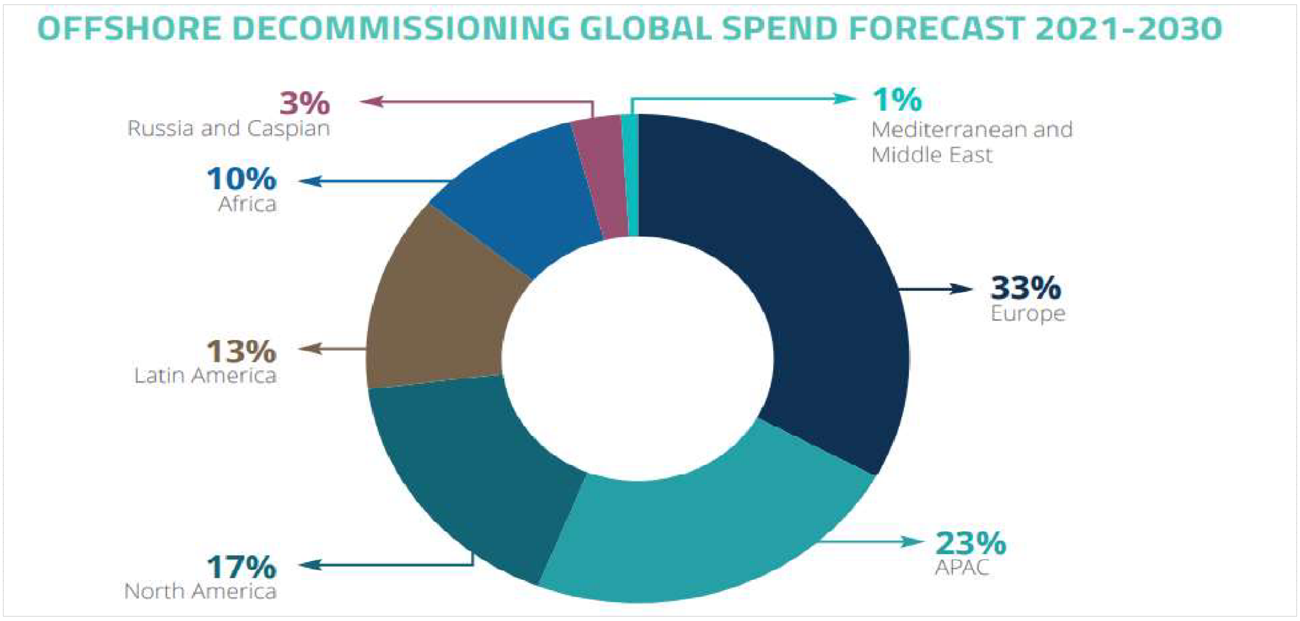
T&I, Decommissioning (29.4% of FY23 Sales)
Mostly driven by decommissioning, it is the last phase of the O&G value chain, which is often overlooked as it is a cost centre for O&G drillers. MMT helps in plugging wells and salvaging materials, and subsea vessels are utilised here. Projects have a shorter life and take about 1 year to complete. This segment commands about 8% of the margins

IRM (56.0% of FY23 sales)
MMT provides subsea IRM services for O&G customers. This includes Subsea support vessels assisting in, among other things, survey and preparations of the seabed, installation of modules, umbilical cables and risers, and provision of Remotely Operated Vehicles (ROVs) or divers for tie-in and testing. This segment commands about 12%-15% margins.

Cable Lay (14.6% of FY23 Sales)
MMT provides subsea cable laying services for O&G customers' telecommunications, electric power transmissions, or other purposes. This segment commands about 10% margins.

Decommissioning is MMT's key driver.
Decommissioning of oil wells is the final stage of the O&G value chain, where the surface of oil wells is now reinstated back to its original state. It is costly (as expensive as drilling) and not a priority for drillers as it does not generate revenue for the firm. However, with O&G projects finishing and considering ESG initiatives by governments, firms have no choice but to incur these CapEx. Offshore Network estimates about 200 offshore fields in Southeast Asia, comprising more than 1,500 platforms and 7,000 plus wells, are likely to stop producing by 2030. This presents a massive opportunity for players like MMT.

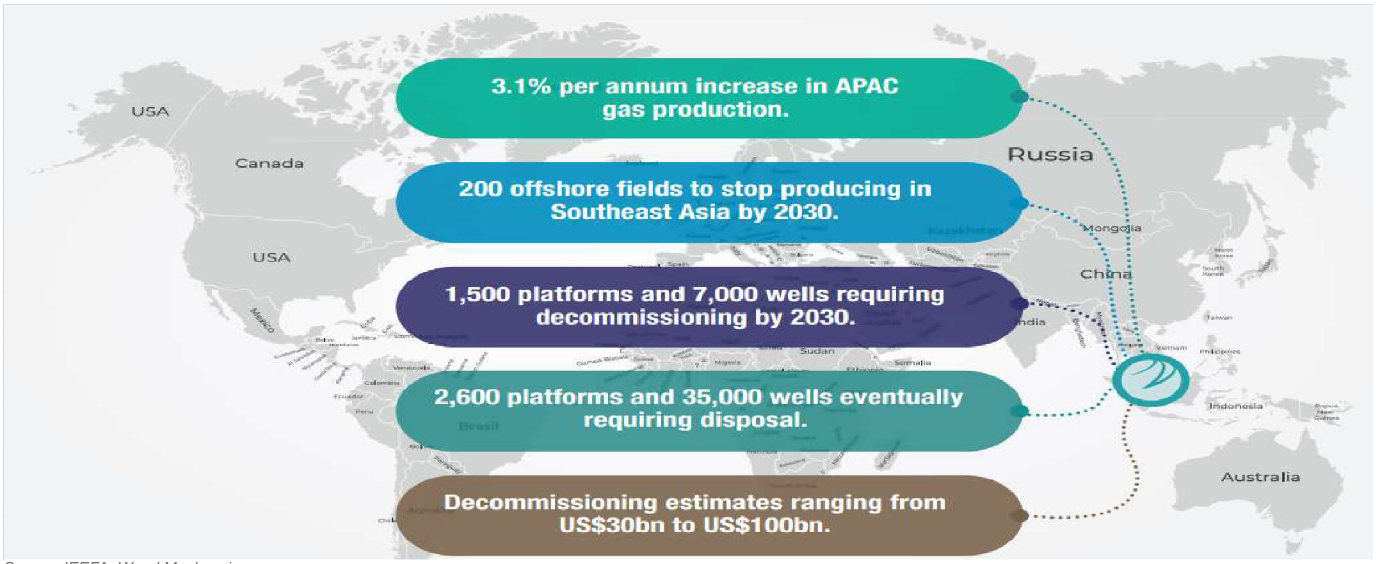
Exhibit 2: Offshore decommissioning global spend



