



ANALYST BRIEFING

2Q FY2020 Financial Results

13 August 2020



FINANCIAL OVERVIEW

By: Eslin Halimi | Head Financial Reporting, Governance &
Budget, Finance



Financial Performance: 2Q FY2020 vs 1Q FY2020

<i>In USD Mil</i>	Q2 FY2020	Q1 FY2020	QoQ %
Revenue	504.8	601.1	(16.0)
PBT from Operations	107.4	200.6	(46.5)
Non-recurring Items	(66.9)	(474.5)	85.9
PBT/(LBT)	40.5	(273.9)	>100
PAT/(LAT)	35.4	(275.2)	>100
EPS/(LPS) (cent)	1.5	(6.2)	>100

Lower revenue:

- Heavy Engineering – lower revenue due to yard suspension during MCO and border restriction
- Petroleum – lower time charter equivalent (“TCE”)

Lower PBT from operations:

- Petroleum – lower margins on freight rates in the current quarter
- Heavy Engineering – lower revenue and associated cost impact from COVID-19

Non-recurring items:

- Impairment of an LNG vessel and Heavy Engineering property plant and equipment and right of use assets in Q2 2020
- Gain on disposal of a Petroleum vessel in Q2 FY2020
- Provision for litigation claims in Q1 2020 (USD251 mil)
- Write off of trade receivables and loss on re-measurement of finance lease receivables in Q1 2020 (USD224 mil)

Financial Performance: 2Q FY2020 vs 2Q FY2019

<i>In USD Mil</i>	Q2 FY2020	Q2 FY2019	QoQ %
Revenue	504.8	521.0	(3.1)
PBT from Operations	107.4	113.2	(5.1)
Non-recurring Items	(66.9)	(12.4)	>(100)
PBT	40.5	100.8	(59.8)
PAT	35.4	96.7	(63.4)
EPS (cent)	1.5	2.2	(31.8)

Lower revenue:

- Heavy Engineering – lower revenue due to yard suspension during MCO
- Partially offset by higher freight rates in the Petroleum segment

Lower PBT from operations:

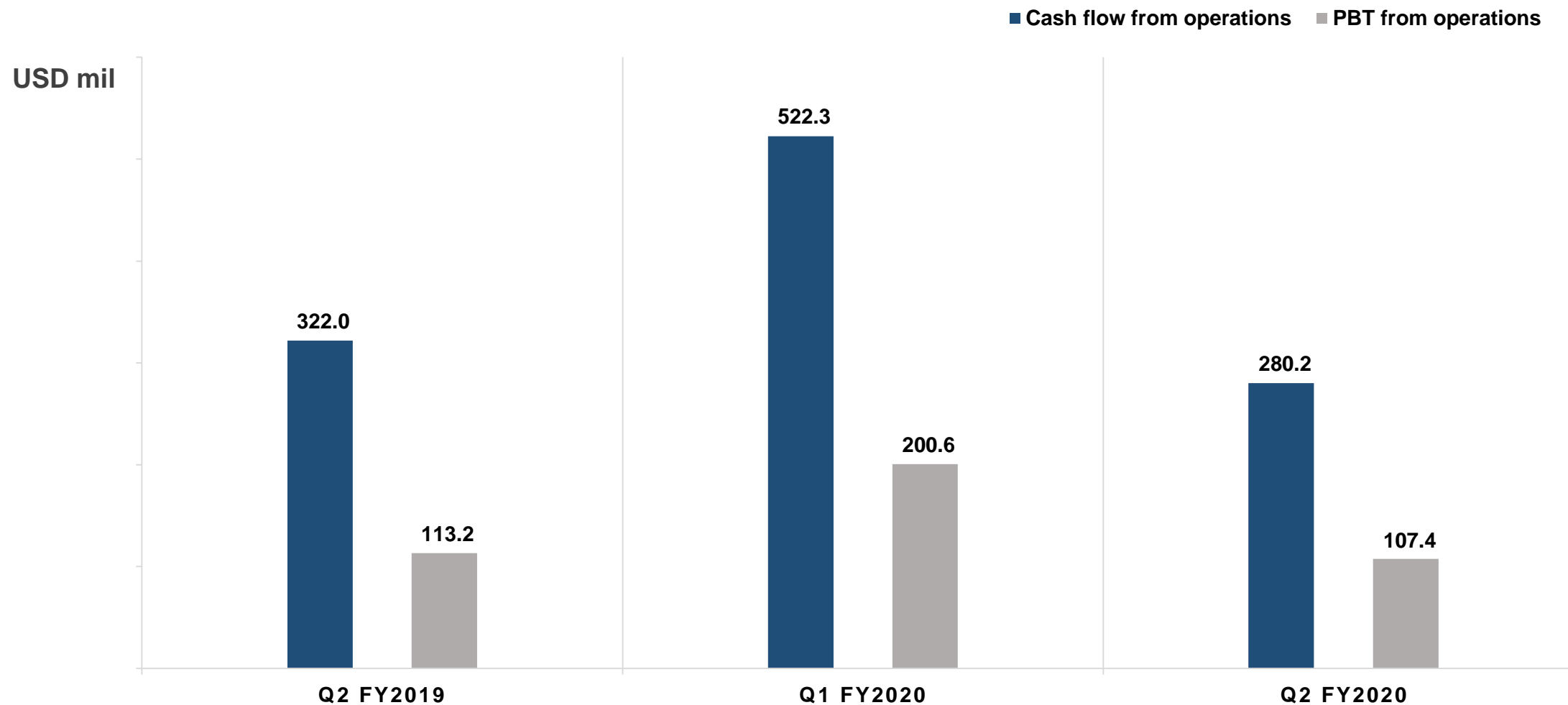
- Heavy Engineering – lower revenue and associated cost impact from COVID-19
- Partially offset by higher freight rates in the Petroleum segment

Non-recurring items:

- Impairment of an LNG vessel and Heavy Engineering property plant and equipment and right of use assets in Q2 2020
- Gain on disposal of a Petroleum vessel in Q2 FY2020
- Impairment of LNG vessels and an Offshore asset in Q2 FY2019

