

NEWS RELEASE

Nam Cheong posts a gross profit of RM23.9 million for 2Q2020

- Revenue rose 72% year-on-year (“YoY”) to RM128.4 million, driven by expanded fleet size for the chartering side and the completion of the sale and delivery of an Emergency Response and Rescue Vessel (“ERRV”)
- Gross profit decreased marginally by RM1.1 million from RM25.0 million in 2Q 2019 to RM23.9 million in 2Q 2020 with overall gross profit margin (GMP) at 19%
- Despite the increase in revenue, with the impairment on property, plant, and equipment, investment in an associate and receivables, the Group reported a net loss of RM193.7 million for 2Q2020

Singapore, 14 August 2020 – Nam Cheong Limited (“Nam Cheong” or the “Group”), one of Malaysia’s largest Offshore Support Vessel (OSV) providers, today announced its financial results for the three months ended 30 June 2020 (“2Q2020”).

Financial Highlights	2Q2020 (RM'000)	2Q2019 (RM'000)	Change (%)	1H2020 (RM'000)	1H2019 (RM'000)	Change (%)
Revenue	128,418	74,669	72	189,566	104,607	81
Gross Profit	23,901	24,989	(4)	40,680	32,415	25
Gross Margin	19%	33%	(14ppt)	21%	31%	(10ppt)
Other Income	3,467	1,439	141	5,852	14,993	(61)
Selling and Administrative Expenses	(13,152)	(8,161)	61	(22,239)	(16,178)	38
Impairment on:						
- property, plant and equipment	(158,925)	-	<i>n.m</i>	(255,356)	-	<i>n.m</i>
- investment in associate	(17,288)	-	<i>n.m</i>	(17,288)	-	<i>n.m</i>
- receivables	(8,195)	-	<i>n.m</i>	(8,195)	-	<i>n.m</i>
Other operating expenses	(11,711)	(3,798)	208	(26,399)	(6,201)	326
Operating (Loss)/Profit	(181,891)	14,469	<i>n.m</i>	(283,023)	25,029	<i>n.m</i>
Finance Costs	(10,346)	(10,980)	(6)	(21,367)	(18,546)	15
(Loss)/Profit for the period	(193,705)	2,080	<i>n.m</i>	(307,577)	2,485	<i>n.m</i>
Net (Loss)/Profit attributable to owners of the parent (PATMI)	(193,751)	2,870	<i>n.m</i>	(308,127)	3,290	<i>n.m</i>

The rapid collapse of crude oil prices, coupled with the ravaging coronavirus pandemic, very quickly shattered all the initial cautious optimism in the offshore oil and gas market.

With the Malaysian government imposing its Movement Control Order (“MCO”) on March 18 to curb the accelerating virus spread, Nam Cheong’s vessel chartering rates were severely impacted, leading to marginal 2% YoY growth in vessel chartering revenue to RM76.3 million for 2Q2020, despite the expanded fleet size to 37 in 1H2020 [1H2019 fleet size: 34].

The Group’s shipbuilding division completed the sale and delivery of the ERRV to a customer based in the North Sea towards the end of 2Q2020. This is the last unit of the series of 4+4 vessels ERRV contract that was signed back in 2014. Nam Cheong recorded RM52.2 million in shipbuilding revenue for this transaction, driving the Group’s overall revenue 72% YoY jump to RM128.4 million in 2Q2020.

However, gross profit decreased marginally by RM1.1 million from RM25.0 million in 2Q 2019 to RM23.9 million in 2Q 2020 mainly due to the decrease in gross profit from the chartering segment which was offset by the increase in the gross profit derived from the completion of sale and delivery of the ERRV.

Selling and administrative expenses increased from RM8.2 million in 2Q2019 to RM13.2 million for 2Q2020, as Nam Cheong incurred a one-off expense for the Group wide cost rationalisation exercise in 2Q2020.

