

QUARTERLY REPORT

This is a quarterly report on consolidated results for the period ended 30 September 2020

UNAUDITED CONDENSED CONSOLIDATED INCOME STATEMENT FOR THE PERIOD ENDED 30 SEPTEMBER 2020

	INDIVIDUAL QUARTER		CUMULATIVE	
	CURRENT YEAR QUARTER 30-Sep-20 RM '000	PRECEDING YEAR QUARTER 30-Sep-19 RM '000	CURRENT YEAR TO DATE 30-Sep-20 RM '000	PRECEDING YEAR TO DATE 30-Sep-19 RM '000
Revenue	42,658	67,149	133,993	199,982
Voyage expenses	(12,181)	(13,266)	(38,950)	(45,386)
Operating expenses	30,477 (34,552)	53,883 (44,856)	95,043 (102,889)	154,596 (134,671)
Loss on disposal of vessels	(4,075)	9,027	(7,846)	19,925
Impairment loss on vessels	-	-	-	(12,272)
Net change in onerous contracts provision	-	(6,001)	-	(6,001)
Gain on liquidation of a subsidiary	-	2,973	-	4,640
	-	-	51,263	-
Other operating income/(loss), net	(4,075)	5,999	43,417	6,292
Administrative expenses	1,143 (1,987)	1,262 (2,016)	2,589 (5,787)	2,302 (7,016)
Interest expense on bank borrowings	(4,919)	5,245	40,219	1,578
Interest expense on lease liabilities	(2,480)	(4,389)	(9,270)	(13,955)
Share of results of joint ventures	(1,791)	(2,310)	(6,124)	(7,595)
Gain on liquidation of a joint venture	211	488	1,207	1,832
	3,065	-	3,065	-
Profit/(loss) before tax	(5,914)	(966)	29,097	(18,140)
Income tax expense	(36)	(328)	(98)	(852)
Profit/(loss) for the period	<u>(5,950)</u>	<u>(1,294)</u>	<u>28,999</u>	<u>(18,992)</u>
Attributable to:				
Equity holders of the parent	(5,950)	(1,294)	28,999	(18,997)
Non-controlling interest	-	-	-	5
	<u>(5,950)</u>	<u>(1,294)</u>	<u>28,999</u>	<u>(18,992)</u>
Earnings/(loss) per share (sen)				
- Basic	(0.60)	(0.13)	2.90	(1.90)

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**UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE PERIOD ENDED 30 SEPTEMBER 2020**

	INDIVIDUAL QUARTER		CUMULATIVE	
	CURRENT YEAR QUARTER 30-Sep-20 RM '000	PRECEDING YEAR QUARTER 30-Sep-19 RM '000	CURRENT YEAR TO DATE 30-Sep-20 RM '000	PRECEDING YEAR TO DATE 30-Sep-19 RM '000
Profit/(loss) for the period	(5,950)	(1,294)	28,999	(18,992)
Other comprehensive income/(loss):				
<u>Items that will be reclassified to profit or loss</u>				
Currency translation differences	(10,984)	4,405	5,605	6,512
Net change in cash flow hedge	1,116	(3,865)	(1,368)	(4,636)
Realisation of reserves on liquidation of a subsidiary	-	-	(51,263)	-
Realisation of reserves on liquidation of a joint venture	(3,065)	-	(3,065)	-
Total comprehensive income/(loss) for the period	<u>(18,883)</u>	<u>(754)</u>	<u>(21,092)</u>	<u>(17,116)</u>
Total comprehensive income/(loss) attributable to:				
Equity holders of the parent	(18,883)	(754)	(21,092)	(17,115)
Non-controlling interest	-	-	-	(1)
	<u>(18,883)</u>	<u>(754)</u>	<u>(21,092)</u>	<u>(17,116)</u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 30 SEPTEMBER 2020

