INITIATION

Offshore & Marine ▪ Singapore

Mermaid Maritime

(MMT SP/MMPC.SI)

Can this mermaid survive the harsh dry summer?

Joel Ng / 65 6202 1192 / joel.ng@kgi.com
Amirah Yusoff / 65 6202 1195 / amirah.yusoff@kgi.com

- Mermaid Maritime (MMT) specialises on subsea projects in the Offshore & Marine (O&M) sector.
- The collapse in oil prices due to Covid-19 has brought upon a harsh reality for offshore & marine (O&M) companies of all stripes, just when the sector was in the midst of recovering from the collapse in oil prices five years ago.
- MMT reported a net loss of US$10.3mn in 1Q20, widening from the US$4.1mn loss in the prior year period. Its saving grace is that it is going through this period with a strong balance sheet (its net gearing is at an industry low of only 0.05x).
- **Initiate with Neutral and 8.5 Sing cents fair value.** MMT faces a challenging two years ahead of it, in our view. However, we see limited downside risk to its share price given that its current valuations is pricing in the worst case scenario. We estimate that at its current price, markets are discounting its 33.8%-owned rigs down to zero, while giving all its other assets a 30% discount. On a positive note, we see MMT as a decent value play if oil markets were to recover faster-than-anticipated in 2H 2020.

Financials & Key Operating Statistics

YE Dec (US$ m)	2018	2019	2020F	2021F	2022F
Revenue	98,161	107,709	80,829	104,790	111,887
PATMI	(27,193)	(24,258)	(28,761)	(17,781)	4,538
EPS (cents)	(1.92)	(1.72)	(2.03)	(1.26)	0.32
EPS growth (%)	-	-	-	-	-
DPS (Sing cents)	–	–	–	–	–
Div Yield (Y%)	–	–	–	–	–
Net Profit Margin (%)	(27.8%)	(22.5%)	(35.4%)	(16.9%)	4.0%
Net Gearing (%)	3.5%	(0.4%)	5.1%	6.0%	(2.2%)
Price P/B (x)	0.27	0.25	0.27	0.29	0.29
ROE (%)	-8.7%	-8.0%	-9.5%	-6.4%	1.7%

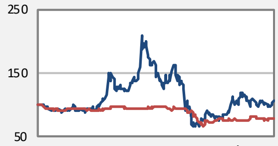
Source: Company data, KGI Research

A historical year for the energy markets, as the largest oil surplus hit in 1Q 2020, sending WTI oil futures deep into negative territory. Since then, oil markets have improved following the 10mn barrels/day production cuts by OPEC and its partners. However, while oil prices have started to recover, the ongoing capex cuts are set to create a challenging environment for companies like MMT over the next two years, in our view.

2020/2021 is likely a washout; look beyond. The next 12-16 months is set to be a gloomy period for the subsea players in terms of contract awards, given the significant capex cuts by upstream oil and gas (O&G) companies. However, looking beyond, as lockdown measures start to ease and oil demand picks-up pace, we expect to see oil prices increase gradually. Many big projects that were previously scheduled to be sanctioned in 2020 will likely return to the table in the coming years and with that bring with them a significant subsea scope, aiding a recovery of the subsea market.

Neutral - Initiation

Price as of 22 Jul 20 (SGD)	0.076	**Performance (Absolute)**	
12M TP ($)	0.085	1 Month (%)	0.0
Previous TP ($)	-	3 Month (%)	29.8
Upside, incl div (%)	12.2	12 Month (%)	2.7
Trading data		**Perf. vs STI Index (Red)**	
Mkt Cap ($mn)	107		
Issued Shares (mn)	1,413		
Vol - 3M Daily avg (mn)	5.2		
Val - 3M Daily avg ($mn)	0.4		
Free Float (%)	36.1%		
Major Shareholders		**Previous Recommendations**	
Mahagitsiri Family	75.6%		



A little bit of hope from the new business in Thailand. We expect MMT's earnings to only recover back to profitability by 2022 as oil prices rise and as companies increase their exploration and production (E&P) budgets. However, we have not factored into our forecasts the upside potential from MMT's new business venture to handle decommissioning projects in Thailand. As such, there is scope for MMT to surprise on the upside, especially with the backing of the Mahagitsiri Family, a prominent Thai family with business links across other sectors in the country.

Valuation & Action: While MMT's valuations look attractive, currently trading at only 0.26x FY20F P/B, investors will have to take note that we forecast the group to remain loss-making in FY20F and FY21F. Furthermore, the group may eventually have to recognise impairments/write-offs on its associated companies and subsea vessels.

Our 8.5 Sing cents valuations is derived from applying a 60% discount to the 33.76% owned associate (which owns and operates three jack-up rigs in the Middle East), and a further 30% discount to the remaining value, mainly comprising subsea support vessels. We finally arrive at an adjusted NAV of US$87mn after deducting liabilities. Our adjusted NAV is equivalent to 6.2 US cents/share or 8.5 Sing cents/share, based on 1.38 USD/SGD.

Even with the 12% potential upside from its current share price, we think performance will be hampered by the low business visibility and declining orderbook. Hence, **we initiate with a NEUTRAL recommendation.**

Risks: Impairment of its interest in associates and wholly-owned subsea vessels. Capital raising to strengthen its balance sheet if banks are unwilling to lend. Margin pressure due to competition and lower-than-expected order wins.

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VALUATIONS & CATALYSTS

8.5 cents valuations based on conservative assumptions

We initiate MMT with NEUTRAL.

While we think that downside risks to its share price are minimal given that it is already trading at a significant discount to book value, we find it difficult to justify the upside potential until it secures new contracts in Thailand.

We expect MMT to be loss-making until 2021. As such, using P/E based multiples to value the group is not meaningful. Instead, we have opted to revalue its assets to account for the lower utilisation and day rates it will face in 2020 and 2021, as well as the higher risk of contract suspension or cancellations.

The starting point is with MMT's 1Q20 asset values. We applied a 60% discount to the 33.76% owned associate (which owns the three jack-up rigs), and a further 30% discount to the remaining value, mainly comprising of seven subsea support vessels. We finally arrive at a net value asset value of US$87mn after deducting total liabilities. Our adjusted NAV is equivalent to 6.2 US cents per share or 8.5 Sing cents per share, assuming a USD/SGD exchange rate of 1.38.

While we think that downside risks to its share price are minimal at this point, we are unable to justify further upside until there is visibility on the new Thailand business venture. Hence, we initiate with a NEUTRAL recommendation on MMT.

Figure 1: Valuation of MMT

US$ ('000)	Value	Remarks
Total assets	362,435	
Less AOD Associates (discounted by 60%)	(73,991)	3 high-spec jackups on contract in the Middle East. We discounted its AOD associates by 60% to account for lower charter rates.
Total assets less AOD	288,444	
Discount 40% (A)	173,066	40% to account for lower valuation of vessels
Less Total Liabilities (B)	(85,722)	
Net Value (A-B)	87,344	
Shares Outstanding ('000)	1,413,329	
Net Value per share (US$)	0.062	
USD/SGD	1.380	
Net Value per share (SG$)	0.085	
Current share price (SG$)	0.076	
Upside/(downside)	12.2%	

Source: KGI Research

Potential upside from new business unit

We have not factored the newly formed business targeting Thailand O&G projects, but we see this is a significant catalyst if the group is able to secure projects in the coming quarters.

MMT announced on 30 June 2020 that it had launched a new wholly owned business unit to offer Offshore, Transportation, Installation (T&I) and Decommissioning services. This new business will focus on new platform and pipeline installation, and decommission to meet demand from major oil operators in Thailand and around the region.

According to the group, it will be the first Thai-owned and Thai-operated services company offering these capabilities using qualified local content for the Thailand market.

The Gulf of Thailand has over 400 offshore platforms with an estimated 100 platforms to be approved by the Thai government for decommissioning over the next ten years. So far, a major oil & gas company in Thailand has already initiate da decommissioning program for 49 platforms from 2020 to 2023, and a wholly-owned subsidiary of MMT has been approved as a qualified bidder to participate in the provision of services for these projects.

Peer comparison

MMT's direct peers are regional subsea engineering service companies, many of whom are privately held. The closest publicly listed peers are the larger international subsea companies such as Subsea 7 S.A. (SUBC NO) and TechnipFMC (FTI US).

For MMT's jack-up business through AOD, there are many peers in the sector, including Borr Drilling Limited (BORR US), Shelf Drilling Ltd (SHLF NO) and Valaris PLC (VAL US). These three companies own the highest number of jack-up rigs in the world.

We have also included the three largest diversified O&G service companies for reference – Schlumberger Ltd (SLB US), Halliburton Company (HAL US) and Baker Hughes Company (BKR US). These companies are not directly comparable to MMT but are excellent bellwethers of the performance of service companies operating in the O&G industry.