Due to the doubtfulness of asset recoverability and marked to market value of the Group’s vessels, there was an impairment of RM158.9 million on property, plant and equipment, an impairment of RM17.3 million on investment in associate and another RM8.2 million impairment on receivables. Thus, the Group booked a net loss after tax of RM193.7 million for 2Q2020, compared with the net profit after tax of RM2.1 million for 2Q2019.

The Group continues to take incremental steps to review various options to realign its businesses, operations, and balance sheet to preserve shareholder value amid the worsening working capital during the second quarter of 2020.

On a half-year basis, revenue grew 81% YoY to RM189.6 million for 1H2020. Gross profit increased 25% YoY to RM40.7 million for 1H2020 with gross profit margin decreasing by 10ppt to 21.0%. However, the Group posted a loss of RM307.6 million for the first half of 2020. This was attributable to the Covid-19 situation, the plunge in oil prices as well as the assets impairment during 1H2020.

Commenting on the Group’s results, **Mr. Leong Seng Keat, Chief Executive Officer of Nam Cheong**

said, “*After a few consensual rescheduling, we are pleased that our customer has finally taken delivery of the ERRV towards the end of 2Q2020. It provided the much-needed boost to our revenue at a time when vessel chartering continues to be impacted by the novel coronavirus pandemic.*”

Moving forward, we will stay vigilant on the changing market conditions to ride through this unknown volatile wave. We are in the midst of assessing various courses of strategies to restructure existing loans that will best preserve shareholder value.”

Outlook

With unusual market conditions arising from the combination of the coronavirus-induced demand destruction and the global oil glut, Petronas is looking to cut its capital expenditure budget¹, after the weak first quarter performance. The persistent pandemic and continuing oil

¹ **Energyworld.com**: <https://energy.economictimes.indiatimes.com/news/oil-and-gas/malaysias-petronas-braces-for-severe-2020-hit-as-first-quarter-profit-plummets/75913011>



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volatility, in addition to the reduced capital expenditure, have depressed demand across all major offshore vessel types, further dampening vessel utilisation rates.

Meanwhile, the International Energy Agency raised its oil demand forecast² following progress made in the global oil market, but continued to warn of the uncertain Covid-19 impact amid the escalating pandemic.

The COVID-19 induced near-term disruptions, coupled with the ongoing geopolitical uncertainties and trade tensions offer no respite and the outlook on the oil and gas market remains bearish. Managing this difficult and developing situation, the Group is actively reviewing its options to restructure its businesses, operations and balance sheet to preserve value for the stakeholders of the Company.

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ABOUT NAM CHEONG LIMITED (BLOOMBERG TICKER NCL: SP)

Headquartered in Kuala Lumpur, Malaysia, Nam Cheong Limited (“Nam Cheong” or the “Group”) is a global offshore marine group specialising in the building and chartering of OSVs. Since its humble beginnings in 1968 building only fishing vessels, the Group is now Malaysia’s largest OSV builder, owning and operating one of the largest shipbuilding yards for OSVs in Malaysia.

The Group focuses on OSV chartering, as well as the construction and engineering of sophisticated, environmentally friendly and quality OSVs that are equipped with the latest technology for use in the offshore oil and gas exploration and production (“E&P”) and oil services industries, with customers hailing from Malaysia, Southeast Asia, Middle East, West Africa, Latin America, Europe, and the United States. The Group has delivered over 140 vessels since 2007, which include anchor handling towing supply (“AHTS”) vessels, platform supply vessels (“PSVs”), accommodation work boats and accommodation work barges.

Beyond building some of the most sophisticated OSVs, Nam Cheong is expanding its vessel chartering operations and currently has a chartering fleet of more than 30 vessels. Nam Cheong was successfully listed on SGX-ST on May 27, 2011.

Issued for and on behalf of Nam Cheong Ltd. by **Financial PR**

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² **Reuters:** <https://www.reuters.com/article/us-iea-oil/iea-raises-2020-oil-demand-forecast-but-warns-covid-19-clouds-outlook-idUSKBN24B0WO>