	UNAUDITED	AUDITED
	AS AT END OF CURRENT QUARTER 30-Sep-20 RM '000	AS AT PRECEDING FINANCIAL YEAR END 31-Dec-19 RM '000
ASSETS		
Non-current assets		
Property, plant and equipment	594,621	605,578
Right-of-use assets	68,128	115,929
Joint ventures	16,944	34,103
	<u>679,693</u>	<u>755,610</u>
Current assets		
Consumable stores	4,930	11,055
Receivables and other current assets	18,204	28,556
Contract assets	519	452
Short term deposits	17,591	56,131
Cash and bank balances	55,300	23,349
	<u>96,544</u>	<u>119,543</u>
Non-current assets classified as held for sale	-	82,115
	<u>96,544</u>	<u>201,658</u>
TOTAL ASSETS	<u><u>776,237</u></u>	<u><u>957,268</u></u>
EQUITY AND LIABILITIES		
Equity attributable to equity holders of the parent		
Share capital	338,791	338,791
Foreign currency translation reserve	132,399	181,122
Cash flow hedge reserve	(3,289)	(1,921)
Accumulated losses	(134,163)	(163,162)
Total equity	<u>333,738</u>	<u>354,830</u>
Non-current liabilities		
Borrowings	210,750	325,232
Lease liabilities	63,711	115,398
Derivative financial liabilities	3,771	2,538
	<u>278,232</u>	<u>443,168</u>
Current liabilities		
Payables and other current liabilities	39,067	33,141
Contract liabilities	4,165	4,415
Borrowings	49,523	31,607
Lease liabilities	71,120	89,543
Derivative financial liabilities	388	243
Provision for taxation	4	321
	<u>164,267</u>	<u>159,270</u>
Total liabilities	<u>442,499</u>	<u>602,438</u>
TOTAL EQUITY AND LIABILITIES	<u><u>776,237</u></u>	<u><u>957,268</u></u>

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE PERIOD ENDED 30 SEPTEMBER 2020

	Attributable to Equity Holders of the Parent						Total equity RM '000
	Non-distributable				Total RM '000	Non- controlling interest RM '000	
	Share capital RM '000	Cash flow hedge reserve RM '000	Foreign currency translation reserve RM '000	Accumulated losses RM '000			
9 MONTHS ENDED 30 SEPTEMBER 2019							
At 31 December 2018, as previously stated	338,791	3,477	212,671	(161,847)	393,092	1,085	394,177
Effect of adopting MFRS 16	-	-	-	5,711	5,711	-	5,711
Adjusted balance as at 1 January 2019	338,791	3,477	212,671	(156,136)	398,803	1,085	399,888
Total comprehensive income/(loss) for the period	-	(4,636)	6,518	(18,997)	(17,115)	(1)	(17,116)
Dividend paid to non-controlling interest	-	-	-	-	-	(953)	(953)
At 30 September 2019	338,791	(1,159)	219,189	(175,133)	381,688	131	381,819
9 MONTHS ENDED 30 SEPTEMBER 2020							
At 1 January 2020	338,791	(1,921)	181,122	(163,162)	354,830	-	354,830
Total comprehensive income/(loss) for the period	-	(1,368)	(48,723)	28,999	(21,092)	-	(21,092)
At 30 September 2020	338,791	(3,289)	132,399	(134,163)	333,738	-	333,738

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE PERIOD ENDED 30 SEPTEMBER 2020