Figure 2: Peer comparison

Bloomberg Ticker	Company Name	Last Price (local $)	Currency Adj. Market Cap (US$ m)	Dividend Yield (%)		Net Gearing (%)*	P/E (X)		P/B (x)		YTD Price Performance (%)
				FY19	FY20F		12M	Forward	FY19	FY20F	
MMT	**MERMAID MARITIME PCL**	**SGD 0.08**	**78**	**-**	**-**	**0.0**	**-**	**-**	**0.2**	**0.3**	-43.7
	Subsea companies										
SUBC NO	SUBSEA 7 SA	NOK 69.70	2,297	1.5	0.2	3.4	45.4	-	0.7	0.4	-33.6
FTI US	TECHNIPFMC PLC	USD 8.04	3,604	2.4	1.6	5.5	87.5	-	1.3	0.7	-62.5
OII US	OCEANEERING INTL INC	USD 6.21	616	0.0	0.0	56.1	-	-	1.4	1.1	-58.4
	Average		**2,173**	**-**	**0.6**	**21.7**	**66.4**	**-**	**1.1**	**0.7**	**(51.5)**
	Median		**2,297**	**-**	**0.2**	**5.5**	**66.4**	**-**	**1.3**	**0.7**	**(58.4)**
	Diversified O&G Service companies										
SLB US	SCHLUMBERGER LTD	USD 19.56	27,146	5.0	4.0	60.1	13.8	91.0	2.3	1.8	-51.3
HAL US	HALLIBURTON CO	USD 14.32	12,563	2.9	2.8	115.1	13.9	37.1	2.7	2.2	-41.5
BKR US	BAKER HUGHES CO	USD 16.31	16,839	2.8	4.4	12.2	18.4	71.5	1.2	1.3	-36.4
	Average		**18,849**	**4**	**4**	**62**	**15**	**67**	**2**	**2**	**(43.1)**
	Median		**16,839**	**3**	**4**	**60**	**14**	**72**	**2**	**2**	**(41.5)**
	Jack-up owners and service companies										
VAL US	VALARIS PLC	USD 0.69	141	0.2	0.9	64.7	-	-	0.1	0.0	-89.6
NE US	NOBLE CORP PLC	USD 0.27	67	0.0	0.0	103.1	-	-	0.1	0.0	-78.1
DOFSQ US	DIAMOND OFFSHORE DRILLING	USD 0.25	35	0.0	0.0	61.1	-	-	0.3	0.0	-96.5
RIG US	TRANSOCEAN LTD	USD 2.08	1,278	0.0	0.0	68.1	-	-	0.4	0.1	-69.8
SDRLF US	SEADRILL LTD	USD 0.41	41	0.0	0.0	297.1	-	-	0.2	0.1	-83.9
SHLF NO	SHELF DRILLING LTD	NOK 3.83	57	0.0	0.0	164.8	-	-	0.5	0.2	-78.5
BORR US	BORR DRILLING LTD	USD 1.03	163	-	0.0	127.8	-	-	-	0.1	-88.6
2883 HK	CHINA OILFIELD SERVICES-H	HKD 6.63	7,980	1.5	2.7	38.9	7.9	9.8	1.4	0.7	-45.7
	Average		**1,220**	**0**	**0**	**116**	**8**	**10**	**0**	**0**	**(78.8)**
	Median		**104**	**–**	**–**	**86**	**8**	**10**	**0**	**0**	**(81.2)**

Source: Bloomberg, KGI Research

INDUSTRY REVIEW – OIL MARKETS & CAPEX

Surviving negative oil prices

WTI oil prices had a historic drop to negative US$37 per barrel in April 2020, following the spread of COVID-19 and the price war between Saudi Arabia and Russia. Since then, oil prices have steadily recovered, jumping more than 100% in May 2020.

Oil prices have increased for the second consecutive month in June 2020, with prices ranging between US$38-43 per barrel. The improvement in demand from easing lockdowns, as well as OPEC+ production cuts have helped to restore balance in the oil market. The flatter contango in July, a significant improvement from the super contango we saw in April, is also an encouraging sign for oil markets going forward. In fact, there were even some days where oil futures were in backwardation in June, which may indicate that oil markets may flip from substantial surplus in 1H 2020, to a deficit later this year.

While oil prices are improving, damage has been done to O&G service companies due to delays and downward pressure on charter rates.

While oil markets have improved from the negative prices in April, the balance sheet damage to oil service companies like MMT has once again shown that the risks to companies in this industry has shifted to the downside. It will be a challenging future for the sector as COVID-19 has also accelerated the structural trend towards renewable energy.

Subsea market – looking to 2022 for recovery

Another record low for the subsea industry

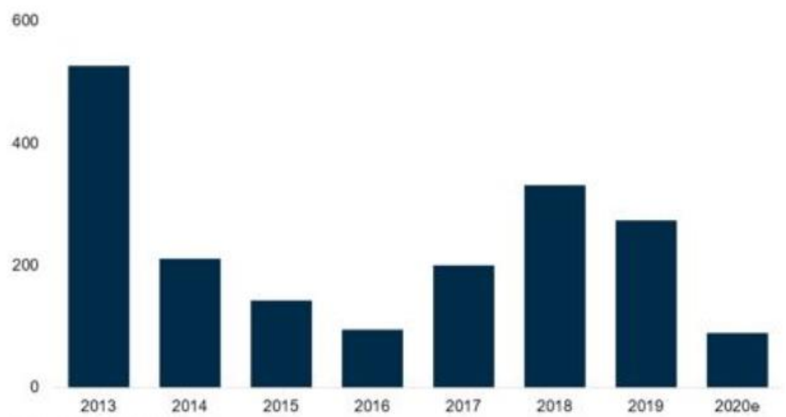
Subsea tree awards are expected to drop to below 100 in 2020, only the second time this century where it has dropped below that number, as per Rystad Energy forecasts.

2020 is expected to be a challenging year for subsea companies in terms of contract awards. Rystad Energy, an independent energy consultant, expects less than 100 subsea tree awards in 2020, only the second time this century where we will see less than 100 subsea tree awards. The only other time this has occurred was in 2016 following the collapse in oil price.

The drop is unfortunate as the subsea market was recovering from 2017 onwards, with 2018 and 2019 seeing almost 300 subsea tree awards. Drilling programs have also seen a marked deterioration, as global offshore rig utilization dropped over 7% from March to April.

On a slightly positive note, we expect the big projects that were previously sanctioned in 2020 to likely return in 2022, and that will bring with them substantial subsea work, aiding a recovery of the subsea market. Until then, many companies in the sector will have to survive with margin compression and potential capital restructuring (e.g., rights issue or placement exercises).

Figure 3: Subsea tree contracts - Rystad Energy forecasts subsea tree contracts to plunge in 2020



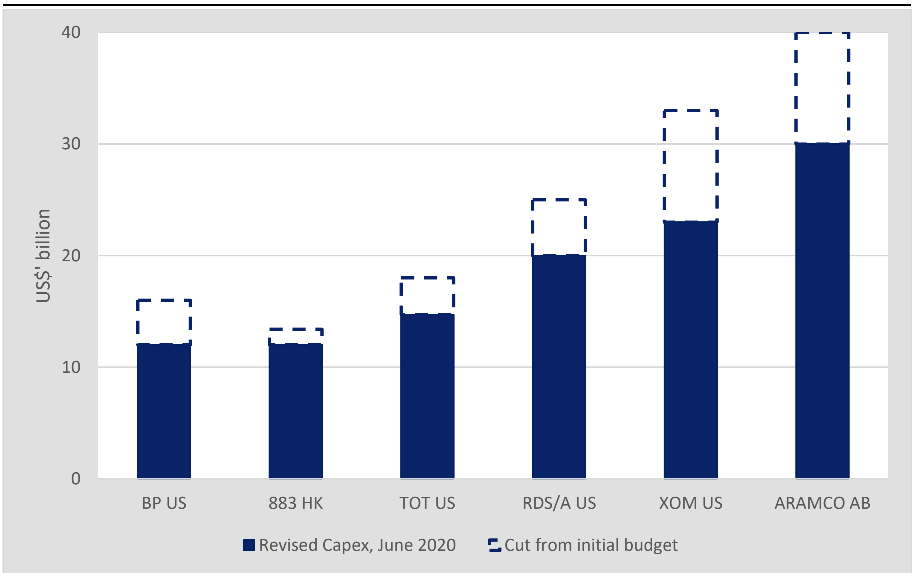
Source: Rystad Energy

Oil and gas major capex cuts

Oil and gas majors have also been slashing capital spending budgets, in preparation for the financial impacts of low energy prices and collapsing demand. BP PLC (BP US) and Exxon Mobile Corporation (XOM US) have both cut capital expenditure for 2020 by close to 30% from their initial guidance - BP cut its capital spending for 2020 to US$12 billion from US$16 billion while XOM cut its capital budget for 2020 by 30% to US$23 billion. Many are also expecting to lower operating expenses by at least 10% in an attempt to lower their respective working capital needs - Royal Dutch Shell PLC (RDS/A US) expects to cut underlying operating costs by 40% to US$4bn from an initial US$7bn.

More importantly, oil giant Saudi Aramco (ARAMCO AB), also MMT's key customer in the Middle East, is reviewing spending plans for 2021 and beyond and has reduced capital spending for 2020 to US$25-30 billion in an effort to "rationalize" expenses. The US$10bn cut represents more than 20% of its planned US$35-40bn range announced during its IPO last year; capital expenditure in 2019 was also already lower at US$32.8 billion compared to US$35.1 billion in 2018.

