# PETRONAS CHEMICALS GROUP BERHAD

## 4Q2022 ANALYST BRIEFING

## 23 February 2023, 6pm Malaysia

**Management attendees:**

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| 1. | **Mohd Yusri Mohamed Yusof**<br>Managing Director & Chief Executive Officer | 5. | **Shakeel Ahmad Khan**<br>Chief Commercial Officer |
| 2. | **Mohd Azli Ishak**<br>Chief Financial Officer | 6. | **Debbie Chiu**<br>Head, Specialty Chemicals |
| 3. | **Zamri Japar**<br>Chief Manufacturing Officer | 7. | **Zaida Alia Shaari**<br>Head, Investor Relations |
| 4. | **Yaacob Salim**<br>Head, Strategic Planning & Venture | | |

Operator:
Good day, and thank you for standing by. Welcome to PETRONAS Chemicals Group Fourth Quarter Results Conference Call. (Operator Instructions). I would now like to hand the conference over to your speaker today, Safarah Salim. Please go ahead.

**Safarah Salim:**

Thank you, Nadia. Good evening, ladies and gentlemen. Welcome to PETRONAS Chemicals Group Berhad Analyst Briefing for the fourth quarter and year ended 2022 financial results. I'm Safarah from the Investor Relations team. Thank you for joining our call this evening. You should by now be able to access and download the financial results from the Bursa website as well as the presentation materials in our corporate website or in the link provided in the events invitation.

Ladies and gentlemen, our senior management in attendance today is led by our MD/CEO, Mr. Mohamed Yusri, our Chief Financial Officer, Mr. Azli, Mr. Zamri, Chief Manufacturing Officer, Mr. Yaacob, Head, Strategic Planning & Ventures, as well as Ms. Debbie Chiu from our new Specialty segment. We also have online with us, Ms. Alia, Head of Investor Relations.

Now ladies and gentlemen, a quick highlight. Today, you will see a new presentation deck, processed from feedback that we received from you in the past. We will only have 2 speakers today, namely Mr. Yusri and Mr. Azli. We hope this presentation format will serve you better, and we welcome your feedback for further improvements.

Now without further ado, I'll hand over the call to Mr. Yusri.

**Mohd Yusri Mohamed Yusof:**
Thank you, Safarah. Good evening, ladies and gentlemen. Welcome. Thank you for joining us today. We will begin our session today with the market highlights for the year 2020. In 2020, global economy slowed down due to recessionary and inflationary pressures amid the ongoing geopolitical crisis and COVID restrictions, particularly in China. Central banks tighten monetary policies to curb inflation, which weighed down the global market. As a result, 2022 average -- in 2022, average global GDP growth was lower at 2.9% as compared to 5.5% in 2021.

Global PMI contracted to 48.6 in 2022, a decline from what was 54.2 in 2021, mostly due to softened demand globally for finished products, which led to lower new orders and production rates. Nonetheless, we saw the benchmark Brent crude oil price averaged $101 per barrel as compared to $71 per barrel in 2021, largely due to supply limitation amidst the Russia-Ukraine war and overall improved demand following the easing of COVID-19-related restrictions. Petrochemical prices were assessed higher across all products against the 12-month period of 2021, in line with higher energy prices with the exception of MEG and methanol.

All in all, to us, 2022 was 2 very different period where we see the first half and the second half contrasting each other. The first half of the year saw strong energy prices spurred by Russia and Ukraine conflict, while the second half of the year was impacted by rising inflation, which led to a slowdown in economic growth. That's our backdrop of the year for 2022. Now let me take you through the highlights of PCG.

Ladies and gentlemen, I would like to start with a quick recap on our growth strategy. And with that, I would also like to introduce our new member, Ms. Debbie Chiu, which was introduced by Safarah earlier. As we introduced a new segment, specialty chemicals, she is assuming the role of Head of Specialty Chemicals for PCG. As our growth strategy, we do have a 2-pronged strategy for the business and the growth. First prong is to sustain strength in basic petrochemicals and the second is to selectively diversify into derivatives, specialty chemicals and solutions. And we have been very consistent in our execution and delivery of this strategy.

And we started our diversification with the acquisition of BRB in 2019, adding silicone-based lubricants and chemicals to our portfolio. And in 2022, with the acquisition of Perstorp, we have further expanded the second prong strategy and realized our aspiration to establish a third operating segment that is a specialty segment comprising of both currently BRB and Perstorp, and this has been included in our fourth quarter results. With this addition, we are expecting to achieve our medium-term target of 30% additional revenue from nontraditional business ahead of our 2030 timeline. We track our planned utilization for our Malaysian operations. In 2022, we saw higher maintenance activities compared to 2021 with 4 turnarounds and 2 pitstops completed. Due to these major activities, our plant utilization rate for 2022 came to 89% against 93% in 2021.