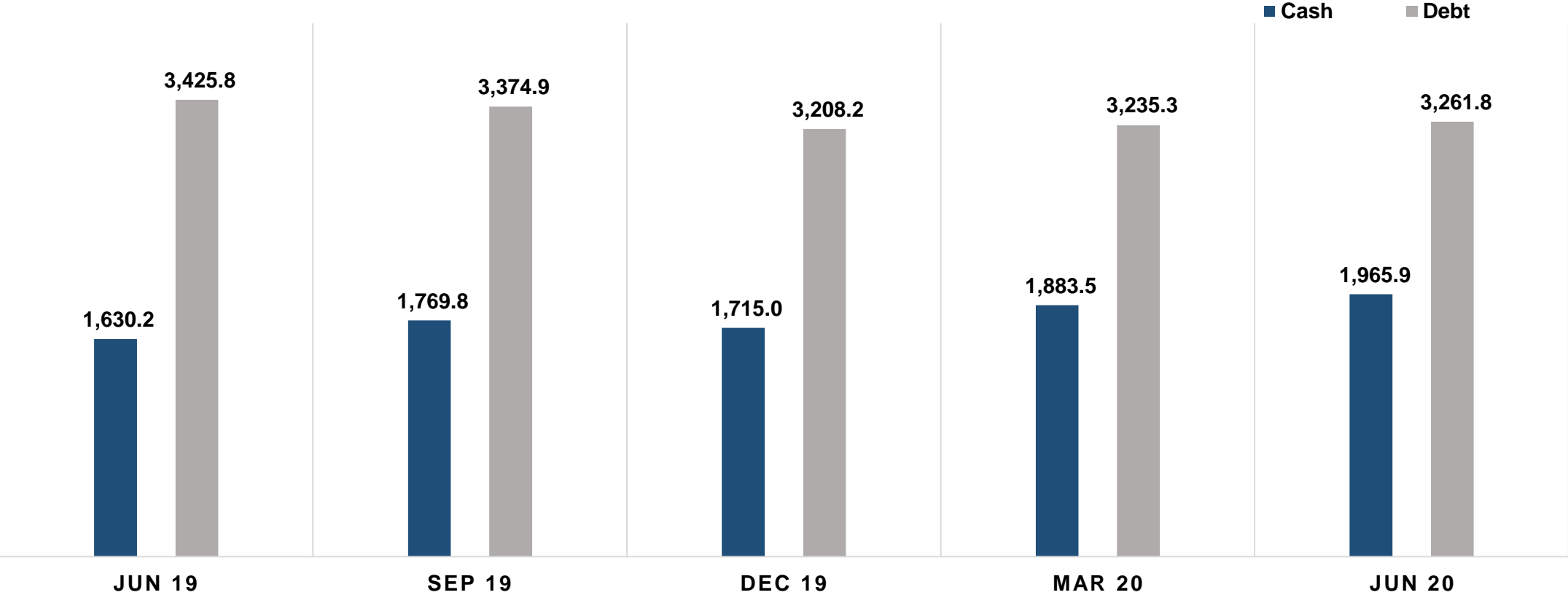
Cash Flow from Operations

Healthy group cash flow from operations



Cash and Debt Balances

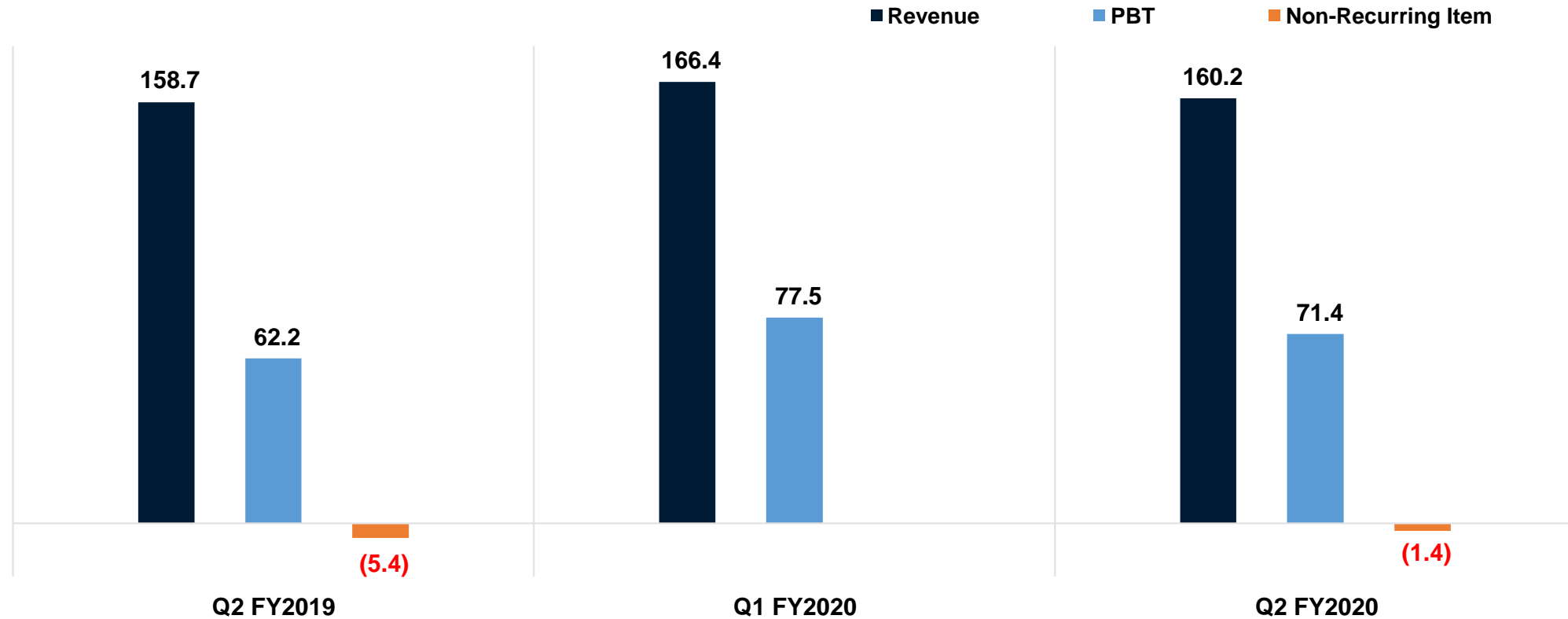
USD mil



Financial Performance by Business Segment

LNG Shipping – Secured income from long term contracts

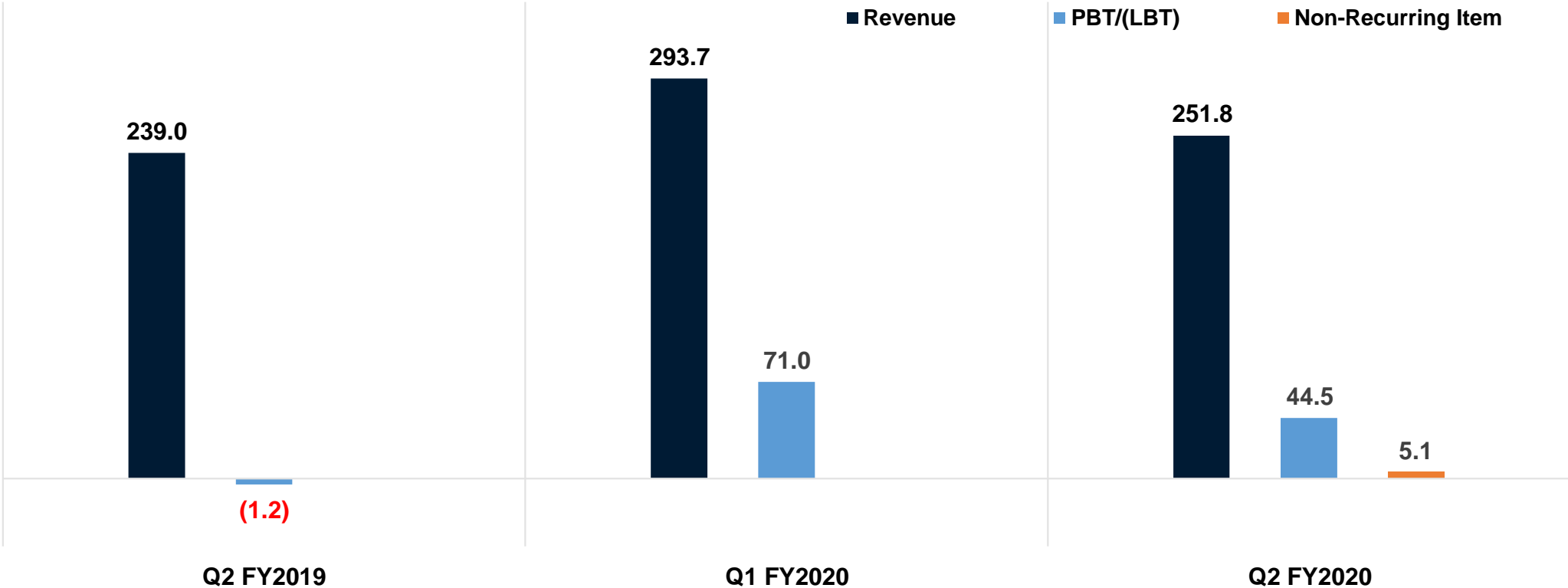
USD mil



Financial Performance by Business Segment

Petroleum Shipping – Lower TCE

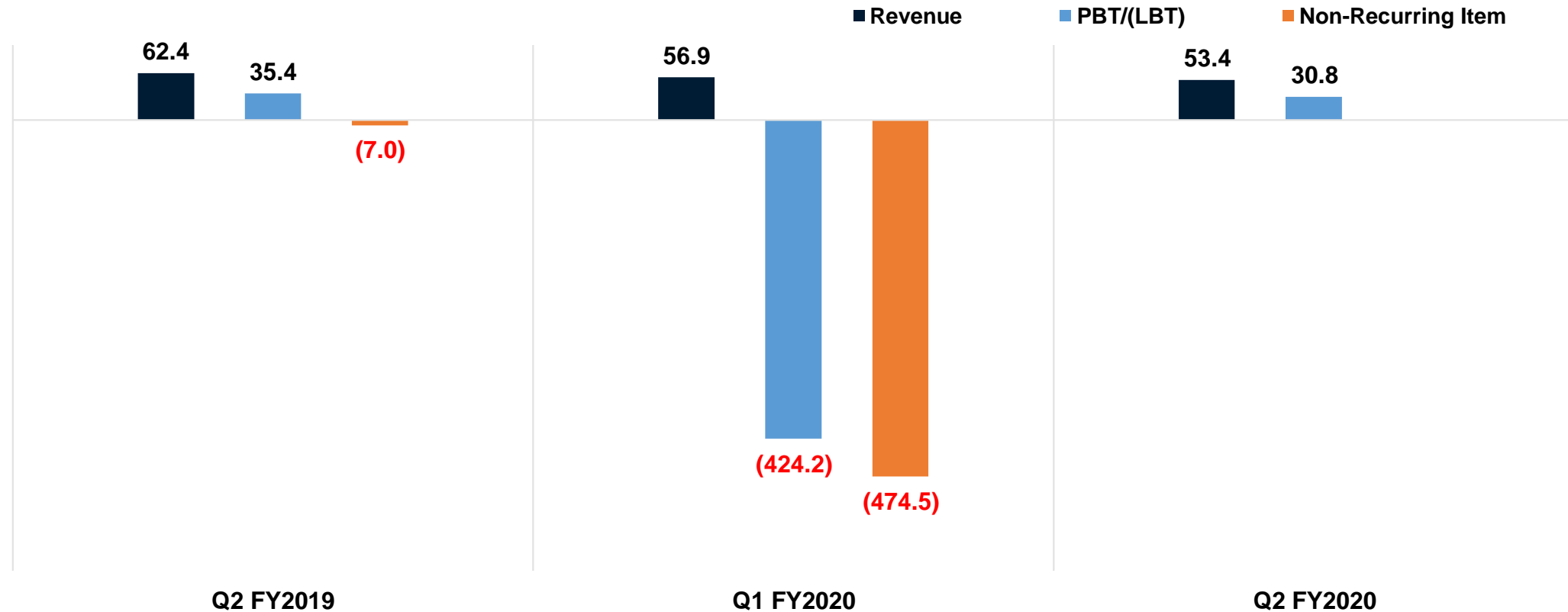
USD mil



