PETRONAS CHEMICALS GROUP BERHAD

1Q2023 ANALYST BRIEFING

29 May 2023, 6.30pm 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.	**Yaacob Salim** Head, Strategic Planning & Venture
3.	**Zamri Japar** Chief Manufacturing Officer	6.	**Zaida Alia Shaari** Head, Investor Relations

Operator:
Good day and thank you for standing by. Welcome to PETRONAS Chemicals Group Analyst Briefing for quarter ended 31st March 2023. (Operator Instructions) Please be advised that today's conference is being recorded.

I would now like to hand the call over to your first speaker today, Ms. Alia, Head of Investor Relations. Thank you. Please go ahead.

Zaida Alia Shaari:

Thank you, Benjamin. Hello, ladies and gentlemen. Welcome to PETRONAS Chemical Group Berhad Analyst Briefing for the first quarter financial year 2023. I'm Alia, Head of Investor Relations. Thank you for joining our call this evening. You should by now be able to access and download the financial results from the Bursa Malaysia website as well as today's presentation materials from our corporate website or in the links provided in the event invitation.

Ladies and gentlemen, we are pleased to have our speakers for today's briefing, our Managing Director and CEO; Mr. Mohamed Yusri; and our CFO, Mr. Azli. Also present to take questions after the presentation, the rest of the senior management comprising of our Chief Manufacturing Officer, Mr. Zamri; Chief Marketing Officer, Mr. Shakeel; and Head of Strategic Planning and Ventures, Mr. Yaacob.

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

Mohd Yusri Mohamed Yusof:
Thank you, Alia. Yusri here. Good evening, ladies and gentlemen. Thank you for joining us today. When we last met in February, there were hopeful indications that the global economy could experience gradual improvement with expectations of decreasing inflation and stable growth as well as increased activity with the reopening of China. But we were disrupted by the negative developments within the banking sector, and the subsequent tightening of monetary policies, which raised concerns on its potential impact on the global economic recovery.

Nonetheless, we saw slight growth in GDP at 1.7% as compared to 1.5% recorded in the fourth quarter of 2022. Global PMI also saw marginal improvement at 49.5% in first quarter of 2023 as compared to 48.9% in the preceding quarter, with improved orders and demand growth boosted again by China's reopening.

The benchmark brand crude, however, declined 7% to average at $83 per barrel as compared to $89 per barrel at the end of last year, on higher supply from the U.S. and poor economy indicators. Urea and ammonia saw prices declined on weak demand and oversupply. However, other petrochemical product prices were mostly assess higher quarter-on-quarter on seasonal demand pickup and supply tightness.

Let's look at our first quarter highlights. Moving on to our performance of the first quarter, as released today. Ladies and gentlemen, we start from the top left graph. We had 2 pitstops during the quarter. And these are short maintenance shutdowns, namely at PC LDPE and PC Aromatics - our polymer plant and aromatic plant. However, with other plants running well, we recorded only a slightly lower group plant utilization rate of 96% as compared to 100% last quarter.

Sales volume from our Malaysia operation were lower, in line with the lower production, but we were supported by improved sales in the specialties segment. Nonetheless group revenue fell 13% quarter-on-quarter to MYR 7.6 billion mainly to the lower sales volume.

EBITDA as you can see, for the group declined 38% to MYR 1.1 billion with lower sales volume and lower product prices, particularly for urea and ammonia and also pre-operating costs of a joint operations company. EBITDA margin was recorded at 14%. PAT on the other hand improved 11% to MYR 536 million with lower foreign exchange loss on revaluation of loans as well as higher contribution from our joint ventures and associated companies.

Now I'll have Azli to take you through the details analysis of our financial performance.

Mohd Azli Ishak:
Thank you, Yusri. Good evening, ladies and gentlemen. Thank you for joining us today. So, let's break down the financial performance by segment. Starting with the Olefins & Derivatives segment on Page 3 of the deck, comparing first quarter of 2023, against fourth quarter of 2022.

