SAC CAPITAL

Jason Marine Group Limited

19 October 2021

Non rated

Price: S$0.13 (as at 18 Oct 2021)

BBG	JMG
Market cap	S$13.7m
Price (18 Oct 2021)	S$0.13
52-week range	S$0.115 – S$0.155
Target Price	Non-rated
Shares Outstanding	105m
Free Float	19.85%
Major Shareholder	Foo Chew Tuck (77.43%) Tan Fuh Gih (3.78%)
P/BV (03/21)	0.6x
Net Debt to EBITDA (03/21)	Net cash

Source: Company data, Bloomberg, SAC Capital

Analyst:

Lim Shu Rong
limsr@saccapital.com.sg

Trading below cash value

Jason Marine Group is a systems integrator and service provider for marine communication, navigation and automation systems installed on marine vessels and offshore O&G platforms. JMG offers turnkey solutions as well as maintenance and support services and airtime services. It has service centres located in Singapore, China, Thailand, Malaysia and Indonesia.

Higher oil price drives construction and utilisation of offshore platforms. Oil price is up more than 50% this year to reach a 3-year high of above US$80/bbl. The supply-led price increase is expected to drive more CAPEX into offshore O&G development and higher utilization of existing equipment. According to Energy Maritime Associates, the number of new FSO awards are expected to rise from the trough in 2020. Petronas is also moving ahead with 10-15 upstream projects in 2022-2023. JMG's project orders are mainly from the O&G industry, accounting for 74% of revenue.

Lower vessel calls affects volume of maintenance work. JMG typically carries out maintenance work on the communication systems onboard the vessels when the ships call at the ports. System maintenance services have faced disruptions from lower vessel calls as a result of worldwide port congestions. Year-to-September, the number of vessel calls declined 12.6% at the Singapore ports, after falling 30% in 2020. Maintenance revenue is poised to improve when the delays at ports are resolved.

Rising project value per vessel. Ship crews stranded at sea due to port congestions and anti-virus measures have fuelled the need for more and smarter communication and navigation systems onboard for the welfare of the seafarers. In addition, newbuilding orders are trending towards bigger vessels to transport more crew and cargo. We believe these will drive higher project value for new orders.

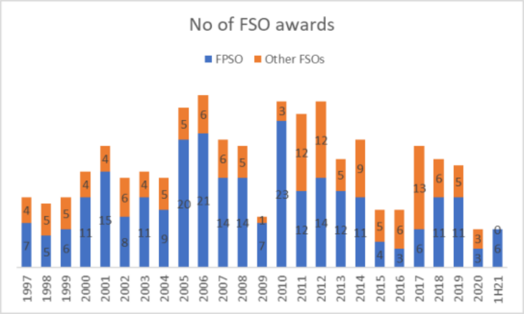
Trades at below cash and book. FY21 gross margin edged higher (+2.8pts) due to cost controls amidst very tough competition. Going forward, earnings would improve with the non-recurring write-offs in investments now behind them. JMG raised dividend payment for FY21, translating into a yield of 5.7%. Balance sheet has net cash of S$15.2m as at Mar 21. Stock is trading below net cash of 14.5ct/share, and 40% discount to book.

FY ended 31 Mar (S$m)	FY2017	FY2018	FY2019	FY2020	FY2021
Revenue	33.2	31.6	29.0	30.2	30.1
EBIT	0.8	1.1	1.0	2.3	0.4
Net profit	0.2	0.0	0.2	2.2	0.3
EPS (S cents)	0.2	0.0	0.2	2.1	0.3
Dividend per share (S cents)	-	0.5	0.5	0.5	0.75
Net cash / (debt)	23.9	17.9	14.2	14.6	15.2
Valuation					
EBIT margin (%)	2.5	3.4	3.5	7.5	1.2
ROIC (%)	0.2	1.3	5.5	-0.02	0.4
EV/EBITDA (x)	n.m.	n.m.	n.m.	n.m.	n.m.
P/E (x)	57.6	303.3	71.5	6.2	43.8
Dividend yield (%)	-	3.8	3.8	3.8	5.7

