PETRONAS CHEMICALS GROUP BERHAD

3Q 2022 ANALYST BRIEFING

25 November 2022, 6pm Malaysia

Management attendees:

1.	Mohd Yusri Mohamed Yusof Managing Director & Chief Executive Officer	4.	Shakeel Ahmad Khan Chief Commercial Officer
2.	Mohd Azli Ishak Chief Financial Officer	5.	Zaida Alia Shaari Head, Investor Relations
3.	Zamri Japar Chief Manufacturing Officer		

Operator:

Thank you for standing by, and welcome to the PETRONAS Chemicals Group Berhad 3Q 2022 Analyst Briefing. (Operator Instructions) I would now like to hand the conference over to Ms. Alia. Please go ahead.

Zaida Alia Shaari:

Thank you, Rachel. Hello, (foreign language) ladies and gentlemen. Welcome to PETRONAS Chemicals Group Berhad analyst briefing for the third quarter financial year 2022. I'm Alia, Head of Investor Relations. Thank you for joining our call this evening. We apologize for the late start, but we wanted to make sure we accommodate all the latecomers.

Ladies and gentlemen, we are pleased to have in attendance today our senior management led by our Managing Director and CEO, Mr. Mohamed Yusri; our Chief Financial Officer, Mr. Azli; Chief Manufacturing Officer, Mr. Zamri; Chief Commercial Officer, Mr. Shakeel; as well as the Head of Strategy Planning Adventures, Mr. Yaacob.

You should by now be able to access and download the financial results from Bursa Malaysia website as well as the presentation materials from our corporate website all in the links provided in the invitation.

As mentioned by the moderator at the end of the briefing, we shall open the line for question-and-answer session.

Without further ado, I shall now hand you over to Mr. Yusri for performance highlights. Thank you.

Mohd Yusri Mohamed Yusof:

Thank you, Alia. Good evening, ladies and gentlemen. Thank you for joining us today. Before we get into the review of the third quarter, I'm sure you have noticed a new name during the earlier introduction and also new on the photo. And please allow me a few minutes to introduce our new Chief of Manufacturing, Mr. Zamri Japar.

Zamri is actually not stranger to us and also to the petrochemical business. He began his journey with PETRONAS in 1992 with one of our subsidiary, PETRONAS Chemicals Ethylene Sdn. Berhad. He spent a good number of years with then Optimal Group of companies. Now you all know them as PETRONAS Olefins, Glycol and Derivatives, where for some period, he gained international exposure as an operations manager in our JV partner, Dow Chemical Ethylene Facilities in Netherlands. He returned and after that headed a number of our OPUs, namely PCMTBE, PCOGD, and before he went off to be the CEO of our joint venture at refinery and cracker and petrochemical at PRPC or PRefChem.

Now he joined us as Chief of Manufacturing, so I would like to welcome Zamri and introduce Zamri to all of you. I also would like to thank Kabir, who was playing the role before for his contribution, while he was our head of manufacturing. Kabir will be moving on to a new challenge, supporting us lending his experience and knowledge on some of specialty design rules and projects to ensure our operational excellence is continued. So all the best to both Zamri and Kabir in their new roles.

So now back to the matter at hand, to the third quarter of 2022 review. Next slide. When we started the year, we saw inflationary pressures creeping up as market continues to be volatile and commodity prices increasing. Now 9 months on into 2022, this has continued, but also coupled with also some other events, especially ongoing geopolitical tensions.

The central banks have been tightening monetary policies to rein in inflation amid slowing economic growth. The 9 months average global GDP was recorded lower at 1.85% compared to 2.14% over the same period last year. Global PMI contracted to 49.8 in the ninth month of this year as compared to 54.1 in the same period last year, with continued lockdown in China to fight against COVID-19, softened demand for finished goods, lower new orders and overall decline in the manufacturing sector. Nonetheless, the benchmark Brent crude oil price average 56% higher at (technical difficulty)

Operator:

Ladies and gentlemen, we have temporarily lost connection with the speaker line. Please continue to hold and the conference will recommence shortly. Ladies and gentlemen, we have the speakers back on the line.

Mohd Yusri Mohamed Yusof:

Okay. Yusri here again -- sorry for the disruption. As I was saying, Brent for the first 9 months of this year averaged $106 per barrel, basically stemming from supply limitation and ongoing Russia-Ukraine conflict and overall improved demand post-COVID-19 recovery.