So as mentioned by Yusri earlier, we saw marginal improvement in the global GDP and PMI numbers. While product prices will assess about 5% higher quarter-on-quarter, our plant utilization rate was lower, which saw us record 8% lower production volume and 2% lower sales volume. So, with lower sales volume, segment revenue was 3% lower at MYR 3.4 billion compared to MYR 3.5 billion in fourth quarter of 2022.

EBITDA for the segment declined 20% on lower sales of aromatics products and ethane-related products, as well as the pre-operating cost of a joint operation company. Our EBITDA margin fell to 9%. Nonetheless, the PAT was higher at MYR 170 million compared to MYR 47 million in the preceding quarter on lower unrealized Forex loss on revaluation of loans to a joint operating company and higher share of profit from our joint ventures and associated companies, mainly from BPC due to higher spread of acrylic acid products as well as higher sales volume.

Let's move to our Fertilizer and Methanol segment on Page 4 of the deck. Contrary to the O&D segment, the F&M segment saw a marked decrease in product prices, particularly urea and ammonia. For example, the urea prices declined as much as 35% quarter-on-quarter, while ammonia fell 25% against quarter 4, 2022 on a weaker market and global oversupply market. Our methanol products saw a marginal 3% improvement following methanol to olefins related demand following a reopening of China and new biodiesel mandate from Indonesia that supported regional methanol prices. The production and sales volume for the segment was lower, in line with lower plant utilization of 97% against 100% in the preceding quarter.

As such, revenue for the segment decreased 32% to MYR 2.4 billion. EBITDA declined 45% to MYR 782 million, mainly on lower product spread and lower sales volume. The EBITDA margin was recorded at 33% and the PAT for the segment declined 50% quarter-on-quarter to MYR 533 million.

Moving on to our Specialty segment on Page 5 of the deck. In quarter 1 of 2023, we saw the specialties segment recorded higher revenue and EBITDA, attributed to the modest recovery in the product demand for segments as restocking activities have started in some markets, such as paints and coatings, and transportation as compared to previous quarter. However, higher energy costs and raw material costs have continued to erode the margin, making our European production less competitive vis-a-vis export from other regions, especially China. There were also some customers comprising on quality and going cheaper products, such as the ones from the Chinese supplier, leading to price competition in the intermediate products.

The sales volume and product mix remains subdued in quarter 1, 2023, due to lower end market demand and sluggish recovery, especially in the building and construction end markets against the high inflationary environment.

Nonetheless, we saw some uptick in the transportation market, where products sold to aviation and transformer oils have been positively impacted in terms of demand. For the animal nutrition market segment, we saw a similar situation where higher feedstock costs and lower customer profitability led to lower sales to customers. All in all, we saw Specialties segment did better quarter-on-quarter basis.

Let's move to cash flow on Page 6. So basically, the net cash used in investing activities mainly comprised of the purchase of property, plant and equipment for various projects at PIC, Pengerang Integrated Complex, as well as in our Melamine Project in Gurun, Kedah. The net cash used in financing activities is largely due to a second interim dividend of MYR 1.28 billion, which was paid in March 2023.

Looking at balance sheet on Page 7. Our total assets were slightly lower by MYR 274 million to MYR 55.2 billion, mainly due to the lower cash and cash equivalents due to payment of the second interim dividend, purchase order PPE, but partially offsetted by the cash generated from operation at MYR 1.1 billion. We also recorded a lower trade and other receivables by MYR 90 million at MYR 3.5 billion, in line with lower revenue. So, our total equity was lower by MYR 637 million at MYR 39.1 billion, mainly attributable to the second interim dividend partially offsetted by the profit generated during the period and Forex translation reserve due to the weakening of ringgit against U.S. dollar.

That's all for the financial breakdown. I'm handing back the session to Mr. Yusri to cover the financial sustainability as well as the way forward.

Mohd Yusri Mohamed Yusof:
Thank you, Azli. Let's look at Page 8. I've covered the economic pillar at length earlier supported by Azli, in terms of the details. So lets go straight to the environmental pillar in the middle. We look at energy efficiency as a continuous improvement that we seek to achieve. Energy efficiency projects implemented at our facilities, such as flaring and venting minimization and fuel optimization brought down our energy intensity and greenhouse gas emissions year-on-year.