Source: IHS Markit

This "phenomenon" is not only happening in the APAC region but also worldwide, with IHS Markit predicting in 2021 that decommissioning spending could reach around US$100bn between 2021 and 2030, a staggering 200% increase compared to the previous ten-year period. IHS Markit's data also suggests that 2,800 fixed platforms and 160 floating platforms could be decommissioned in that period, alongside more than 18,500 wellheads, 2,850 subsea trees and 80,000 km of offshore pipelines and umbilicals. Energy Industries Council also further predicted that this cost of decommissioning would continue to rise beyond that, hitting the US$200bn figure within the next 20 years.

Exhibit 3: Decommissioning in APAC



Source: IEEFA, Wood Mackenzie

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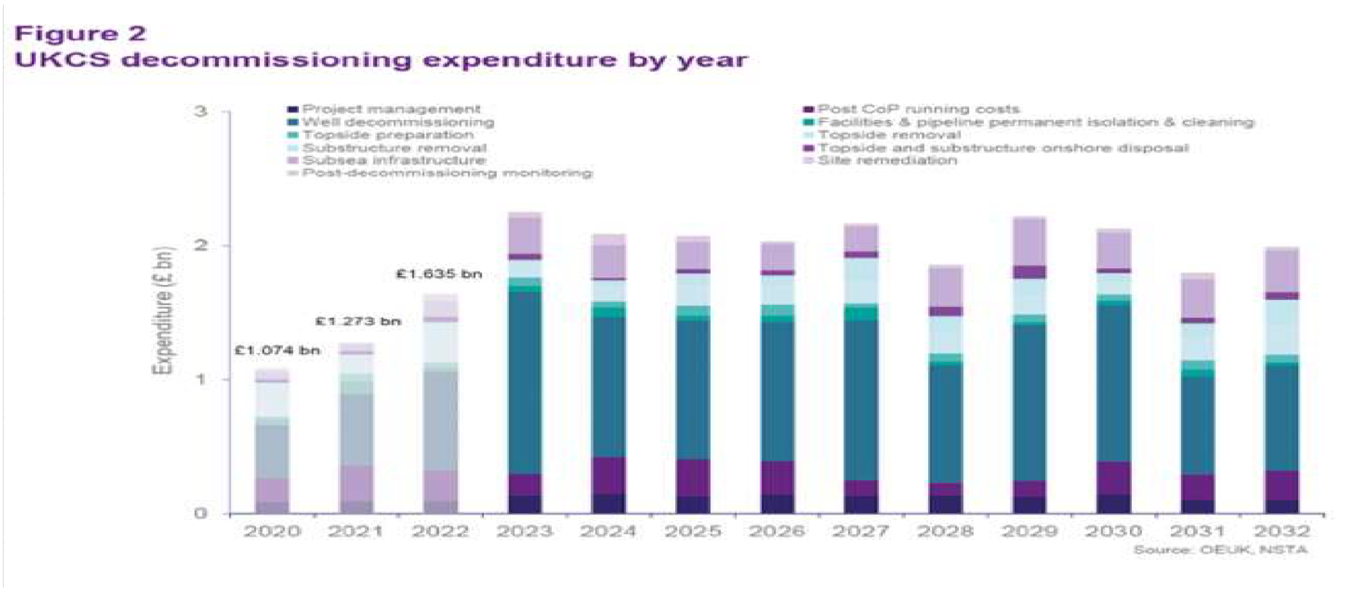
In 2023, Offshore Energies UK reported that more than 10bln pounds are expected to be spent by 2027 to decommission over 1,000 North Sea Wells

Exhibit 4: UKCS Decommissioning expenditure by year



Source: OUEK, NSTA

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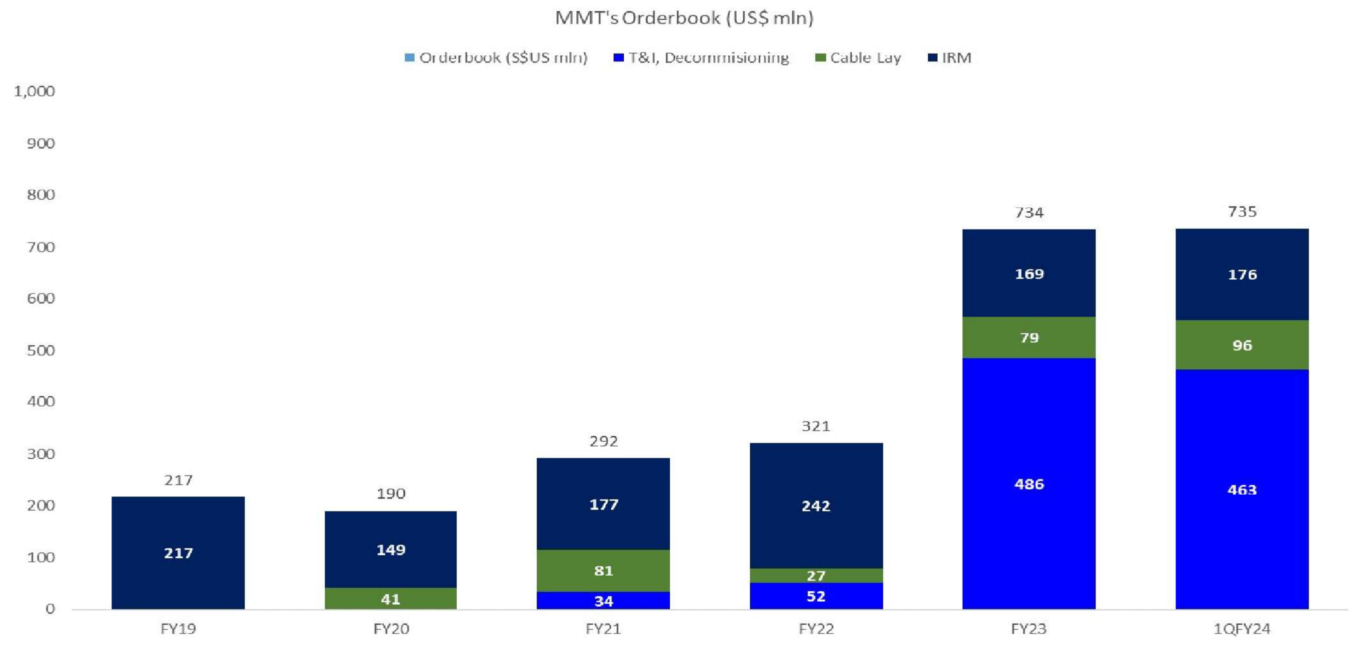
MMT's orders set to surpass US$1bln
In FY23, MMT turned a profit and saw a significant increase in orders thanks to the growing decommissioning sector. As decommissioning projects have a lifespan of about one year, we expect MMT to turn over most of its current decommissioning projects. Accordingly, we expect revenues to come in around US$450-US$500mln, with the bulk of the revenues generated by decommissioning projects. With decommissioning projects set to grow, we anticipate MMT will secure more contracts to replenish its order books.

