FINANCIAL REVIEW

FINANCIAL REVIEW

GROUP FINANCIAL REVIEW

VICE PRESIDENT'S REMARKS

RAJA AZLAN SHAH RAJA AZWA
Vice President, Finance

> Despite these challenges, MISC recorded higher revenue by 13.5% mainly contributed by the recognition of revenue from the conversion of an FPSO in the Offshore Business segment and deliveries of six Very Large Ethane Carriers (VLEC) since the fourth quarter of 2020 in the Gas Assets & Solutions segment. MISC also reported a profit before tax of RM1.8 billion in 2021, as compared to a loss before tax of RM123.6 million in 2020 mainly due to the impact of the adverse decision on arbitration proceedings in the corresponding year.

2021 has proven to be another challenging year. Even though we saw an increase in economic activities as the world adapted to the pandemic, petroleum freight rates remained low, border restrictions persisted, and global supply chains were disrupted. MISC has been fortunate as our overall financial performance and financial position have remained strong. The year ended with a healthy cash position, improved profits and vessel deliveries that will continue to improve MISC's secured income.

MISC remained resilient in adapting to the COVID-19 pandemic. Both the Gas Assets & Solutions and Offshore Business segments remain largely unaffected as the majority of the assets are on long-term charter contracts. However, the constraints from the "new normal" and border restrictions worldwide continued to affect the Marine & Heavy Engineering segment's performance. The Petroleum & Product Shipping segment's results were also affected by low tanker freight rates due to weak global oil demand caused by the pandemic.

Despite these challenges, MISC recorded higher revenue by 13.5% mainly contributed by the recognition of revenue from the conversion of an FPSO in the Offshore Business segment and deliveries of six Very Large Ethane Carriers (VLEC) since the fourth quarter of 2020 in the Gas Assets & Solutions segment. MISC also reported a profit before tax of RM1.8 billion in 2021, as compared to a loss before tax of RM123.6 million in 2020 mainly due to the impact of the adverse decision on arbitration proceedings in the corresponding year. However, MISC reported a slightly lower operating profit by 3.4% mainly due to lower margin on freight rates and lower earning days in the Petroleum & Product Shipping segment, and additional cost provisions recognised for on-going projects in the Marine & Heavy Engineering segment.

The Group recorded cash flows generated from operating activities of RM2,908.6 million for the year, which included cash payments of RM1,126.1 million for the conversion of an FPSO in the current period. Excluding the said payments, the Group generated an operating cash flow of RM4,034.7 million, which is lower by 27.8% compared to RM5,587.9 million recorded in the corresponding year. The decrease was mainly due to a one-off charter prepayment received from a customer in the Petroleum & Product Shipping segment in the corresponding year and the lower operating cash flow in the Offshore Business and the Petroleum & Product Shipping segments in the current year. However, the Group's cash balance remains healthy at RM7,952.3 million, mainly supported by the steady cash flow generated from the Gas Assets & Solutions segment's portfolio of long-term contracts.

MISC's balance sheet has also remained healthy in 2021 with an increase in our Cash and Bank Balances and Total Assets by 16.0% and 11.0% respectively. Despite an increase in our borrowings, our gearing ratio of 0.49 remains to be one of the lowest in the industry. The strength of our balance sheet is demonstrated by the Group's stable credit ratings despite the external headwinds. In 2021, S&P Global Ratings, Moody's Investor Service and MARC reaffirmed their ratings for MISC, at BBB+, Baa2 and AAA$_{IS}$ respectively.

MISC's strategy for 2021 was to slow down our pursuit of new projects coming off from a number of contract wins in 2020. This allowed MISC to focus on ensuring the successful execution of our ongoing projects. In line with our strategy, MISC only secured one time charter contract with Shell for three newbuild LNG dual-fuel Very Large Crude Carriers. In terms of project execution, we took deliveries of the remaining five out of our six VLECs, two LNG Carriers, and one dynamic positioning shuttle tanker. We've also made steady progress on the Brazilian FPSO project, which is expected to be delivered in 2024. We also secured contract renewals on four floater assets, bolstering MISC's secured income.