We have also realized our greenhouse gas reduction of about 24,000 tonnes of CO2 equivalent at the end of March, contributed by the same initiative that I mentioned earlier. We have also realized our first reduction through Green Energy Tariff by our provider Tenaga Nasional Berhad. This is a program introduced by Tenaga Nasional to enable customers like us to reduce carbon footprint in electricity consumption by purchasing a low-carbon electricity

supply from them. This has actually contributed to our equivalent CO2 reduction. These indicators are keeping us on track to realize our net zero carbon emission aspiration.

On the right column, our social outreach program has start in the second quarter of this year, and our target this year is to reach more than 320,000 people by year-end through our various outreach programs, education and environment awareness-related program. To date, all social indicators and plans are on track against what we pledge as our 2023 target.

Moving on to Page 9. Let's quickly look at our short-term market outlook. First, our Olefins & Derivatives segment. We view that due to the slower-than-expected rebound in China's recovery, the Olefins & Derivatives segment is expected to soften as customers remain cautious with the demand lagging behind supply, stemming from start-up of new chemical capacities in China. Ethylene price is forecasted to soften on ample supply with plants returning from turnaround, coupled with new capacity start up in China and India.

For MEG, the price is forecasted to soften on ample supply and dampened downstream demand despite prolonged plant shutdown in China due to limited appetite for polyester, resulting mainly from squeeze margin. Polyethylene price is expected to soften again on ample supply amid subdued demand post the recent festive season that is the Eid and the China Labor Day in May and also contributed by new China capacity start-up expected in June. For the Fertiliser and Methanol segment, in the middle, urea prices are expected to be supported by the start of planting season in Southeast Asia, again amidst balanced supply in the region following some plant maintenance and turnaround shutdowns.

In contrast, ammonia prices are expected to soften in view of our supply with a return of 2 Middle Eastern plants post their turnaround amid weaker downstream demand due to persistent high production costs for downstream caprolctam and acrylonitrile. Methanol price is anticipated to be firmed mainly due to tight supply with some planned maintenance in Southeast Asia. Demand for MTBE and biodiesel are expected to improve due to peak driving season in the second quarter.

On the far-right column, the performance of our Specialty segment will rely on the improvement of the end market demand that tracks the macroeconomic environment and effective feedstock management especially in the European region, making this segment particularly vulnerable. Restocking activities are currently underway, indicating a modest demand recovery. However, the prevailing global inflationary environment and the slowdown in sectors such as construction, continue to present challenges for us.

One of the x-factors is the uncertainty of China's recovery and its impact on supply chain. As one of the largest specialty chemicals market in the world, China plays a significant role in affecting the demand of the specialty chemicals. All in, the outlook remains challenging with uncertainty and volatility playing in the mix of concern. We will continue to closely observe market dynamics paying particular attention to factors such as feedstock prices, geopolitical tension and the progress of China's recovery to ensure our business is uninterrupted.

Ladies and gentlemen, lets go to Page 10. I have now my last slide before you. 2023 has been a challenge from the start. The business environment and outlook remains volatile as headwinds continue to challenge the sector. Nonetheless, we will continue to implement our growth strategy as planned and work towards ensuring that our new projects come onstream in time to capitalize the upswing in the market. Our joint venture projects, the NBL plant in Pengerang and the specialty top silage plant in Kerteh remain on track to come on stream in the second half of this year. The Pengerang petrochemical complex test run is ongoing, though taking a bit longer than we anticipated. The target that commercial operation has been moved to the fourth quarter of this year.

Now as most of you are already aware, the Pengerang Petrochemical complex, it's a liquid-based operation. It's a NAFTA based operation. Given the current market conditions, margins are challenging. This has strengthened our drive to pursue growth and expansion in the derivatives and specialty chemicals space. Our team has been actively exploring and studying expansions going further down our value chain as well as potential M&As to complement our new specialties segment to ensure that our business remains relevant and profitable. Our manufacturing operations this year is lighter in terms of plant turnaround or TA but busy with a number of smaller pitstops throughout the year. Nonetheless, we will focus on ensuring optimal plant reliability and utilization amidst the smallest shutdowns while always adhering to our HSE culture.