Figure 4: Capital expenditure cuts across oil and gas majors due to low prices and even lower demand, updated as of June 2020



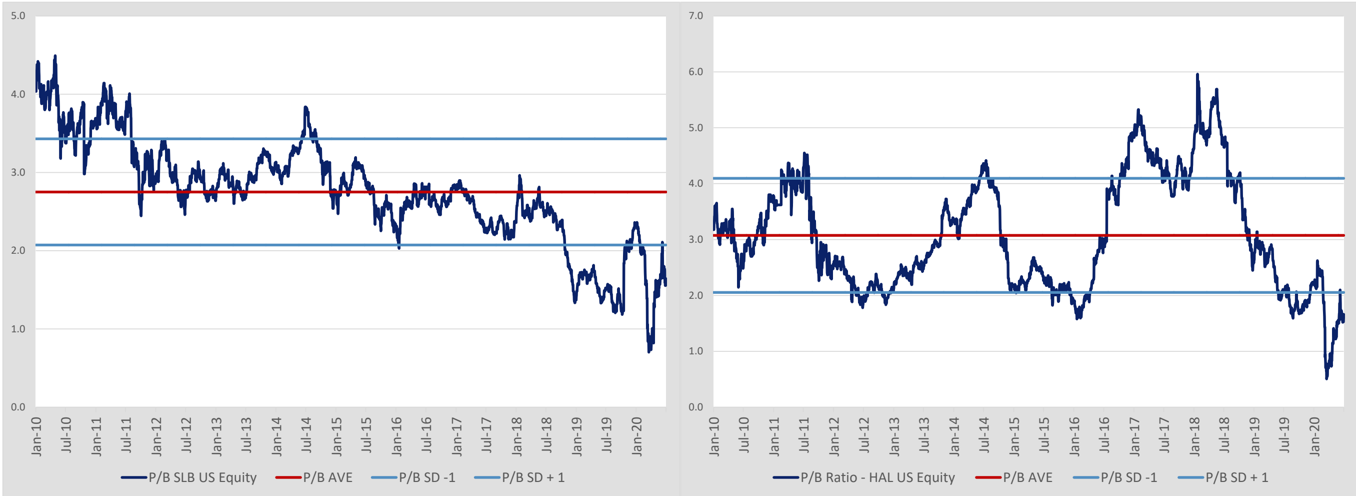
Source: Companies, KGI Research
"883 HK": China National Offshore Oil Corporation; "TOT US": Total S.A.

Oil and gas service companies

Valuations of oil and gas service companies tumbled in line with the plummeting of oil prices earlier in March, hitting all-time lows in more than a decade. In 1Q 2020 alone, U.S. rig count decreased by 77 (from 805 to 728), and while there is typically a delay of 3-4 months between oil price changes and its reflection on rig counts, the decrease already suggests faltering North American drilling and completion activity.

The two oilfield service giants – Schlumberger Limited (SLB US) and Haliburton Company (HAL US) traded close to 0.7x P/B and 0.5x P/B respectively on 18 March 2020, all-time lows for both in over a decade. They have both however, recovered to -1 S.D of their 10-year averages and should continue to recover as demand improves and production re-stabilises, although undoubtedly at a slower rate considering the sector sees second-order effects of the industry's recovery.

Figure 5: P/B Ratio SLB US and HAL US, 2010 – 2020



Source: Bloomberg, KGI Research

We have not included BKR in our comparisons due insufficient and non-meaningful data due to recent merger and divestment activities in 2017 and 2019.

On a more positive note, this unforgiving game of survival has seemed to catalyse change for SLB, who has announced its restructuring plans that are expected to save roughly US$1.5bn in costs every year for the company. It plans to redesign its 17 product lines into four divisions, structuring its geographic focus around five key basins, and augment the use of automation and digital technologies in its field activities, in the process.

Subsea service competitors

For many Subsea service providers, the combination of the Covid-19 pandemic and a new low oil price environment has had adverse impacts on the businesses in terms of both execution of recent contract awards and on the larger, longer-term outlook.

Subsea 7 (SUB NO) reported a net loss of $38 million for the first quarter of 2020, with revenue 13% lower YoY at US$751 million due to lower activity levels in the North Sea and the absence of Conventional activity in offshore Africa and the Middle East. Profitability was also hindered by the impact on operations due to the global health crisis, which is estimated to have ranged between US$15-20 million.

SUB had started off 2020 with a strong backlog and US$1.5 billion worth of new orders, including US$70 million of escalations. However, with the deterioration in the macro environment, SUB's SURF and Conventional clients have been quick to cut capital expenditures by 20-25% and pausing tendering activities. This will ultimately impact the order flow for the rest of 2020, and consequently revenues and margins in the latter part of 2020 and beyond. As of 1Q20, utilisation of SUB's active fleet was 63%, compared to 72% in 1Q19. Backlog for execution in 2021 was also already up 40% to US$2.0 billion since 4Q19; Backlog at the end of March was $5.6 billion, of which US$2.7 billion is expected to be executed in the remainder of 2020.

In line with a reduced workload, SUB will also be executing cost cutting measures over the next 12 months including reductions in its global workforce and reducing its active fleet by up to 10 vessels (from 32 vessels) through the non-renewal of chartered tonnage and stacking of owned assets. These measures are expected to deliver approximately US$400 million in annualised cash cost savings from the 2Q 2021.

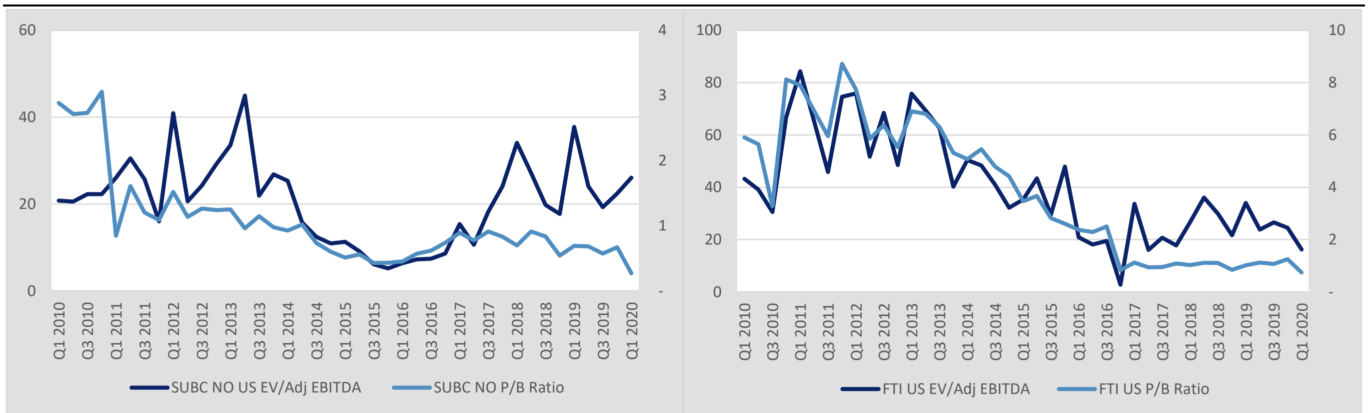
TechnipFMC (FTI US) has also seen a similar downturn, although its business remains somewhat resilient due to its LNG business whose long-term fundamentals remain strong. Management sees potential for additional prospects to be awarded to Technip Energies during 2020, one of which could exceed US$1 billion in order value. Technip Energies is expected to be relatively insulated at this time due to the long-cycle nature of the business, the resilience and maturity of the projects in backlog, and its diversified geographical footprint. On the other hand, its Surface Technologies segment, as its shortest-cycle business, has been and will be the most impacted by capital expenditure cuts.

In its Subsea segment, many of FTI's clients are still reviewing plans and prioritising projects, and as of 1Q20, FTI estimates that approximately 50% of the nearly US$15 billion of total project value in its opportunities list is still likely to move forward over the next 24 months. Subsea reported positive 5.7% growth YoY in its first quarter revenue, driven by the strong inbound orders in prior periods, however the growth was partially offset by foreign exchange translation of US$66 million due to the strengthening U.S. dollar and COVID-19 related disruptions to supply chain and operations. In terms of backlog, only US$3.1 billion of the $7.8 billion is expected to be converted into revenue for the remainder of the year, although more could still be rescheduled for execution in future periods.

Overall, although revenue was up 7.5% to US$3.1 billion, adjusted net loss was US$49.1 million, largely due to non-cash impairments and other charges totalling US$3.2 billion for goodwill and other assets in its Subsea and Surface Technologies segments. At the end of the first quarter 2020, FTI's backlog stood at US$22 billion (US$17.8 billion in Q1 2019), including subsea backlog of US$7.8 billion. FTI also secured a quarterly order intake of only US$2.1 billion, down 66% from US$6.2 billion in 1Q19, and could remain depressed for the rest of the year.

FTI also announced a series of cost reduction initiatives, including a US$150 million reduction in capital expenditure to US$300 million that is expected to result in total annualized savings exceeding US$350 million, and are anticipating achieving its targeted run-rate by the end of this year. They also announced a revision to executive compensation, which includes a 30% reduction to company directors' retainers and a 20% reduction to the executive leadership team salaries through the end of the year, on top of lowering the annual dividend by 75% to US$0.13 per share.

Figure 6: EV/Adjusted EBITDA and P/B Ratio, SUBC NO and FTI US, Q1 2010 – Q1 2020



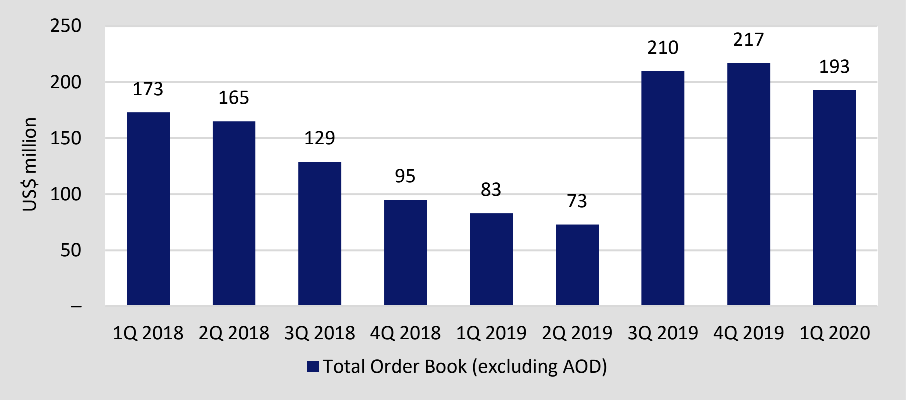
Source: Bloomberg, KGI Research

BUSINESS REVIEW

Orderbook not as secure in light of the current environment

MMT's orderbook in a much better shape compared to two years ago. Orderbook since 3Q19 has improved to above US$200mn. The group typically works through 40-50% of its orderbook within a 12-month period, thus giving it visibility until next year. Its US$193mn orderbook as at end-March 2020 is mainly from a 3-year subsea contract in the Middle East.