Financial Performance by Business Segment

Offshore Business – GKL arbitration decision in Q1 FY2020

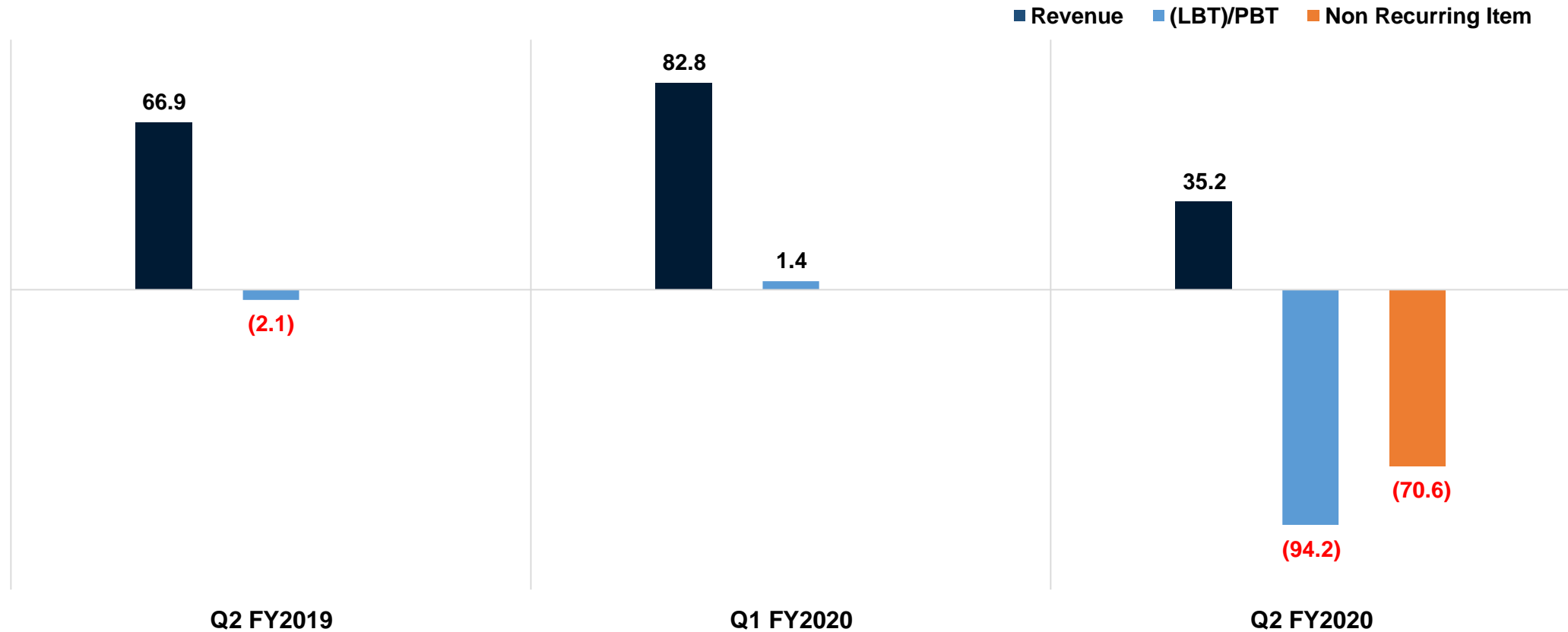
USD mil



Financial Performance by Business Segment

Heavy Engineering – Impairment on property, plant and equipment and right of use assets

USD mil



MARKET ENVIRONMENT

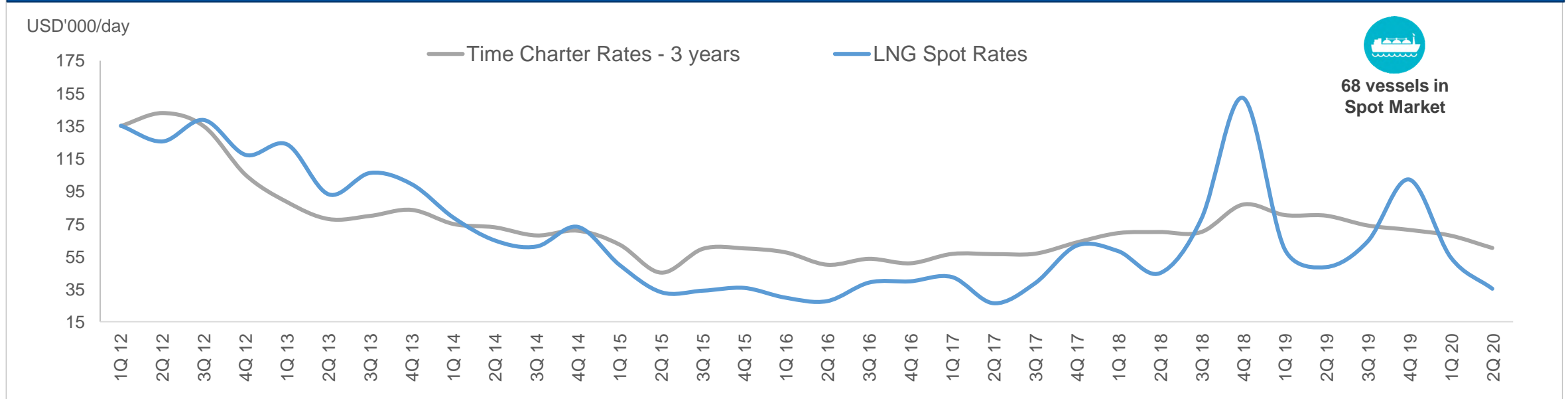
By: Vincent Ng | General Manager, CPD



LNG Shipping

LNG demand impacted by COVID-19

LNG Charter Rates



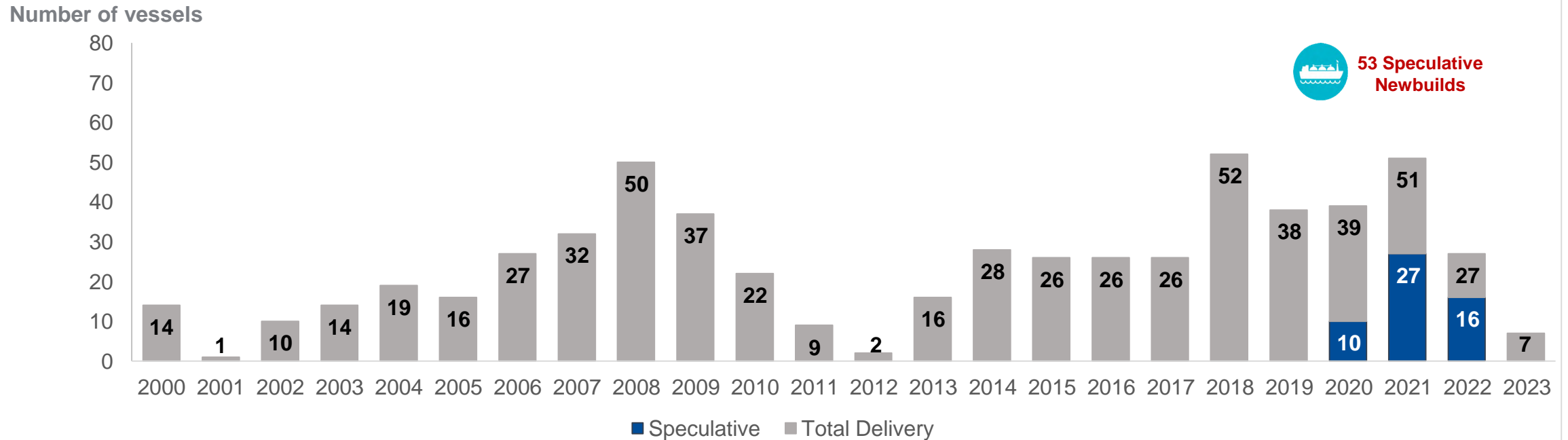
Source: IHS LNG Shipping Database, Braemar Seascopes

- LNG spot rates declined as a result of low chartering interest due to reduced LNG demand worldwide from seasonal factors compounded by the COVID-19 fallout
- This is expected to persist in 3Q 2020, with the current high spot vessel availability and ongoing weakness in the global economy

LNG Shipping

Pressure on charter rates expected to persist with increasing vessel deliveries

Newbuilds to be delivered (2020 to 2023)