This is all that I have for today. Thank you very much. Let's open for the Q&A.

Operator:
Certainly. We will now begin the question-and-answer session. (Operator Instructions) One moment for the first question. First question comes from the line of Ahmad Maghfur Usman from Nomura.

Ahmad Maghfur:
Hi, good evening. Can you hear me?

Mohd Azli Ishak:

Yes, Ahmad. We can hear you.

Ahmad Maghfur:
Yes. Great. Just 1 question. For Perstorp, right, are there any indications of a possibility of an impairment, on the consideration that, I don't know whether you've made the purchase at its peak and given the outlook in the near term?

Mohd Azli Ishak:

Okay. Thank you for the question, Ahmad. As of now, we do every month and every quarter assessment on the impairment of investment, impairment of assets, not just for Perstorp, but since you have asked questions about Perstorp, we have assessed the purchase price compared to our forward curve as well as discussed the cash flow moving forward. And as of now, we do not see any indication of impairment because our investment in Perstorp is for the long run. And we do see potential synergies moving forward. So based on that, we believe there is no indication of impairment for our investment in Perstorp at the moment.

Ahmad Maghfur:
Okay. All right. I mean, following on from the answer. How many -- assuming this kind of quarter persists over the next 4 quarters for full straight -- one full year. Would you think there's still been impairment or still unlikely as well?

Mohd Azli Ishak:

Well, we need to assess that Ahmad on a quarter-to-quarter, which will we run that -- assessment internally, run by our Board Audit Committee as well as our component auditors. And we will -- if there's an indication of impairment and depending on where the market is, we will do so. But as you also witnessed when you compare quarter 1 and quarter 4 last year, there's improvement in terms of sales volume, in terms of contribution margin, and you see the improvement in EBITDA, right? So, we believe Perstorp currently in quarter 1, is performing in line with our peers, with an EBITDA margin of 5%.

Operator:
(Operator Instructions) Next question is from the line of Sumedh Samant from JPMorgan.

Sumedh Samant:
I want to better understand the O&D segment EBITDA margin. I noticed that it has come down and also there was a lower sales volume of polymers. So, I just want to understand better what happened there? And because our understanding is that the prices went up, the demand was also generally better, again, not as good as one we would have expected, but still better. So, I want to understand that. That's my first question. And my second question is on your gas price renegotiations on the cracker. Is there any progress or update that you can share with us?

Mohd Azli Ishak:

Thank you, Sumedh. Let me answer the first one. I think if you look at Page 3 that covers and explained the O&D segment, I assume you're referring and comparing our EBITDA margin for quarter 1, 2023 against quarter 4, 2022. I think you also see that the sales volume was lower because we had feedstock at PC Aromatics and then PC LDPE despite the sales volume -- sorry, the price for O&D is slightly higher compared to quarter 4 last year. So, that being the case, and then there's also pre-operating costs from joint operation company. This is basically Pengerang Petrochemical Company.

Because in the early days of Pengerang, we cannot capitalize all these pre-operating costs in the balance sheet because of the requirement of the accounting standards that any proceeds from pre-operating needs to be charged to the income statement, and we have done so. And this is basically a reflection of the pre-operating costs of PPC into our O&D segment. I hope I answered your first question, Sumedh.

Sumedh Samant:
Yes.

Mohd Azli Ishak:

Okay. With regards to the second question, the negotiation is still ongoing. The gas, the C2 and C3 contracts will expire in July -- early July, and we hope to make a proper announcement if required once the negotiation has been concluded with PETRONAS.

Mohd Yusri Mohamed Yusof:
I think -- Yusri here, at I think we are -- we believe is on track. We will be making an announcement by the time the contracts expire. Currently, it's too early for us to make any announcement.

Operator:
Next question comes from the line of Sean Lim from RHB.

Sean Lim:
One question -- 2 questions basically. What is the (technical difficulty).

Mohd Yusri Mohamed Yusof:
You are breaking up. Can you say that again, the question, we cannot hear you very well?