Figure 7: MMT Orderbook (excluding AOD)



Source: Company presentation

However, this is little consolation as the Covid-19 disruptions and low oil prices are causing delays to O&G projects. In addition, OPEC and Russia have agreed to production cuts, exacerbating the already reduced capex by many oil and gas companies. OPEC, specifically the Middle Eastern oil producing countries, have in the past been more resilient to oil price, given that they are among the lowest cost producers in the world.

However, the unprecedented swing in oil prices earlier this year has caused Saudi Arabia to cut production and suspend some of its drilling programs. The impact has filtered down to MMT's 33.76%-owned AOD associate, whose AOD II jack-up drilling rig has suspended operations for a period of up to 12 months. MMT has announced that the suspension of AOD II would have a material adverse effect on the earnings of the company, given that the rig would be on a zero day rate and incur standby costs.

Significant lowered outlook for subsea companies

International subsea companies such as TechnipFMC have announced that new orders this year may come down by as much 50% YoY.

TechnipFMC has also taken more than US$3.2bn in impairment charges for goodwill and other assets in its subsea and surface technologies segment, as previously mentioned in the section above.

New orders are expected to come down significantly. Rystad Energy expects O&G global project sanctioning in 2020 to fall by 75% YoY to US$47bn. Out of the US$47bn forecasted, US$27bn is for offshore projects and the remaining US$20bn for onshore. This is a significant decline from US$197bn sanctioned in 2019, of which US$109bn went to offshore projects and US$88bn went to onshore projects.

In the subsea segment, companies such as TechnipFMC have announced that new orders are likely to come in 50% YoY lower. Subsea 7, another subsea heavyweight, commented that a number of its 2020 contract awards are being reviewed by its clients, with new awards likely to suffer more significant delays.

Subsea Services – MMT's core business

Key clients and geographical footprint

In MMT's FY2019 Annual Report, subsea services provided in Saudi Arabia contributed 64% of its total sales, Qatar made up 32%, and Thailand with the remaining 3%.

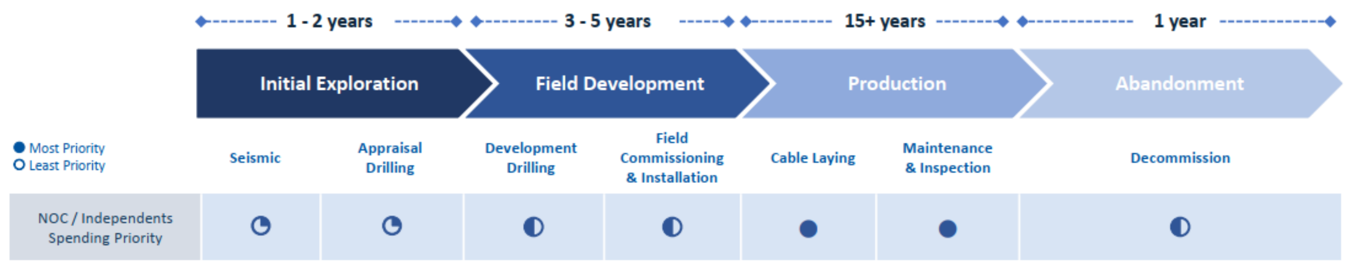
Clients in the Middle East include Saudi Aramco, Qatar Petroleum, QatarGas and Mubadala. Its Thailand client is mainly PTTEP, the wholly-owned exploration and production company of the country's state-owned PTT Public Company Limited.

MMT's subsea business is made up of two revenue drivers – its fleet chartering segment and the provision of subsea services. MMT's customer base is mainly National O&G Companies (NOC), which contributed 63% of total service revenues in FY2019. International O&G companies contributed 19% of FY2019 revenues while 18% was from Major EPCIC contractors.

Subsea Inspection, Repair and Maintenance (IRM), Fleet – Chartering of its subsea support vessels. MMT has a total of 7 owned vessels, out of which, 2 active owned vessels are currently working on projects in the Middle East and 1 owned vessel "Mermaid Asiana" was dry-docked in 1Q2020.

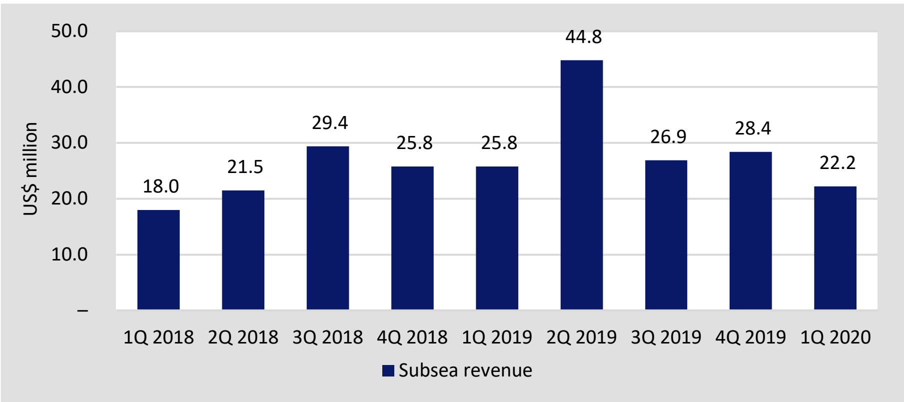
Subsea IRM & Diving Services (Others) – This segment includes the provision of subsea engineering services to O&G companies, specifically during the field development phase (development drilling and field commissioning & installation) and during the field production phase (cable laying and maintenance & inspection). Recently, the group announced that it is looking to expand its business to perform decommissioning services in its home market of Thailand. In addition to the 7 wholly owned vessels, the group owns 15 remotely operated vehicles (ROVs) and more than a dozen saturation & air diving systems.

Figure 8: Peer comparison



Source: Company presentation, KGI Research

Figure 9: Subsea revenues (Quarterly)



Source: Company, KGI Research

Impairment in the cards?

MMT recognised US$228.5mn of impairments in FY2015.

We think the group will have to take another round of impairments this year due to lower utilisation and charter rates.

Huge divergence in prices between new and old vessels. A key point to note is the divergence between the new vessels, defined as around or less than 10 years old, and the older ones which range between 15-38 years old. MMT's three newer vessels have already been impaired by around 50% on average, while the four older vessels have been written down to almost zero. Given the oversupply of offshore support vessels (OSV) in the market, it is likely all these older vessels will be sold or scrapped within the next few quarters.

Only three vessels make up the bulk of wholly-owned asset values. MMT has three subsea vessels that accounted for 89% of the total PPE value on its balance sheet as of end-1Q20: Mermaid Endurer, Mermaid Asiana and Mermaid Sapphire. These three vessels continue to operate in the Middle East, as the company expects them to have excellent utilisation rates throughout 2020.

Figure 10: MMT wholly-owned vessels (net book value as at end-2019)

No	Vessel	Book Value (US$m)	Cost (US$m)	Discount Cost-Book value	Build Year	Purchase Year
1	Mermaid Endurer	54.3	104.4	(48.0%)	2010	2010
2	Mermaid Asiana	54.1	94.8	(42.9%)	2010	2010
3	Mermaid Sapphire	20.9	35.7	(41.5%)	2009	2009
4	Mermaid Challenger	0.5	19.8	(97.5%)	2008	2008
5	Mermaid Siam	0.4	34.5	(98.8%)	2002	2010
6	Mermaid Commander	0.7	36.7	(98.1%)	1987	2005
7	Barakuda	0.1	1.0	(93.1%)	1982	2010
	Total	**131.0**	**326.9**	**(59.9%)**		

Source: Company, KGI Research

MMT's three most valuable wholly-owned subsea support vessels

DSV Mermaid Endurer
The DSV 'Mermaid Endurer' is a Norwegian purpose built DP2 dive support and light construction vessel, specially designed for operations in severe weather conditions such as the North Sea. The vessel has high manoeuvrability and station keeping capabilities and is equipped with a built in 18-man single bell saturation diving system complete with a self-propelled hyperbaric lifeboat. The vessel has a 100-tonne active heave compensated knuckle boom crane and accommodation for 86 personnel. The DSV 'Mermaid Endurer' is DNV classed and flies the Panama flag.

DSV Mermaid Asiana
The DSV 'Mermaid Asiana' is a purpose-built DP2 dive support and light construction vessel. The vessel is equipped with a built in 12-man single bell saturation diving system complete with a self-propelled hyperbaric lifeboat. The vessel also has a 100-tonne active heave-compensated knuckle boom crane and accommodation for 100 personnel. This vessel is designed for operations in the Middle East and Asia-Pacific region. The DSV 'Mermaid Asiana' is ABS classed and flies the Panama flag.

Mermaid Sapphire
The RSV 'Mermaid Sapphire' is a DP2 remotely operated vehicle (ROV) support vessel equipped with a deepwater work-class ROV, a 23-tonne knuckle boom crane and accommodation for 60 personnel. In 2012, the vessel supported James Cameron in his historical deep sea dive to the Challenger Deep, the world's deepest point in the Pacific Ocean's Mariana Trench, 10.99km below ocean surface. The RSV 'Mermaid Sapphire' is ABS classed and flies the Panama flag.