Investment Highlights

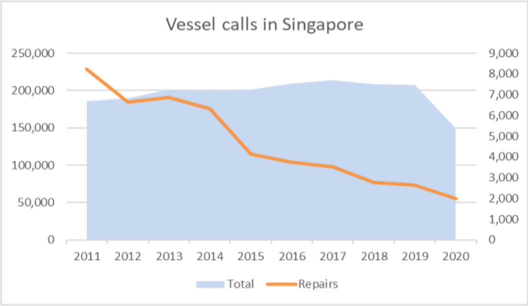
Higher oil price drives construction and utilisation of offshore platforms

Oil price is up more than 50% this year to reach a 3-year high of above US$80/bbl. The supply-led price increase is expected to drive more CAPEX into offshore O&G development and higher utilization of existing equipment.

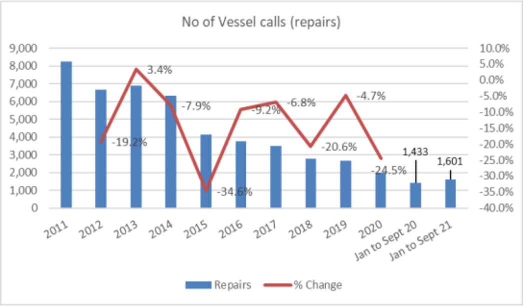


Source: Energy Maritime Associates

Petronas, Malaysia national energy company, is expected to approve final investment decisions for an estimated 10-15 upstream projects including offshore fields in Malaysia and Indonesia between 2022 and 2023. (*Rystad Energy*) Floating production market has also seen a resurgence. Energy Maritime Associates expects to see over 20 orders from the market to be sanctioned over the next few years. JMG is seeing more FPSO orders as well.



Source: Maritime and Port Authority of Singapore



Source: Maritime and Port Authority of Singapore

Lower vessel calls affects volume of maintenance work Local companies provide repair and maintenance services as vessels stop by Singapore port. Vessel calls (by number) which measure the number of vessels stopping by a port for various purposes (i.e. bunkering, supplies, repairs) provides a proxy to measure the level of repair services provided. Year-to-September, vessel calls for repairs rose 11.7% yoy, but total vessel calls fell 12.6% yoy.

Port congestion globally in 2H21 could see the numbers falling again due to longer vessel turnaround time and slower movement of vessels across ports. This hurts JMG's maintenance work as they perform these work while the vessels call at the ports or are docked for repair and servicing. Thus, JMG's repair and maintenance revenue are likely be impacted in 1HFY22. Easing of supply chain bottlenecks will be key to revenue recovery in FY22.

Investment Highlights

Rising project value per vessel

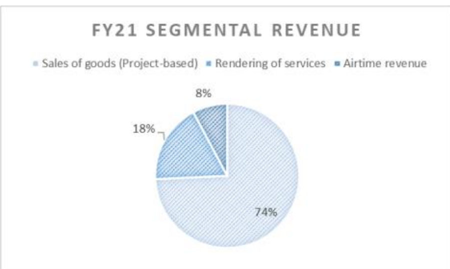
More communication systems being installed: Restrictions imposed by national health and immigration authorities have resulted in crew change crisis whereby seafarers were overdue to return home. This has taken a toll on the mental wellbeing of seafarers. Thereafter shipowners have recognized the needs to help their crew members connect back home and thus are outfitting more communication systems on board to provide a better environment and improve general welfare and spirits of its crew members. Additionally, more requests are made for comms systems in a bid to attract younger people who are more tech-savvy into the industry as older seafarers retire from their roles.

Newbuilding orders are also trending towards bigger vessels to transport more crew and cargo. This would mean increased complexity and more systems to be built in.

