PETRONAS CHEMICALS GROUP BERHAD

2Q 2023 ANALYST BRIEFING

22 Aug 2023, 6.00pm Malaysia

Management attendees:

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

Operator:
Welcome to the PETRONAS Chemicals Group Berhad Analyst Briefing for Quarter Ended 30th of June 2023 Conference Call and Webcast. (Operator Instructions). I would now like to hand the conference over to speaker today, Ms. Zaida Alia. Please go ahead.

Zaida Alia Shaari:

Thank you, Nadia. Hello, and assalamualaikum, ladies and gentlemen. Welcome to PETRONAS Chemicals Group Berhad earnings meeting for the Second Quarter Financial Year 2023. I'm Alia, Head of Investor Relations. Thank you for joining our call this evening. You should right now be able to access and download the financial results on Bursa Malaysia website as well as today's presentation materials in our corporate website or in the link provided in the event invitation.

We are pleased to have our key 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 highlights are senior management comprising of Chief Manufacturing Officer; Mr. Zamri; Chief Marketing Officer; Mr. Shakeel, Head of Strategy, Planning and Ventures, Mr. Yaacob; and last but not least, Dr. Debbie Chiu, our Head of Specialty Chemicals.

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

Mohd Yusri Mohamed Yusof:
Thank you, Alia. Very good evening, everyone. Thank you for being here today with us. From the last session that we had in May, the global economy continued to decrease as inflation remain high, resulting in central banks taking on stricter monetary policies, which in turn negatively affected market as mentioned. This was apparent as global GDP growth declined from 3.5% to 2.44% at the end of the first half of this year. This slowdown was also evident in global PMI, which contracted to 48.8% in first half 2023 compared to 52.2% in the same period last year.

The global manufacturing sector worsened due to weak domestic and export market alongside manufacturing job cuts due to the drop in purchasing activities. The benchmark brent crude oil fell 26% to average at $81 per barrel in the first half of 2023 compared to $108 per barrel in the first 6 months of last year, on the back of suppressed demand and uncertain economic landscape, coupled with lower-than-expected economic recovery from China.

Faced with these same challenges, the chemical industry also saw a weak commodity growth, driven by reduced consumer spending, and lower demand from the end-markets. Prices of our products declined across the board in the first half of the year. The F&M segment was particularly weak on oversupply issues, weakening demand in downstream market amid lower natural gas prices in Europe.

Moving on, ladies and gentlemen, let's talk about our performance in the first half of 2023. We began the year with the scheduled plant maintenance activities at PC LDPE and PC Aromatics in quarter one. In the second quarter, there was no major planned maintenance activities. However, we experienced an unexpected downtime at PC Methanol Plant 2 and PC Fertilizer Sabah due to feedstock supply destruction caused by a necessary proactive maintenance activity on our supplier side. Despite the temporary shutdown of our 2 plants, our group plant utilization rate for the period was commendable at 89%. This year, with the volume from first half, our production rose by 21%, reaching 5.4 million tonnes for the first half. Year-on-year, sales volumes increased across all segments on higher production and additional volumes from specialty chemicals and our Pengerang Integrated Complex, which is currently undergoing test run. This resulted in a notable 11% rise in group revenue recorded at MYR 14.7 billion despite the overall lower product prices.

Group's EBITDA, however, declined significantly to MYR 2.1 billion, mainly due to lower product set across both the O&D and F&M segments. EBITDA margin was lower at 15% compared to 33% in the same period last year. The group's PAT also declined to MYR 1.2 billion from MYR 3.9 billion during the same period last year, mainly due to lower share of profit from our joint venture and associates and unrealized forex loss on the revaluation of debt at Perstorp.

Next, I hand over to Azli to take you through to the details of our financial performance.