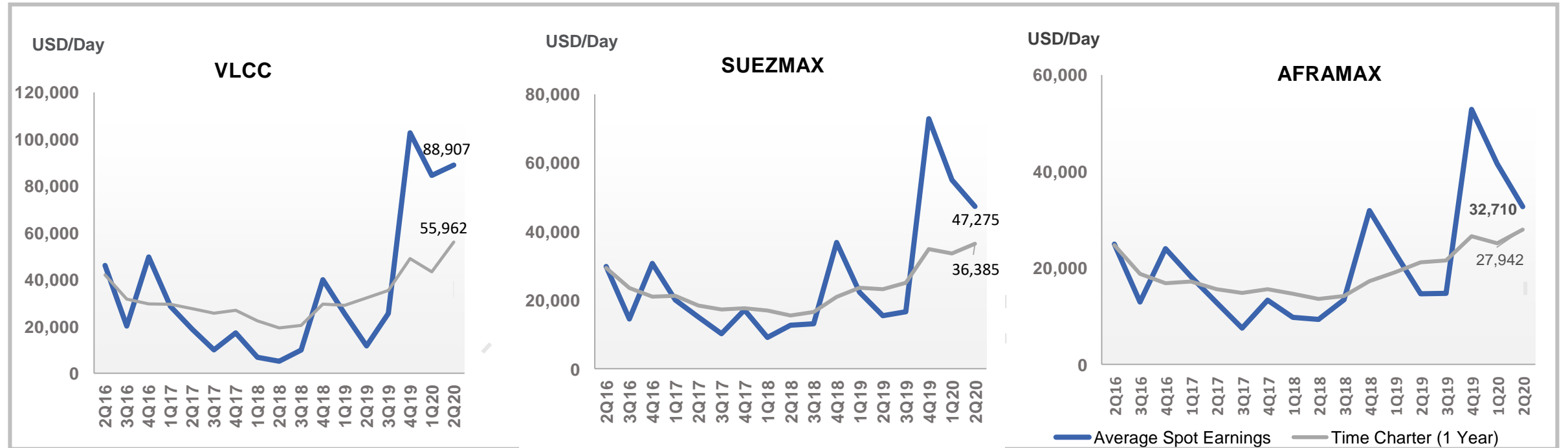


Source: Wood Mackenzie

- Approximately 90 new LNG vessels expected to be delivered in 2020-2021 will likely add downward pressure on charter rates
- The weakening global economy due to COVID-19 coupled with LNG oversupply is causing final investment decision (FID) delays for numerous projects, leading to lower requirements for new vessels over the next few years

Petroleum Shipping

Charter rates have been easing after April 2020 peak

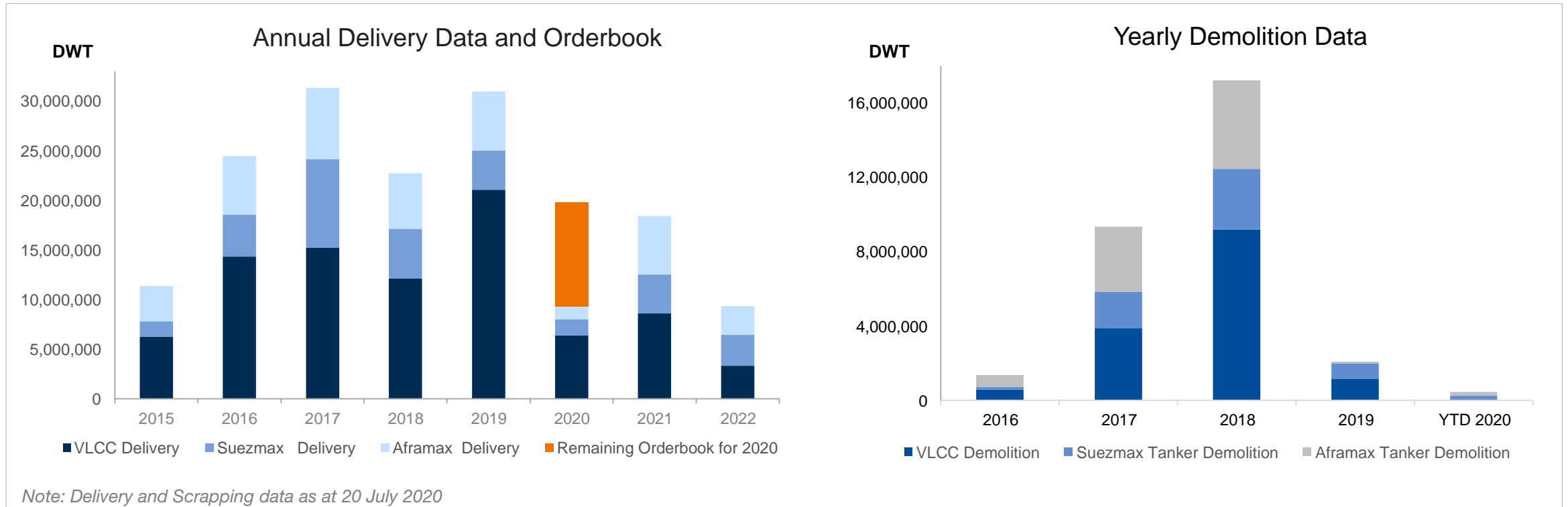


Source: Clarksons

- Spot rates boomed in March as oil price war led to a surge in tanker demand, but after peaking in April, charter rates have been on a downtrend, with oil demand remaining sluggish and supply being constrained by the OPEC-led production cuts as well as US shale output shut-ins
- The declining trend is expected to continue in line with seasonal factors and exacerbated by ample vessel supply. Vessels coming out of floating storage will inflate the tonnage supply, keeping spot rates under pressure