Our total production is comparable at 10.4 million tonnes, contributed by Perstorp production volume despite lower production from our Malaysian operation. Sales volume was also slightly higher by 1% at 8.3 million tonnes with additional volume from Perstorp against 8.21 million tonnes in the financial year of 2021. On the market front, prices were higher year-on-year across all products in tandem with higher crude oil prices, as I said earlier, methanol and MEG as the lockdown in China saw both reduced MTO operations and reduced demand in polyester. Against this backdrop, we recorded MYR29 billion in revenue, 26% higher than the corresponding period, driven by higher product prices, coupled with favorable foreign exchange impact and additional revenue from Perstorp. EBITDA and PAT were both lower at MYR8.09 billion and MYR6.33 billion, respectively, mostly due to higher fuel cost and energy utilities and lower profit share from our JV and associates. Subsequently, EBITDA margin was lower at 28%.

I'll have Azli to take you through the details of the segment and financial performance next. Azli.

**Mohd Azli Ishak:**
Thank you, Mr. Yusri. Ladies and gentlemen, very good evening, and thank you for joining us. As mentioned by Mr. Yusri earlier, we have realized our aspiration to have a specialty segment. So with the addition of the new segment, we have relook at how best we can better serve and

better share our performance with you. So I will now take you through the group's performance by segment.

So let's start with the Olefins and Derivatives segment on Page 3 of the deck. So I will be focusing on the year-on-year changes comparing fourth quarter 2022 against fourth quarter 2021. So the market has declined against the corresponding quarter with GDP growth declined to an average of 1.5% and PMI moved into a contractionary territory as demand has softened and the manufacturing sector has slowed. While the benchmark Brent crude oil prices averaged 11% higher in quarter 4 2022 at $89 per barrel. Petrochemical product prices within our O&D segment were largely lower with the exception of paraxylene and MTBE that has recorded higher prices due to higher crude oil price.

We recorded a strong plant utilization at fourth quarter 2022 at 99%, albeit slightly lower than quarter 4 2021, as we experienced a slowdown at our aromatics and glycol plant. Our production volume was slightly lower, but nonetheless, our sales volume had improved by 12% for the quarter. Following that, the revenue for the segment increased 2.6% to MYR3.5 billion on higher sales volume, namely ethylene and polymer and backed by favorable ForEx impact. EBITDA was lower year-on-year at MYR372 million compared to MYR732 million, a decline of 49%. This is largely due to higher energy nd utilities costs, higher fuel costs and higher fixed costs at the back of maintenance costs at some of our plants as well as lower spread mainly from the ethane related products. Our PAT for the segment declined significantly in line with lower EBITDA, compounded by the share of loss from our JV and associates, namely our JV with BASF for the acrylic acid and oxo products as well as our JV with Idemitsu for the Styrene Monomer business.

So now let's move to Fertilizer and Methanol segment on Page 4 of the deck. The Russian-Ukraine war that began in March 2022 saw a sudden spike of crude oil and natural gas prices on supply concerns following reduction of Russian oil and gas. As producers found alternative forces, the Europe faced a milder winter. Natural gas prices declined on lower demand, subsequently seeing prices for urea also decline, even while ammonia prices remain elevated on supply shortage due to the [sanction] of Russian products. Methanol prices declined year-on-year on lower demand following reduced methanol-to-olefins operations in China on continued lockdown and the decline in the European demand following high electricity charges affecting their production costs.

Our PU improved to 100% against 83% on a corresponding quarter on lower turnaround days and overall better plant performance, seeing both production and sales volume improved. In line with improved sales volume and favorable ForEx impact, our revenue for the segment increased by 8% to MYR3.5 billion. However, EBITDA declined 12% from MYR1.6 billion to MYR1.4 billion, largely due to lower spread on product prices, higher variable costs and sales tax, particularly in Sabah as well as positive ForEx impact.

Now moving forward, from fourth quarter of 2022, we will now have established a new specialty segment that houses our specialty chemicals business for PCG. That will be on Page 5 of the deck. For the performance of the Specialty segment, we will compare the performance for fourth quarter 2022 against fourth quarter 2021. It is important to note that the contribution from Perstorp acquisition are only consolidated officially from October 2022 onwards. In quarter 4 2022, we saw as the Specialty segment recorded lower revenue and lower EBITDA attributed to lower demand as well as high energy costs, particularly in the European region as well as higher raw material costs that eroded the margin.

However, looking back at 2022 as a whole, the performance of the Specialty Chemicals segment was still commendable compared to 2021 with higher revenue year-on-year following increased product prices, despite lower sales volume but lower EBITDA due to weaker margins from higher costs. The change in trend was particularly visible with the market dynamic changing since summer 2022, whereby higher sales prices were offset against higher energy costs and long market in second half of the year, leading to weaker demand and margin. In general, the sales volumes and product mix was lower in second half of 2022 due to lower end market demand and aggressive customer inventory destocking. For the animal nutrition market segment, higher feedstock costs and lower customer profitability has led to lower sales to customers.

Next, let's look at our group performance for the full year of 2022 on Page 6 of the deck. As highlighted by Mr. Yusri earlier, our PU was lower compared to the same period last year at 89% versus 93% due to 4 turnarounds and a couple of pitstop activities at various sites, namely our aromatics plant, our derivative plant in Kerteh, methanol plant in Labuan as well as our fertilizer plant in Sipitang, Sabah. Nonetheless, with the inclusion of Perstorp on the fourth quarter, our total production and sales volume were comparable at 10.4 million tonnes and 8.3 million tonnes, respectively. Though market was weaker in the second half of the year compared to the first, group revenue surged 26% to MYR29 billion.

