

30 July 2024

Marine & General

Capitalising on High-Capacity AHTS

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INVESTMENT MERIT

The owner of 19 anchor-handling tug & supply (AHTS) vessels including those with high bollard pull capacity, M&G is poised to capitalise on the rising upstream drilling activities in Malaysia as Petronas and other oil majors ramp up their activities. We believe the AHTS rates are set to break new highs in FY26 on strong demand. We value M&G at M0.46 and recommend ADD.

Largest owner of high-capacity AHTS locally. M&G owns 21 offshore support vessels (OSVs) of which 19 are anchor-handling tug & supply (AHTS) vessels with an average age of 13 years. Of its AHTS fleet, ten vessels possess bollard pull capacity of 10,888 bhp, making M&G the largest owner of high-capacity AHTS locally. This places it in a strong position to capitalise on the potential ramp-up in upstream activities in Malaysia, as oil producers typically favour higher capacity AHTS vessels for more drilling activities during an upcycle in upstream capex. In addition, it also owns six small-sized product tankers which generate recurring incomes to the group.

Upside to AHTS rates. The daily charter rates (DCR) for accommodation workboats have already breached all-time highs due to the ramp-up in upstream maintenance activities. The DCR for AHTS vessels has also risen substantially to USD1.4/bhp/day in 2023, significantly higher than the low of USD0.8/bhp/day observed previously, although still lower than the USD1.8-1.9/bhp/day peak DCR seen back in 2013-2014 when domestic upstream capex peaked. Given that drilling activities will continue to ramp up in Malaysia as Petronas aims to increase the country's oil and gas production, we foresee that AHTS DCR will further improve in FY24 and FY25. This improvement will be reinforced by the lack of new OSV vessel supply additions in the market.

Rapid de-gearing. Back in 2020, the group restructured its RM923m debts with its bankers by paying RM50m upfront, settled RM150m worth of debt through the issuance of irredeemable preference shares to the banks and securing additional time to settle the RM723.2m owed to the banks. Since the exercise, M&G managed to bring down its net gearing from 22x to 4.5x. With cash flow expected to reach comfortable levels of RM150-200/annum in FY24-25, we expect the group to be able to pare down its net gearing significantly even further, thus reducing the company's gearing risks.

Forecasts. We expect the group's earnings to jump by > 7-fold YoY in FY25, driven by a projected 20% increase in average daily charter rates (DCR) to RM55,900, with a fleet utilisation rate of 88%. In FY26, we anticipate further YoY earnings growth of 85%, underpinned by a 13% increase in average DCR to RM64,200 and slightly higher vessel utilisation of 89%. Additionally, we have assumed revenue from an extra four chartered-in vessels with an EBIT margin of 13.0%.

	Rating	Fair Value
Last Price	-	RM0.40
Kenanga	ADD	RM0.46
Consensus	-	-

Stock Information

Shariah Compliant	Yes
Stock Name	MARINE & GENERAL BHD
CAT Code	5078
Industry	Oil&Gas Services
Industry Sub-sector	Oil-Field Services
YTD stock price chg	77.78%
Market Cap (RM'm)	289.55
Shares Outstanding (m)	723.88
52-week range (Hi)	0.41
52-week range (Low)	0.165
3-mth avg daily vol:	5,047,106
Free Float	26.0%
Beta	0.39
Altman's Z-score	0.94

Major Shareholders

Bin Ali Abdul Rahman	26.6%
Bijak Permai Sdn Bhd	12.6%
Infra Bumitek Sdn Bhd	8.2%

Financials

FYE Apr (RM m)	2024A	2025F	2026F
Revenue	347.9	428.0	577.7
EBIT	103.0	124.6	183.7
Net Profit (NP)	6.9	55.9	103.4
EPS (sen)	1.0	7.7	14.3
BV/Share (RM)	0.3	0.4	0.5
PER (x)	37.7	4.7	2.5
Price/BV (x)	1.3	1.0	0.7
Net Gearing (x)	0.7	0.5	0.4
DPS (sen)	0.0	0.0	0.0
Div Yield (%)	0.0%	0.0%	0.0%

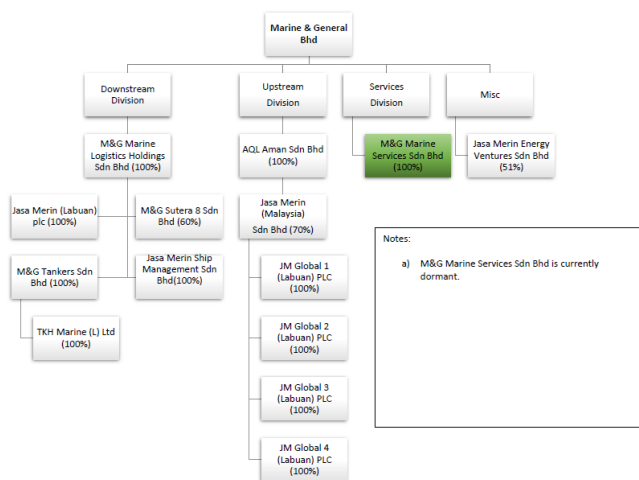
Quarterly Financial Data (RM m)