Sean Lim:
I'm going to say this, what is the expectation of plant utilization over 2023?

Mohd Yusri Mohamed Yusof:
Okay. The complex in Pengerang is under initial operation starting up. We are targeting hopefully to complete all the performance run by July or August. So, if I were to annualize our plan for the year we expect, on average, maybe 40% rate this year.

Sean Lim:
40%?

Mohd Yusri Mohamed Yusof:
Yes.

Sean Lim:
Okay. Okay. And how much is the loss expected in the first quarter? And is it sustainable?

Mohd Azli Ishak:

You're referring to the pre-operating costs, Sean?

Sean Lim:
Yes, right.

Mohd Azli Ishak:

Okay. I think for the pre-operating costs for PPC, that goes up into our O&D, it basically makes up a negative EBITDA of around MYR 100 million.

Sean Lim:
MYR 100 million depreciation for the product?

Mohd Azli Ishak:

Yes. So that's basically MYR 100 million negative EBITDA contributed from Pengerang Petchem company, as a result of the pre-operating costs. As mentioned earlier, any operating revenue and associated costs, we need to charge straightaway to the income statement because of the new capital standard. So, that is basically a reflection of the pre-operating cost of PPC into our O&D segment. And just to be clear, Sean, this does not include the depreciation because we only depreciate once the plant achieved COD commercial operation. Currently, we're contemplating in quarter 4 this year.

Sean Lim:
Okay. Okay. So, I assume this possibly will be repeating in the second quarter. And generally, the costs will ramp up in the second half as (technical difficulty) but it should be offset by the revenue that you generated?

Mohd Azli Ishak:

Yes, yes. At least I can give you that guidance, Sean.

Sean Lim:
Okay. Okay. Okay. And could you just explain any changes to your plant turnaround plan this year?

Mohd Azli Ishak:

There will be 2 plants turnaround around the second half of this year. Quarter 3, there will be PC ammonia in Kerteh and quarter 4 will be PC MTBE for the MTBE plant in Gebeng.

Sean Lim:
Okay. So, also a utilization will be higher possibly?

Mohd Azli Ishak:

Yes. And on an annualized basis, Sean, we anticipate our total PU will be around or above 90% as normal, our internal target.

Operator:
(Operator Instructions) One moment for a follow-up question. We have the question from the line of Sumedh Samant from JPMorgan again.

Sumedh Samant:
So, my other question is actually on specialty chemicals. What we have noticed is that the EBITDA remains reasonably weak. And even the costs have been quite high. So, have there been any plans in place to bring down the costs and improve efficiencies? And also, any comments on potential synergies that you may be looking at?

Mohd Yusri Mohamed Yusof:
Thanks, Sumedh. Yes, obviously, we are always looking at our operational business to always try to optimize the cost and also to improve the margin, specifically for Specialty Chemicals because of a lot of the manufacturing based in Europe. We are looking particularly at the energy prices. We're also looking at, if there is any synergy within the group, especially on the feedstock side.

So, we're trying to unlock those opportunities to ensure that we are going to improve the efficiency, as you said, of our operations there. However, market remains as we have guided earlier, we are hopeful we see some improvement in demand of volume, but we're seeing a very slow pickup in prices. So, we may be able to recover a bit on volume. We are still very, very cautious on price. Hence, the focus is really to see what we can do on the cost side to ensure that we improve the EBITDA margin that you saw in our quarter 1.

Mohd Azli Ishak:

I also want to add, if you look at Page 10 of the deck, I mean, if you mentioned about post-merger integration plan or PMI, we call it, as well as the value creation synergies between PCG and Perstorp. That is ongoing. We have a dedicated team of PMI in Perstorp looking at potential synergies. But as you may appreciate, some of these potential synergies may not be occurring or be realized as soon as possible, it will take time. But we will look at some low-hanging fruits that we can adopt and implement much faster compared to other the bigger synergies that we anticipate in the long run. I hope that answers your question, Sumedh.