MISC continues to enjoy strong support from our existing group of banks which provides access to various financing options at competitive rates. MISC has successfully closed financing for the construction of an FPSO to be deployed in deepwater Brazil, being MISC Group's maiden foray into a major deep-water project in Latin America. The financing of this project won the Best Syndicated Loan under the Country Award category by the Asset Triple A Awards. This milestone is a strong testament to the Group's credit worthiness and confidence the lenders have in the Group.

Further fortifying MISC's sustainability and resilience, MISC embarked on our Task Force on Climate-related Financial Disclosures (TCFD) journey in 2021. As part of our 2021-2025 Sustainability Strategy, we have developed a TCFD Roadmap and are incorporating climate-related risks and opportunities into our annual strategic and financial planning process. The aim is to progressively provide more TCFD aligned disclosures on climate related risks and opportunities, with the end goal of full compliance by 2023 reporting year. This will ensure that MISC remains relevant as investors and bankers become more focused on climate change concerns.

MISC will also be continuing our internal transformation and digitalisation efforts in the areas of finance, procurement and document management towards becoming a data-driven organisation. We are currently in the execution phase, where MISC as a group is working closely with our partners to ensure smooth and seamless delivery of our transformation projects.

The prolonged impact of the COVID-19 pandemic has shown that our dedicated pursuit of long-term contracts with reputable clients provide MISC with sustainable secured income even through trying times, and our contract wins and asset deliveries in 2021 will contribute towards replenishing and growing our secured income in the future.

RAJA AZLAN SHAH RAJA AZWA
Vice President,
Finance

FINANCIAL REVIEW

GROUP FINANCIAL REVIEW

HIGHLIGHTS OF FINANCIAL PERFORMANCE

REVENUE

For the financial year ended 31 December 2021 (FY2021), Group revenue of RM10,671.7 million was 13.5% higher than the financial year ended 31 December 2020 (FY2020) revenue of RM9,401.2 million. The increase in revenue was mainly contributed by higher construction revenue following higher progress from conversion of a Floating, Production, Storage and Offloading (FPSO) unit in the Offshore Business segment and deliveries of five Very Large Ethane Carriers (VLEC) in 2021 from the Gas Assets & Solutions segment.

+13.5%

2020 2021

FY2021
Group revenue of RM10,671.7 million was 13.5% higher than FY2020

OPERATING PROFIT

Group operating profit of RM1,948.3 million was 3.4% lower than FY2020 operating profit of RM2,017.2 million. The decrease was mainly due to lower margin on freight rates and lower earning days from vessel disposals and redeliveries in the Petroleum & Product Shipping segment and additional cost provision recognised for on-going projects in the Marine & Heavy Engineering segment.

-3.4%

FY2021
Group operating profit of RM1,948.3 million was 3.4% lower than FY2020

PROFIT BEFORE TAX

Group reported profit before tax of RM1,774.6 million compared to loss before tax of RM123.6 million in FY2020. The prior year loss was mainly due to the recognition of provision for litigation claims amounting to RM1,049.2 million, as well as a write-off of trade receivables and loss on re-measurement of finance lease receivables of RM846.2 million following the adverse decision on arbitration proceedings by Gumusut-Kakap Semi-Floating Production System (L) Limited (GKL) against Sabah Shell Petroleum Company Limited (SSPC). Excluding the arbitration impact, the Group would have recorded profit before tax of RM1,771.8 million in FY2020.

FY2021
Group reported profit before tax of RM1,774.6 million compared to loss before tax of RM123.6 million in FY2020

EARNINGS PER SHARE (SEN)

Profit attributable to the equity holders of the Corporation amounting to RM1,831.3 million translates to earnings per share of 41.0 sen in FY2021 as opposed to loss per share of 1.0 sen in FY2020.

FY2021
41.0 sen earning per share as opposed to loss per share of 1.0 sen in FY2020

DIVIDENDS

In respect of FY2021, the Board had approved and declared on quarterly basis a total tax exempt dividend of 33.0 sen per share or RM1,473.0 million which was consistent to the total dividend declared and paid in respect of FY2020. The dividends were declared in line with the commitment to provide sustainable distribution to the shareholders.

FY2021
Total tax exempt dividend of 33.0 sen per share

FINANCIAL POSITION

TOTAL ASSETS

FY2021
Group total assets of RM57,521.5 million was 11.0% higher than FY2020

Group total assets as at 31 December 2021 of RM57,521.5 million was 11.0% higher than total assets as at 31 December 2020 of RM51,821.0 million. The increase in Group's total assets were mainly due to the recognition of contract assets relating to conversion of an FPSO, finance lease receivables following VLEC deliveries and capital expenditure (CAPEX) incurred during the year.