	2Q24	3Q24	4Q24
Revenue	91.8	88.4	83.1
Revenue Growth (QoQ)	-74.6%	-3.7%	-6.0%
EBIT	25.6	27.6	35.9
EBIT Margin	27.8%	31.2%	43.3%
Net Profit	11.9	8.2	(4.0)
EPS	1.6	1.1	(0.6)
EPS Growth (QoQ)	-69.5%	-31.1%	-148.7%

ADD rating with FV of RM0.46. We value M&G at RM0.46, based on a targeted FY26F PER of 10x on a fully diluted basis. This is consistent with its OSV-listed peers, which traded at 10.2x PER during the 2014 upcycle in the OSV market. We believe that the discount to the peer is justified by its older vessel age and higher net gearing. Our target price also accounts for the potential dilution arising from creditors potentially exercising their right to convert their irredeemable preference shares into M&G ordinary shares, which would expand its share base from the current 723.8m shares to 2,224m shares. However, we also highlight that in the company’s circular released in 2020, the banks have undertaken, pursuant to the call options for promoters of M&G irredeemable preference share agreement, not to exercise their rights to exchange the preference shares into new M&G shares until the outstanding amount has been fully settled (RM621.9m outstanding). There is no adjustment to our FV based on ESG given a 3-star rating as appraised by us (see Page3).

Risks to our call include: (i) significantly lower Brent crude prices, (ii) long term capex cut by Petronas, and (iv) unexpected vessel downtime.

CORPORATE STRUCTURE (Jasa Merin is 70% owned by M&G)



BUSINESS OVERVIEW

Marine & General (M&G) is a Malaysian company listed on the Bursa Malaysia, specializing in providing marine logistics and support services to the oil and gas industry. The company focuses on the chartering of offshore support vessels (OSVs) and tanker vessels, catering to both domestic and international clients. M&G leverages its extensive fleet and experienced personnel to deliver reliable and efficient services, positioning itself as a key player in the marine logistics sector within the region. It operates a fleet of 21 vessels comprising of 19 AHTS and 2 safety standby vessels (SSVs).

BUSINESS SEGMENTS

- For the OSV segment, M&G primarily owns AHTS vessels, along with a small number of SSVs, and has been providing services to Petronas Carigali and ExxonMobil Exploration and Production Malaysia (EMEPMI) for over 40 years.
- The group owns and manages four chemical tankers and two clean petroleum product (CPP) tankers. These vessels transport CPP and chemical products to the petrochemical and oleochemical industries.

Source: Company

Daily Charting – M&G Bhd



Comment:

Marine & General Bhd (M&G) closed at RM0.40 yesterday, gaining 6.67%. The stock is showing strong bullish momentum, having rebounded and crossed above its 5-day SMA at RM0.360 with increasing traded volume. The formation of a bullish candlestick pattern on the daily chart suggests a potential continuation of the upward trend to close the gap at RM0.460 that formed in July 2017. Technically, the daily stochastic oscillator is trending upwards, currently at 74.69, indicating renewed buying interest with room for expansion. The Tom Demark Pressure Ratio (TDRP) is stable at 59.83, while the RSI is also rising, suggesting strengthening bullish momentum. Key levels to monitor include immediate resistance at RM0.410, the recent intra-day high. A break above this level could push the stock towards the next resistance at RM0.460. On the downside, support levels are at RM0.360, the 5-day SMA, and RM0.350, providing a solid foundation against further declines.

Source: Kenanga Research

About the stock:

Name : Marine & General Berhad
 Bursa Code : M&G
 CAT Code : 5078

Key Support & Resistance level

Resistance : RM0.405 (R1) RM0.460 (R2)
 Support : RM0.360 (S1) RM0.350 (S2)
 Outlook : Positive

Stock ESG Ratings:

	Criterion	Rating				
GENERAL	Earnings Sustainability & Quality	★	★			
	Corporate Social Responsibility	★	★	★	★	
	Management/Workforce Diversity	★	★	★	★	
	Accessibility & Transparency	★	★			
	Corruption-Free Pledge	★	★	★		
	Carbon-Neutral Initiatives	★	★	★		
SPECIFIC	Diversification from pure O&G	★	★			
	Emission Targets and Climate Goals	★	★	★		
	Occupational Health and Safety	★	★	★	★	
	Pollution control	★	★	★		
	Supply chain auditing	★	★	★		
	Energy efficiency	★	★	★		
OVERALL		★	★	★		

☆ denotes half-star
 ★ -10% discount to TP
 ★★ -5% discount to TP
 ★★★ TP unchanged
 ★★★★ +5% premium to TP
 ★★★★★ +10% premium to TP

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