	CUMULATIVE	
	CURRENT	PRECEDING
	YEAR 30-Sep-20 RM '000	YEAR 30-Sep-19 RM '000
Cash Flow From Operating Activities		
Profit/(loss) before tax	29,097	(18,140)
Adjustments for:		
Amortisation of intangible assets	101	88
Depreciation on owned assets	20,768	19,665
Depreciation on right-of-use assets	49,233	49,389
Loss on disposal of vessels	-	12,272
Unrealised foreign exchange (gain)/loss	(875)	24
Interest income	(648)	(3,042)
Interest expense on bank borrowings	9,270	13,955
Interest expense on lease liabilities	6,124	7,595
Lease modification	(166)	-
Net change in provision for onerous contracts	-	(4,640)
Impairment loss on vessels	-	6,001
Share of results of joint ventures	(1,207)	(1,832)
Gain on liquidation of a subsidiary	(51,263)	-
Gain on liquidation of a joint venture	(3,065)	-
Operating profit before working capital changes	57,369	81,335
Working capital changes:		
Consumable stores	6,271	6,090
Receivables and other current assets	11,543	(3,907)
Contract assets	(519)	296
Payables and other liabilities	9,744	(20,252)
Contract liabilities	(1,546)	4,378
Cash generated from operating activities	82,862	67,940
Tax paid	(733)	(649)
Net cash generated from operating activities	82,129	67,291
Cash Flows From Investing Activities		
Construction cost of vessels	-	(175,674)
Purchase of other assets and capitalisation of docking costs	(930)	(8,906)
Interest received	648	3,042
Proceeds from disposal of vessels	83,209	36,970
Capital distribution from joint venture	136	-
Dividends from joint ventures	-	2,041
Net cash generated from/(used in) investing activities	83,063	(142,527)
Cash Flows From Financing Activities		
Interest on bank borrowings	(11,014)	(13,542)
Interest on lease liabilities	(6,124)	(7,595)
Drawdown of borrowings	21,381	166,480
Repayment of borrowings	(123,156)	(209,254)
Payment of principal portion of lease liabilities	(72,940)	(51,637)
Payment for derivatives	-	(57,787)
Dividend paid to non-controlling interest	-	(953)
Loan repayment from joint venture	18,862	-
Net cash used in financing activities	(172,991)	(174,288)
Net change in cash and cash equivalents	(7,799)	(249,524)
Effects of foreign exchange rate changes	1,210	608
Cash and cash equivalents at the beginning of the period	79,480	289,124
Cash and cash equivalents at the end of the period	72,891	40,208
Cash and cash equivalents comprise:		
Short term deposits	17,591	15,313
Cash and bank balances	55,300	24,895
	72,891	40,208

NOTES TO THE FINANCIAL REPORT

A1. BASIS OF PREPARATION

The interim financial statements have been prepared under the historical cost basis, except for investment securities and derivative financial instruments which are stated at fair value.

The interim financial statements are unaudited and have been prepared in accordance with the MFRS 134: Interim Financial Reporting and paragraph 9.22 of the Listing Requirements of Bursa Malaysia Securities Berhad. This interim financial report also comply with IAS 34 Interim Financial Reporting issued by the International Accounting Standards Board. This interim financial report should be read in conjunction with the audited financial statements of the Group for the year ended 31 December 2019.

The significant accounting policies and methods of computation applied in this report are consistent with those adopted in the financial statements for the year ended 31 December 2019 except in the current financial year, the Group has adopted all applicable new and amended MFRSs and Annual Improvements to MFRSs that are effective for annual period beginning on 1 January 2020. The adoption of these standards did not have a material effect on the financial performance or position of the Group.

A2. AUDIT REPORT OF PRECEDING ANNUAL FINANCIAL STATEMENTS

The financial statements for the year ended 31 December 2019 were not qualified.

A3. SEASONAL OR CYCLICAL FACTORS

The business operations of the Group were not significantly affected by any seasonal or cyclical factors.

A4. NATURE AND AMOUNT OF UNUSUAL ITEMS

There were no items affecting assets, liabilities, equity, net income or cash flows that are unusual because of their nature, size or incidence for the current quarter.

A5. CHANGES IN ESTIMATES

There were no changes to the estimates of amounts reported in prior financial years that may have a material effect in the current quarter.

A6. ISSUANCE OR REPAYMENT OF DEBT AND EQUITY SECURITIES

There were no issuance and repayment of debt and equity securities, share buy-backs, share cancellation or shares held as treasury shares and resale of treasury shares for the current quarter.

A7. DIVIDENDS PAID

No dividend has been paid for the current quarter ended 30 September 2020.

A8. SEGMENT REPORT

Segmental reporting is not presented as the Group is principally engaged in the dry bulk shipping services internationally. As the Group's shipping activities cover the world's shipping lanes, the Directors do not consider it meaningful to allocate revenue, results, assets and liabilities to specific geographical segments. This is consistent with internal reporting currently in practice.

A9. VALUATION OF SHIPS, PROPERTY AND EQUIPMENT

The property, plant and equipment are stated at cost less accumulated depreciation and impairment losses.

A10. SIGNIFICANT AND SUBSEQUENT EVENTS

There were no material events subsequent to the current quarter ended 30 September 2020 up to the date of this report.

A11. CHANGES IN THE COMPOSITION OF THE GROUP

There were no changes in the composition of the Group during the current quarter under review.