Petroleum Shipping

Fleet growth is expected to remain slow



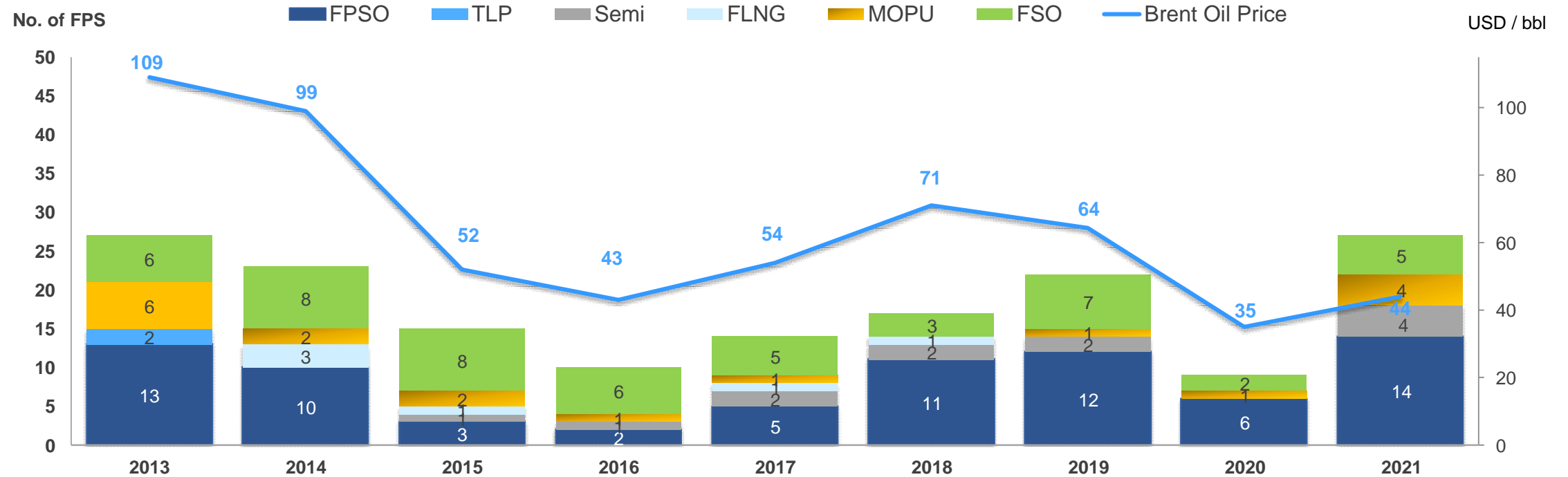
Source: Clarksons

- A low orderbook and slowing fleet growth going through to 2021 provides some support for charter rates, despite the coronavirus-led demand weakness
- Demolition activity has remained low in 2Q 2020 as many tankers were still locked in floating storage. Shipowners have been capitalising on the buoyant market thus delaying the demolition of older tankers

Offshore

The floating production market is affected by sharp spending cuts but expected to recover in 2021

Floating Production System (FPS) Awards

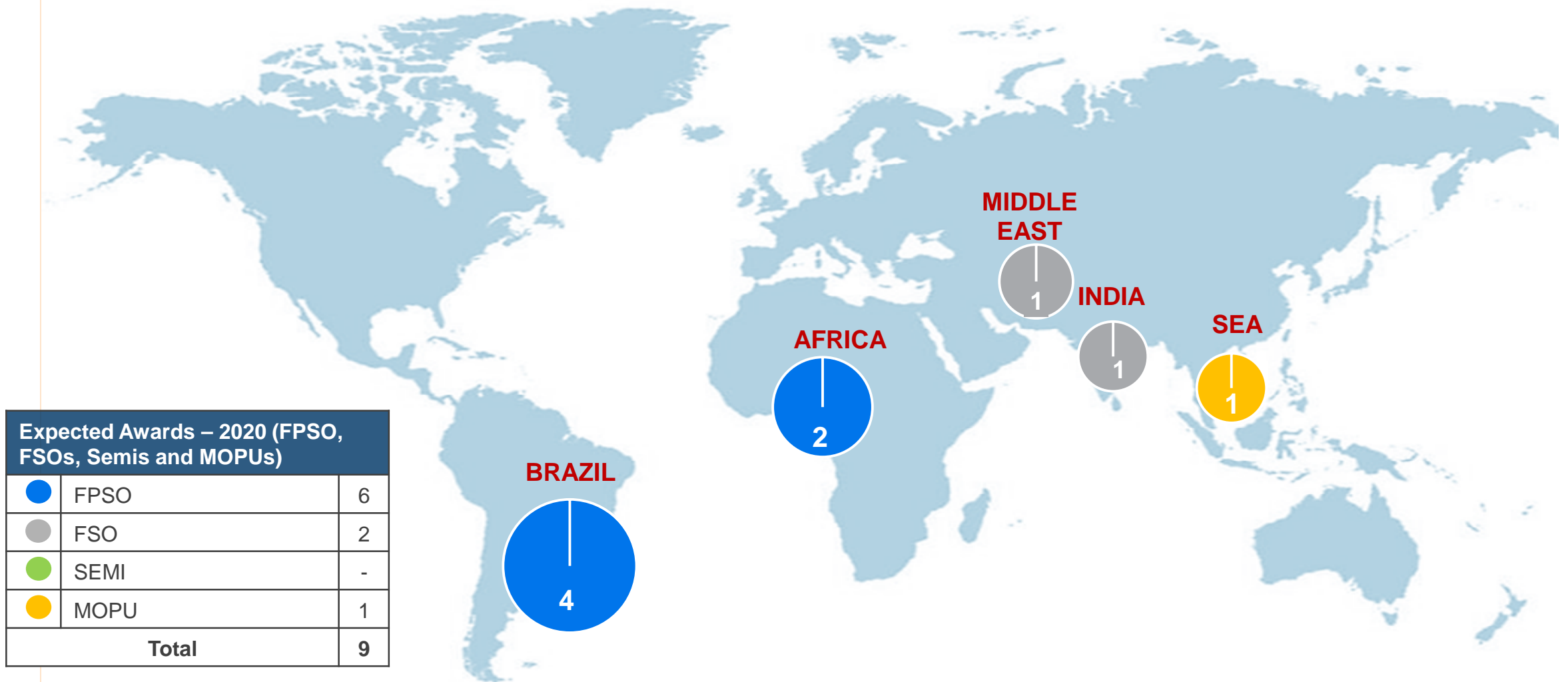


Sources: EMA, EIA and MISC analysis

- Developments with sub-USD30 per barrel break-evens and operators with deeper pockets could still proceed in 2020. Most awards will be pushed into 2021

Offshore

In 2020, greenfield FPSO projects will mainly concentrate in the Atlantic Basin



Source: EMA

BUSINESS UPDATES

By: Vincent Ng | General Manager, CPD



LNG Business

- MISC has signed Memorandum of Agreements with Zhejiang Satellite Petrochemical Co. Ltd. for the purchase of six (6) newbuild Very Large Ethane Carriers and concurrently signed Time Charter Parties with Zhejiang Satellite Petrochemical Co. Ltd. for the time charter of the six (6) vessels. The six (6) vessels are expected to be delivered between 4Q 2020 and 1Q 2021
- Actively exploring conventional and non-conventional LNG shipping solutions to support this segment's long-term growth strategy

Petroleum & Chemical Business

- Current portfolio mix at 76:24 term to spot
- AET took delivery of Eagle Petrolina, the first of four Suezmax Dynamic Positioning (DP2) Shuttle Tankers purposed built for long-term charter to Petróleo Brasileiro S.A. – Petrobras during the quarter. AET also delivered Eagle Paulinia to Petrobras in July 2020
- AET sold one VLCC - *Bunga Kasturi* during the quarter

Offshore Business

- Exploring both organic and inorganic growth in deepwater opportunities in the Atlantic Basin as well as brownfield replacement projects and shallow-water asset requirements in the region.
- **Gumusut Kakap (GKL):**

On 7 July 2020, MISC's wholly owned subsidiary, GKL has filed the following court applications:

 - a) An Originating Summons dated 7 July 2020 for setting aside of parts of the Arbitral Award dated 8 April 2020 ("Setting Aside OS"); and
 - b) A Notice of Application for an injunction to restrain SSPC from setting off the sums that GKL was ordered to pay to SSPC under the Arbitral Award dated 8 April 2020 ("Injunction NOA").