Mohd Azli Ishak:
Thank you, Yusri. Ladies and gentlemen, thank you for joining us this evening. Let's now dive into the financial performance, starting with the Olefins & Derivatives segment on Page 3 of the deck, where we will compare the result of the second quarter of 2023 against first quarter of 2023. So as Yusri mentioned earlier, Global PMI continued to contract in the second quarter due to slower-than-anticipated recovery from China, a slower manufacturing factor and reduced demand in the downstream industry. This has subsequently impacted most of our O&D product prices. With the exception of MTBE that saw a slight gain on tight supply following heavy turnaround in Southeast Asia region, all other products were assessed between 1% to 13% lower compared to the first quarter 2023, with propylene seeing the largest drop followed by LDPE at 8%.

The production for the segment improved with no planned turnaround activity during the quarter. And with that, we recorded an 8% increase in sales volume. As a result, the O&D segment revenue increased 7% quarter-on-quarter to MYR 3.6 billion despite the overall lower product prices. EBITDA for the segment almost doubled to MYR 584 million from MYR 299 million in the preceding quarter on higher net effect of sales mainly from higher sales volume, which included volumes from our Pengerang petrochemical plant and lower fixed costs. This was slightly offset by lower product spread earned from the ethane-related products, in line with lower product prices.

Following the EBITDA improvement, EBITDA margin for the segment also improved from 9% in the preceding quarter to 16% in the quarter under review. The segment profit after tax more than doubled to MYR 422 million, aligned with higher EBITDA partially offset by lower contribution from our JV, mainly our JV with BSF.

Moving on to the fertilizer and methanol segment on Page 4, the F&M segment experienced a number of challenges during the quarter. Urea and methanol prices declined quarter-on-quarter by 18% and 11%, respectively. Ammonia price saw a significant reduction of more than 50% compared to first quarter of 2023 as European gas prices declined and demand for downstream product dampened.

Apart from failing product prices, the segment was also challenged on the operational front. As mentioned by Yusri earlier, we experienced unplanned shutdown at our plants in PC Fertilizer Sabah and PC methanol in Labuan due to feedstock supply disruption, as a result of a proactive methanol work carried out at the SSGP pipeline. In addition, there were also minor maintenance activities undertaken at our urea plant in ABF Bintulu and PC Fertilizer Kedah. This has brought down our plant utilization rate to 73% compared to 97% in the previous quarter, impacting our production volume by 24%. Nevertheless, growing from our inventories, we managed to minimize the above impact on sales volume, which declined 5% quarter-on-quarter.

With all these factors combined, Revenue for the F&M segment declined 22% to MYR 1.9 billion. EBITDA declined 41% to MYR 460 million, largely due to lower sales volume, namely for methanol and urea and lower product spread, especially for ammonia and methanol. EBITDA margin was recorded lower at 25% due to market decline in product spread. Profit after tax for the segment declined 55% quarter-on-quarter to MYR 241 million, in line with lower EBITDA.

Moving on to our Specialty segment on Page 5. In quarter 2 of 2023, the Specialties segment recorded lower revenue and EBITDA attributed to a slower recovery in product demand in key segments as major end-markets such as construction and consumer goods faced slow growth due to higher interest rates and inflation. This is on top of lower realized prices driven by price competition mainly from China. The sales volume and product mix remained subdued in quarter 2 2023 across the Resins & coatings segment due to lower end market demand, particularly in the consumer goods end-markets on the back of high inflationary environment.

Strong competition and price pressure from China has also adversely impacted demand and selling prices across the Engineered Fluids as well as silicones segment. Nevertheless, we saw some solid demand in the automotive end-market, which has led to positive outcome in our Advanced Materials segment, particularly the PVB film, but certain products such as the PVC stabilizer saw lower demand due to slow recovery in the construction industry.

For the Animal Nutrition market segment, we saw an increase in margin with favorable raw material prices and a shift to higher margin specialty products. All in all, despite the reduction seen in the energy and material costs, and higher contribution from high-margin business, being in the animal nutrition business, the segment -- the Specialty segment was weaker quarter-on-quarter following lower sales volume and continued pressure on prices.