A12. CONTINGENT LIABILITIES

There were no contingent liabilities since 31 December 2019 to the date of this report.

A13. CAPITAL COMMITMENTS

There was no capital commitment as at end of the current quarter.

B1. REVIEW OF PERFORMANCE

In this reporting period, 9M FY2020, net revenue for the Group was RM95.043 million (9M FY2019: RM154.596 million) and operating loss was RM7.846 million (9M FY2019: operating profit of RM19.925 million). The decrease in results were mainly due to reduced hire days (9M FY2020: 2,990 days vs 9M FY2019: 3,842 days), a smaller fleet and a 17% drop in charter rates (9M FY2020: USD8,067/day vs 9M FY2019: USD9,679/day).

The Group completed the disposal of 2 vessels with net proceeds of RM83.209 million in Q1 FY2020. As the carrying amounts of these vessels have been adjusted to net proceeds in FY2019, there were no gains or losses on disposals recognised in this period. In addition, a jointly-owned vessel was sold in September 2020.

The Group recorded a gain on liquidation of a subsidiary of RM51.263 million as well as a gain on liquidation of a joint venture of RM3.065 million in 9M FY2020. These gains arose from the reclassification of the cumulative exchange differences relating to the entities from equity to profit or loss upon liquidation of the entities.

Excluding exceptional items, the Group reported a loss before tax of RM25.231 million in 9M FY2020, a further loss of RM20.724 million compared to a loss before tax of RM4.507 million in 9M FY2019.

In summary, MBC Group reported an attributable profit of RM28.999 million in 9M FY2020, compared to a loss of RM18.992 million in 9M FY2019.

B2. COMPARISON WITH PRECEDING QUARTER'S RESULTS

	Individual Quarter		Variance RM'000
	Q3 FY2020 RM'000	Q2 FY2020 RM'000	
Revenue	42,658	39,063	3,595
Voyage expenses	(12,181)	(12,737)	556
Net revenue	30,477	26,326	4,151
Operating expenses	(34,552)	(33,266)	(1,286)
Operating profit/(loss)	(4,075)	(6,940)	2,865
Other operating income/(loss), net	1,143	981	162
Administrative expenses	(1,987)	(1,981)	(6)
	(4,919)	(7,940)	3,021
Interest expense on bank borrowings	(2,480)	(3,321)	841
Interest expense on lease liabilities	(1,791)	(2,084)	293
Share of results of joint ventures	211	554	(343)
Gain on liquidation of a joint venture	3,065	0	3,065
Profit/(loss) before taxation	(5,914)	(12,791)	6,877
Income tax expense	(36)	87	(123)
Profit/(loss) for the period	<u>(5,950)</u>	<u>(12,704)</u>	<u>6,754</u>
<u>Attributable to:</u>			
Equityholders of the parent	(5,950)	(12,704)	6,754
Non-controlling interest	0	0	0
	<u>(5,950)</u>	<u>(12,704)</u>	<u>6,754</u>

Net revenue increased by RM4.151 million to RM30.477 million in Q3 FY2020, and operating results improved by RM2.865 million to an operating loss of RM4.075 million in Q3 FY2020. The improvement was mainly due to a 14% increase in charter rates (Q3 FY2020: USD7,990/day vs Q2 FY2020: USD7,025/day).

There was a gain on liquidation of a joint venture of RM3.065 million recognised in Q3 FY2020 that arose from the reclassification of the cumulative exchange differences relating to the joint venture from equity to profit or loss upon liquidation of the joint venture.

Excluding the exceptional item on the gain on liquidation of a joint venture, the Group's loss before tax was RM8.979 million in Q3 FY2020, compared to a loss before tax of RM12.791 million in Q2 FY2020.

In summary, the Group recorded an attributable loss RM5.950 million in Q3 FY2020, compared to a loss of RM12.704 million in Q2 FY2020.