Exhibit 5: MMT's growing orderbook



Source: MMT, LTS Research

In 2QFY24, Mermaid IRM's business expanded as MMT disclosed a new order win worth US$125 million for a one-year period. This addition brings their total IRM order book for FY24 to at least US$201 million. Although not explicitly mentioned, we presume the end customer to be Saudi Aramco, considering MMT's past successful collaborations with them.

MMT's strength in contract bidding is evident, as they have successfully secured around 25% of all contracts they've bid for. We anticipate MMT will maintain its momentum in securing additional contracts throughout FY24

Mermaid's Fleet
Mermaid currently owns 8 subsea vessels (of which 2 are 50% owned). Most of their fleet are dive support vessels (DSV) designed for diving operations carried out below and around oil production platforms and related installations in open waters. The rest of their owned fleet are general utility vessels and accommodation/construction support barges.

Exhibit 6: MMT's owned and chartered vessels

Mermaid Endurer

DP2 Dive Support Vessel

Mermaid Asiana

DP2 Dive Support Vessel

Mermaid Sapphire

DP2 Dive Support Vessel

Van Gogh

DP2 Dive Support Construction Vessel

Millennium 3

Self-propelled DP2 Construction Support Barge

Mermaid Challenger

General Utility Vessel

Mermaid Resilient

Accommodation and Construction Support Barge

Trapiche Emerald

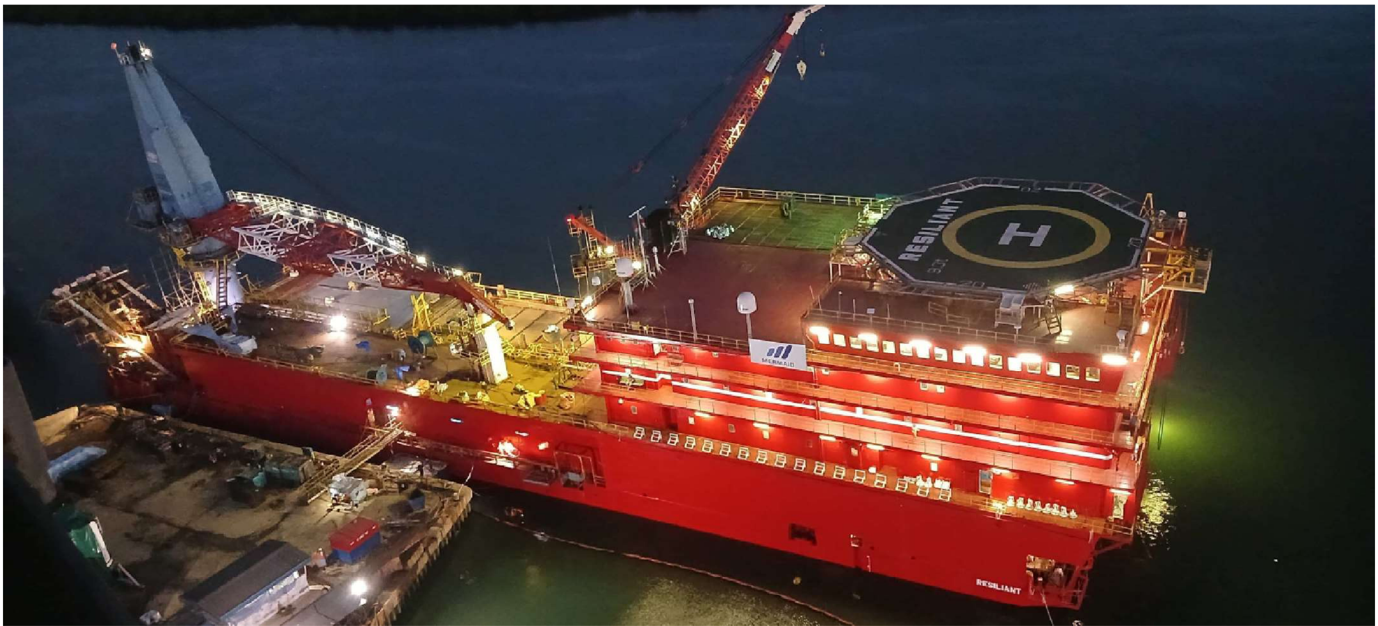
Dive Support Vessel

Hilong 106

General Utility Vessel

Source: MMT, LTS Research

Exhibit 7: Mermaid Resilient after refurbishment in Batam



Source: MMT, LTS Research

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Owning DSVs represents a direct advantage for MMT, as they integrate DSV market charter rates into their price bids, leveraging their vessel ownership. This substantial operating leverage ensures that any rate increases directly enhance MMT's earnings once they exceed a specified cost structure threshold.