Technologies becoming the modern features: Maritime industry has sped up the adoption of smart technologies to cope with the challenges of dynamic global trade. Xiamen Ocean Gate Terminal in China had already deployed 5G wireless networks in its area and engaged autonomous trucking of containers within the port. Maritime and Port Authority in Singapore is also looking at potential 5G applications in port operations. Smart ports will need to “talk” to ships. Upgrades to infrastructure will soon spillover to vessels. On top of that, leaders in the industry are invested in incorporating other technologies such as artificial intelligence and sensor technology to help enhance vessel performance and bring about operational efficiency. Cost savings and commercial advantages will encourage more shipowners to replace or upgrade their systems.

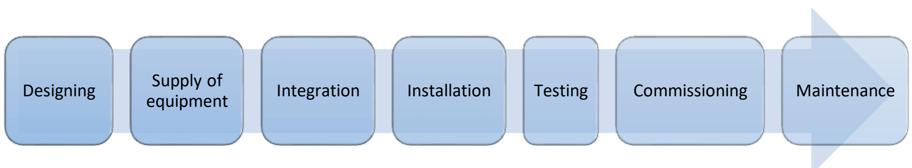
Background

Jason Marine Group is a marine electronic systems integrator operating in marine and offshore O&G industries. The Group focuses on marine communication, navigation and automation systems and carries an extensive range of electronic equipment from proprietary brand manufacturers. In total, the Group represents over 45 brands such as Koden, Samyung and Danelec. Examples of some systems provided are vessel monitoring system, VSAT system, helideck monitoring system and for equipment, there are GPS Compass, Electronics Chart, Marine Radar etc. All vessels (e.g. commercial vessels and naval vessels) and offshore platforms (e.g. drilling rigs and FPSO) are required to install navigation and communication systems on board for safety reasons. Some of the customers that JMG service are Keppel, Sembmarine, Penguin International and Pacific International Lines.



Source: Company data

JMG has mainly 3 business segments: 1) Sale of goods, 2) Rendering of services and 3) Airtime revenue and the segments constitute 74%, 18% and 8% of the Group's FY21 revenue respectively.



<u>Sale of goods</u>

This segment is mostly project-based and pertains to provision of the entire end-to-end suite of system integration services for newly constructed O&G facilities or vessel newbuilds. Project works typically take about 1-2 years to complete.

Value of project-based works ranges from S$1-2m to S$10m. Order value depends on complexity of systems to be installed on the offshore platforms. For vessels, larger number of crew members onboard will require more systems in place and hence raising the project order value. Revenue is recognized over the project timeframe and bulk of it is recognized when equipment are delivered. Gross margin depends on value of orders, industry competition and execution process (cost efficiency). Current orders are coming from Singapore customers in the O&G sector dealing mostly with conversion projects and FPSOs. More projects is expected to come from the green space involving liquified natural gas and renewable energy as customers placed stronger emphasis on sustainability.

<u>Rendering of services</u>

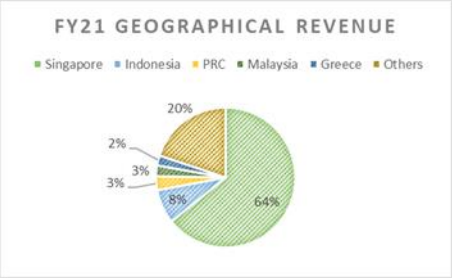
JMG's range of services encompass equipment leasing and provision of maintenance and support services such as repair works, troubleshooting, radio survey and annual performance tests. Repair works are ad-hoc in nature while radio survey and other performance tests are conducted annually to check that the communication, navigational and safety equipment and systems installed in the vessel are fully operational. JMG also carries out retrofitting of vessels with more systems or overhauling of old systems. JMG is the authorized service centers for brands such as Totem Plus, Netwave, Simrad and Sperry Marine. The vessels need not be docked at yards for such work.

Background

Airtime revenue

JMG also provides airtime for satellite communication systems which allows vessels to communicate back to shore or with other vessels. Airtime is provided on a subscription basis or via pre-paid top up credits.