TOTAL LIABILITIES

FY2021
Group total liabilities of RM22,596.5 million was 21.0% higher than FY2020

Group total liabilities of RM22,596.5 million as at 31 December 2021 was 21.0% higher than total liabilities as at 31 December 2020 of RM18,669.9 million mainly due to the drawdown of interest-bearing loans and borrowings in the current year to fund the Group's CAPEX and growth projects.

EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE CORPORATION

FY2021
Equity attributable to equity holders of RM34,162.7 million was 5.9% higher than FY2020

Despite paying a total dividend of RM1,473.0 million in FY2021, the equity attributable to equity holders of the Corporation of RM34,162.7 million as at 31 December 2021 was 5.9% higher than the equity attributable to equity holders of the Corporation as at 31 December 2020 of RM32,272.8 million due to net profit recognised for FY2021 and gain on currency translation as Malaysia Ringgit (RM) weakened against the United States Dollar (USD) during the year.

CASH FLOW

The Group's cash flows generated from operating activities for FY2021 of RM2,908.6 million included payments for the costs relating to the turnkey activities for conversion of a vessel to an FPSO facility amounting to RM1,126.1 million. Excluding the said payments, the Group generated an operating cash flow of RM4,034.7 million in FY2021, which is lower by 27.8% compared to RM5,587.9 million operating cash flow recorded in FY2020. The decrease was mainly due to a one-off charter prepayment received from a customer in the Petroleum & Product Shipping segment in FY2020 and the lower operating cash flow in the Offshore Business and the Petroleum & Product Shipping segments in the current year. However, the Group's cash balance remains healthy at RM7,952.3 million, supported by the steady cash flow generated from the Gas Assets & Solutions segment's portfolio of long-term contracts.

FY2021
Cash flows generated from operating activities excluding payment for turnkey activities of RM4,034.7 million was 27.8% lower than FY2020

GROSS DEBT/ EQUITY RATIO

The Group's gross debt-to-equity ratio of 0.49 as at 31 December 2021 was higher compared to the gross debt-to-equity ratio of 0.41 as at 31 December 2020 following the increase in total interest-bearing loans and borrowings during the year as explained above.

FY2021
Gross debt-to-equity ratio of 0.49 was higher than FY2020

CAPITAL EXPENDITURE REQUIREMENTS

The Group's approved and contracted committed capital expenditure as at the end of FY2021 stood at RM3,416.8 million. This excluded the amount committed for the conversion of a vessel to an FPSO facility of RM3,799.1 million as at 31 December 2021 as explained in Note 34 of the Financial Statements. Based on our strong cash position as at the end of FY2021 and secured financing facilities, the Group should be able to fund the committed CAPEX and pursue growth prospects.

The Group's approved and contracted committed capital expenditure at the end of FY2021 **stood at RM3,416.8 million**

FINANCIAL REVIEW

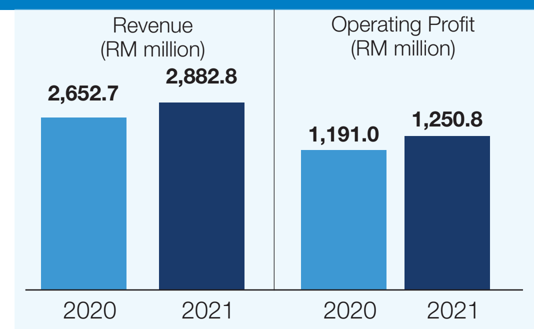
GROUP FINANCIAL REVIEW

SEGMENTAL PERFORMANCE

GAS ASSETS & SOLUTIONS

Gas Assets & Solutions segment's revenue of RM2,882.8 million for FY2021 was RM230.1 million or 8.7% higher than the FY2020 revenue of RM2,652.7 million, mainly from higher earnings days following deliveries of five VLECs in the current year.