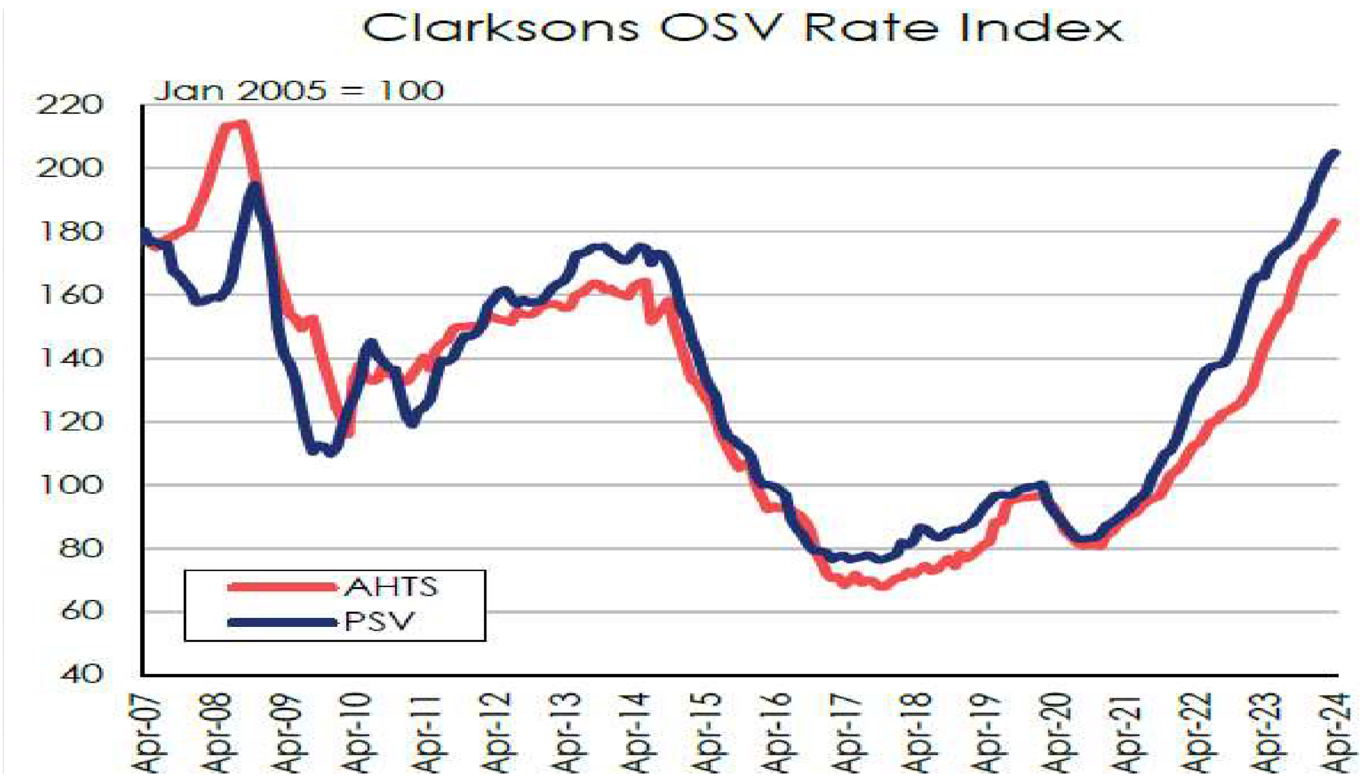
According to Clarksons, there are currently only 112 Dive Support Vessels (DSVs) and 44 specialist Remotely Operated Vehicle Support Vessels (ROVSV) globally as of Feb 2024. The subsea industry primarily drives demand for these vessels, which are crucial not only for subsea operations but also for tasks such as fixed platform inspections, offshore wind projects, and decommissioning work.

Although converting OSVs to DSVs are possible, it is structurally challenging, time consuming (at least c.8 months) and costly (c.USD 35mln) as there is a need to support saturation diving. For example, Mermaid's swordfish conversion to a DSV required the integration of spread needs below deck and involving cutting and pasting decks and machinery while significantly upgrading the electricity supply capability. This is not considering the downtime during maintenance as the vessel cannot operate and undergo upgrades simultaneously.

Subsea OSV/DSV Industry

Diving Support Vessels (DSVs) are a special type of offshore supply vessels (OSVs) tailored for underwater diving operations. According to Clarksons, DSVs are considered part of OSVs and OSV rates have surged close to their 2008 highs and are expected to exceed them, given the current mismatch of demand and supply in today's market. While DSV rates aren't directly comparable to OSVs, there are several overlaps, suggesting DSV charter rates likely followed a similar upward trend.

Exhibit 8: OSV Rate reaching 2007 highs

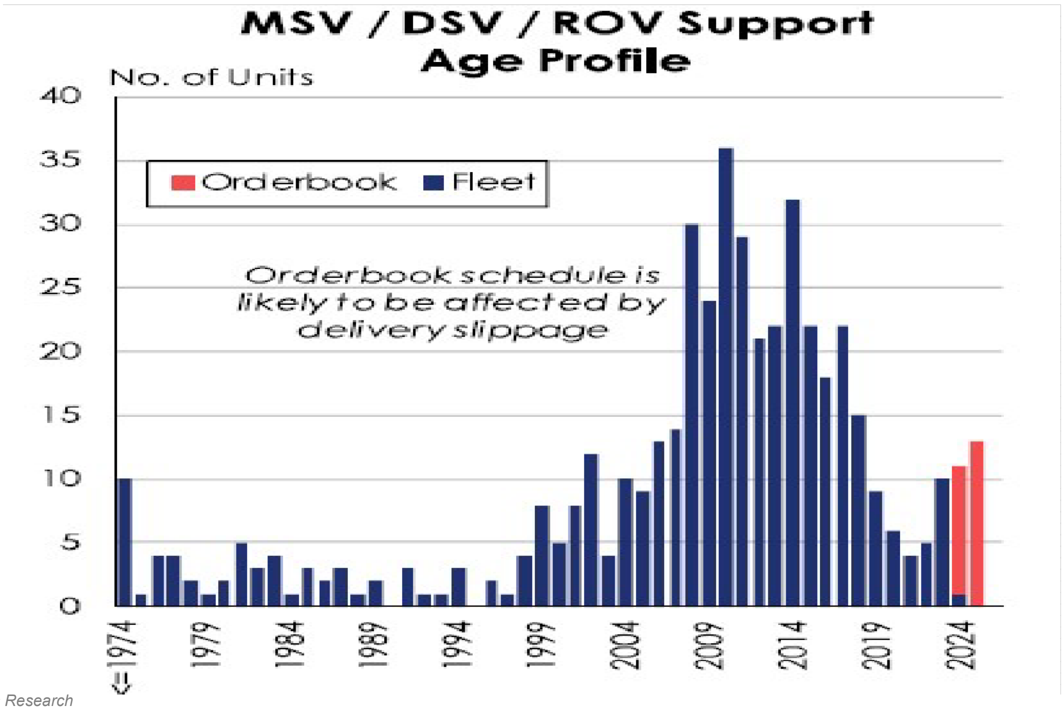


Source: Clarksons OSV Vol 11 No 5 May

Upon analysing the ageing profile of MSVs, we've noted that a significant portion of the fleet is ageing, with vessels generally ranging from 12 to 14 years old as of 2024. Looking forward, although there is some new supply expected to enter the market between 2024 and 2025, the rate of replenishment is slow and insignificant due to higher newbuild prices, challenges securing finance and uncertainties surrounding vessel designs.