Following the higher energy prices, most petrochemical product prices averaged higher this year against same period last year.

And that brings me to our performance highlights for the 9-month period this year.

Next. Ladies and gentlemen, in the 9-month period this year, we have undertaken major turnaround activities for our plants. Quarter 1, basically Olefins and Derivatives segment. Quarter 2, basically Fertilizers and Methanol segments. And all in all, we completed 5 turnarounds this year as compared to 3 last year. And because of that, our plant utilization rate for the 9 months of this year came at 85% as compared to 94% last year.

Production volume then was lower year-on-year by 9.2% at 7.14 million tonnes against 7.86 million tonnes last year. So in line with the lower production, our sales volume was also lower at 5.6 million tonnes against 6.04 million tonnes same period last year.

On the market front, prices are higher year-on-year across almost all products in tandem with higher crude oil prices, except ethylene and MEG as the lockdown in China saw demand reduction from Chinese market. Against this backdrop, we recorded MYR 20.25 billion in revenue, 26.2% higher than corresponding period driven mainly by higher product prices and favorable foreign exchange impact. EBITDA and PAT are both higher at MYR 6.35 billion and MYR 5.84 billion, respectively on widen spread. EBITDA margin remains healthy at 31.4%.

I'll have Azli to take you through the detail of the financial performance. Azli?

Mohd Azli Ishak:

Thank you, Mr. Yusri. Ladies and gentlemen, good evening, and thank you for joining us. So we will start with the group performance on Slide #4 by comparing the third quarter of 2022 against third quarter 2021.

So in the third quarter this year, that's what Mr. Yusri has mentioned, we saw GDP decelerated as economic growth slowed down on recession concern and inflationary pressure rise amid the ongoing Russia-Ukraine conflict. Further to that, the strict policy by the Chinese government on the fight against COVID-19 has disrupted supply chain, which added to the cost pressures.

Crude oil prices were higher during the quarter, mainly due to the supply limitation stemming from the Russia-Ukraine conflict, and OpEx struggled to meet the output targets amidst improved demand as most market has recovered from COVID-19 pandemic-related slowdown.

We saw product prices were mixed as supply limitation and higher crude oil prices push up product prices such as ammonia, urea and MTBE, while ethylene and its derivatives were lower on weaker demand.

On our operational front, we recorded 97% plant utilization rate compared to 94% in the third quarter of last year. This is based on the lower turnaround days. As you may recall, we undergone a turnaround for our urea plant ABF in Bintulu in the third quarter last year. So the group production and sales volume improved 2.8% and 4.8% to 2.7 million tonnes and 2.07 million tonnes, respectively.

Consequently, group revenue grew 22% from MYR 5.8 billion in third quarter last year to MYR 7 billion in third quarter this year, mainly driven by higher product prices, coupled with favorable ForEx impact. EBITDA was lower by 7.2% at MYR 2 billion due to higher fuel, energy and utilities costs as well as higher freight costs. Correspondingly, EBITDA margin declined to 27.9%.

Group PAT declined by 3.3% to MYR 1.9 billion against MYR 2 billion last year, with lower EBITDA following lower product spread and lower share of profit from our JV and associated companies, mainly from our JV with BASF as well as our JV with INEOS for the acetic acid business.

So moving on to the group's financial performance against the preceding quarter. That is against quarter 2 this year. So during the quarter, petrochemical product prices were assessed lower across the board compared to the preceding quarter on weaker demand and new supply addition, namely paraxylene, benzene and MEG.

With the completion of our plant turnaround early in the quarter and our third quarter plant utilization improved to 97% from 72%. As such, our production and sales volume also increased by 36.8% and 29.4%, respectively. This resulted in a 6.8% increase in group revenue compared to previous quarter, also coupled with more favorable ForEx movement.

EBITDA was comparable at MYR 2 billion, although EBITDA margin declined slightly from 30% to 28%. PAT saw marginal improvement of 1.4% at MYR 1.9 billion.