Now let's look at the group's quarter 2 performance. Our plant utilization decreased to 82% from 96% in the previous quarter due to unplanned shutdown in the F&M segment, as I have mentioned earlier. This resulted in a lower production volume at 2.4 million tonnes compared to 2.9 million tonnes in the first quarter. Nevertheless, drawing from the available inventories strategic sourcing from our commercial excellence initiative to make up for the lost volume, contribution from Perstorp and the Pengerang petrochemical plants, we recorded comparable total sales volume of 2.42 million tonnes.

Market was assessed weaker quarter-on-quarter and our average product prices for the group declined about 10%. As such, group revenue declined 6% to MYR 7.1 billion from MYR 7.6 billion in first quarter 2023. The group's EBITDA was slightly 2% lower at MYR 1.1 billion, largely due to lower product spread, particularly for ammonia and methanol. However, this was partially offset by lower variable costs, lower fixed cost and a positive forex impact. EBITDA margin gained slightly at 15% compared to 14% in the preceding quarter. We recorded an 18%

improvement in our PAT at MYR 633 million due to unrealized forex gain on revaluation of shareholder loan to Pengerang Petrochemical Company.

Now let's proceed with the cash flow and balance sheet. In the cash flow, cash was higher by MYR 200 million at MYR 9.1 billion mainly due to higher cash flow from operations. partially offset by dividend paid to the shareholders at MYR 1.3 billion on March 2023. Looking at our balance sheet on Page 8, total assets were higher by MYR 1.7 billion, mainly due to higher property, plant and equipment contributed by project costs incurred at Pengerang Integrated Complex, expansion project Perstorp facilities and the Melamine project at PC Fertilizer Kedah. We also recorded higher cash and cash equivalents by MYR 168 million due to effect of forex differences and a weakening ringgit against the dollar. Total equity was higher at MYR 991 million at MYR 41 billion, mainly attributable to profit generated during the period.

That's all for the financial breakdown, handing back to Yusri for updates on sustainability matters and way forward.

Mohd Yusri Mohamed Yusof:
Thank you, Azli. Moving on briefly to our sustainability metrics. We are on pace of continuous improvement on our sustainability journey. And this journey is one of continuous learning on our part as we navigate our way into new industry requirements, standards and even stakeholders' expectations. Earlier, we discussed the economic pillar with regard to our operations and earnings. So let me move straight into the environment pillar. On a year-to-date basis, comparing again last year, our GHG emissions were higher largely due to higher production volume. This is despite the disruption at our F&M segment that we mentioned earlier, as all other plants were producing as planned.

With better production volume, GHG intensity reduced by 8.9% to 0.71x of CO_2 equivalent per metric ton production compared to the first half of last year. Nonetheless, our year-to-date reduction for the 6 months of 2023 stands at 26.1 thousand tonnes of CO_2 equivalent, contributed by various operational optimization initiatives such as flaring and venting minimization and also fuel optimization. This brings us to a total reduction of around 134,000 tonnes of CO_2 equivalent, which has exceeded our initial target of 100,000 tonnes by 2024. With that, we are on track to achieve our medium-term target of 20% GHG emissions reduction by 2030.

This year, we sent more hazardous waste for recovery as part of our ongoing efforts to minimize our environmental impact. As such, we recorded 81% of hazardous waste recycling rate, higher than the 74% recorded in the same period last year.

On our social front, we are expanding our signature Mangrove rehabilitation program, ecoCare. This program that we started with the Malaysian Nature Society, started as part of our effort to rehabilitate the mangrove forest along the Kerteh River. With the participation of local communities in the surrounding area, we have been able to educate and share on the importance of the Mangrove ecosystem and its impact on biodiversity. Over the years, we have reached some significant milestones with this program.