This reinforces our expectation that DSV rates will likely continue to rise steadily over the next two years as the supply side gradually catches up. We note that Riviera has also stated that rising global demand has led to a shortage of quality DSVs and CSVs for a growing portfolio of subsea projects – We think MMT possess the right traits to fill this gap with its vessels.

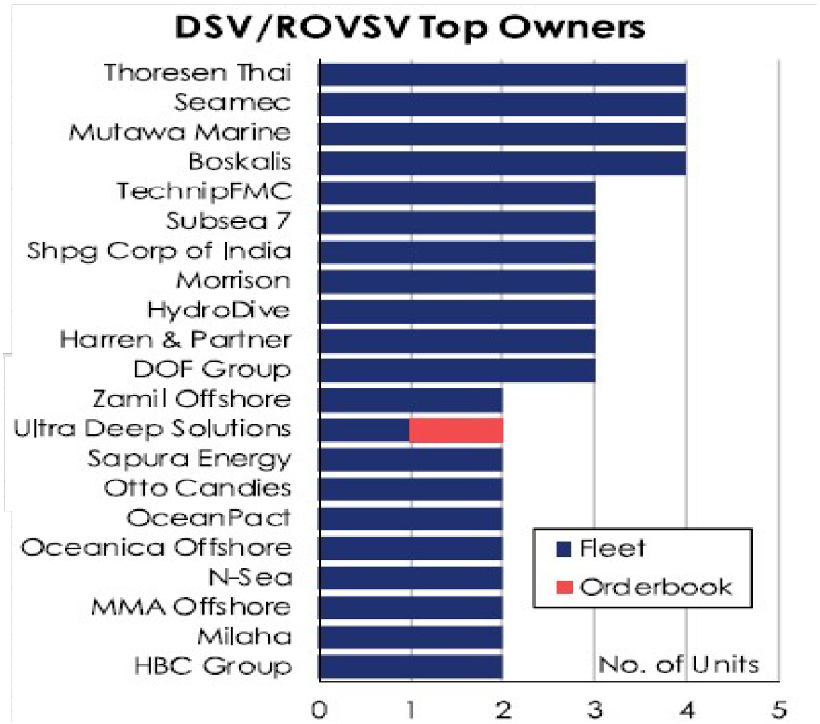
Exhibit 9: Most MSVs are aging



Source: Clarksons Research

With approximately 50 DSVs being scrapped over the last decade, there currently lies a shortage in DSV supply post Covid-19. MMT's understanding of this tight supply situation enables them to leverage their position and charge customers higher rates.

Exhibit 10: Most MSVs are aging



Source: Clarksons Research

Thoresen Thai Agency (TTA) holds a significant 49.5% stake in Mermaid, and Clarksons recognises TTA as a leading owner in the DSV/ROVSV sector through its association with Mermaid. This positions Mermaid as a prime candidate to capitalise on the rising DSV rates in the market.

We have summarised some of the top DSV owners and found that the sector remains robust, and their owned vessels are somewhat aged.

Exhibit 11: Top listed DSVs Outlook

Listed Peers	No. Of DSVs (owned and operated	Latest Updates	Date	Business	DSV Fleet
Seamec	5	- FY24: Higher revenue on Seamec 3, Princess and increasing rate for Swordfish. Higher utilization and charter rates - Looking at CAGR 15%-20% growth per annum with min 31% margins or higher. Can grow c.15% console level over next 2-3 years - Short to medium term can be 40%-50% healthy margins	29-May-24	Operates 5 DSVs and 1 barge	Seamec 2 (1982) - 42 years Seamec 3 (1983) - 41 years Seamec Princess (1984) - 40 years Seamec Paladin (2008) - 16 years Seamec Swordfish (2007) - 17 years
Technip	3	-1Q24: Subsea revenue was 1.7bln (+25%yoy) and EBITDA was $242mln (+70.8%yoy). Reason: Higher project volume, and improve earnings mix from backlog - 1Q24: Op Margins (9.0%), EBITDA Margins (14.0%) vs 1Q23 of 4.8% and 10.2% respectively. Revenue and EBITDA margins trending towards upper half of guidance ranges '-Current backlog (exclusive of new orders) sustainable through 2025. 2Q24 will benefit from seasonal uplift, improved margins and sequential rev. growth of $200mln and 2.5b.p margin expansion. '- Bullish on Life-of-field segment - includes IEPRD	25-Apr-24	N.A	N.A
Subsea7	4	- Subsea Revenue up 12%yoy to $1.2bln and Adj. EBITDA increase 64.9% to $160mln -Tendering remains strong in subsea and fixed offshore wind and will extend well beyond 2026 '-On track to deliver 30% EBITDA growth in 2024 and expect continued margin expansion in 2025	25-Apr-24	N.A	Seven Atlantic (2009) - 15 years Seven Falcon (2011) - 13 years Seven Kestrel (2017) - 7 years Seven Pegasus (2009) - 15 years

Source: LTS Research

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Capitalising on favourable charter prices, MMT has also strategically chartered vessels to support its expanding operations. It's worth noting that MMT adopts a prudent approach, only engaging in vessel charters when profitability is assured