At MYR8.1 billion, EBITDA was 2% lower against last year, mainly due to higher fuel, energy and utilities costs as well as higher planned maintenance costs. EBITDA was also impacted by higher feedstock costs and margin compression, which also impacted our European subsidiaries. Correspondingly, EBITDA margin declined from 36% to 28%. PAT was lower at MYR6.3 billion, against MYR7.3 billion last year, in line with lower EBITDA, but most importantly, due to lower share of profit from JV associates and unrealized ForEx loss.

Now let's proceed to the cash flow and balance sheet statement. We first take a look at the cash flow on Page 7 of the deck. Year-to-date for CFFO, net cash generated from operating activity was lower by MYR137 million at MYR8 billion, mainly due to a higher taxation paid and partially offset by higher interest income received. Next, on the right side of the consolidated cash flow. Net cash used in investing activity was higher at MYR11.4 billion, mainly due to payment for acquisition of Perstorp and higher purchase of property, plant and equipment for the turnaround that we have incurred this year. At the end of the period, our cash balance remained healthy at MYR8.9 billion with ample credit headroom and stable gearing ratio at 7%. This puts us in a financially strong position to continue pursuing our growth strategies.

Looking at our balance sheet on Page 8 of the deck. Total assets were higher by MYR9 billion at MYR55 billion, mainly due to higher intangible asset due to recognition of trademark, patterns, technology know-how and goodwill arising from the acquisition of Perstorp. Also contributed to higher total assets were higher property, plant and equipment, project costs incurred in Pengerang, as well as PC Isononanol including capitalization of turnaround costs related. Total equity was higher contributed by profit generated during the year and ForEx translation reserve due to the weakening of Ringgit Malaysia against the dollar, but partially offset by the dividend that we have paid during the period.

As you all know and notice from our Bursa announcement, the Board of the company has also declared an interim dividend today, at $0.16 per share, amounting to MYR1.3 billion, which will be payable on 23rd March 2023. This total dividend declared for the full year 2022 amounts to MYR3.3 billion, representing 52% of PATANCI, which is in line with our dividend policy.

That's all for me. I'm handing back to Mr. Yusri for the sustainability and way forward.

**Mohd Yusri Mohamed Yusof:**
Thanks, Azli. Let's move on to our sustainability related progress and development. Our sustainability program, as we've been talking previously are always built upon 3 main pillars: economic, environment and social with strong foundation of governance. As a responsible chemicals producer, we are committed to our pledge of net zero carbon emission 2050 roadmap, that we rolled out last year, that sets our reduction goal and pathways. Our commitment on carbon footprint reduction not only focuses on reducing our emissions, we

are also progressively pursuing our new plastic economy agenda, a circular approach to rethink plastics by turning problems into opportunities through our 4 key work streams that is innovation, infrastructure, education and community involvement in all our green campaigns.

Looking at the year 2020, we have enhanced our sustainability agenda and made sustainability at the core as our focus in order to better embed the practices within our organization. One of the key enhancements that we made was adopting a more strategic approach towards driving sustainability, including consolidating environmental topics, renaming focus area, aligning selected UNDGS and even providing different platforms. Spoken at length earlier on our operational details, commercial and financial performance, let's focus on the other 2 pillars, starting with environmental pillar.

That's the middle piece of the slide that you are seeing. In 2022, we mainly focus on climate focused agenda with our operational units implementing initiatives to realize our net carbon zero emissions road map. Setting the aspiration to reduce our emissions, we had earlier set an accumulative target to reduce 100,000 tonnes of CO2 equivalent from our Malaysian operation by 2024 with continued focus on operational optimization at all our operating units, I'm happy to report that this year, we have actually achieved a total reduction of Scope 1 and Scope 2 of about 108,000 tonnes of CO2 equivalent by the year-end of 2022, well ahead of what we were planning, and we will continue driving these reduction efforts moving forward.

Extending our review into Scope 3 emissions, and we have initiated a detailed assessment in 2022 to basically develop a baseline for all 15 Scope 3 categories of emissions. This is expected to enable us to better calculate the accuracy of Scope 3 emissions of our operations and identify opportunities to further reduce our carbon emission and our carbon footprint across our supply chain. Our waste recycling rate for the year was higher than 2021 at 77% versus 75%, mostly due to a higher amount of waste sent for recovery post the turnaround that we did.

Moving on to the social pillar, our corporate social responsibility are planned and implemented to support PCG sustainability agenda. Through various programs such as Be Green, our ecoCare mangrove rehabilitation program, community development and well-being program and the plastic sustainability and new education program, held at our various operating units, we are able to reach to over 300,000 community members. On governance aligns our call for sustainability at the core, we have ensured, board oversight for sustainability methods. This was achieved through the enhancement of our risk management committee to Sustainability and Risk Management Committee for the Board. This reports to the new -- sorry, for the management committee, and this reported to the new Board Sustainability and Risk Committee previously known as Board of Risk Committee.

