

MISC Berhad 55th Annual General Meeting
8 May 2024
Queries from Minority Shareholders Watch Group (“MSWG”)

Operational & Financial Matters

1. In line with its strategy, MISC actively collaborates with industry partners to combine its strengths and accelerates the development of new opportunities. MISC signed a Term Sheet with PETRONAS CCS Ventures and Mitsui O.S.K. Lines, Ltd. (MOL), for the potential incorporation of a joint venture entity to invest in developing Liquefied Carbon Dioxide (LCO2) carriers. (pages 26 - 27 of IAR 2023)

What are the prospects and business opportunities for LCO2 carriers? What are MISC’s plans in growing this business segment?

The collaboration with PETRONAS CCS Ventures and Mitsui O.S.K. Lines, Ltd. is progressing well and we are expecting to develop that further by looking at potential investments into LCO2 carriers in the foreseeable future.

LCO2 carriers are not new, small LCO2 carriers have been largely used in the beverage industry. Our collaboration relates to LCO2 carriers that transport aggregated carbon from industrial sources into larger-sized LCO2 carriers and to be stored. Hence, it is a total carbon capture solution, including storage. MISC is among the early players in this competitive field, with other competitors also exploring the LCO2 market. We have been exploring opportunities at domestic, regional and international levels, and are currently working on several prospects and hope to bring them to commercialization in terms of charters.

Additionally, we are also exploring opportunities to participate in the Malaysian National Energy Transition Roadmap (NETR) with this total carbon capture solution.

2. The Petroleum & Product Shipping segment has leveraged on the opportunities by securing more long-term charters optimising its term-to-spot fleet ratio. (page 58 of IAR 2023)

What is the current ratio of long-term charters to spot charters? What is the optimal ratio desired by the Management?

We have achieved year-on-year improvements in our secured income portfolio, with more than 80% of our assets on long-term charters. We intend to maintain this ratio moving forward.

3. Among the focus areas in 2023 was to unlock value from existing assets. One of the results was the conversion of Puteri Delima Satu into a Floating Storage Unit (FSU) to secure long-term earnings. (page 81 of IAR 2023)

What were the compelling reasons to convert Puteri Delima Satu into an FSU? How was its contribution before its conversion compared to post-conversion?

Puteri Delima Satu (PDS) completed its long-term charter and our Gas Assets & Solutions Business team has been exploring opportunities to either extend the commercial life or repurpose the asset in line with our strategy to maximise the value of existing assets.

We identified an opportunity to convert PDS into an FSU, and upon evaluating and determining the technical and commercial viability of this venture, Management decided to proceed with the conversion. Post conversion, the FSU will operate under a 20-year contract term.

4. The Petroleum & Product Shipping segment's revenue of RM5,030.2 million was RM362.9 million or 7.8% higher than the previous year's revenue of RM4,667.3 million mainly from improved freight rates in the current year and full contribution from vessels delivered in previous year. The segment's operating profit of RM1,356.6 million was RM335.6 million or 32.9% higher than the previous year's profit of RM1,021.0 million, mainly from higher revenue. (page 110 of IAR 2023)

Will new vessel deliveries boost revenue further in 2024? Are the freight rates expected to remain strong in 2024, thus sustaining the segment's good financial performance?

The three new Very Large Crude Carriers (VLCC) deliveries are expected to contribute additional revenue in 2024.

The near-term outlook for the oil tanker market remains positive, supported by a combination of factors, including strong Atlantic exports and increased crude imports to Asia. Geopolitical tensions have led vessels to take longer routes to avoid certain regions, thereby increasing tonne-mile demand.

Additionally, in the petroleum sector, there is a tightening of tonnage availability relative to the commodities being transported, further supporting the market.

5. The Marine & Heavy Engineering segment's revenue of RM3,309.2 million was RM1,657.6 million or more than 100% higher than the previous year's revenue of RM1,651.6 million, mainly due to higher revenue from new and ongoing projects for Heavy Engineering sub-segment. The segment recorded operating loss of RM467.7 million compared to operating profit of RM60.8 million in the previous year mainly due to the additional cost provisions resulting from revised schedule on ongoing heavy engineering projects during the year. (page 110 of IAR 2023)

How could the additional cost provisions from the revised schedule escalate to such a magnitude that caused the segment to record operating loss? What is the 2024 outlook for the segment?

As the majority shareholder of MHB, we look to support MHB in its ventures and strengthen its foundation, with the primary objective of ensuring that MHB fulfills its commitments. Some of its projects completed in 2023 required cost provisions as contracts were awarded before the COVID-19 pandemic on a lump sum basis. The global supply chain disruptions during the pandemic led to cost escalations, further compounded by the Russia-Ukraine conflict, which also increased supply chain and material costs.

MHB remains steadfast and continues to exercise diligence in delivering its projects. MHB has proactively taken cost provisions for projected costs and is engaging in discussions for cost recovery from clients arising from these events. We are hopeful that some of the cost recovery may materialise in 2024, and further improve MHB's financial position.

The quality of MHB's order book has improved through exploring new solutions such as High Voltage Direct Current (HVDC) and premium marine repair assets. MHB is also looking at value solutions and alliance concept instead of pure lump sum contracting strategies. MISC is fully committed to support MHB in its ventures.

6. The Group recorded increase in impairment loss for its receivables.

	Group	
Impairment loss for: (Note 20)	2023 RM'000	2022 RM'000
– Trade and other receivables	24,455	3,272
– Other non-current assets	51,837	45,063

(Page 58 of FR 2023)

What were the reasons for such a huge increase in impairment losses? What is the probability of recovering or reversing the impairment losses?

The increase in impairment on receivables is related to a gas carrier contract. While the assets involved are producing cash flow, they needed to go through the impairment test due to the suspension agreement that we have with the client, resulting in recorded impairment losses. We have made accounting provisions for the loss in time value of money due to receivables and estimated delays in resuming the charter contract. The recovery of these receivables is heavily dependent on the resumption of the contract. We are currently in discussions with the client to facilitate the recovery. The recovery of these receivables is heavily dependent on the resumption of the contract.

Sustainability Matters

7. MISC's strategic investment with its partners in climate tech start-up, Daphne Technology, aims to develop solutions that convert toxic and Greenhouse Gas (GHG) pollutants into non-hazardous by-products which are either released into the environment or transformed into valuable products. (page 61 of IAR 2023)

How is the progress in developing solutions that convert toxic and GHG pollutants into non-hazardous by-products? What are the Company's plans going forward?

Daphne Technology is based in Switzerland and its major shareholders include Saudi Aramco, Shell Ventures, Trafigura along with the rest of the founders and minority investors. MISC took a small investment stake in Daphne Technology as the solutions and products developed were largely focused on methane slip abatement technology for methane emissions from LNG carriers. This investment is part of our learning process and for participation in future commercial viability.

Currently, the solutions are developed and expected to be retrofitted on other assets by 2025 and a solution has been designed to measure and report GHG emissions, which is in the process of being commercially deployed in 2024. These are the main priorities and progress of Daphne Technology, and we hope this will contribute further to the methane slip abatement in the industry.