Source: Company, KGI Research

Figure 11: MMT fleet and specifications

Vessel name	Type	Built	Age	Flag	Class	Owner	Description
Dive Support Vessels							
Mermaid Endurer	DP2 DSV	2010	10	Panama	DNV	Mermaid Subsea Services (Thailand)	Fully built-in and classed 18-man single bell saturation diving system rated to 300m water depth. 100t active heave-compensated knuckle-boom crane allows for light construction operations
Mermaid Asiana	DP2 DSV	2010	10	Panama	ABS	Mermaid Subsea Services (Thailand)	Fully built-in and classed 12-man single bell saturation diving system rates to 300m water depth. 100t active heave-compensated knuckle boom crane allows for light construction oeprations. Accommodation comprises 100 berths
Mermaid Commander	DP2 DSV	1987	33	Panama	DNV	Mermaid Subsea Services (Thailand)	Fully built-in and classed 16-man twin bell saturation diving system rated to 230m water depth. A 60t crane allows for light construction operations. Accommodation comprises 90 berths
ROV Support vessels							
Mermaid Sapphire	DP2 ROV	2009	11	Panama	ABS	Mermaid Subsea Services (Thailand)	Designed for operation of dual deepwater work-class ROV's plus optional inspection-class ROV. Equipped with state-of-the-art subsea inspection data acquisition and data management systems. 23t knuckle boom crane and auxiliary 5t crane are also isntalled. Accommodation comprises 60 berths
Offshore Support Vessels							
Mermaid Challenger	DP1 AHTS	2008	12	Panama	DNV	Mermaid Subsea Services (Thailand)	Certified bollard pull of 72t equpped with fire fighting capabilities and 8t deck crane. Accomoodation comprises 40 berths. Can be readily equpped with deepwater heavy work class ROV and inspection class ROV systems
Mermaid Siam	DP2 Construction Support Barge	1991	29	St Vincent and the Grenadines	DNV	Mermaid Subsea Services (Thailand)	Features an IMCA-compliant 10-man single bell saturation diving system rate 300m water depth. Equipped with a 56-tonnes crane, accommodation for 135 personnel.
S.S. Barakuda (formerly M.V. Mermaid Supporter)	Utility vessel	1982	38	Indonesia	DNV	PT Seascape Surveys Indonesia	Equipped with a built-in air diving system and with a survey class ROV system. Fitted with a 10t hydraulic A-frame and a built in central moon-pool for installation of survey sensors

Source: Company, KGI Research

AOD Associate: High quality assets but client concentration risk

MMT does not disclose the specific client for the jack-up rigs, but it is likely to be **Saudi Aramco** based on media reports.

Having Saudi Aramco as a client greatly reduces counter party risks, given they are the most profitable O&G company in the world.

AOD Associate (33.76% share). Asia Offshore Drilling Limited (AOD) is a joint venture founded by MMT. It owns three modern high specification jack-up drilling rigs, AOD I, AOD II and AOD III. All three rigs were delivered in 2013 and employed by a major NOC in the Middle East since 2013. MMT has a 33.76% equity stake in AOD and the remaining 66.24% is owned by an affiliate of Seadrill Limited (Seadrill). The AOD business is managed by another affiliate of Seadrill.

Figure 12: AOD three jack-up rigs, all built by Keppel Corp

Name of Rig	Rig Type	Build Year	Purchase Year	Yard
AOD I (MOD V B-Class)	Premium Jack-U	2013	2010	Keppel FELS
AOD II (MOD V B-Class)	Premium Jack-U	2013	2010	Keppel FELS
AOD III (MOD V B-Class)	Premium Jack-U	2013	2011	Keppel FELS

Source: Company

Contract extensions until 2022/2023. In 2019, MMT's associate AOD secured three-year contract extensions in the Middle East for all three jack-up drilling rigs. The current services contract for AOD I expires in June 2022, AOD III expires in December 2022 and AOD II expires in April 2023. All three jack-up drilling rigs have delivered exemplary operating results during 2019 with overall utilisation exceeding 99% due high operating performance and limited downtime.

Figure 13: Contract extension of AOD jack-up rigs

Jackup rig	Contract Value (US$)	Contract length (Years)	Total days	Implied Day rate (US$)
AOD I - 3 years extension from June 2019	90,000,000	3	1095	82,192
AOD II - 3 years extension from 14/4/20	98,000,000	3	1095	89,498
AOD III - 3 years extension from 31/12/2019	101,000,000	3	1095	92,237
			Average	**87,976**

Source: Company, KGI Research

Secured contracts are not guaranteed in the current environment. Due to the recent crude oil price movements, the offshore drilling sector has become susceptible to customers requesting contractors to reduce prices, options not being exercised, delays in sanctioning of projects, possible suspensions, cancellations and early termination of contracts and rigs coming off contract and going into cold stack.

Based on the experience in previous downturns and the recent news related to other jack-up rigs over the past few weeks, management had warned that there is no assurance that the existing contracts secured by AOD's rigs will continue until expiry of their terms and that the prevailing day rates secured for them will not be reduced.

AOD II suspension for up to 12 months. On 29 June 2020, MMT announced that AOD II would temporarily suspend operations in the Middle East for up to a period of twelve months. The suspension will have a material negative impact on AOD's earnings for this year and next year, given that the rig would be on a zero day rate and incur standby costs. On a positive note, if oil prices were to recover in 2H 2020 and the customer's drilling program were to resume earlier-than-expected, it could potentially recall AOD II back to work.

Jack-up valuations. Jack-up resales sales in the past two years have ranged between US$56mn to US$122mn (this was for a jack-up rig that was ordered at a price of US$240mn) for high specification rigs. Given the depressed resale market and based on our own analysis of the new dayrates for AOD II and III announced in December 2019, we have to assume the worst-case scenario where MMT will have to take impairments on its investment in AOD over the next few years.

Furthermore, AOD still had US$210mn in outstanding debt as at 31 March 2020, which could likely lead to a cash call in the event that the rigs are not in operation for an extended period of time. AOD II has already been suspended for period that could last 12 months, which will have a significant impact on AOD's revenues and earnings in 2020 and 2021.

Figure 14: The economics of jack-up rigs are not as attractive as it once were

Jack ups (US$ '000)		Remarks
Assumed charter rate (US$/day)	88,000	Based on the US$98mn and US$101mn contract extensions
Assumed operating cost (US$/day)	50,000	Down from US$80,000 per day prior to oil price collapse
Available days	365	
Utilization rate	95.0%	
Revenue	30,514	Annual revenues
Operating Cost	(18,250)	
EBITDA	12,264	
EBITDA Margin	40.2%	
Depreciation*	(5,978)	
Finance Cost**	(5,380)	
Profit before tax	906	Jackups acquired prior to 2014 are barely profitable
Rig Cost (USD 000's)	179,333	
Payback Period (years)	198	
ROE	1.3%	

** Based on depreciation period of 30 years*
***Based on the ratio of 60:40 debt/equity and finance cost of 5%*

Source: KGI Research

Jack-up sector looks challenging until 2022

Based on the guidance and financial performance of the three largest jack-up rig owners in the world, the outlook for this sector is likely to be challenging until 2022. In this section, we analysed Shelf Drilling, which owns 36 jack-up rigs, Borr Drilling, which has a total of 31 jack-up rigs (including 5 under construction or pending delivery) and Valaris, which has around 50 jack-ups.

Borr Drilling, Shelf Drilling and Valaris, three of the largest jack-up rig owners, are good barometers of the supply & demand in the market

The jack-up market was picking up before Covid-19. The jack-up market was on the road to recovery prior to the impact of Covid-19, based on positive comments from one of the largest owners of new jack-ups in the world, Borr Drilling. In 4Q19, Borr Drilling had commented that the market for modern jack-up rigs had reached 90% utilization, and that there was visible demand for more than 50 jack-ups over the next 12 months, while also commenting that on the supply side, there were only 14 warm stacked units left in the market that can relatively quickly secure those contracts.

Jack-up demand fell off the cliff since then. The COVID-19 pandemic and low prices have significantly impacted jack-up demand. Recently in June 2020, Borr Drilling announced that it would defer delivery of five newbuild jack-up rigs until mid-2022 (3 jack-ups built by Keppel Corp that was scheduled for delivery in 2020, and another 2 jack-ups for delivery in 2022). A look at Borr Drilling's fleet status on 20 May 2020 showed that it 12 jack-up rigs that were warm stacked (see table below).

Not a pretty picture for expiring contracts. A further analysis of Borr Drilling's latest fleet status (Figure 15) shows that almost all of its contracts are ending by next year, with the exception of one jack-up (Prospector 5) that was contracted until April 2022. It is likely that expiring contracts will be negotiated at lower rates, or not renewed at all.

The number of warm stacked rigs poses a challenge for MMT's AOD associate as jack-up rates may continue to be under pressure until the supply-demand imbalance improves, which we expect to be by mid-2022.