Sumedh Samant:
Yes. That's helpful. Just as a follow-up. May I check to the long-term average EBITDA margin of Perstorp, which is around, say, mid-single -- mid-double digits. Where is the low margin coming from? I mean is it the ASPs? Or is it the volumes? Or is it the cost? So that's 1 part. And the second part of this question is where do you see EBITDA margins coming in this particular year? And when do you see them going back to sort of the normalized margins of those mid-double-digit?

Mohd Yusri Mohamed Yusof:
If we analyze where we are today, again, volume and price -- were very soft. And that is what we call this abated by the high cost that we saw in European operation, particularly energy prices, more than 20x -- 15 to 20x increase because of the gas price there. And also, we are seeing some challenges in raw materials on the European side. And those are the 2 elements that we are focusing on improving and trying to leverage on synergies with what we have within PCG, so that we can improve specialties operation, especially in Europe.

Sumedh Samant:
Got it. And can I confirm that you said that you're confident to go back to sort of double-digit margins by -- within this year. Is that what you said?

Mohd Yusri Mohamed Yusof:
We are hopeful for that. We are hopeful for that. We saw, for example, energy prices, especially fuel gas in Europe has dropped to a level that we believe is manageable. So, we are hopeful that price of products would then pick up as more demand would come in.

Sumedh Samant:
Got it. And may I have one last thing. May I check how much is the lag between the energy cost and the sort of unit cost that Perstorp realizes because as we noticed, the gas prices in Europe are almost similar to pre-war levels or even lower than that. So, I just want to understand where is the -- or how long is the lag usually for the realized pricing?

Mohd Azli Ishak:

I think, Sumedh, on average, we saw around 3 months lag, in terms of the impact of a price to our bottom line. So, that's basically what you mentioned. Although we see the gas prices are declining, the impact can only be realized after that. So, 3 months could be a real estimate assumptions moving forward.

Operator:
I'll move on to the next question. Next up, we have the line from Raymond Yap from CGS CIMB Securities.

Raymond Yap:
The question I have is on the pre-operating costs from the startup of Pengerang. Just now it was mentioned that the cost was MYR 100 million. Should we expect similar costs to recur in the second and third quarter?

Mohd Azli Ishak:

My short answer to that, Raymond, is yes. So as PPC, Pengerang Petchem company ramps up in terms of production to meet the contractual obligation of certain PU and production rate, we expect the company to incur negative EBITDA towards the ramp-up.

Raymond Yap:
Okay. So, the cost would likely recur in the second and third quarter. So, the O&D profits will probably be a bit suppressed because of this element, right?

Mohd Azli Ishak:

Correct, yes Raymond. Also depending on the market spread at the point of time in quarter 2 and quarter 3 as well.

Raymond Yap:
Sure. So, when I'm looking at the F&M side, if I'm looking at the presentation slides, the F&M plant utilization was lower than the fourth quarter. Fourth quarter was 100%, and then the first quarter was 97%. And I think there's a description in the presentation slides about some external disruption. Could I just clarify what that is?

Mohd Azli Ishak:

No, that is basically maintenance works. So, maintenance work that we need to shut down the plants on a short-term basis.

Raymond Yap:
Right, right. This is maintenance. Is this already over and done with? Should we expect any further disruption in this too?

Mohd Azli Ishak:

Yes.

Raymond Yap:
And also, because urea prices really started to drop in March, and that had a negative impact on the F&M revenues and profits. And given that the urea prices will remain low for the second quarter so far and since the lower urea prices only had a 1-month impact on the first quarter. Is it likely in your opinion that the second quarter F&M profitability will be even lower than what we have seen so far in the first quarter?

Mohd Azli Ishak:

Yes. I think just to correct you Raymond, I'm sure you're aware of this, the urea price has been declining since quarter 1 last year. From a record of $750 per ton to now around $370 on average quarter 1, 2023. And as what Yusri mentioned earlier, I think in terms of outlook, we saw a slight increase in demand because of planting season coming up, not only in Southeast Asia, but also in India and Australia. So, we are hopeful with regards to the pricing for urea in the short term.