Setting Aside OS

In the Setting Aside OS, GKL has claimed for, among others, that parts of the Arbitral Award dated 8 April 2020 ("the Award") be set aside under several grounds of challenge under Section 37 of the Arbitration Act 2005.

In support of the Setting Aside OS, GKL has claimed that parts of the Award, which involve a considerable sum of USD330,169,830.68 (not inclusive of interests and costs) are susceptible to challenge on amongst others, the following grounds:

- a) That the Arbitral Tribunal acted in excess of its jurisdiction;
- b) That there was a breach of the rules of Natural Justice in the course of the arbitration; and
- c) That parts of the Award breach the public policy of Malaysia.

Injunction NOA

Together with the Setting Aside OS, GKL also filed the Injunction NOA where GKL seeks, among others, the following:

- (a) An interlocutory injunction pending the disposal of the Setting Aside OS to restrain SSPC from setting off the sums that GKL was ordered to pay to SSPC under the Award against the monies owed to GKL by SSPC under the Semi-FPS Lease Agreement dated 9.11.2012, including but not limited to the Semi-FPS Day Rate; and

Offshore Business

- **Gumusut Kakap (GKL) (cont'd):**

Injunction NOA (cont'd)

- (b) An ad interim injunction pending the disposal of the Injunction NOA to restrain SSPC from setting off the sums that GKL was ordered to pay to SSPC under the Award against the monies owed to GKL by SSPC under the Semi-FPS Lease Agreement dated 9.11.2012, including but not limited to the Semi-FPS Day Rate.

GKL believes it is entitled to the prayers sought in the Injunction NOA based on, among others, the following grounds:

- (a) That there are serious issues to be tried in the Setting Aside OS in relation to substantial parts of the Award;
- (b) That the Award is for a considerable sum, of which USD330,169,830.68 million is being challenged on principle and quantum under the Setting Aside OS;
- (c) That the Semi-FPS has been leased to SSPC for 25 years and SSPC has exclusive possession of the Semi-FPS and is currently engaged in the profitable production of oil;
- (d) SSPC is bound by the Contract to pay a daily lease rate of USD600,000 per day;
- (e) SSPC has ceased to pay the daily lease rate whilst still continuing to enjoy exclusive possession of the Semi-FPS and engaging in a profitable production of oil;
- (f) The Arbitral Tribunal had no jurisdiction to bypass the provisions of the Arbitration Act 2005 with regard to the statutory method of enforcement and recovery under an arbitral award;
- (g) The Arbitral Tribunal had erred in jurisdiction and acted contrary to the terms of the Contract in providing for the set off; and
- (h) Damages remain an available remedy for SSPC.

At the case management for the Setting Aside OS and Injunction NOA on 22 July 2020, the court provided dates for parties to exchange affidavits and subsequently written submissions. The hearing for the Injunction NOA is scheduled on 6 October 2020. The case management for the Setting Aside OS has been scheduled on 9 October 2020 for parties to update the court and to set a hearing date.

Offshore Business

- Gumusut Kakap (GKL) (cont'd):

SSPC's *ex-parte* application for enforcement of the Award

In addition, GKL was made aware that SSPC had filed for an *ex-parte* application for recognition and enforcement of the Award.

Hearing for the *ex-parte* application took place on 7 July 2020 and SSPC was granted an *ex-parte* order in terms of their Originating Summons for the recognition and enforcement of the Award ("ex-parte Order"). On 13 July 2020, GKL was served with the sealed ex-parte Order.

GKL has filed its application to set aside the ex-parte Order on 27 July 2020 and a case management date for this application has been scheduled on 12 August 2020. The Award shall not be enforced until this application to set aside has been finally disposed of.

Further announcements on any material developments on the Legal Proceedings will be made in due course.

Offshore Business

PCPP – MOMPL (Cont'd):

❑ Arbitration

- The first arbitration proceedings seek to claim for part of the outstanding sums amounting to approximately USD18,829,000 and RM17,944,000. MOMPL's Statement of Claim was filed on 21 December 2016. MOMPL continues to pursue and progress the arbitration proceedings.
- MOMPL has re-filed the Notice of Arbitration for the second arbitration proceedings for part of the outstanding sums amounting to approximately USD80,954,000.00 and RM4,674,000.00. PCPP has responded to the Notice of Arbitration on 15 July 2020.

❑ Adjudication

- Adjudication proceedings under the Construction Industry Payment and Adjudication Act 2012 ("CIPAA") was first commenced to recover MOMPL's claim for the completed variation works amounting to approximately USD9,949,000.00. On 9 January 2019, MOMPL was awarded its entire claim of USD9,949,734.00 plus interest and costs.
- The second adjudication proceedings under CIPAA was commenced to recover the disputed demobilisation costs amounting to approximately USD4,796,000. On 7 October 2019, MOMPL received the second Adjudication decision dated 26 July 2019 where MOMPL was awarded its entire claim of USD4,752,239.11 plus interest and costs.
- The Federal Court ("FC") had on 16 October 2019 made a ruling that the CIPAA, which provides the basis upon which the Adjudication Proceedings were commenced, only applies prospectively to construction contracts entered into after the date CIPAA became effective i.e. 15 April 2014. The MOMPL lease agreement is dated 28 November 2008 and as such, falls outside the purview of CIPAA.
- In view of the FC decision, MOMPL has stayed its hand on moving for the enforcement of the Adjudication decisions and will focus on the Arbitration Proceedings in order to recover the monies owing by PCPP.
- As far as MOMPL is aware, there is no pending application to set aside the said Adjudication decisions.

Offshore Business

- **PCPP – MOMPL:**

- ▣ **Proceedings in Court**

- An Originating Summons in the High Court was filed on 7 August 2018 to recover the undisputed portion of the early termination fees and demobilisation costs amounting to approximately USD42,307,000. The High Court had, on 30 May 2019, allowed PCPP's application to stay the Originating Summons pending the disposal of the arbitration proceedings. MOMPL has filed an appeal to the Court of Appeal against this decision.
- A writ action in the High Court was also filed on 13 August 2018 against PCSB, PPHE and PVEP (being the shareholders of PCPP) seeking for a declaration that the shareholders be liable for the amounts due and owing by PCPP to MOMPL under the Contract. PCSB and PCPP filed applications in the High Court to strike out and stay the proceedings pending the disposal of the arbitration proceedings which were allowed on 26 October 2018 and 11 December 2018 respectively. MOMPL appealed against both decisions to the Court of Appeal.
- MOMPL's appeal against PCSB's striking out application was dismissed by the Court of Appeal on 26 September 2019. MOMPL has filed leave to appeal against the Court of Appeal's decision to uphold the High Court's decision to strike out the proceedings against PCSB to the Federal Court. The leave application hearing is fixed on 18 August 2020.
- The appeal against PCPP's stay application was heard on 19 June 2020. The Court of Appeal has set aside the stay against the shareholders i.e. PCSB, PERTAMINA and PETROVIETNAM, whilst the stay against PCPP is affirmed. Pursuant to this decision, MOMPL has proceeded to serve the cause papers out of jurisdiction on PERTAMINA and PETROVIETNAM.