JMG established its regional presence by setting up service centers in Indonesia (Jakarta), China (Dalian and Shanghai), Malaysia (Klang) and Thailand (Bangkok). 64% of its revenue comes from customers based in Singapore, followed by 8% from Indonesia and 3% from China and Malaysia respectively. Others are made up of several countries including Thailand, UK, UAE, South Korea etc none of which contributes individually more than 10% of the Group's revenue. For countries where JMG does not have a service center, revenue is generated from vessels flagged in those respective countries that are making vessel calls in Singapore.



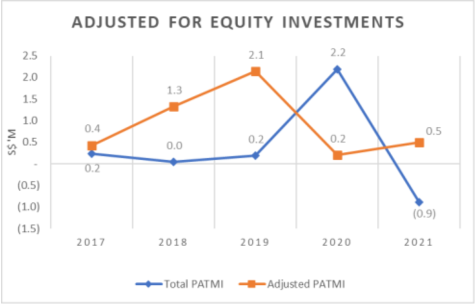
Source: Company data

Concentration risk Revenue from one customer amounting to ~S$12.4m made up 41% of total FY21 revenue. The revenue comes under sale of goods segment.

Financial performance

Source: Company data

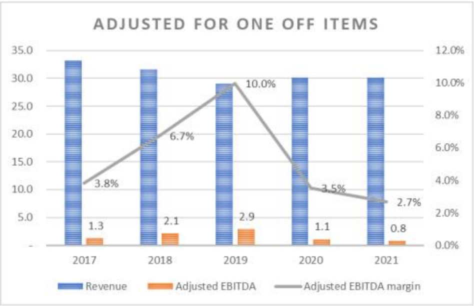
FY21 sales dipped marginally by 0.2% due to the pandemic. 1H operations were constrained by COVID restrictions, and more project progress completion and service jobs were carried out in 2H. Gross margin was affected by intense competition with limited project contracts handed out. Improvement in FY21 gross margin (+2.8pt) stemmed from better project execution. While orders are returning, they will be slow to hit the market. Pressure on margin is unlikely to be alleviated in the near term. As such, margin improvement has to come from efficient cost control. COVID-related government grant of S$1.2m helped turned in a net profit of S$0.3m for FY21.



Source: Company data
**Adjusted for fluctuations caused by Sense Infosys & eMarine Global. One-off govt grant is also removed from FY21.*

Equity investments (Sense Infosys & eMarine Global) in the past few years had mostly weighed down the Group's earnings. Investment in Sense Infosys was fully impaired in FY19 (S$1.3m) while JMG has derecognized put options with respect to the shares held in eMarine Global in FY21. (FV loss of S$1.4m) The Group is unable to dispose its ~6% stake in eMarine Global as the shares are thinly traded on US OTC Market. Value of the shares is at S$81k as of 31 Mar 21. With significant portion of the investment in eMarine Global written off, JMG can better reflect the value of its businesses going forward.

Financial performance



Source: Company data
**EBITDA adjusted for fluctuations caused by derivative instruments including Sense Infosys & eMarine Global and govt grant.*

In spite of the challenging environment, JMG has been generating positive cashflow for the past years. The Group has announced a higher dividend of 0.75 cents/share, giving a yield of 5.7%. Balance sheet has net cash of S$15.2m. Currently JMG is trading at 11% lower than its cash per share of S$0.1445 and is below book value. PB ratio is 0.6x.

Peer comparison

JMG faces strong local competition. Apart from CSE Global, competitors in the private space includes OMEGA Integration and Marshal Systems and AMI Marine International.

Name	YE	Mkt Cap	Revenue	EBITDA	EBIT	Net profit	EBIT margin %	Net margin %	ROE %	ROIC %	EV/EBITDA (x)	EBIT/EV %	PER (x)	PBR (x)
Jason Marine Group (BBG: JMG)	31 Mar	13.7	30.1	1.0	0.4	0.3	1.2	1.0	1.3	0.4	-1.5	-23.6	43.8	0.6
CSE Global Limited (BBG: CSE)	31 Dec	245.1	502.8	58.7	39.6	28.0	7.9	5.6	14.6	8.6	4.8	13.9	8.8	1.3

Source: Companies' data

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Nature of Business Relation	**Date of Business Relation**
Continuing Sponsor	Ongoing Relation

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