Additionally, a sustainable development steering committee was formed to steer our sustainability agenda across all our operating units to include the sustainability in their day-to-day activities. We have also been active in closing the social risk assessment gaps identified in 2021. At the end of 2022, 88% of the identified gaps have been closed, and the remaining relates to the enhancement of contractors code of conduct on human rights implementation in our supply chain, and we expect to close this by the end of quarter 1 this year, 2023. Another element of human rights that we worked on in 2022 is diversity and inclusion. To that effect, we have adopted PETRONAS's diversity and inclusion statement towards fulfilling our commitment to uphold diversity and inclusion in our workplace.

Now let me take you briefly to our immediate market outlook. Generally, on the immediate term, we view fairly high level of feedstock prices, geopolitical tension and progress of China's border reopening as the key factors to be monitored in the market space. Just as the announcement of loosening of COViD-19 restrictions and China's opening came in, we saw a slight uptick for the O&D segment for buying and restocking activities prior to the Lunar New Year recently. And recently, we have seen buyers returning on refreshed demand as China plants and downstream units resume operations. Products in the O&D segment are expected toremain stable, while ethylene is seeing some firmness on strong spot demand.

Both polymer and MEG are also seeing some improvement post the Lunar New Year. Paraxylene is also expected to be stable despite we see some short supply due to regional turnaround, but the demand for the downstream PTA remains limited. The F&M segment is expecting urea prices to be bearish with oversupply and planting season yet to -- and planting season yet to kick in. Demand is expected to pick up in March as markets anticipate an Indian tender by the end of February. Meanwhile, in Southeast Asia, buyers are delaying new purchases until after the raining season. Methanol price is expected to be firm, mainly due to tight supply with some planned maintenance in Southeast Asia and the potential support on Indonesia's new biodiesel blending mandate to increase the use of methanol.

For our specialty segment, improvement in the macroeconomic environment and management of feedstock will be key to its performance. While elevated gas prices are seen globally with the Russia-Ukraine war ongoing, the European region is particularly vulnerable. We expect modest recovery within the first quarter of this year as most inventory destocking activities completed. Nonetheless, the uncertainty of China's reopening and its impact on supply chain and the inflation remains a key concern affecting the demand of specialty chemicals. All in all, the outlook remains challenging with uncertainty and volatility playing in the mix of concern. We will continue our focus on our pricing excellence and managing our product mix in this challenging environment.

Ladies and gentlemen, before we go to Q&A, let me share with you our focus area for 2023. As a start, our goals remain we aim to achieve 50% improvement in cash flow by 2025 by developing new sources of revenue to ensure sustainability of the company, we aim to achieve 30% additional revenue from non traditional business such as specialty chemical and sustainable solutions by 2030 and our net zero carbon emissions target by 2050 in doing our part to climate change. On the 50% improvement in cash flow by 2025, we continuously are refining our initiatives for operational and commercial excellence to ensure a profitable business and our growth through delivery excellence and diversification initiatives like our green and bio agenda.

The acquisition of Perstorp brings us closer to achieve our target of creating 30% additional revenue from nontraditional business and delivered on our growth commitment to diversify into specialty chemicals and solutions. Our way forward in Perstorp is to continue preserving and growing the business and to ensure completion and deliveries of current ongoing projects, namely our project in India. Being a conscientious player in the petrochemical industry, PCG recognizes our responsibility to balance out the risk of climate change with a mandate to produce and operate in sustainable manner. This includes actively mitigating the effect of climate change and other sustainability risk while reviewing our growth projects and opportunities, and we will continue to do this in earnest in 2023.

On growth projects, the focus is to ensure a project that is currently ongoing, the Melamine plant in Gurun, the Nitrile Butadiene Latex plant in Pengerang and the Specialty Ethoxylatesand Polyols plant in Kerteh will be progressing as per their schedule and plan so that we can deliver our growth commitment as we have stated before. On our net zero aspiration, we have spoken about our achievement earlier. This is namely within our Malaysian operation. With Perstorp, we now have entered into the European market where the ESG landscape has matured. We are expecting new challenges in the areas of regulations and disclosure requirements. We aim to align the disclosure of PCG's and Perstorp's environmental data and target to ensure compliance with all reporting requirements and global EESG benchmarks and work toward improving our own disclosure.

That concludes what I have today. Let's go to Q&A.

Operator:
(Operator Instructions) Now we're going to take the first question. And the question comes from the line of Desmond Law from Citi.

Desmond Law:
I have a few questions for you. So the first one is, given the ethane feedstock contracts for OPTIMAL will come into expiry in November 2023, right? So what is the process of negotiation with the parent? And do you expect any gas price increase similar to previous contract expiry in 2016? And then secondly, would you mind providing the Perstorp stand-alone revenue and EBITDA contribution in the fourth quarter? I mean, what do you expect for 2023 EBITDA margin for Perstorp? And then on project...

**Mohd Yusri Mohamed Yusof:**

Desmond, sorry. We lost you earlier. Can you repeat your question again? We only got ethane to OPTIMAL. And after that we lost you.

Desmond Law:

Okay. All right. Can you hear me now?

**Mohd Yusri Mohamed Yusof:**

Yes, yes.