If successful, the Legal Proceedings are expected to contribute positively to the earnings per share, gearing and net assets per share of MISC in the future.

Heavy Engineering

- Heavy Engineering milestones (YTD):
Offshore
 - Completed construction of FSO Golden Star external turret
 - Awarded contract for onshore fabrication and offshore modification services for CPOC facilities
- Marine Repair milestones: (YTD)
 - Completed repair & maintenance of 28 vessels
 - Secured 28 jobs
- Orderbook backlog as of June 2020 is RM2.6 billion
- Approximately RM12.5 billion worth of heavy engineering tenders submitted as of June 2020
- Overall business operations have been adversely affected by COVID-19 global pandemic and the measures taken to contain its spread
- The heavy engineering sub-segment experienced delays in project execution following supply chain disruptions while the marine sub-segment suffered loss of revenue as a result of resource challenges as some were subjected to travel bans and border restrictions, and curtailment of shipping activities
- The segment will continue to pursue existing business of Marine & Heavy Engineering and expand its marine capacity through additional dry dock and explore new business opportunities namely modular fabrication and offshore wind farm

APPENDIX



Appendix 1 : Fleet Information

As at 30 June 2020

	Vessel Type	Total Vessel Operated	Owned	Chartered-In	Average Age (yrs)		Contracted Newbuilds/ Conversions
					MISC	Industry	
LNG	LNG	29	29	--	15.0	11.4	4
	FSU	2	2	--	38.5	--	--
	VLEC	--	--	--	--	--	6
Subtotal		31	31	--	--	--	10
Petroleum	VLCC	13	11	2	10.7	9.8	2
	Suezmax	6	6	--	6.1	10.2	--
	Aframax	36	30	6	11.4	11.9	--
	LR2	2	2	--	10.2	9.1	--
	MR2	1	--	1	9.6	11.2	--
	DPST	7	7	--	4.0	10.1	10
Chemical	Chemical	4	--	4	9.5	11.6	--
Subtotal		69	56	13	--	--	12
GRAND TOTAL		100	87	13	--	--	22
Offshore	FPSO/FSO/SS	11	12	--	9.0	--	--
	MOPU	--	2	--	9.4	--	--

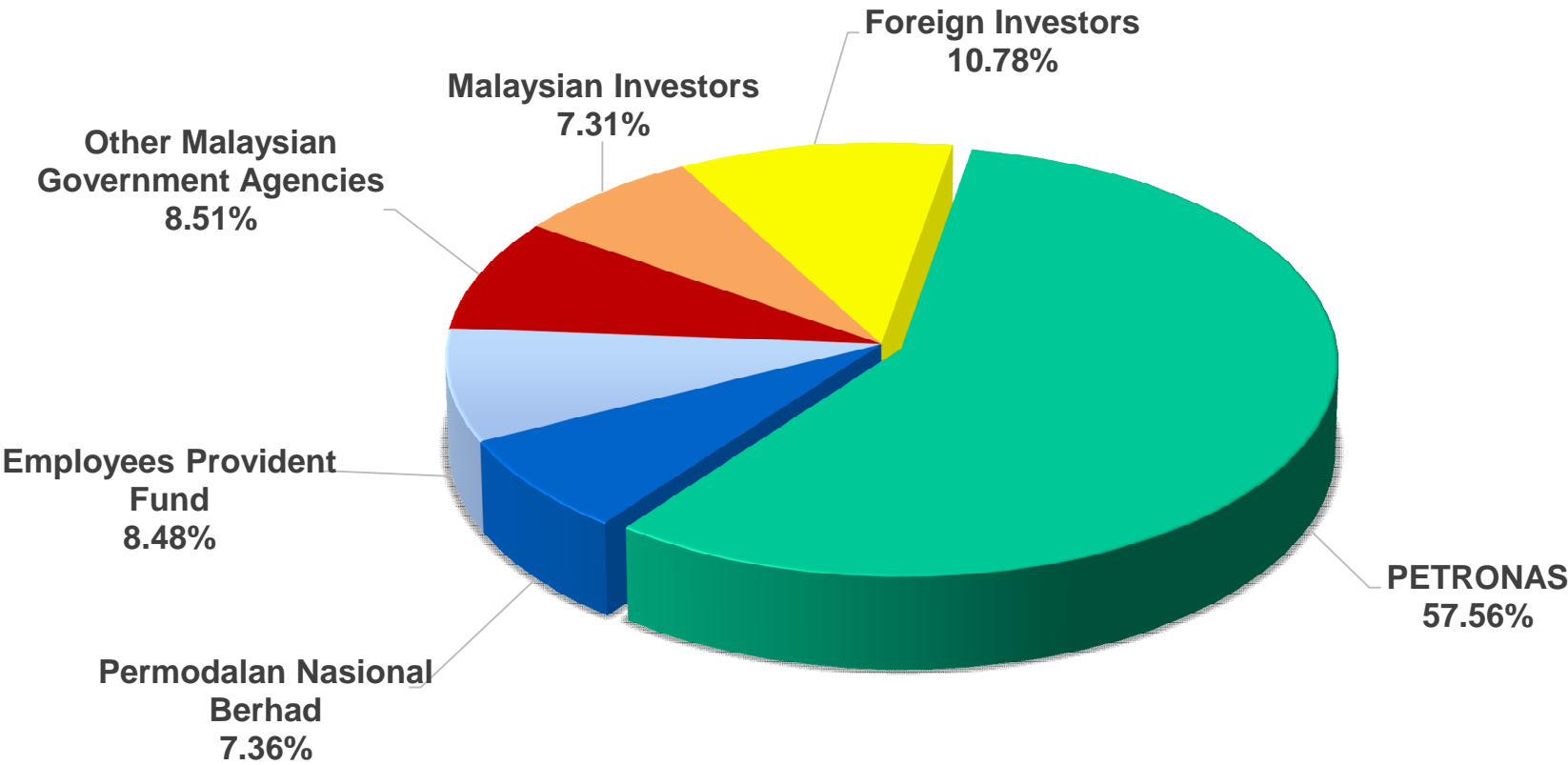
Appendix 2 : Schedule of Future Deliveries

As at 30 June 2020

	LNG		Petroleum	
	LNG Carriers	VLEC	DPST	VLCC
2H 2019	-	-		-
1H 2020	-	-	1	-
2H 2020	-	3	3	-
1H 2021	1	3	-	-
2H 2021	1	-	1	-
1H 2022	-	-	4	2
2H 2022	-	-	1	-
1H 2023	2	-	-	-

Appendix 3 : Shareholders' Profile

As at 30 June 2020



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