Now let's look at our performance for the 9 months of 2022. We recorded lower plant utilization this year as compared to last year on heavier turnaround activities and subsequently lower production and sales volume. As you may recall, we are undergoing plant turnaround on our olefins plant, derivatives plant, aromatics plant in Kertih as well as methanol plant 2 in Labuan and lastly, urea plant in Sabah. Nonetheless, group revenue improved 26% to MYR 20.2 billion on higher product prices.

At MYR 6.4 billion, EBITDA was 6.5% higher against the same period last year, although EBITDA margin declined to 31.4% as a result of lower sales volume for ethane-based product. PAT was higher at MYR 5.8 billion against MYR 5.3 billion last year on the back of higher unrealised ForEx gain and revaluation of shareholders' loan.

Now let's proceed on the balance sheet and cash flow statement. We will first look at the balance sheet on Page 5. Year-to-date, our total assets increased from MYR 46.5 billion to MYR 51.8 billion, primarily due to higher cash and cash equivalents and higher property, plant and equipment.

Now let's turn to our cash flow at Page 6. So cash generated from operating activities was higher at MYR 6.3 billion, mainly due to higher net cash generated from operations, in line with higher EBITDA. During the period, net cash used in investing activities was higher by MYR 105 million at MYR 1.2 billion, mainly due to higher purchase of property, plant and equipment, mainly to cater for our plant utilization.

Net cash used in financing activity was higher by MYR 1.4 [billion] mainly due to higher dividend paid to our shareholders amounting to MYR 1.4 billion. At the end of the period, our cash balance remained robust at about MYR 19.1 billion.

That is all on financial performance for third quarter of 2022, I'm handing over the session to our newly minuted Chief Manufacturing Officer, Mr. Zamri, for the manufacturing highlights. Over to you, Zamri.

Zamri Japar:

Thank you, Azli. Good evening, everyone. Zamri here. As an overall overview of the planned performance, the quarter 3 2022, we recorded higher plant utilization in quarter 3 at 97%, in view of stable operation of our Olefins and Derivative and Fertilizer and Methanol facilities in line with good plant reliability.

The Olefins and Derivatives segment strengthened with improved plant performance of downstream units of Ethylene chain as more facilities able to run continuously as per intended capacity.

Meanwhile, our production in Fertilizer & Methanol segments continue to be stable, translated into highest quarterly urea production for the group since quarter 2 2019.

With stable operations of both PCG segments, it has resulted in higher production volume, both against the preceding quarter and corresponding quarter.

Next, for Olefins and Derivatives, the quarter 3 plant utilization for Olefins and Derivatives segment was higher than previous quarter at 101% as we concluded all major turnarounds and shutdown activities during the first half of 2022, with most plant maintenance jobs were rectified. Even though we observed slightly lower Ethane feedstock to our crackers during the quarter due to turnaround activities at suppliers' facilities, we managed to secure higher feedstock of Propane and Butane to support our production at downstream facilities, namely at Butanol, LDPE, MTBE (technical difficulty).

Operator:

Ladies and gentlemen, we have lost connection with the speaker line. Please continue to hold, and we will recommence shortly. Ladies and gentlemen, we have the speakers back on the line.

Zamri Japar:

All right. We are back. I'd like to apologize to everyone for another disruption on our line. Let me repeat again the situation that we had on the feedstock.

Even though we observed slightly lower Ethane feedstock to our crackers during the quarter due to turnaround activities at suppliers' facilities, we managed to secure higher feedstock of Propane and Butane to support our production at downstream facilities, namely Butanol, LDPE, MTBE and Aromatics, which contributed to higher Olefins and Derivatives volume against preceding and corresponding quarter supported by smooth operations of the downstream facilities. And we are expecting to run our operation at optimal level for this segment for the remaining months of 2022.

Next. For the Fertilizer and Methanol segment, we achieved higher plant utilization rate in quarter 3 2022 at 94% as compared to preceding and corresponding quarters. We have seen notable performance at our Urea facilities with reliable Methane supply, which resulted in improved utilisation for invested plant reliability.

For methanol, we managed to complete turnaround activities in mid-July 2022, which translated into higher volume in quarter 3 compared to preceding quarters but lower than corresponding quarter, which partially affected by water supply disruption from [Jabatan Bekalan Air Labuan] coupled with some reactive maintenance activities in September 2022. Nevertheless, we are expecting for Fertilizer and Methanol segment to continue running at optimum rate for the remaining months of 2022.