This year, we have started the same program in Tanjung Surat, Johor, with the aim to plant up to 5,000 trees, and to date, we have planted about 4,000 trees. This is one of the key elements in our net zero carbon emissions road map and key in our commitment towards creating a positive economic, environmental and social impact and lowering our carbon footprint. Our immediate commitment of 20% emission reductions by 2030 remains on track with continuous tracking and upgrade works at our manufacturing unit. More will be shared on this topic in the near future. So bear with us, as we continue to update you on our progress periodically on this matter.

Before we move on to the market outlook, in the recent review by FTSE, we are happy to inform that we remain a constituent of the FTSE4GOOD Bursa Malaysia Index, with a 4-star rating on our disclosure. Thank you for your support, and for the feedback shared for our continuous improvement in our journey.

Let's move to the market outlook. Over the past few weeks, there has been a positive development in product prices attributed to the rising trend in crude oil prices and increased restocking activities. In the O&D segment, we foresee that ethylene price is expected to be stable in line with the higher prices of naphtha, despite the ample supply that may cap further price increase. MEG price is forecasted to be stable driven by a balanced supply due to plant shutdowns in China. Polyethylene, the buying activity is expected to gradually improve by the end of August due to restocking activities ahead of the festival season, starting with the Golden week in China, Diwali and later Christmas in the fourth quarter.

In the meantime, China's government stimulus policies are anticipated to boost consumption and improve market recovery in China from the third quarter onwards. For Paraxylene the price is forecasted to be stable on balance supply on planned maintenance shutdown. Demand is expected to be driven by improved PTA production for ASEAN gasoline demand and new plant start-ups in China.

On F&M segment, urea prices are showing upward trend due to limited supply and fresh demand due to the upcoming planting season, in Myanmar, Brazil, Mexico and Canada in the third quarter. Ammonia prices is expected to stabilize following supply shortages in Indonesia and Australia, due to plant shutdowns. However, downstream demand remains weak with Caprolactam and Acrylonitrile plant utilization maintaining below 50% level. For methanol, prices is forecasted to be soft due to weak demand from downstream derivatives such as Acetic Acid, Formaldehyde and biodiesel. Several Middle Eastern plants are reducing operating rates due to margin concerns stemming from declining methanol prices.

The performance of our Specialty segment continues to rely on the improvement in the end-markets demand that track the macroeconomic environment as well as effective feedstock management, especially in the European region. The drop in energy prices have also led to lower product prices. The weak demand for specialties seen in the second quarter of 2023 is expected to prolong as end-markets such as construction is expected to remain sluggish in the prevailing global inflationary environment.

In contrast, Automotive and Transportation segment is expected to rise on the positive momentum from the first half 2023 into the rest of the year. China's economic development remains an essential component to support the recovery in specialties in the second half of 2023. Overall, market remains challenging for the rest of 2023. As such, we will continue to closely monitor the market dynamics, paying particular attention to factors such as geopolitical tensions, and the progress of China's recovery to ensure we remain agile and effective in our response to the market volatility.

Ladies and gentlemen, let's have a quick recap of our projects and focus areas before we move into Q&A. During the first quarter results, I had mentioned about 2023 being challenging from the get-go and inflationary measures and monetary policies continue to impact economic growth. This, however, has not swayed us from our pursuit of growth and diversification. In May, we reached final investment decision to fully acquire the 113-kilo ton per annum Maleic Anhydride plant located in Gebeng, Kuantan, from BASF Petronas Chemicals Sendirian Berhad. The FID signifies the start of the plant's project execution phase that will upgrade and rejuvenate the facilities to produce maleic anhydride, which is targeted to be ready by the second half of 2025. Maleic Anhydride is mainly used in the productions of unsaturated polyester resin, painting and food flavoring, which is seeing rising demand in Asia-Pacific and Indian subcontinents and at the same time, allows us to explore potential opportunities in the European and Middle Eastern markets.