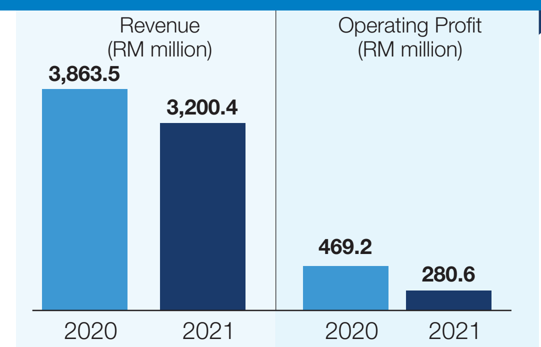
The segment's operating profit of RM1,250.8 million was RM59.8 million higher than the previous year's profit of RM1,191.0 million, mainly from higher revenue as explain above.



PETROLEUM & PRODUCT SHIPPING

The Petroleum & Product Shipping segment's revenue of RM3,200.4 million for FY2021 was RM663.1 million or 17.2% lower than the FY2020 revenue of RM3,863.5 million, mainly due to lower freight rates and lower earning days from vessels disposals and redeliveries in the current year.

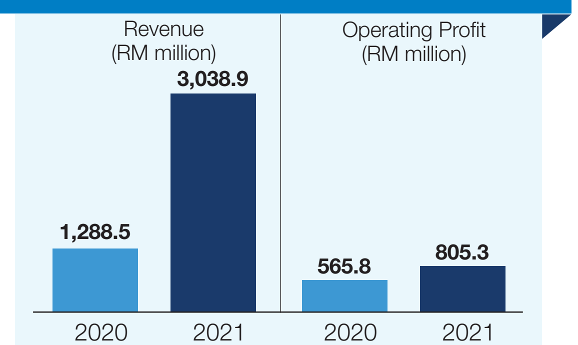
The segment's operating profit of RM280.6 million was RM188.6 million or 40.2% lower than the previous year's profit of RM469.2 million, mainly from lower revenue as mentioned above.



OFFSHORE BUSINESS

The Offshore Business segment's revenue of RM3,038.9 million for FY2021 was RM1,750.4 million or more than 100% higher than FY2020 revenue of RM1,288.5 million mainly due to the higher recognition of revenue from an FPSO conversion following higher project progress in the current year.

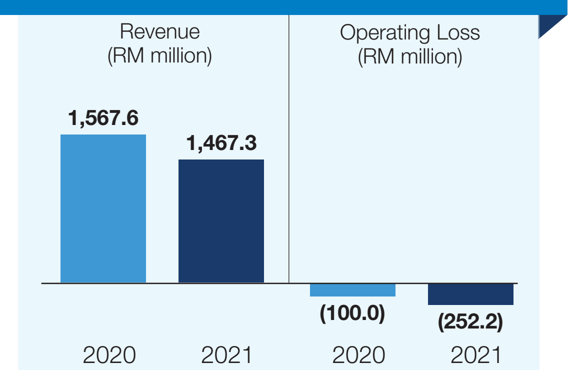
The segment's operating profit of RM805.3 million was RM239.5 million or 42.3% higher than the previous year's profit of RM565.8 million mainly due to the higher revenue as mentioned above.



MARINE & HEAVY ENGINEERING

The Marine & Heavy Engineering segment's revenue of RM1,467.3 million for FY2021 was RM100.3 million or 6.4% lower than FY2020 revenue of RM1,567.6 million mainly due to lower dry-docking activities in the current year as a result of prolonged border restrictions imposed by the Government to curb the COVID-19 pandemic. This was partially offset by higher revenue from on-going heavy engineering projects.

The segment posted an operating loss of RM252.2 million in FY2021, compared to operating loss of RM100.0 million in FY2020 mainly due to the additional cost provision recognised for on-going projects in the current year.



FINANCIAL REVIEW

FINANCIAL CALENDAR

FINANCIAL PERIOD

1st JANUARY 2021-
31st DECEMBER 2021

ANNOUNCEMENTS OF FINANCIAL RESULTS

Quarter	Announced
1st	May, 6th 2021
2nd	August, 13th 2021
3rd	November, 18th 2021
4th	February, 17th 2022

ANNOUNCEMENTS OF TAX EXEMPT DIVIDENDS

Dividend	Announced	Paid
1st	May, 6th 2021	June, 9th 2021
2nd	August, 13th 2021	September, 14th 2021
3rd	November, 18th 2021	December, 14th 2021
4th	February, 17th 2022	March, 16th 2022