That sums up the operational review for the quarter. Moving on to the market review with Mr. Shakeel.

Shakeel Ahmad Khan:

Thank you, Mr. Zamri. Good evening, Shakeel here. Let's proceed with the market highlights.

In quarter 3, 2022, product prices were mostly lower compared to previous quarter mainly impacted by the ongoing Russia-Ukraine war and decline in crude oil prices, mainly driven by increasing supply from U.S. and OPEC plus, aggravated by fears of inflation. In general, demand was muted impacted by lower margins and poor downstream demand and prolonged China lockdowns as a result of the zero-COVID policy.

Ethylene price is forecasted to be soft as buyers remain cautious amidst squeezed downstream margins. Pre-Lunar New Year restocking activities may provide a slight uptick, but poor demand is expected to persist across regions on economic uncertainty. Supply is balanced in view of ongoing cracker outages in Northeast Asia and Southeast Asia and is expected to improve by December upon cracker restart.

Moving on to Polymers. Price forecasted to be soft in view of slow demand approaching year-end. Despite slight seasonal demand pick up, it has failed to lend support in view of strong USD and fears of inflation. Supply is also anticipated to increase with U.S. cargoes continuing to flow into SEA market as an alternative home from the weak demand in China.

Next, for MEG. Price is forecasted to be stable supported by a slight improvement in polyester downstream demand, mainly due to festive seasons in Q4 and upcoming Q1. Supply is also expected to be ample as new MEG capacities are scheduled to come on stream in the next quarter. China's decision to continue implementation of zero-COVID policy will add to the already uncertain downstream market.

As for Paraxylene, price is forecasted to be stable amid sufficient supply as most producers are running at optimal rates with minimum scheduled maintenance. Upcoming festivals towards year-end and early 2023 will provide some support to downstream Purified Terephthalic Acid, PTA, and Polyester demand. However, further demand will be hampered by uncertainty of China's lockdown.

Now let's proceed to Fertilizer and Methanol segment, starting with Urea. Price is expected to be soft as small capacities are resuming operations, coupled with China's export volume. Demand is weak with no major planting seasons in Q4, except for India. This may put further pressure on prices as producers have limited outlet to channel their volumes.

Moving on to Ammonia. Market is forecasted to be stable with limited supply following plant outages and shutdowns in SEA market. Demand for downstream Acetonitrile, ACN, and Caprolactam is stable, especially from global phosphate producers that used to rely heavily on Russian supply before the Russia-Ukraine crisis.

Lastly, on Methanol. Price is forecasted to be stable, limited by slower demand as buyers will be focusing on fulfilling term commitment towards the year-end instead of spot purchases. This is, however, balanced by potentially lower production as most gas supply will be prioritized for residential use during the winter season. This will result in supply curtailment by year-end.

That's all on the market review. Back to you, Mr. Yusri.

Mohd Yusri Mohamed Yusof:

Thanks, Shakeel. Moving on to our sustainability metrics. We note that sustainability activities has picked up a lot of interest of late and has been key topics of interest in our recent investor engagements. We, at PCG, are indeed committed to ensure that our business practices are in line with global ESG practices, and we'll continue to uphold on our actions towards ESG practices and commitments.

Starting with a review on the economy pillar, which focus on our business operations. This year, we saw a series of major turnaround as we discussed earlier at our manufacturing facility. And during this period, we ensure that all activities are done with strict adherence to HSE practices and also COVID-19 protocol. We completed all our turnaround activities early in the third quarter, following which group plant utilization for the quarter improved to close to 97% from 72% in the preceding quarter. These have subsequently, as mentioned before, improved our sales volume as well.

Moving on to the environmental pillar. We start by looking at our energy intensity year-to-date September. For the first 9 months, our energy intensity at 17.29 gigajoule per tonne of production is higher than the corresponding period, mainly due to the lower production volume from the activities that we saw at manufacturing facilities. However, for quarter 3 2022, the energy intensity is lower compared to quarter 2 2022, as we have more stable plant operations in the quarter post turnaround activities.

CO2 equivalent emission is at 5.22 million tonnes year-to-date, which is lower against the same period last year. This is partly due to major shutdowns that we had earlier described and also as a result of our continuous energy efficiency project implementation, such as upgrading of our categories, which gives us more yield and less emission and also some equipment optimization efforts.