Figure 15: Borr Drilling fleet status report as of 20th May 2020

Rig Name	Rig Design	Rig Water Depth (ft)	Year Built	Customer / Status	Contract Start	Contract End	Location	Comments
Premium Jack-Ups								
Gyme	PPL Pacific Class 400	400 ft	2018	Available			Singapore	Warm Stacked
Skald	KFELS Super B Bigfoot Class	400 ft	2018	Available			Singapore	Warm Stacked
Thor	KFELS Super B Bigfoot Class	400 ft	2019	Available			Singapore	Warm Stacked
Hermod	KFELS B Class	400 ft	2019	Available			Singapore	Warm Stacked
Heimdal	KFELS B Class	400 ft	2020	Available			Singapore	Warm Stacked
Hild	KFELS Super B Class	400 ft	2020	Available			Singapore	Warm Stacked
Norve	PPL Pacific Class 400	400 ft	2011	Available			Cameroon	Warm Stacked
Gerd	PPL Pacific Class 400	400 ft	2018	Available			Cameroon	Warm Stacked
Groa	PPL Pacific Class 400	400 ft	2018	Available			Cameroon	Warm Stacked
Mist	KFELS Super B Bigfoot Class	350 ft	2013	Available			Malaysia	Warm Stacked
Prospector 1 [1]	F&G, JU2000E	400 ft	2013	Available			Netherlands	Warm Stacked
Gunnlod	PPL Pacific Class 400	400 ft	2018	Available	March - 2020	July - 2020	Singapore	Contract Preparations and Mobilization
				PTTEP	August - 2020	February - 2021	Malaysia	LOA
Saga	KFELS Super B Bigfoot Class	400 ft	2018	Available	November - 2019	January - 2020	Singapore	Contract Preparations and Mobilization
				Eni	February - 2020	June - 2020	Vietnam	Operating
				PTTEP	August - 2020	August - 2021	Malaysia	LOA
Idun	KFELS Super B Bigfoot Class	350 ft	2013	Hoang Long	November - 2019	May - 2020	Vietnam	Operating
				JVPC	May - 2020	September - 2020	Vietnam	Committed with option to extend
Galar	PPL Pacific Class 400	400 ft	2017	Available	November - 2019	March - 2020	Singapore	Contract Preparations and Mobilization
				PEMEX	April - 2020	October - 2021	Mexico	Operating
Njord	PPL Pacific Class 400	400 ft	2019	Available	November - 2019	April - 2020	Singapore	Contract Preparations and Mobilization
				PEMEX	May - 2020	November - 2020	Mexico	Committed
Gersemi	PPL Pacific Class 400	400 ft	2018	PEMEX	August - 2019	February - 2021	Mexico	Operating
Grid	PPL Pacific Class 400	400 ft	2018	PEMEX	August - 2019	February - 2021	Mexico	Operating
Odin	KFELS Super B Bigfoot Class	350 ft	2013	Available	December - 2019	February - 2020	Mexico	Contract Preparations
				PEMEX	March - 2020	August - 2021	Mexico	Operating
Frigg [1]	KFELS Super A	400 ft	2013	Shell	December - 2019	December - 2020	Nigeria	Operating
Prospector 5 [1]	F&G, JU2000E	400 ft	2014	Neptune	May - 2019	April - 2020	Netherlands	Operating
				Available	April - 2020	September - 2020	United Kingdom	Warm Stacked
				CNOOC	October - 2020	April - 2022	United Kingdom	Committed with option to extend
Ran [1]	KFELS Super A	400 ft	2013	Spirit Energy	April - 2019	June - 2020	United Kingdom	Operating
				Centrica Storage	June - 2020	September - 2020	United Kingdom	Committed with option to extend
Natt	PPL Pacific Class 400	400 ft	2018	First E&P	April - 2019	April - 2021	Nigeria	Operating with option to extend
Jack-Ups Under Construction								
Huldra	KFELS Bigfoot B Class	400 ft		Under Construction			KFELS shipyard, Singapore	Rig Delivery in July - 2020
Tivar	KFELS Super B Bigfoot Class	400 ft		Under Construction			KFELS shipyard, Singapore	Rig Delivery in July - 2020
Heidrun	KFELS Bigfoot B Class	400 ft		Under Construction			KFELS shipyard, Singapore	Rig Delivery in October - 2020
Vale	KFELS Super B Bigfoot Class	400 ft		Under Construction			KFELS shipyard, Singapore	Rig Delivery in January - 2022
Var	KFELS Super B Bigfoot Class	400 ft		Under Construction			KFELS shipyard, Singapore	Rig Delivery in March - 2022

Source: Borr Drilling, KGI Research

More news of cancelled jack-up rig contracts. Shelf Drilling announced in June 2020 that its Trident 16 jack-up, working for Belayim Petroleum Company (Petrobel) in the Gulf of Suez, had its one-year contract terminated. The jack-up was supposed to be on contract until February 2021 but was changed to early-August 2020.

In June 2020, Saudi Aramco suspended a contract, also with Shelf Drilling, for the High Island IV jack-up rig. The suspension of operations was for a period of 12 months. This is notable as this rig was expected to be with the customer until February 2030 at a day rate of US$80,000, with an annual rate adjustment linked to Brent oil prices.

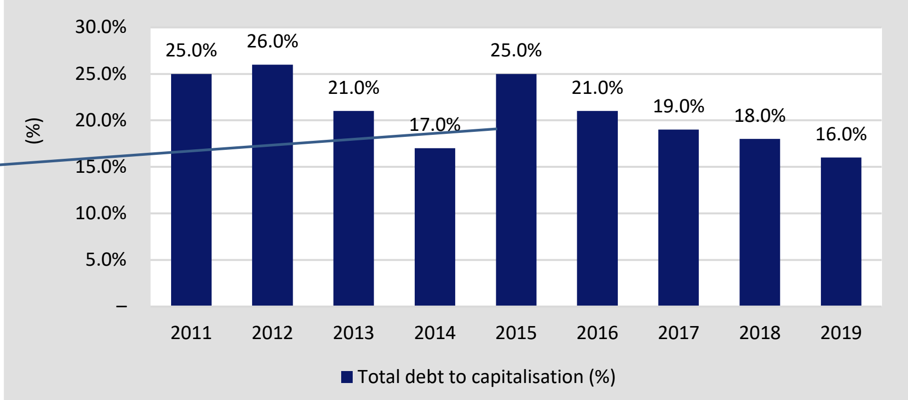
In March 2020, Valaris also announced that it had received termination notices for one of its drillship and a jack-up rig, and anticipates more contract cancellations. The jack-up contract that was terminated by Chevron was for the jack-up Valaris JU-109, which was scheduled to operate offshore Angola until July 2021.

FINANCIAL REVIEW

It is 2015 all over again as operating losses and impairments loom

While MMT is going into the current downturn in a strong financing footing, it is not out of the woods in terms of the difficulty to remain profitable and the need to sustain its balance sheet until the industry recovers. A spike in impairments could once again lead to an increase in its gearing ratio, similar to the US$228.5mn impairments it had to take in FY2015, causing its gearing ratios to increase.

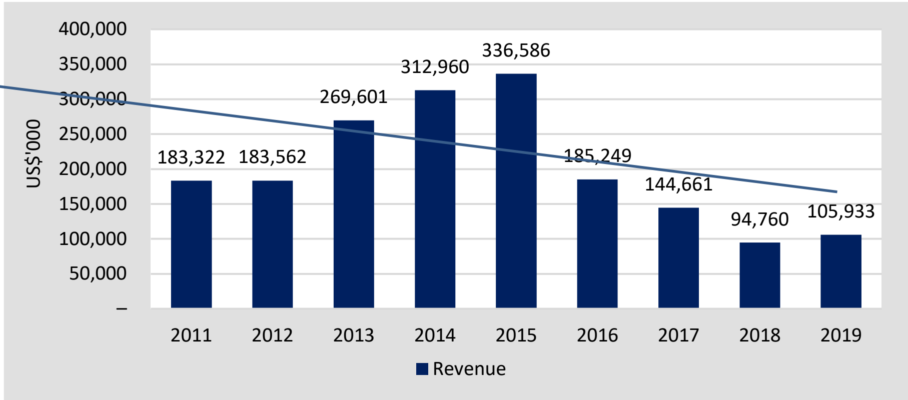
Figure 16: Healthy balance sheet with low gearing ratio compared to peers.



Source: Company, KGI Research

MMT recognised US$228.5mn of impairments in FY2015 due to the collapse in oil prices.

Figure 17: Recovery disrupted - 2019 was the first annual revenue increase since 2015, now disrupted by Covid-19 lockdowns and low oil prices

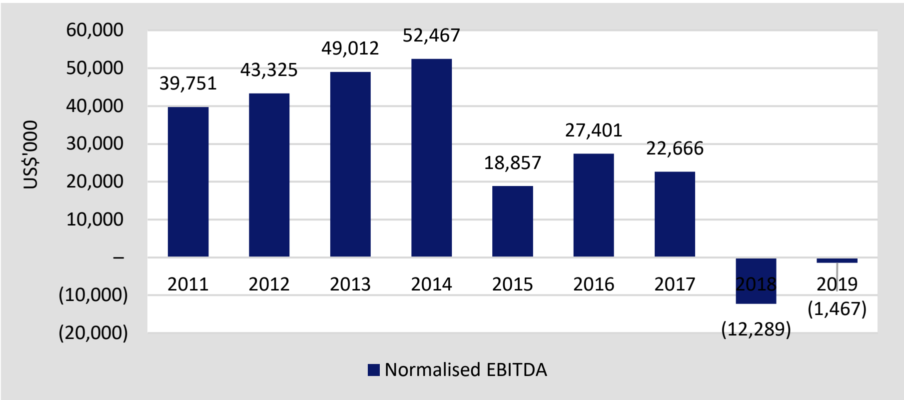


Source: Company, KGI Research

Business was starting to recover in FY2019 on the back of better fleet utilisation (79% in FY2019 vs 57% in FY2018).

In 4Q19, it secured a US$162mn contract extension for subsea services in the Middle East, while securing additional work in the Gulf of Thailand.