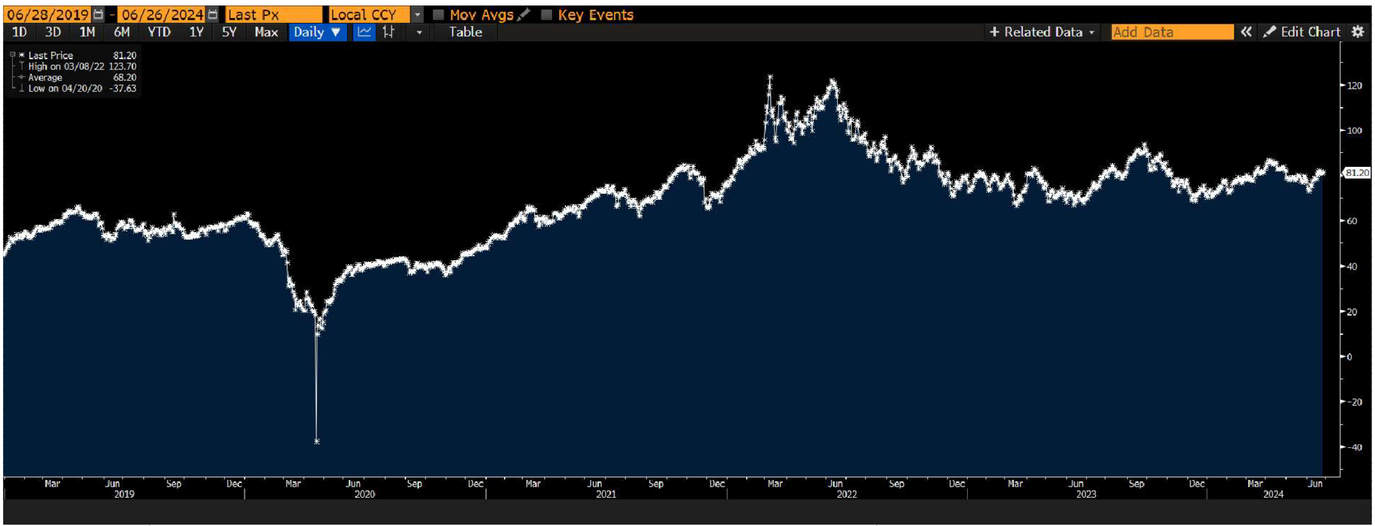
Exhibit 12: Top listed DSVs Outlook

Source: Mermaid Maritime

Therefore, we anticipate that the upward trend in DSV charter rates will benefit MMT, as new contracts negotiated will reflect these significantly higher rates.

High oil prices
MMT's business model is volume-driven and thus has some sensitivity to oil prices as it correlates to the volume of business given by oil majors.

Exhibit 13: Sustained and high oil prices



Source: Bloomberg

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With continued elevated oil prices as a result of both post-COVID-19 recovery and geopolitical tensions, the underlying trend has inevitably boosted MMT's business.

Parent Thoresen Thai Agency
Thoresen Thai Agency (TTA) is the largest shareholder in Mermaid Maritime (MMT), owning 49.5% of the company and holding three board seats. They've also loaned MMT $69 million at 7% interest (with the latest loan in 2024), repayable over the next three years. This displays TTA's significant investment in MMT's success, both as shareholders and creditors. We further note that as of 1Q24, MMT still has unutilised credit facilities from TTA of about US$15mln.

MMT is also important to TTA as MMT accounts for c.41% of TTA's FY23 revenues and about c.33% of FY23 earnings

Global presence/client experience
MMT boasts a global presence with their operations in the UK, Africa, Middle East, Asia Pacific and Southeast Asia, and have worked with numerous large O&G companies

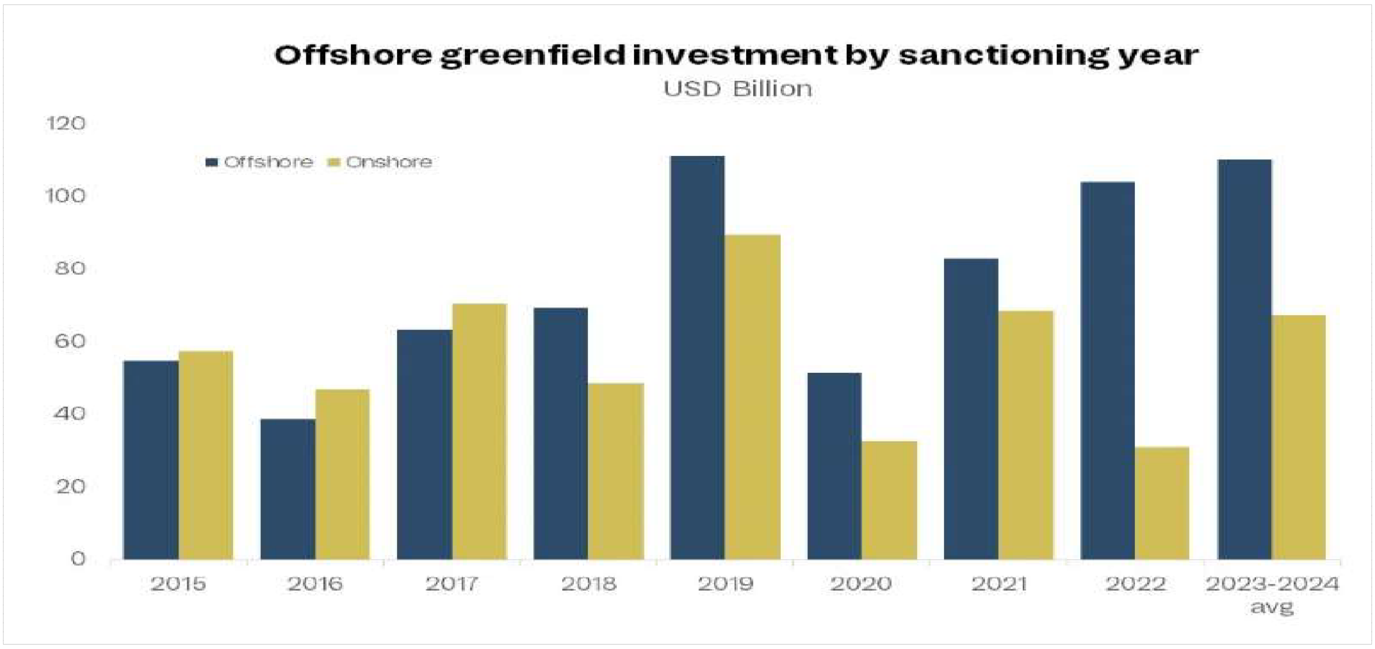
Exhibit 14: MMT's working history

Source: Mermaid Maritime

We note that MMT has worked with several of these companies for decades, and working relationships remain strong, allowing MMT to win contracts continually.

Offshore investments to increase
Following the oil rout and COVID-19, investments in the O&G sector are now set for the highest growth for the next few years. Rystad Energy reported that there would be more than $200bln of greenfield investments expected by 2025.