Raymond Yap:
Okay, sure. And 1 final question on the specialty side. If I'm looking at the first quarter compared to the immediately preceding fourth quarter, EBITDA was a positive MYR 7 million in the fourth

quarter and in the first quarter, it rose to MYR 88 million. So that's an MYR 81 million increase. But if I'm looking at the profit after tax, it went from minus [MYR 163 million] to minus [MYR 29 million]. So that's a positive change of MYR 134 million. I'm just trying to understand why is it that EBITDA went up by MYR 81 million, but profit after tax went up by MYR 134 million?

Mohd Azli Ishak:

If you're referring to the bottom line, there is improvement in EBITDA, but also with regards to ForEx as well.

Raymond Yap:
Okay. So, there was a ForEx gain in the first quarter for specialties?

Mohd Azli Ishak:

Yes. I think last quarter, quarter 4 was a ForEx loss, a huge ForEx loss on revision of loans. But for quarter 1, it's slightly lower than that loss.

Raymond Yap:
Okay. And is this shareholder loan denominated in euros?

Mohd Azli Ishak:

Correct. There's a shareholders loan to fund the acquisition that we have provided to our intermediate holding company in BV.

Operator:
Next question comes from the line of Mayank Maheshwari from Morgan Stanley.

Mayank Maheshwari:
Yes. A couple of questions from my end. First, just to understand on Pengerang, what is the current level of test run utilization rates that you are kind of doing? And what's the plan in terms of ramp-up into the fourth quarter?

Mohd Yusri Mohamed Yusof:
Currently for chemicals, when we were doing test run, the utilization rate goes to 100%, but we were doing it plant by plant. So, we have 7 plants, we have done 4 basically, and I think we are left with 3 more. But typically, after the test run, we will bring down the plant to maybe a slightly lower level to operate or even if we do find something, then we bring it down to do some maintenance that is needed in preparation for our longer run latest targeted by quarter 4 this year. So currently, again, if I were to look at the chemicals plant, it's running on average of about 50%.

Mayank Maheshwari:
Got it. So, is it fair to say that at 100%, you were able to -- like I'm looking at it from the MYR 100 million EBITDA number that you kind of stated as a loss. So, will that number incrementally rise because utilization rates come down and the sales volume comes off? Or is it fair to say that most of that 100% utilization rate number, but was not translated into sales?

Mohd Azli Ishak:

I think Mayank, maybe I would expect those numbers will be slightly higher in quarter 2 and quarter 3. But then again, it will depend on the margin at a particular point of time. If margins

continue to be worse in quarter 2, we would expect those negative EBITDA to be slightly higher compared to quarter 1 as the ramp-up increases.

Mohd Yusri Mohamed Yusof:
If the margin stays as is, as we ramp up, we expect to see a higher loss. So as we ramp up, we are hoping, again, for the market to return.

Mayank Maheshwari:
So out of the 7 plants, 4 have ramped up -- have basically got into the commissioning stage. But 3 will go into the commissioning stage. So, there could be pre-operating expenses related with that as well, correct, which will come in into your losses. Is that a fair statement?

Mohd Yusri Mohamed Yusof:
Even the 4 that have already been performance tested, is still considered under pre-operating stage until we declare commercial operations. We are going to declare commercial operation as a set rather than individual plant.

Mayank Maheshwari:
Okay. That's clear. The second question was more related to now the interest expense. I think you clarified on the depreciation side that comes in only later. But on the interest expense, is it the same treatment like depreciation? Or is there something that you are still putting in under pre-operative expenses on the interest expense?

Mohd Azli Ishak:

Interest during construction and during pre-operating, it will be capitalized as well and that will be capitalized until COD.

Mayank Maheshwari:
Got it. And how big is that amount for right now? How much is the realization interest cost for the first quarter?

Mohd Azli Ishak:

On annualized basis it will be around MYR 240 million, on an annualized basis.

Mayank Maheshwari:
Got it. Okay. So that's clear. And the other question was related to the Specialty side. I think you talked about this entire 3-month lag in terms of the gas price adjustment. So, is it fair to say you were basically feeding into the high-cost gas inventory, I suppose, closer to that $20 mark for the first quarter, and it should suddenly drop in the current quarter to close to around that $11, $12 mark?