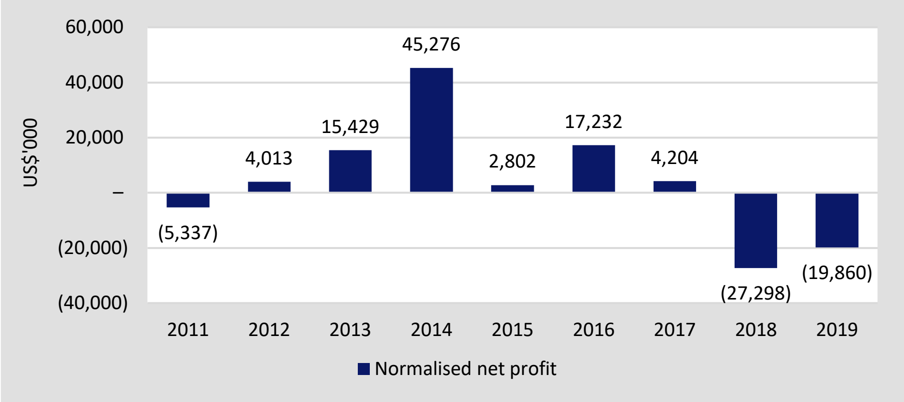
Figure 18: EBITDA has deteriorated significantly since oil prices collapsed in 2014



Source: Company, KGI Research

Bumpy road to recovery. Performance in FY2019 improved as fleet utilisation increased to 79% from 57% in the prior year period, with EBITDA losses narrowing from US$12.3mn in FY2018 to US$1.5mn in FY2019. However, 1Q20 results have once again declined due to lower day rates, and as it reported a gross loss due to a chartered-in third party vessel to replace one of its vessel that was dry docked.

Figure 19: Net profits



Source: Company, KGI Research

Comfortable debt repayment schedule

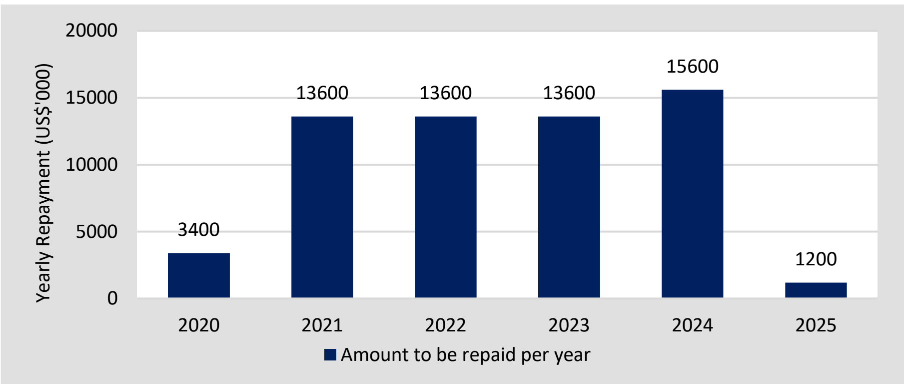
With MMT's relatively strong balance sheet and low gearing ratio, the group is still able to tap on lending facilities.

However, if oil prices were to remain at around US$40 per barrel over the next 12 months, MMT may potentially face cash flow problems in 2021.

Increasing debt levels although still at comfortable levels. As at end-March 2020, MMT had US$54.4mn in long-term loans. In January 2020, MMT entered into a new loan facility agreement of up to US$8.0mn to fund maintenance and repair of its vessels. As at 31 March 2020, it had withdrawn US$1.4mn and management expects to fully draw down the full amount in 2Q2020. Total debt is expected to increase to US$61mn after the drawdown, which is still a comfortable debt level that is significantly lower than peers.

COVID-19 relief. To mitigate against liquidity risks, MMT secured an extension to the maturity date of its interest-bearing debt facility until 2024. Hence, we believe that its short-term liquidity risk remains low. In addition, the group managed to get an approval from its lender for the repayment suspension in 2Q and 3Q 2020 as a result of the COVID-19 pandemic.

Figure 20: Yearly repayment schedule of its long-term loan



Source: Company, KGI Research

KEY RISKS

Unable to secure new contracts

MMT's business is largely orderbook driven. Although its orderbook as at end March-2020 had improved to US$193mn from US$83mn as at end-March 2019, it is still significantly below the US$500-600mn it used to achieve before the oil price collapse in 2014-2016.

Even when it is able to win contracts, it may not translate to earnings given the margin compression occurring in the current environment. There are reports that operators are asking service companies for pricing reduction of up to 25%, a trend which could continue going into 2021 if oil prices were to remain at US$40 per barrel.

Cancellation or suspension of services

MMT's current orderbook may be subject to cancellations, suspension, or price negotiations, which would have a significant impact on its earnings.

The suspension of its AOD II jack-up rig that is currently on a three-year contract with a Middle Eastern National Oil Company, highlights the risks in the current low oil price environment. On 29 June 2020, MMT announced that AOD II would temporarily suspend operations in the Middle East for up to a period of twelve months. The suspension was due to the impact of low oil prices to the customers' drilling program.

The suspension will have a material negative impact on AOD's earnings for this year and next year, given that the rig would be on a zero day rate and incur standby costs. On a positive note, if oil prices were to recover in 2H 2020 and the customer's drilling program were to resume earlier-than-expected, then it may recall AOD II back to work.

Asset impairments and write-off

The group's assets are mainly comprised of vessels, specifically subsea support vessels and jack-ups. These vessels typically have an operating life of around 30 years before they are scrapped or sold off. As such, when utilisation and day rates for such assets are impacted for an extended duration, the company will have to recognize impairments.

In 2019, MMT recognized a US$5mn impairment loss on two subsea vessels. However, the group had a significant impairment loss in 2015, when it booked US$228.5mn in non-cash provisions for impairment on the value of its key assets, investments in subsidiaries and share of impairment loss in AOD.

FINANCIALS

FYE 31 December					
INCOME STATEMENT (#N/A Connection mn)	**2018**	**2019**	**2020**	**2021**	**2022**
Revenues	**98,161.0**	**107,709.0**	**80,828.6**	**104,789.6**	**111,886.6**
Costs of rendering of services	103,768.0	109,052.0	92,952.9	104,789.6	89,509.3
Administrative expenses	24,982.0	23,657.0	16,165.7	18,862.1	17,901.9
Finance costs	3,897.0	3,397.0	2,573.0	2,573.0	2,573.0
Total expenses	**132,647.0**	**136,106.0**	**111,691.6**	**126,224.8**	**109,984.2**
Associates and Joint Venture	8,062.0	4,756.0	2,245.3	3,742.1	3,742.1
Profit before tax	**(26,424.0)**	**(23,641.0)**	**(28,617.7)**	**(17,693.0)**	**5,644.6**
Tax expenses	874.0	575.0	–	–	1,128.9
Profit after tax	**(27,298.0)**	**(24,216.0)**	**(28,617.7)**	**(17,693.0)**	**4,515.7**
Non-controlling interests	(105.0)	42.0	143.1	88.5	(22.6)
PATMI	**(27,193.0)**	**(24,258.0)**	**(28,760.8)**	**(17,781.5)**	**4,538.2**
BALANCE SHEET (#N/A Connection mn)	**2018**	**2019**	**2020F**	**2021F**	**2022F**
Cash and cash equivalents	22,496.0	36,484.0	15,363.7	456.6	8,957.1
Other current assets	66,235.0	62,411.0	53,116.0	53,116.0	53,116.0
Total current assets	**88,731.0**	**98,895.0**	**68,479.7**	**53,572.6**	**62,073.1**
Property, plant and equipment	145,207.0	169,429.0	156,675.5	140,201.1	122,638.8
Investment in associate	122,360.0	119,423.0	119,423.0	119,423.0	119,423.0
Other non-current assets	17,750.0	21,844.0	21,844.0	21,844.0	21,844.0
Total non-current assets	**285,317.0**	**310,696.0**	**297,942.5**	**281,468.1**	**263,905.8**
Total assets	**374,048.0**	**409,591.0**	**366,422.2**	**335,040.7**	**325,978.9**
Trade and other payables	28,271.0	24,193.0	24,193.0	24,193.0	24,193.0
Loans and contract liabilities	12,197.0	15,890.0	15,890.0	15,890.0	15,890.0
Other current liabilities	692.0	241.0	241.0	241.0	241.0
Total current liabilities	**41,160.0**	**40,324.0**	**40,324.0**	**40,324.0**	**40,324.0**
Loans and contract liabilities	43,846.0	51,835.0	37,427.0	23,827.0	10,227.0
Other non-current liabilities	2,049.0	2,544.0	2,544.0	2,544.0	2,544.0
Total non-current liabilities	**45,895.0**	**54,379.0**	**39,971.0**	**26,371.0**	**12,771.0**
Total liabilities	**87,055.0**	**94,703.0**	**80,295.0**	**66,695.0**	**53,095.0**
Unitholders' funds and reserves	286,993.0	314,888.0	286,127.2	268,345.7	272,883.9
Total liabilities and equity	**374,048.0**	**409,591.0**	**366,422.2**	**335,040.7**	**325,978.9**
CASH FLOW STATEMENT (#N/A Connection mn)	**2018**	**2019**	**2020F**	**2021F**	**2022F**
Profit before tax	**(27,298.0)**	**(24,216.0)**	**(28,617.7)**	**(17,693.0)**	**4,515.7**
Adjustments	17,103.0	24,428.0	29,075.0	21,054.8	23,524.5
Operating cash flows before WC changes	**(10,195.0)**	**212.0**	**457.2**	**3,361.8**	**28,040.2**
Change in working capital	20,949.0	(2,199.0)	–	–	–
Income tax paid	(687.0)	(374.0)	–	–	(1,128.9)
Others	(188.0)	(42.0)	–	–	–
Cash flows from operations	**9,879.0**	**(2,403.0)**	**457.2**	**3,361.8**	**26,911.2**
Capital expenditure	(7,547.0)	(1,515.0)	(1,616.6)	(2,095.8)	(2,237.7)
Acquisition of subsidiaries/inv in associate	(5,232.0)	–	–	–	–
Others	(13,088.0)	5,935.0	–	–	–
Cash flows from investing	**(25,867.0)**	**4,420.0**	**(1,616.6)**	**(2,095.8)**	**(2,237.7)**
Lease payments	(60.0)	–	–	–	–
Dividends paid	–	–	–	–	–
Interest paid	(3,767.0)	(3,351.0)	(2,573.0)	(2,573.0)	(2,573.0)
Other financing cashflow	(12,000.0)	(11,756.0)	(3,400.0)	(13,600.0)	(13,600.0)
Cash flows from financing	**(15,827.0)**	**(15,107.0)**	**(5,973.0)**	**(16,173.0)**	**(16,173.0)**
FX Effects, Others	(393.0)	204.0	–	–	–
Net increase in cash	**(32,208.0)**	**(13,988.0)**	**(7,132.3)**	**(14,907.0)**	**8,500.5**
Beginning Cash	68,692.0	36,484.0	22,496.0	15,363.7	456.6
Ending cash	**36,484.0**	**22,496.0**	**15,363.7**	**456.6**	**8,957.1**
KEY RATIOS	**2018**	**2019**	**2020F**	**2021F**	**2022F**
EPS (SGD cents)	(1.92)	(1.72)	(2.03)	(1.26)	0.32
P/E (x)	–	–	–	–	23.67
DPS (SGD cents)	–	–	–	–	–
Dividend yield (%)	–	–	–	–	–
NAV per share (SGD cents)	28.0	30.7	27.9	26.2	26.6
Price/NAV (x)	0.27	0.25	0.27	0.29	0.29
Profitability					
EBITDA Margin (%)	(12.6%)	(5.5%)	(17.2%)	(0.3%)	21.7%
Net Margin (%)	(27.8%)	(22.5%)	(35.4%)	(16.9%)	4.0%
ROE (%)	(8.7%)	(8.0%)	(9.5%)	(6.4%)	1.7%
ROA (%)	(6.6%)	(6.2%)	(7.4%)	(5.0%)	1.4%
Financial Structure					
Interest Coverage Ratio (x)	(7.8)	(7.4)	(11.0)	(7.3)	1.7
Gearing Ratio (%)	3.5%	(0.4%)	5.1%	6.0%	(2.2%)