FINANCIAL REVIEW

FIVE-YEAR GROUP FINANCIAL PERFORMANCE

FIVE-YEAR GROUP FINANCIAL STATISTICS

	Audited 1.1.2021 to 31.12.2021	Audited 1.1.2020 to 31.12.2020	Audited 1.1.2019 to 31.12.2019	Audited 1.1.2018 to 31.12.2018	Audited 1.1.2017 to 31.12.2017
	RM Million	RM Million	RM Million	RM Million	RM Million
Revenue	10,671.7	9,401.2	8,962.7	8,780.3	10,068.2
Operating profit	1,948.3	2,017.2	1,929.3	1,466.4	2,733.6
Profit/(loss) before taxation	1,774.6	(123.6)	1,512.3	1,344.1	2,003.6
Profit/(loss) after taxation	1,733.5	(169.8)	1,436.3	1,284.3	1,990.7
Profit/(loss) for the year attributable to equity holders of the Corporation	1,831.3	(43.1)	1,426.4	1,311.5	1,981.5
Dividends paid during the year	1,473.0	1,473.0	1,339.1	1,339.1	1,830.2
Earnings/(loss) per share (sen) [1]	41.0	(1.0)	32.0	29.4	44.4
Total assets	57,521.5	51,821.0	51,863.8	52,065.3	50,469.8
Total liabilities	22,596.5	18,669.9	16,110.1	15,701.2	14,565.0
Equity attributable to equity holders of the Corporation	34,162.7	32,272.8	34,727.2	35,351.1	34,844.2
Interest-bearing loans and borrowings	17,029.0	13,440.4	13,152.2	13,049.9	11,663.9
Net tangible assets per share (sen)	758.6	724.3	782.1	795.4	785.4
Gross debt/equity ratio (times)	0.49	0.41	0.37	0.36	0.32
Net debt/equity ratio (times)	0.26	0.20	0.17	0.20	0.16
Interest cover ratio (times) [2]	5.4	5.8	3.8	4.1	8.2
Cash flows from operating activities [3]	2,908.6	5,587.9	5,579.1	4,099.2	4,739.1

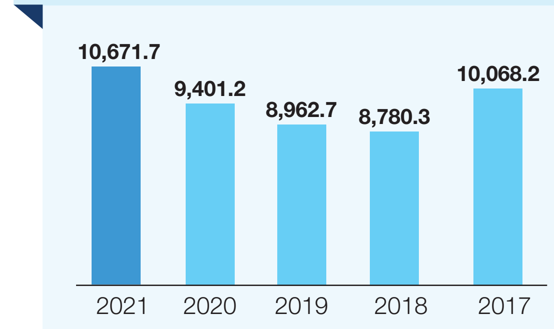
Notes :

1. Earnings/(loss) per share has been calculated using the weighted average number of ordinary shares in issue during the financial year.

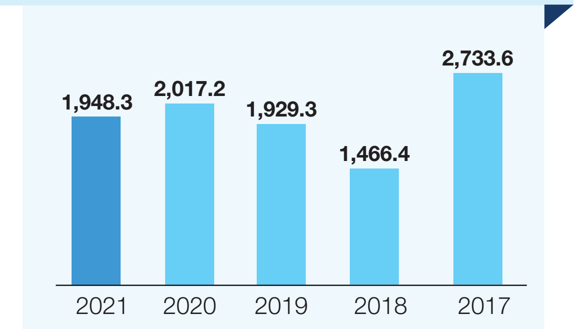
2. Interest cover ratio is computed as Earnings Before Interest and Taxes (EBIT) divided by total interest expense. EBIT for FY2020 excluded provision for litigation claims and loss on re-measurement of finance lease.

3. The cash flows from operating activities for FY2021 included payments for costs relating to the turnkey activities for the conversion of a vessel to a Floating, Production, Storage and Offloading (FPSO) facility amounting to RM1,126.1 million. These payments are disclosed as part of cash flows from operating activities as the turnkey activities contribute to the recognition of contract assets as per MFRS 15: Revenue from Contract with Customers. The cash flow from operating activities for FY2019 onwards reflect the reclassification arising from the adoption of MFRS 16: Leases.