Exhibit 15: Recovery of O&G CapEx

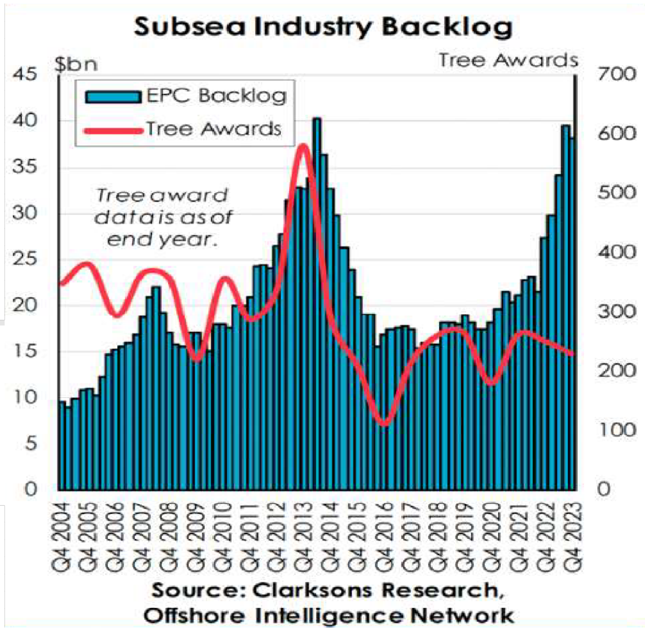


Source: Rystad Energy's service market solution, March 2023

Rystad Energy also reported that although the Middle East is leading the way, South America and the UK are just slightly behind.

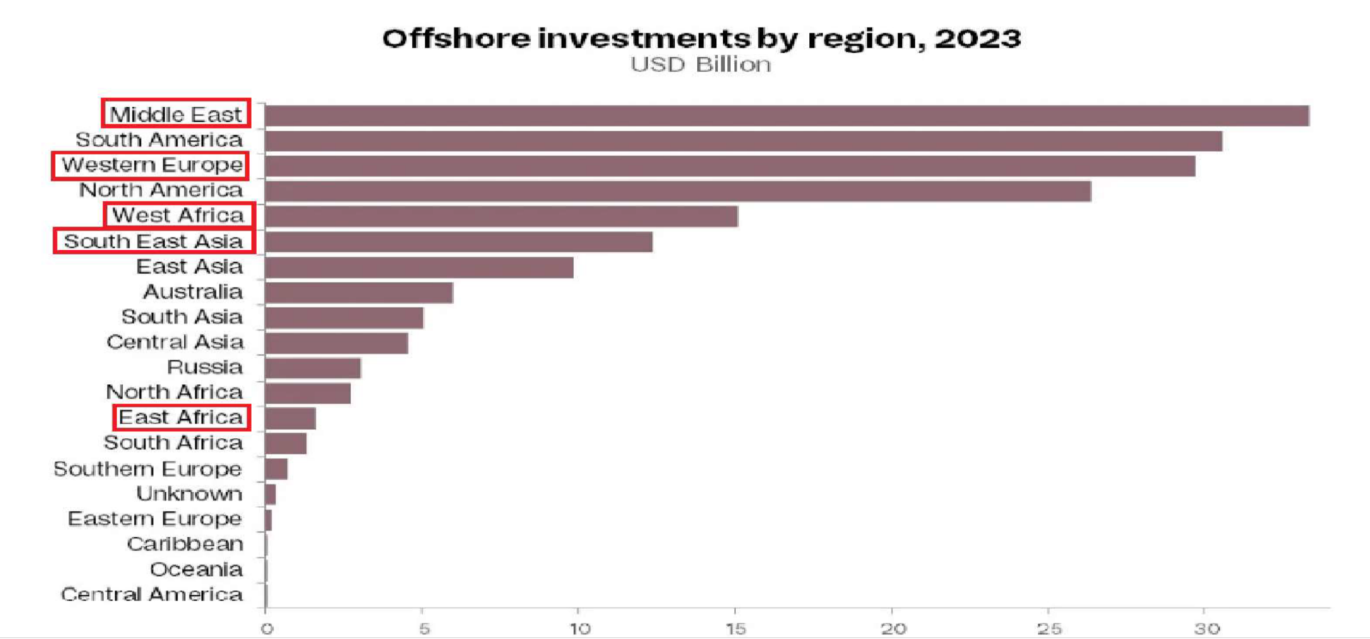
According to Clarkson's Subsea industry backlog, EPC backlog is robust at USD 38 billion, approaching the highs last seen in 2014. Awards have been on an uptrend since 2018, with growth primarily driven by extensive offshore reserves in the Middle East and Africa as there is a need for subsea systems to efficiently and cost-effectively produce, process and transport hydrocarbons.

Exhibit 16: Recovery of O&G CapEx



Source: Clarksons Research

Exhibit 17: MMT operates in areas of high investments



Source: Rystad Energy's service market solution, March 2023

With Mermaid operating in the regions (boxed in Exhibit 17), we are confident MMT will be a beneficiary of these increase investments.

MMT's 1Q24 results

MMT reported that 1Q24 revenue increased 101% to US$89.3mln, with profit standing at US$0.5mln during the same period, as compared to a US$4.9mln loss seen in 1Q23. While MMT's stock price experienced price discovery before the results, MMT subsequently corrected as the market probably felt that MMT should have done a lot better.

MMT subsequently explained that 1Q24 has historically been a seasonally weak season as most of their vessels are dry docked during this period - Resiliant and Endurer. Despite the monsoon season, MMT has still managed to be profitable, which bodes well for FY24

Balance sheet

MMT's net gearing is at 35.2%, and it currently has an US$87.2mln outstanding loan. However, only US$18.2mln are from financial institutions and the rest of the US$69mln loan stems from TTA. MMT intends to repay these loans over the next 2 years.