Desmond Law:
Yes. So given the ethane feedstock contract for OPTIMAL cracker will come into expiry in November 2023. So what is the progress of negotiations with parents? And do you expect any gas price increases similar to previous contracts and expiry in 2016? And then second question, would you mind providing Perstorp stand-alone revenue and EBITDA contribution in the fourth quarter? And then what do you expect for the 2023 EBITDA margin for Perstorp? And then thirdly, for projects for the rapid downstream complex, when do you expect to start commercial production and recognizing revenue? And then lastly, for the SAMUR Urea projects, how do you plan to use the cash proceeds of 25% disposal of it? Any chance of special dividends?

**Mohd Azli Ishak:**
Okay. Thank you, Desmond. There's a lot of list of questions there. Let's tackle the first question with regards to our ethane contract. Yes. Currently, PCG is in discussion with PETRONAS with regards to the expiry of the C2 and C3 gas contract. So currently, we have yet to have a final lending and based on the past extension of our C2 contract back in 2016, we expect that the renewal of the contract to be no materially different from what we have right now. So that is our expression as PCG. But I just want to remind -- I just want to reiterate that our negotiation with PETRONAS is yet to be formalized or finalized.

So on the second question, we do not disclose a stand-alone EBITDA, EBITDA margin of Perstorp. That contribution of Perstorp will be embedded as part of the specialties segment, the new segment that we have introduced. So the sole contributor of this specialty segment will be BRB and Perstorp. But moving forward, we believe and what we have seen in quarter 4, the performance of Perstorp are in line with their peers for quarter 4 as well as for the full year of 2022.

**Mohd Yusri Mohamed Yusof:**

On Pengerang, we are expecting COD for the whole site to be by, hopefully, end of quarter 3, early quarter 4 this year as we are starting up the complex currently. I think the refinery and cracker has been running quite well, stably at the rate of (technical difficulty) plant is being started up. We have currently 5 plants. They are in various stages, 3 plants are already at the rate of maybe 80%, 2 more plants are being started up. And as we get those plants running within this or next quarter, we will be going through our performance test run and post performance test run, then targeting by quarter 3 and then we will be declaring COD.

**Mohd Azli Ishak:**

On your final question with regards to the disposal of 25% interest in our fertilizer plant in Sabah. We are still in a discussion with the Sabah's state government with regards to the final definitive agreement, the FDA. So currently, that particular agreement is still in negotiation, and we will make the announcement if required on the terms of the transaction. Currently, there's no plan for any dividend arising from this transaction. I hope we answered your question, Desmond.

Operator:
(Operator Instructions) And the next question comes from the line of Vivek Rajamani from Morgan Stanley.

Vivek Rajamani:
Just one question. For 2023, do you have -- or I just wanted to check how many plant turnarounds do you plan for the next 4 quarters?

**Mohd Yusri Mohamed Yusof:**

For 2023, we do have a couple of plant turnaround, I think, namely PC Ammonia and PC MTBE, but we do have a few pitstops scattered across the year for 2023. So that's why our guidance for volume is still about 10 million tonne PU of around 90%, 91%.

Vivek Rajamani:
Got it, sir. Just to clarify, you said PC Ammonia and what was the second one?

**Mohd Yusri Mohamed Yusof:**

PC MTBE.

Operator:

(Operator Instructions). Now we're going to take our next question. And the next question comes from the line of Ahmad Maghfur Usman from Nomura. (Operator Instructions) Now we're going take our next question. And the next question comes from the line of Vivek Rajamani from Morgan Stanley.

Vivek Rajamani:

You did touch upon this briefly in your management comments, but just wanted a bit more color in terms of the demand trends that you're seeing in the first 2 months of this year, particularly for your key products? And have you seen -- obviously, you mentioned you've seen a bit of improvement, but some more color on what kind of trends you're seeing so far would be appreciated.

**Mohd Yusri Mohamed Yusof:**

I think on O&D demand, especially on polymer starts to come back post Lunar New Year and post China opening as -- gain inventory. As I mentioned earlier, glycol remains subdued from that perspective. Same with aromatics. On F&M, we saw on urea itself, the slight overhang of supply as compared to demand, we see customers are not picking up yet, mainly because of season. We believe that people are expecting -- waiting for planting season. And especially in this region, are expecting post the rainy season that we're seeing today. But we do expect that a big tender will be coming out from India, and we'll start once that comes out and the planting season comes in for the second quarter. We hope we are expecting a bit more increase in demand for urea. Methanol remains tight in supply, so demand is still quite good. Price is another thing that we need to look out for. That's what we see today, Vivek.

Vivek Rajamani:
Just one clarification. I think we were reading that particularly in the chemical side, we did see quite a bit of inventory buildup in some of the products, and you did see a number of chemical players take meaningful utilization rate cuts over the last quarter or so. Just wanted to check if you're starting to see these factors at least slowly turn around the margins.

**Mohd Yusri Mohamed Yusof:**

So as I said for O&D, as China open, we start seeing that and we start seeing rates started coming up, but we're not seeing that on the urea side yet because the demand has not been coming in as what we expected currently. So that's -- it's the same thing of what I was explaining before. And if you want to look a bit on specialty, we still believe that there are still a bit lagging. We are expecting restocking will come back maybe towards the second half, second -- later part of quarter 1, maybe more towards quarter 2.

Operator:

And the next question comes from the line of Sumedh Samant from JPMorgan.