B3. PROSPECTS

The world economy has been cushioned by the monetary and fiscal stimulus in response to COVID-19. China's economy is recovering and there are encouraging signs in India that the economy is recovering in a number of sectors. The dry bulk market continued its recovery through the third quarter, albeit from a low base, principally on the back of strong iron ore and agribulk demand from China. Coal recovery has been muted because of a reduction in Chinese coal imports in favour of domestically produced coal. In addition, there is a structural shift away from thermal to lower carbon alternatives, supported by falling natural gas prices. However, economic contraction in other major dry bulk importers such as the EU, Japan, India, and South Korea, and further lockdowns as a result of new COVID-19 waves have placed a dampener on a nascent return to normality.

Full year bulker tonne mile demand is expected to decline by approximately 2.3% against fleet growth of 3.4% in 2020. Market uncertainty and declining newbuilding prices continue to exert downward pressure on second-hand asset values, raising the likelihood of vessel impairments at year end.

B4. VARIANCE OF PROFIT FORECAST AND PROFIT GUARANTEE

There were no profit forecast or profit guarantee for the period under review.

B5. TAXATION

	Current quarter RM'000	Current financial year-to-date RM'000
Income tax charge		
-current period	36	98
	<u>36</u>	<u>98</u>

The shipping income of the Group that is derived from the operations of sea-going Malaysian registered ships and Singapore registered ships is tax exempt under Section 54A of the Malaysian Income Tax Act, 1967 and Section 13A of the Singapore Income Tax Act respectively. The income tax expense for the Group is attributable to tax in respect of non-tax exempt activities of the Group.

B6. FINANCIAL INSTRUMENTS

a) Derivatives

The Group uses interest rate swaps to manage the variability of future cash flows attributable to interest rate fluctuation on its borrowings. The hedged cash flows are expected to occur and affect profit or loss in the next 4 years. Gains and losses arising from the effective portion of the hedges are deferred in equity until the variability on the cash flow affects profit or loss, at which time the gains or losses are transferred to profit or loss.

There is no change to the type of derivative financial contracts entered into, cash requirements of the derivatives, risk associated with the derivatives and the risk management objectives and policies to mitigate these risks since the financial year ended 31 December 2019.

As at 30 September 2020, the notional amount, fair value and maturity tenor of the derivatives are as follows:

	Notional amount RM'000	Fair value assets /(liabilities) RM'000
Interest rate swaps		
- 1 year to 3 years	128,583	(2,723)
- More than 3 years	18,185	(1,436)
	<u>146,768</u>	<u>(4,159)</u>

b) Fair value changes of financial liabilities

The Group does not have any financial liabilities which are measured at fair value through profit or loss except for derivative financial instruments.

B7. NOTES TO CONDENSED CONSOLIDATED INCOME STATEMENT

	Current quarter RM'000	Current financial year-to-date RM'000
Interest income	104	648
Amortisation of intangible assets	(34)	(101)
Depreciation on owned assets	(7,097)	(20,768)
Depreciation on right-of-use assets	(15,953)	(49,233)
Unrealised exchange gain	305	875
Gain on liquidation of a subsidiary	-	51,263
Gain on liquidation of a joint venture	3,065	3,065

B8. STATUS OF CORPORATE PROPOSALS

There was no corporate proposal announced but not completed at the date of this report.

B9. BORROWINGS

The Group's borrowings as at 30 September 2020 are as follows:

	Currency	Current RM '000	Non-current RM '000
Secured	USD	49,523	210,750

B10. MATERIAL LITIGATION

The Group does not have any material litigation which would materially and adversely affect the financial position of the Group.

B11. DIVIDENDS

The Directors do not recommend any dividend for the current quarter ended 30 September 2020.

B12. EARNINGS/(LOSS) PER SHARE

The basic earnings/(loss) per share of the Group is calculated by dividing the loss attributable to equity holders of the parent by the number of ordinary shares in issue.

	CURRENT YEAR QUARTER 30-Sep-20	PRECEDING YEAR QUARTER 30-Sep-19	CURRENT YEAR TO DATE 30-Sep-20	PRECEDING YEAR TO DATE 30-Sep-19
Profit/(loss) attributable to equity holders of the parent (RM'000)	(5,950)	(1,294)	28,999	(18,997)
Number of ordinary shares in issue('000)	1,000,000	1,000,000	1,000,000	1,000,000
Earnings/(loss) per share attributable to equity holders of the parent (sen)	(0.60)	(0.13)	2.90	(1.90)