GHG emission intensity is higher than corresponding period due to the same reason, which is lower production volume as experienced for the first 9 months.

We have previously shared our commitment to reduce our GHG emissions. As of September this year, we have implemented the projects identified to ensure we can contribute towards the reduction of these emissions. As mentioned earlier, we have changed some catalysts to a better catalyst. We have started optimization on the operations equipment to ensure that we now contribute at least 23,000 tonnes of CO_2 equivalent reduction.

We expect to be able to reduce for this year equivalent to 100,000 tonnes of CO_2 equivalent by the end of the year. Waste recycling for 9 months of this year was at 77%, which is higher than the corresponding period as we send more waste for recovery in our activities. We have several plans in place and activities ongoing to increase the recycling rate towards our target of 80% by year-end.

On our social outreach, we have recently started our corporate social responsibility program. We will have more to share on this at the end of the year.

With regard to social risk assessment, target for 2022 is to close the gaps identified in the previous assessment. The main focus is to strengthen the human rights element within the supply chain management. Towards closing these gaps, we have conducted engagement on PETRONAS Contractors Code of Conduct on Humans Right with contract owners and contractors. And we ensure – we will ensure the inclusion of this Code of Conduct in our kick off meetings and HSE plan and conduct the right assessment on our contractors. To date, I'm happy to share that 60% of the identified gaps have been closed.

Ladies and gentlemen, we have also marked a significant milestone on our sustainability reporting journey. When in September this year, we published our first task force on climate-related financial disclosure report or TCFD report. This report can be found on our website under the sustainability tab. I will encourage you to have a look at it for more details on our ESG-related efforts. Do provide us feedback on any suggestions on how we can be better.

Ladies and gentlemen, before I end the presentation, a brief recap of our 2022 focus areas and our expectations for the rest of 2022. On our growth commitment, we have completed the merger and acquisitions of Perstorp Holding in October. Our way forward with Perstorp is to preserve and grow the business and to ensure the completion and deliveries of all ongoing projects as planned.

Next, an update on Pengerang Integrated Complex. I believe, by now, you know that we had a fire incident within the complex at the end of last month. This affected the utilities line under construction and is not within our facilities. However, when we did preliminary assessment, there is no damage on our petrochemical facilities, but the plant had to be shut down due to the integrated nature of the whole complex and to ensure that we manage the well-being of our employees, workers and the surrounding communities.

Admittedly, though, not within our facilities, this is quite a setback for us, but it is necessary that we shut down to properly investigate the extent of the incident. Repair work is targeted to complete by end of the year, and we hope to restart the Petchem complex within first quarter 2023, once all safety measures and other considerations have been undertaken.

Moving on to the progress of our other ongoing project. The Melamine plant in Gurun, the Nitrile Butadiene Latex plant in Pengerang and the Specialty Ethoxylates and Polyol plant in Kertih are all progressing well according to their respective schedule.

Next, let's look at a bit on the business environment. After the 2-year rebound from COVID-19 led recessions, concerns are rising over slow economic growth, fears of recession amidst rising inflationary pressure. Cost of living has been on the rise with high inflation pushing up prices of energy and food commodities. Banks have been tightening fiscal policies to keep inflation in check, though economic growth has been stifled and the slowdown is expected to continue. The ongoing Russia-Ukraine is expected to continue, and it will cause uncertainties into the economy equation with no resolution yet to be in sight.

Crude prices have come off from its May high of over $120 per barrel, and it is currently hovering around mid-$80s per barrel. In the near term, crude is expected to stabilize with OPEC plus commitment to cut production, though this will be balanced against demand that is expected to see some weakening on slower economic growth.

As we progress in the year, we have seen slowdown of economic growth and the outlook has weakened. In the second half of the year, petrochemical product prices have come off quite a bit since the highs that we saw in the first half of the year. With a weakening outlook, optimizing our operations and managing safe operations is critical for optimum productivity while maximizing the value of our sales is key towards sustaining our business.

It's a month away to the end of the year. And if I may recap the year, we had major turnaround shutdowns in the first half of the year, which saw our plant utilization rate drop. We have since came back and maintained stable operations, and we are optimistic that we will meet our year-end target of at least 90% group PU if volume comparable if not better than 2021.