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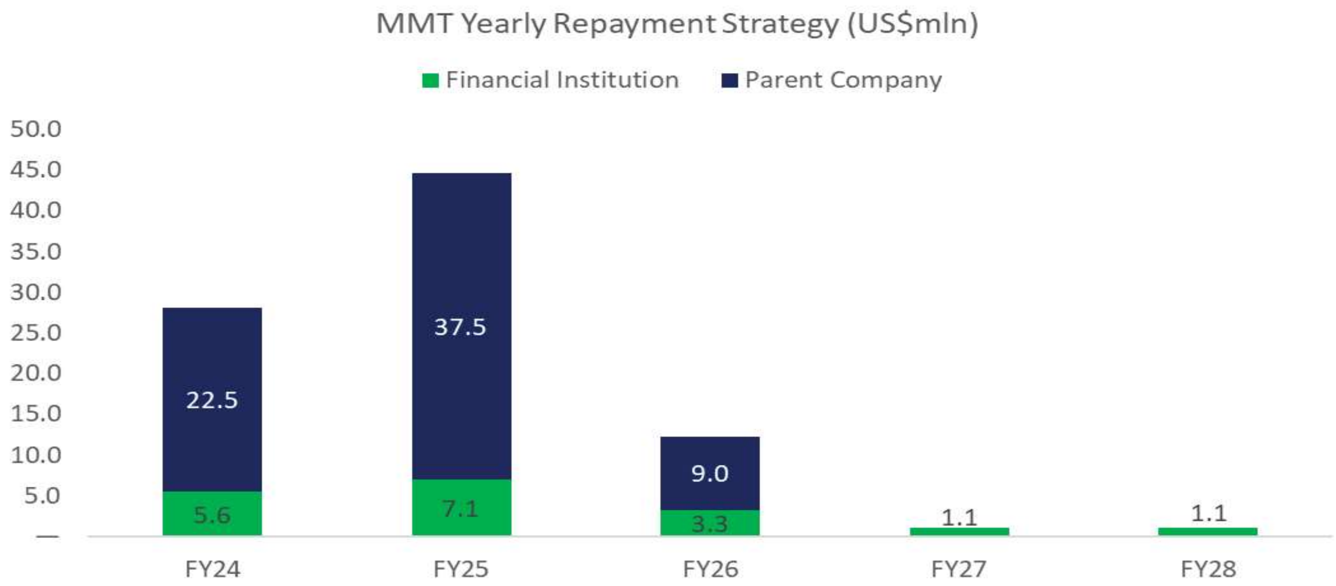
Exhibit 18: MMT's yearly repayment strategy



Source: MMT, LTS Research

Given that MMT is expected to complete 65%-70% of it's order books in FY24, we think MMT should be on track in it's debt repayment plans.

Dividends

Despite the oil rout resulting in the demise of many O&G companies, MMT has not restructured itself. Accordingly, it also does not have a dividend policy in place and has an equity deficit of US$216.8mln.

However, with MMT predicted to report robust FY24 earnings, we think a modest dividend from FY24 earnings could be extended to shareholders as a show of earnings quality.

Valuations

Despite MMT's meteoric rise in share price, we see this as merely the opening chapter of a larger narrative. There is abundant untapped potential poised to unfold beyond FY24, driven by the ongoing supply-demand imbalance in the O&G market, which is projected to persist well into 2030.

We initiate coverage on Mermaid Maritime with BUY and a TP of SGD0.30, based on an undemanding target of 12.5x FY24E P/E, representing a c.15% discount to FY24 earnings of listed OSV/DSV peers around the world. While MMT is geared at 35.2%, almost 80% is from its significant shareholders. Despite the rise in share price recently, we believe the 1) strong demand for DSVs, 2) strong order book, 3)continued order book wins, and 4) high utilisation rate will continue to lead to much better results in FY24.

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Exhibit 19: Peer Valuations

Name	Market Cap (S$mn)	Stock Perf YTD%	PE Ratio (x)	Forward PE(x)	EPS Growth (1yr)	EV/ EBITDA fwd(x)	P/B(x)	ROE(x)	Div Yield
MERMAID MARITIME PCL	269	100.0%	20.7	8.0	160%	7.0	1.1	13%	--
MARCO POLO MARINE LTD	218	13.7%	7.5	6.4	29%	4.3	1.2	18%	1.7%
DYNA-MAC HOLDINGS LTD	418	19.4%	14.5	11.8	24%	5.0	5.9	50%	2.1%
BENG KUANG MARINE LTD	46	259.4%	13.4	--	--	--	4.8	44%	--
SEAMEC LTD	535	23.8%	27.5	20.3	36%	10.2	3.6	14%	0.1%
TECHNIP ENERGIES NV	5,613	0.2%	12.4	10.4	25%	7.3	1.9	16%	2.7%
SUBSEA 7 SA	7,739	35.9%	57.5	24.1	1466%	6.4	1.3	1%	1.5%
THORESEN THAI AGENCIES PCL	500	16.4%	6.4	5.8	93%	3.6	0.5	8%	2.4%
SEACOR MARINE HOLDINGS INC	528	12.1%	--	--	15%	7.4	1.1	-6%	--
OCEANPACT SERVICOS MARITIMOS	306	0.9%	12.8	13.2	32%	4.4	1.5	13%	--
MMA OFFSHORE LTD	912	42.2%	8.9	11.9	-32%	7.1	1.8	22%	--
SAPURA ENERGY BHD	238	0.0%	--	--	9%	--	--	--	--
TIDEWATER INC	6,773	31.3%	41.3	20.3	153%	8.4	4.7	14%	--
SAPURA ENERGY BHD	211	-11.1%	--	--	9%	21.6	--	--	--
TIDEWATER INC	6,588	27.8%	40.2	19.8	153%	8.2	4.6	14%	--
Average			**21.9**	**14.7**	**175%**	**7.8**	**2.8**	**17%**	**1.7%**

Source: LTS Research

APAC

Wood Mackenzie predicts that Thailand will witness over 380 fields halting production in the next ten years, with decommissioning costs in the Asia-Pacific region surpassing US$100 billion. The Gulf of Thailand is poised for significant decommissioning activity, and the Thai government has been working on regulations and frameworks to manage decommissioning activities effectively . Given MMT's strategic presence in Thailand, we anticipate a slew of decommissioning contracts heading their way.

Middle East

MMT's primary hub is in the Middle East, where it offers a range of services like IRM and cable laying to a wide array of clients. With the region's massive O&G reserves and ongoing infrastructure development, MMT is well-placed to grow alongside these industries. Supporting this point, Saudi Arabia and UAE have repeatedly called for more investment in the O&G space, and Aramco has said it expects expected capital expenditure of $45 billion-55 billion in 2023, the highest in its history, and indicated it would raise this in years to come.

Africa

MMT is currently seeking opportunities in both East and West Africa as MMT believes they would be able to grow their IRM business in this continent. As Africa is experiencing rapid infrastructure development across various sectors, therein lies an opportunity for MMT.

UK

MMT aims to expand its construction, diving, and engineering services tailored to the energy, decommissioning, and renewables markets.

Risk
MMT operates in the O&G sector, which is cyclical in nature. A decline in oil prices would impact oil majors' decision to spend, thus limiting MMT's order books.

While Mermaid currently meets its debt obligations, there may soon be a need for a cash call. This is essential as Mermaid plans to expand its operations and undertake larger projects.

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