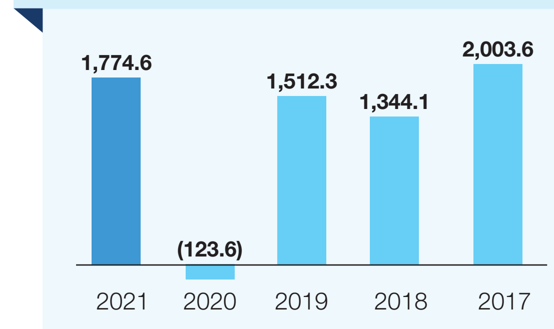
Revenue (RM Million)



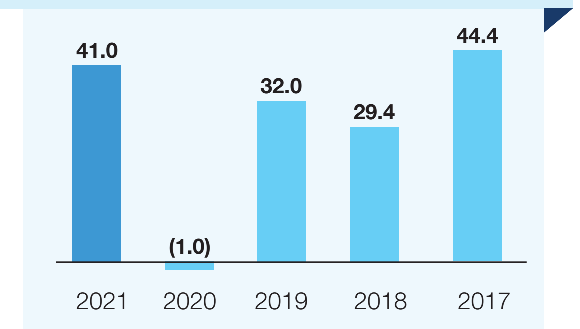
Operating profit (RM Million)



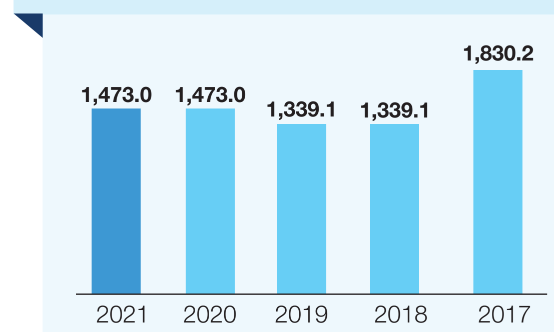
Profit/(loss) before taxation (RM Million)



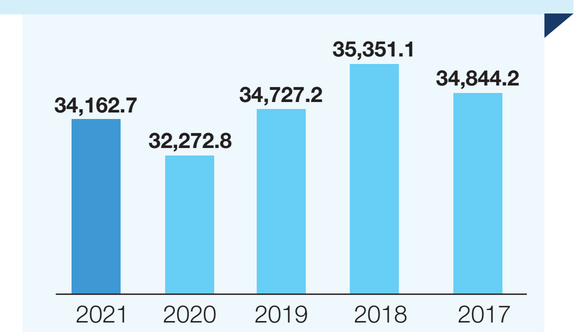
Earnings/(loss) per share (sen)



Dividends paid (RM Million)



Equity attributable to equity holders of the Corporation (RM Million)



FINANCIAL REVIEW

STATEMENT OF VALUE ADDED AND VALUE DISTRIBUTED

STATEMENT OF VALUE ADDED

	FY2021 RM'000	FY2020 RM'000
Revenue	10,671,707	9,401,234
Purchase of goods and services	(5,485,417)	(3,735,193)
Value added from operations	**5,186,290**	**5,666,041**
Other income	369,415	141,681
Finance income	48,250	112,612
Gain on disposal of ships	31,570	25,135
Loss from deconsolidation of a subsidiary	(2,241)	-
Gain on disposal of interest in joint ventures	25,126	-
Write off of trade receivables and loss on remeasurement of finance lease receivables	-	(846,229)
Provision for litigation claims	-	(1,049,248)
Share of profit of joint ventures	297,432	428,782
Share of profit of associates	3,666	241
Total value added	**5,959,508**	**4,479,015**

DISTRIBUTION OF VALUE ADDED

	FY2021 RM'000	FY2020 RM'000
Employees:		
Employment costs	1,668,512	1,775,287
Shareholders:		
Dividends paid to shareholders of the Corporation	1,473,035	1,473,035
Dividends paid to non-controlling interests	24,500	3,000
Government(s):		
Taxation	39,268	70,436
Providers of debt capital:		
Finance costs	459,781	441,739
Retained for reinvestment and future growth:		
Depreciation, amortisation and impairment	2,099,031	2,459,228
Deferred tax	1,807	(24,189)
Retained profit	193,574	(1,719,521)
Total value distributed	**5,959,508**	**4,479,015**