Sumedh Samant:
Thank you so much for the detailed presentation. I have a few questions actually, and I will go one by one. So firstly, on your Specialty Chemicals business, can you guide us broadly on your volumes growth as well as EBITDA margin? I think 2022 is around 12%. So can you please guide us volume and margin number on this? That's my first question. I'll go one by one.

**Mohd Azli Ishak:**

Sumedh, thank you for your question. I think your question is more of the volume growth and EBITDA margin for 2022, right?

Sumedh Samant:
Sorry, 2023, yes.

**Mohd Azli Ishak:**

2023. Okay. I think what Mr. Yusri has mentioned earlier, we expect modest recovery for volume for Specialty Chemical because we believe that destocking activities that happened in quarter 4, 2022 has completed. So our guidance is basically a modest recovery with regards to sales volume moving forward. So we have disclosed in our analyst briefing deck the sales volume for specialty segment quarter-by-quarter. So perhaps you can build up on your valuation model on that front.

So in terms of EBITDA margin, I think our EBITDA margin when we compare Perstorp and BRB EBITDA margin, they tend to behave in line with their peers. So I mean, I cannot provide what's the EBITDA (technical difficulty) forecast guidance, and we believe both Perstorp and BRB will perform in line with their peers.

Sumedh Samant:
Just on that. I think for the full year last year, it is around 11% to 12%,I think, should we assume that it might be similar throughout this year, even if you can't provide us a quarterly or exact guidance.

**Mohd Azli Ishak:**

Yes. I think for the full year 2022, the both BRB and Perstorp combined, they contributed to 13.5% EBITDA margin. When we compare with the listed peers, they are outperforming their listed peers, which for the full year recorded around 10% to 11% EBITDA margin. So we will -- as we have experienced before, these specialty companies will historically record in the range of 15% EBITDA margin. So that would be what we aspire for Perstorp. But I think that will be -- remain to be seen for -- based on the market dynamics.

Sumedh Samant:
I understand. My second question is on one of the comments that were mentioned on the waterfall that there was a Sabah sales tax. So was there any tax paid on the Sabah assets?

**Mohd Azli Ishak:**

This is basically a sales tax for our urea that's produced out of Sabah. So that's a 5% sales tax on the revenue, which is the additional cost of business for us. But for PCG, we managed to have a deliberation with the Sabah tax authority that we only pay the sales tax on the incremental value. Basically, urea prices minus the gas that we procure from PETRONAS, that will be the amount that will be subjected to Sabah sales tax. The amount in comparison is compared to our total tax.

Sumedh Samant:
Okay. So is it fair to say that the taxation is being done only on the EBITDA or EBIT level?

**Mohd Azli Ishak:**

Yes, it will be on an incremental basis because PETRONAS is also paying Sabah sales tax for the gas that they are selling to us.

Sumedh Samant:
Understand. So it's a tax on incremental value added, I understand.

**Mohd Azli Ishak:**

Correct. Correct.

Sumedh Samant:
Yes. Okay, okay. That's actually very useful. I just want to understand, in the last quarter, fourth quarter, I understand there was a Perstorp refinancing as well, correct me if I'm wrong. And if that's the case, was there any one-off cost for refinancing?

**Mohd Azli Ishak:**
Yes. It's not a refinancing, Sumedh. This is basically for us, we replaced the external financing with our own shareholders' loan to Perstorp. So that is part of the deal where upon completion

of the deal, we will replace the external borrowing with our own funding. So based on the agreement and then the financing agreement, we do not have to pay any penalty on early payment of the debt.

Sumedh Samant:

Okay. Okay. I understand. And just my last question is actually on dividends. I mean what we clearly saw was dividends came down year-over-year, although the company still has plenty of cash and the cash flows are still quite good. So I just want to understand the rationale behind cutting a dividend.

**Mohd Azli Ishak:**

We're not cutting dividend. Sumedh, as you notice, our dividend, second interim, was also in line with our dividend policy. If we add up the dividend that we paid the first interim and the second interim is total up to 52%. And this is in line with our dividend payout history, if you notice, throughout the past 10 years.

**Mohd Yusri Mohamed Yusof:**

And also our dividend policy. So we stand guided by the policy, Sumedh.

Sumedh Samant:
No. Well, noted. I was just comparing to last year, but I understand there was a special as well.

Operator:

Now we're going to take the next question. Just give us a moment. And the next question comes from the line of Ahmad Maghfur Usman from Nomura.

Ahmad Maghfur Usman:

Sorry, I couldn't connect earlier. Can you hear me?

**Mohd Yusri Mohamed Yusof:**

Yes, yes.

Ahmad Maghfur Usman:
Okay. Great. Yes, I just wanted to get more color with regards to the methanol -- sustainable methanol project, where -- what is the medium to longer-term story on that particular project. And then also, aside from the modest recovery in volumes that you're expecting for 2023, are there any capacity expansion? Because I understand there is a new plant in India, if I'm not mistaken. So how much would that be on the incremental volumes for -- on a full year basis you roughly reckon? So those are my 2 questions.