Product prices are weaker in the second half of the year compared to the first. We closed the acquisition of Perstorp in October, and as such, we will be consolidating Perstorp's performance into PCG starting the fourth quarter of the year. All in, we are looking to close the year comparable to how we did in 2021.

And this brings me to the end of our presentation, and let's open for Q&A.

Zaida Alia Shaari:

Thank you, Yusri. Ladies and gentlemen, we apologize again for all the technical glitches. Rachel, I shall now hand over to you for Q&A. Thank you.

Operator:

(Operator Instructions) Your first question comes from Raymond Yap from CGS.

Raymond Yap:

I have a question on finance income, which is MYR 276 million. Could you give me a bit of a background as to why the trade payables was deferred, leading to this gain? And is this entirely due to the Pengerang plants and doesn't involve the F&M side?

Second question is on the sharp drop in associate profits compared to the second quarter. Well, I think it was a small loss. Could you give us a bit of background as well as to why this is happening?

And finally, on Perstorp, I know that you're going to consolidate the numbers in the fourth quarter. Perstorp didn't release the third quarter numbers, and I think it would really help if you could give us some estimate as to what kind of numbers are you expecting to consolidate in the fourth quarter for Perstorp.

Mohd Azli Ishak:

All right. Thank you, Raymond. I'll try to answer all 3 questions and then maybe Yusri can chip in. On the first part, the finance income gain is basically -- yes, you're right, it's related to the Pengerang. So this is where we get support from all parties with regard to the deferment, which is a benefit to our Petchem facility. And that is basically because the deferment of our payables is long term, and we need to be fair valued, and that's basically the gain on the deferral.

On the PAT drop, that's basically -- I mentioned earlier in my section. That's basically due to 2 main contributors, our JV with BASF; BASF PETRONAS Chemicals Sdn. Bhd. The main reason is basically: one, is due to a softening spread for Acrylic Acid as well as Oxo product, coupled with the undergoing turnaround for quarter -- during the quarter 3. So that's basically the explanation of a lower contribution from BPC.

The second reason is basically also due to lower contribution from our JV with INEOS, IPASB due to the softer spread on Acetic Acid. So that's basically the main contribution why -- the main reason why the share -- the drop in the profit from JV, [INEOS.]

On the third question for Perstorp, yes, like what Yusri mentioned, we will consolidate Perstorp's results in quarter 4 for PCG Group. The reason why Perstorp's cease to publish the quarterly results because they don't have any reasons to do so. Previously, order a requirement for them to publish their results mainly to the lenders requirement. Currently, there's no such requirement since we already prepaid and settled most of the external loans.

But without giving too much detail in terms of how they have to defer because they're only 1 month into our book, but suffice to say that, as you will notice, Raymond, the specialty chemicals globally as well as -- especially in the Europe has experiencing a downturn due to weaker demand, coupled with higher feedstock costs and utilities costs. We have seen most of Perstorp peers who are listed recorded a lower quarter 3 results. So without giving too much details and too specific, we believe Perstorp's performance for quarter 4 will be in line with the peers. So I hope, Raymond, that answers your 3 questions.

Operator:

The next question is from Sumedh Samant from JPMorgan.

Sumedh Samant:

This is Sumedh from JPMorgan. I have a few questions. Firstly, I recall you said that there was some maintenances on gas side for some of your Olefin assets. Can you please let us know or can you please tell us to why exactly was that the case? And do your assets have anything to do with the Sabah-Sarawak gas pipeline, which had some issues recently? I just want to understand whether that is going to be any issue for the company.

And secondly, if you could give us any guidance on the gas contract renewals for some of your crackers, I mean your cracker in 2023.

And the third question, I have is, I just want to understand on your unit cost basis, you did say that there was increase in energy cost, utilities cost, et cetera. So what was exactly the reason? And again, if you could give us guidance on the unit cost as a percentage of total cost, that would be very useful.

Mohd Azli Ishak:

Okay. Thank you, Sumedh. I think I'll try to attempt to answer the first question. As you know, as widely published in the media that the incident fire explosion at the Sabah-Sarawak gas pipeline incurred in Lawas, the Sarawak part. But nonetheless, it does not affect the fixed gas that goes to our Urea plant in Sabah. So there's no such implication or adverse impact to our plant. So I think just to make clear on that.