APPENDIX A: ASSET DESCRIPTION, SERVICES AND CUSTOMERS

Figure 21: AOD rig operating in the Middle East

Source: Company presentation

Jack-up Rigs

The AOD I, AOD II and AOD III are high specification jack-up drilling rigs. Built to the popular MOD V B-Class model by Keppel FELS in Singapore, these rigs are on long term drilling contracts from 2013 to 2016 in Saudi Arabia with extension options. The rigs had undergone customization at client expense to suit working conditions and workplace configuration and have achieved high operational efficiency, safety and reliability since commencement of their respective drilling programs to date. Each rig can work in water depths of up to 400 meters, has a drilling depth rating of 30,000 feet and has accommodation for 150 personnel. The AOD I, AOD II and AOD III are ABS classed and fly the Panama flag. These rigs are owned by Asia Offshore Drilling Limited in which Mermaid has a 33.76% ownership interest.

Jack-up rigs are widely used in offshore drilling in shallow waters of depths of up to 490 feet. These rigs are equipped with tubular structure legs that are lowered to the sea floor when drilling. Offshore support vessels such as AHTS will tow a jack - up rig to the drill site with its leg raised. At the drill site, the legs will be lowered onto the seabed and the rig will be jacked up until the hull is elevated above the surface of the water. Thereafter drilling operations can take place.

Jack-up rigs are deployed in all major offshore production basins. Global jack-up companies include:

1. Valaris (VAL US), previously known as Ensco Rowan (ESV US)
2. Noble Corporation (NLC SW), owns 13 jack-ups
3. Maersk Drilling, owns 14 jack-ups
4. COSL (2883 HK)
5. Transocean (RIG US), sold most of its jack-ups to Borr Drilling, including 10 high-specification jack-ups and 5 jack-ups under construction at Keppel FELS in Singapore.
6. Seadrill (SDRL US)
7. Shelf Drilling (SHLF NO)
8. Borr Drilling (BORR US)

Figure 22: Mermaid Endurer - One of MMT's DSVs

Source: Company presentation

Diving Support Vessels (DSV)

A ship that is used as a floating base for professional diving projects performed below and around oil production platforms and associated installations in open water. Previous diving operations were from mobile oil drilling platforms, pipe - lay or crane barges where the diving system is modularized and can be craned on and off as a package. However as permanent oil and gas production platforms emerged, owners and operators were not willing to give up valuable deck spaces for the diving package. Hence the solution was to put these packages on ships.

DSVs are equipped with either twin or single bell saturation dive systems as well as heavy lift cranes with deep water capability with provision for easy ROV installation.

MMT's subsea services

Figure 23: Subsea support vessels and subsea operations using air diving systems and ROVs

Source: Company presentation

Field development - Subsea support vessels assist in, among other things, survey and preparations of the seabed, installation of modules, umbilical cables and risers, as well as provision of Remotely Operated Vehicles (ROVs) or divers for tie-in and testing.

Production - Once installed, the equipment is surveyed and maintained, together with both larger repair and development campaigns.

Abandonment - To cease efforts to find or produce from a well or field, and to plug well and salvage material and equipment - subsea vessels are utilized.

Subsea engineering services also include Underwater Cable Laying Services for telecommunications, electric power transmissions, or other purposes.

Customers

Figure 24: MMT's customer are global oil and gas companies

Source: Company presentation

APPENDIX B: MAJOR SHAREHOLDERS

The Mahagitsiri family has a total interest of 75.6% in Mermaid Maritime through its direct 26.1% stake in MMT as well as indirectly through its 49.5% stake in MMT's parent company, Thoresen Thai Agencies (TTA).

Figure 25: Major shareholders

Name	Direct Stake	Deemed	Total
Thoresen Thai Agencies Public Company Limited (TTA)	700,000,000 (49.53%)	122,908,013 (8.69%)	822,908,013 (58.22%)
Soleado Holdings Pte Ltd (Soleado)	102,509,593 (7.25%)	-	102,509,593 (7.25%)
Mr Chalermchai Mahagitsiri	150,461,660 (10.65%)	822,908,013 (58.22%)	973,369,673 (68.87%)
Mr Prayudh Mahagitsiri	52,020,682 (3.68%)	63,588,647 (4.50%)	118,670,229 (8.20%)
Ms Ausana Mahagitsiri	63,588,647 (4.50%)	-	63,588,647 (4.50%)
Total	75.6%		

Source: Company, KGI Research

Who is the Mahagitsiri Family? The Mahagitsiri is one of the richest family in Thailand and is headed by Mr Prayudh Mahagitsiri, one of Thailand's eminent industrialist who had pioneered many projects with a vision to develop first class businesses to support the growth of Thailand in the global economy.

The bulk of the family's wealth comes from Quality Coffee, a joint venture with Nestle which commands more than half the country's instant coffee market. The family also has an unparalleled track record of building and growing businesses in its diversified portfolio of assets which spans across steel, copper, shipping and golf courses etc. With the backing of the Mahagitsiri family, MMT may be able to leverage on its parents' wide network of connections to further spur its growth ambitions.

APPENDIX C: COMPANY HISTORY

1983	Founded by Danish mariners as Mermaid Marine Services Ltd to provide offshore marine services such as life raft and firefighting maintenance services.
2005	Expanded into tender drilling rig business by acquiring two tender rigs.
2007	Successfully raised S$246m from its IPO on the Singapore Stock Exchange (SGX).
2008	Acquired Seascape Surveys for access to hydrographic and positioning services.
2010	Acquired Subtech Middle East to expand subsea services in Middle East and Arabian Gulf. Acquired 33.76% stake in Asia Offshore Drilling to expand into jack-up drilling rig business.
2012	PM Group Acquires Thoresen: • Provided leadership stability • Implemented new strategic direction • Strengthened the core, and drove profit turnaround
2014	Achieved record US$45m net profit.
2015	New cable-laying business in Middle East. Impairment loss to reflect asset market value.
2016	Business turnaround from successful cost saving projects. Low gearing of c.0.1x with no bonds and no capex outstanding.
2017	Expanded business to new geographical areas: Malaysia; Singapore; and countries in the Middle East
2020	Established an offshore transportation, installation, and decommissioning services business unit as part of its diversification strategy. Becomes first Thai-owned and Thai-operated services company in the Offshore Transportation, Installation and Decommissioning sector having the capability to deliver services of an international standard using qualified local content for the Thailand market. Approved as a qualified bidder to participate in decommissioning program initiated by the Thai oil and gas operator, for 49 platforms during the period 2020 to 2023.

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Rating	Definition
Outperform (OP)	We take a positive view on the stock. The stock is expected to outperform the expected total return of the KGI coverage universe in the related market over a 12-month investment horizon.
Neutral (N)	We take a neutral view on the stock. The stock is expected to perform in line with the expected total return of the KGI coverage universe in the related market over a 12-month investment horizon.
Underperform (U)	We take a negative view on the stock. The stock is expected to underperform the expected total return of the KGI coverage universe in the related market over a 12-month investment horizon
Not Rated (NR)	The stock is not rated by KGI Securities.
Restricted (R)	KGI policy and/or applicable law regulations preclude certain types of communications, including an investment recommendation, during the course of KGI's engagement in an investment banking transaction and in certain other circumstances.

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