**Mohd Yusri Mohamed Yusof:**
I'll let our new -- Debbie to take your question.

**Debbie Chiu:**

All right. Thank you for the question. The first one, you're asking about the green methanol, which is our Project Air. And we're very happy to share the information with you guys that we actually get recognized by the European Union, we get funding from that. And this is going to be a great move forward for us because this is a collaboration between Perstorp and also Uniper, the #1 German energy company that we're going to go together in producing the green methanol. And that's going to be our first plan and our medium to long term is we're going to take what we have learned and also with our commitment to the sustainability, we're going to look into how can we take the learning and replicating some other places if we see the path moving forward.

All right. On the second question, you're asking about the volume recovery for the specialty area. What we have seen so far in the specialty segment is the largest impact, at least for us is coming from the energy impact and also the geopolitical. The good news is, so far, it seems like we see some relief for us, but we're taking a very pessimistic optimistic look at this. We're expecting the destocking probably going to be ended probably by end of first quarter or maybe the second quarter. So we do expect some modest sales recovery in 2023. And we're very excited that we're going to have our Indian plant gets started in the second half of this year and which is going to be helping us to supply this part of the world in order to helping us to gain our market growth.

Ahmad Maghfur Usman:
And how much -- sorry, just to follow up. And how much is the incremental volume from the India plant that will commence in the second half, if I may ask?

**Debbie Chiu:**

Yes. The name capacity for that plant is 40,000 tonnes for -- coming from our India plant.

**Mohd Yusri Mohamed Yusof:**

But -- I mean, for us, it's not about the capacity, for that business segment, this is another manufacturing base in Asia Pacific. So we will be optimizing our manufacturing hub in Europe and Asia Pacific and supplying the market worldwide. So we will be redigging some of our, what you call this, network, production and supply. And we will balance our production according to the demand and the recovery that we see. So I think that is more the game in this case rather than a volume and I sold out the volume.

**Debbie Chiu:**

Exactly. Thank you, Yusri. Yes, that's exactly because here, we're looking not only to add the manufacturing site. We're also looking how can we have a better flexibility and to optimize our supply network.

Ahmad Maghfur Usman:

Okay. I understand. That's very helpful. Just one last follow-up question on Project Air. So do you -- so based on whatever ongoing studies that is being conducted, it is not a certain confirmed yet whether it's feasibility on the commercialization of this methanol. Is that surpasses...

**Mohd Yusri Mohamed Yusof:**
We lost you mid-sentence, can you repeat again?

Ahmad Maghfur Usman:
So my question is whether based on the ongoing studies, it has not been finalized, whether it will be commercially viable for mass production. Is that...

**Mohd Yusri Mohamed Yusof:**

It is currently on the, what I call it, initial stage of engineering, feasibility study, we will have to come to a decision later this year whether this is feasible to progress beyond feasibility study into engineering. So there are still a couple of milestones to go before we can safely say there is a project that we can FID.

Ahmad Maghfur Usman:
Okay. Great. Okay. I wish you all the best on that.

Operator:

(Operator Instructions) And now we're going to take our next question. And the next question comes from the line of Raymond Yap from CGS-CIMB Securities.

Raymond Yap:
I'll just ask one by one quickly. Olefins and derivatives, if I'm looking at the 9 months results, the segment profit for the 9 months, which was on Note 39 of the third quarter results, the O&D, the cumulative profit for 9 months was MYR2,531 million. Now as we go to the full year, it's only MYR2,577. So that's only like less than MYR15 million increase. So if I look at the third quarter for O&D, it was actually MYR843 million, but if I exclude the MYR276 million item, it's actually MYR567 million. So how did MYR567 million in the third quarter fall down to MYR47 million in the fourth quarter. I don't think the EBITDA fell by that much. So it's like almost nothing already what happened?

**Mohd Azli Ishak:**

I think, Raymond, thank you for the very detailed investigative question. The PAT for O&D includes the contribution from our JV BPC. For the quarter -- quarter 4, both BPC and Idemitsu Styrene Monomer, we've recorded loss for the quarter. So that basically drives down the profit for the quarter compared to quarter 3, 2022. So that basically the main contribution of that, including a lower EBITDA generated from our O&D plants.

Raymond Yap:
Hang on a second, because the associated line for the fourth quarter was only at MYR27 million loss, right?

**Mohd Azli Ishak:**

Yes.

Raymond Yap:
So that couldn't have accounted for the steep drop in the O&D profit after tax.

**Mohd Azli Ishak:**

That's on top of the lower EBITDA, Raymond.

Raymond Yap:
Well, okay. So the O&D profit after tax of the segment profit for O&D in the third quarter was about MYR843 million. But in the fourth quarter, it went down to MYR47 million. And there's no way that the EBITDA fell by that much. I think the EBITDA fell about MYR300 million plus, but this is like a decline of about MYR800 million. I just can't reconcile it.

**Mohd Azli Ishak:**

Yes. I think one thing particularly for quarter 4 is also a ForEx loss for the loans of Pengerang, which is a form part of our O&D segment. So that product impact has an impact to our bottom line for O&D(technical difficulty).

Raymond Yap:
So the first loss falls under EBITDA line?

**Mohd Azli Ishak:**

No. In the PAT line.

Raymond Yap:

It's a PAT line, but not in the EBITDA line?

**Mohd Azli Ishak:**

Correct.

Raymond Yap:
Well, it's a massive impact. Could you quantify that?