Mohd Yusri Mohamed Yusof:
Can you repeat that again, Mayank in terms of -- I didn't quite get the amount you mentioned just now.

Mayank Maheshwari:
So I was basically looking at average pricing until December, I think, for the December quarter, which will feed in the first quarter with a 3-month lag effect on the gas cost. That, I

think, was closer to the $20 mark in Europe. So right now is running closer to -- well, actually, average is 11%, but it's running below 10% now. But the point is like you will see the sudden drop in cost, which should show up in the second quarter, correct?

Mohd Yusri Mohamed Yusof:
Yes. Yes.

Mayank Maheshwari:
Okay. But so there will be no issues related to pass-through costs to consumers because some of these costs are passed through in certain contracts, some are not. So, I was just trying to assess how much of that will show up in the numbers and how much will be passed through to the consumers.

Mohd Azli Ishak:

Yes. I mean, I cannot give you a specific guidance on the percentage, how much we can pass on because that would depend on, number one, the product; and number two, the contract that we have with the customers on a negotiated basis. So, we can only do so upon conclusion of quarter 2, which we can highlight how much of those that we can pass on.

Mayank Maheshwari:
Okay. That's fair. And just the last thing, I think, on this question because gas cost and energy costs, as you highlighted, is a very important cost in this challenging operations. If you kind of look at your total COGS, how much is right now in the first quarter, the gas cost be?

Mohd Azli Ishak:

On the PCG group basis, Mayank or is it just Perstorp?

Mayank Maheshwari:
So only on the specialty, on the specialty side only.

Mohd Azli Ishak:

Okay. All right. On the specialty, I think in terms of feedstock, it will be around 60% -- 50% to 60% basically for gas, yes.

Mayank Maheshwari:
Got it. Okay. So that's clear. Perfect. I think that's all the questions I had.

Mohd Azli Ishak:

Thank you, Mayank.

Operator:
One moment for the next question. Once again, we have the follow-up questions from Sumedh Samant from JPMorgan.

Sumedh Samant:
Sorry, I didn't have any questions -- maybe there was an issue, sorry.

Operator:
Certainly. One moment for next question. Next up, we also have the follow-up questions from Raymond Yap from CGS-CIMB Securities.

Raymond Yap:
I just wanted to double check on the pre-operating expenses that were charged in the O&D division, were there any of such expenses last year?

Mohd Azli Ishak:

No, Raymond, because last year, we are yet to ramp up. So that particular pre-operating revenue and pre-operating -- associated pre-operating costs, I would say, in quarter 4 was very minimal. We start seeing a higher number in quarter 1 as the plant ramps up. As you know, last quarter, sorry, quarter 4, there's an incident at Pengerang that kind of delays the start-up. So now that the ratification has been done. And the Petchem plants are resuming their start-up, we will start seeing this pre-operating costs emerging. So that's why it's higher than quarter 4.

Raymond Yap:
Actually, when you are running the pre-op ramp-up, you do actually produce some product which you can sell in the market. Is or not enough to offset the pre-operating costs?

Mohd Azli Ishak:

No. That's basically number one, the cost associated with it will be both variable and fixed costs. So that we need to take into account as well. So, until and unless the plan -- the plan to achieve a stable production rate, we believe, around 70%, then such variable cost and fixed cost can be offset with the revenue, again, depending on the margin for the products that we are producing.

Raymond Yap:
So, this MYR 100 million is a gross cost, right? Has it been offset by the selling revenues from the products that are coming up during their ramp up stage?

Mohd Azli Ishak:

It has already been offset. So, this is net pre-operating costs.

Raymond Yap:
I see. Well, it's quite heavy. I must say.

Operator:
With that, allow me to hand the call back to Alia for closing remarks.

Zaida Alia Shaari:

Ladies and gentlemen. We have come to the end of the presentation and the briefing. Thank you all for your participation today. Do reach out to us. Should you have any follow-up questions, and we look forward to receiving your reports once published. Thank you, everyone. Good evening.

Operator:
That does conclude today's conference call. Thank you for your participation. You may now disconnect your lines.

END