Second is with regards to the gas contract renewal. It is ongoing because the contract renewal -- contract expiry will be in the middle of next year. But then again, we took a proactive approach to start negotiation with PETRONAS as a fixed gas supplier earlier so that this can be done much expeditiously. Of course, similar to other gas price renewal, we will negotiate hard to ensure that we -- PCG will get the best competitive terms as per the previous terms.

Regards to unit cash costs, maybe I probably want to pose a question back to you. Is there any specific cost details that you prefer?

Sumedh Samant:

Sorry, just perhaps some number on the percentage of total COGS or total cash cost that you could give us on the energy, utilities cost side because I recall you specifically mentioned -- your team specifically mentioned that the energy cost increase, which is again why the EBITDA margins came down. I just wanted to get some color on that.

Mohd Azli Ishak:

Okay. That's clear to me. Thank you for the clarification. So if 100% is the cost of revenue, of course, feedstock, feed gas contribute majority of it. The utilities cost, potentially around about 10% to 15% of total cost of revenue.

Sumedh Samant:

Understand. And you are saying that this is including the depreciation, correct? So this is total cost or this is excluding the depreciation.

Mohd Azli Ishak:

Total cost, yes, including the depreciation, cost of revenue.

Sumedh Samant:

Okay. I understand. And I apologize. Let me just ask a quick follow-up on the first question. I recall you also said that there were some maintenances on ethane supply and which is why the LPG utilization, propane, butane utilization increased. But that also is just the supplier maintenance and has nothing to do with any issues with respect to the gas pipelines, correct?

Mohd Yusri Mohamed Yusof:

No, no, that was [incorrect.] The gas pipeline was in Sabah-Sarawak. So it was a normal one of the GPS processing plant underwent a normal shutdown. Not really, so it is already planned.

Sumedh Samant:

Okay, okay. So yes, I just wanted to make sure that this was planned and not had like an unplanned issue? And maybe one last thing. Okay. And the second question, right, which you told me -- told us about that you have some competitive discussions ongoing. If you could give us some guidance on what you are expecting on the gas cost increase, that would be useful if you could give us some number.

Mohd Azli Ishak:

Well, Sumedh, of course, as a buyer, we would like best possible, we get the same terms as what we are enjoying currently. If you noticed, no -- in 2016, when the first Ethane contract was renewed, the new term was somewhat similar to the previous terms. So that's where our starting position is, and we cannot tell you more because we are still in the midst of early part of our negotiation with PETRONAS.

Operator:

(Operator Instructions) Your next question is from Ho Meng from UOB.

Ho Meng Kong:

I just have one question. I hope you can comment because looking through the news flow, actually, it was reported in October that according to the Sabah Minister Hajiji, PETRONAS has kind of agreed in principle to sell 25% stake of your SAMUR plant and some of the assets in (inaudible) the Sabah state, and he stated that the timeline wise is latest to be completed by this month. So hopefully, you can comment on that. And if it's true, what should we expect sort of the financial impact?

Mohd Azli Ishak:

Okay. Thank you, Ho Meng. Basically, PCG and Sabah State, together with our -- as part of PETRONAS Group, we are in discussion with Sabah state government on this. There's nothing that has been materialized as of now, and we will make the proper announcement if it's required.

Ho Meng Kong:

Okay. So just to borrow an example quickly when PETRONAS Dagangan -- when they sold their -- part of their stake of their LPG business in Sarawak to PETROS. They actually recorded a gain of disposal. So should we realistically expect the same things in your potential negotiations?

Mohd Azli Ishak:

I cannot comment more on that, Ho Meng, because we have not -- like I mentioned earlier, finalized or agree on this yet. And we will do so -- and we'll make a proper announcement when we are required to do so.

Operator:

There are no further questions at this time. I'll now hand back to Ms. Alia for closing remarks.

Zaida Alia Shaari:

Thank you, Rachel. Thank you, ladies and gentlemen, for your participation this evening. If you have any further questions, please reach us through e-mail or phone.

Mohd Yusri Mohamed Yusof:

Thank you.

Mohd Azli Ishak:

Thank you.

Unidentified Company Representative:

Thank you. Thanks, everyone.

Mohd Azli Ishak:

Happy weekend.

Operator:

Thank you. That does conclude our conference for today. Thank you for participating. You may now disconnect.

END