**Mohd Azli Ishak:**

I think for the quarter, the one that impacts unrealized FX loss on loans to Pengerang, which is about MYR120 million just for the quarter. So that impact the PAT. So of course, it's unrealized, Raymond, its due to timing and because of translation.

Raymond Yap:
Does not fully account for the decline. But never mind, I'll take it offline. Okay. In terms of specialty and others, I think in the third quarter, you don't break down specialty and others, you just give others which I presume includes specialty. And in the third quarter, it was a cumulative of MYR354 million. But if I look at the fourth quarter, I'm getting minus MYR300 million. So how do we get from plus MYR354 million to minus MYR300 million in this one quarter. So that's a swing of more than MYR600 million.

**Mohd Azli Ishak:**

Can you repeat that question again, Raymond, if you don't mind referring to the page that you are referring, the numbers from.

Raymond Yap:
Okay, sure. So if I look at the Bursa announcement on Note 9.2, the segment profit for the year specialty and others added together is MYR113 minus MYR433 million. That's minus MYR320 million. The very same note in the September result, cumulative 9 months is positive MYR354 million, that's under described as others, which I presume includes specialty and others because you did not break down specialty in the September results. So 9 months cumulative plus MYR354 million, full year minus MYR320 million. So that's a negative swing of more than MYR600 million. What's -- where does that come from?

**Mohd Azli Ishak:**

If you noticed in the Bursa announcement under others, there's earn-out cost amounting to MYR177 million arising from the acquisition of BRB Group back in 2019. That's one of the reasons. And the other most important part is the loss that the loss of the tax that the specialty segment have recorded during the period of quarter 4.

Raymond Yap:
Yes. Could you quantify that loss?

**Mohd Azli Ishak:**

I may need to get back on you on this, Raymond. Do you have any questions in meantime?

Raymond Yap:
Yes. Can you explain what this earn-out cost is?

**Mohd Azli Ishak:**

Okay. This earn-out cost is basically arising from our acquisition of BRB. So some -- back in 2019, BRB consists of -- is owned by a private equity fund, also some key members of the organization. So as part of the deal, as part of transaction, we converted -- we bought back the shares of these individuals. And as part of the deal, we also offer as part of the retention package an earnout costs that first payable upon the third year of completion of the deal.

Raymond Yap:
Yes. Why isn't the earnout cost that should classify under specialty line, is it classify under others?

**Mohd Azli Ishak:**

Because this is basically form part of the transaction. If you notice our others, including inclusive of investment holding. So any part of the investment holding activities, which is acquisition will be part of others. For your information, all our amortization of intangible is part of other. So any activities relating to investment holding is part of others. So that we do not affect the operational performance -- the financial performance of the company arising from these one-off activities, especially, if it is earnout.

Raymond Yap:

Okay. And the specialty loss in the fourth quarter, was it BRB or Perstorp? I presume it's Perstorp. I've never seen BRB made a loss before.

**Mohd Azli Ishak:**

Yes, it's Perstorp.

Raymond Yap:
Okay. Right. That's quite a dramatic swing from the first half. What's the outlook for Perstorp in the second -- sorry, in 2023?

**Mohd Yusri Mohamed Yusof:**

I think if you look at Perstorp full year because you only saw quarter 4, quarter 4 last year for not just Perstorp, for specialty, the bottom fell off. So quarter 4 was quite bad. But for the full year, if you look at specialty, as Azli mentioned earlier, EBITDA margin still remains at about 13%/13.5%. And for us, if you take first half full year, they're still outperforming their peers. And what we're seeing this year, that's what we are expecting. We would be at least maintaining that level of performance for both BRB and Perstorp.

Raymond Yap:
So you expect the Perstorp tough conditions to remain in the first half and then possibly recover in the second half.

**Mohd Yusri Mohamed Yusof:**

That's what we believe. That's what we're seeing. Because last year, as I said, a very strong first half and gradually weakening and worsening to the second half.

Raymond Yap:
And it is demand related right,the worsening?

**Debbie Chiu:**

Okay. Going from the first half to the second half, there's a couple turning factors. One is with the Ukraine and the Russian war, right, that started in the end of February last year. And the other thing was because most of Perstorp production plants are in Europe. And they are in the less favorable position compared the energy cost to the U.S. or to China. So that's another big factor. So the cost position is worse. And the third one is actually coming from the China zero tolerance. Because China has the zero tolerance. So a lot of the Chinese product actually flow out to the U.S. and the European market, which kind of brings the entire market pricing lower.

So with those combined reason, that's why we see a drop in the performance of the second half of Perstorp. But going forward, like we talked, we do see some relief coming from 2023 with everything we have seen so far. We're pessimistic, optimistic looking at 2023. And we believe with the whole year, the Perstorp should be performing in line with its peers and like what it has shown in 2022.

Operator:
There are no further questions. I would now like to hand the conference over to the speaker, Mr. Yusri for closing remarks.

**Mohd Yusri Mohamed Yusof:**

All right. So with that, I think we conclude our quarter 4 performance and 2022. We thank everybody for listening. And also we thank for those who post their questions. And should you need further information or clarification, please contact Alia, our Investor Relations. Thank you very much.

Operator:
That does conclude our conference for today. Thank you for participating. You may now all disconnect. Have a nice day.

***END***