Looking forward, we see potential future integration of Maleic Anhydride Specialty Chemicals derivative with our subsidiaries Perstorp and BRB to deliver innovative solutions along with possible synergies with other Maleic Anhydride downstream manufacturers in Malaysia. Other projects namely, our joint venture project, the NBL plant in Pengerang and the specialty ethoxylate plant in Kerteh are on track to come on stream by year-end. The Pengerang Petrochemical Complex is still undergoing its test run as we speak.

As I mentioned earlier, we are not anticipating much improvement in the market in the second half of the year as inflation remains a key headwind against manufacturing and economic growth. As such, product prices and spreads will remain pressure. Given the market conditions, the start-up progress at PPC will continue to incur operating costs, which will have impact on our earnings. Additionally, we have 2 scheduled plant turnarounds coming up this second half and some maintenance activity also in the second half, hence we are expecting a slight drop in our production volume.

Our priority will be on ensuring effective execution of these activities as well as the safety of our employees and contractors involved in all those activities. This will also stretch our manufacturing team's capability to deliver all the maintenance programs on time while always adhering to our HSE culture. It is becoming more and more important for us to manage our operations and costs to ensure we maintain financial resilience during this challenging time.

And that, ladies and gentlemen, is all that I have for today. Let's go to Q&A.

Zaida Alia Shaari:

Thank you, Yusri. Nadia, we can proceed to Q&A

Operator:
(Operator Instructions). Now we're going to take our first question. First question comes from the line of Raymond Yap from CGS-CIMB Securities.

Raymond Yap:
So, I'd like to ask the first question in the F&M segment. You noted that there was some gas supply disruption caused by the SSGP pipeline maintenance. I'd just like to double check whether that maintenance has been resolved? And what kind of F&M utilization rate are we expecting in the third quarter?

Mohd Yusri Mohamed Yusof:

Raymond, thank you for that question. The maintenance activity took -- I think, close to 20 days, and that has been resolved, and both plants are currently operating at full rate. So, moving on to the second half of the year, we don't expect any shutdown of our F&M plants. So, we will be running as much as possible flat out moving forward towards the end of the year.

Raymond Yap:
Okay. So, in the first quarter, your F&M utilization was 97%. So, I should expect at least above 90% to be reasonable?

Mohd Yusri Mohamed Yusof:

Yes. That's our expectation. That's the plan.

Raymond Yap:

Okay, sure. So, another question on the O&D. I noticed that the O&D did well in the second quarter compared to the immediately preceding first quarter. And I'm just wondering how much of that improvement was caused by forex gains?

Mohd Azli Ishak:

Thank you, Raymond. Forex gain is basically about MYR 100 million -- more than -- it's around MYR 150 million. That's basically the impact of the forex for the loans that we have for Pengerang Petrochemical Complex.

Raymond Yap:
Yes. Okay. So, that was noted on your Bursa announcement, there was a forex translation gain in the second quarter of MYR 146 million. But at the same time -- Yusri mentioned that was a forex translation loss on Perstorp. So, MYR 146 million forex gain is it inclusive of the forex loss on the Perstorp debt, I presume.

Mohd Azli Ishak:
Yes.

Raymond Yap:
So, the forex -- okay. So, the forex gain on the O&D side alone should be much more than MYR 146 million then, right? That depends on how much the loss was on Perstorp debt.

Mohd Yusri Mohamed Yusof:
But I think that the forex mentioned was for the group, Raymond. It is not just O&D. It is the number for the whole group.

Mohd Azli Ishak:
Yes.

Raymond Yap:
Yes. Okay. So Azli, could I just ask if you could tell me how much was the forex loss at Perstorp level? Just for the Perstorp loan?

Mohd Azli Ishak:
For Perstorp, it is slightly more than MYR 150 million. That's the -- for the (inaudible) yes. We have a shareholders loan that we provide to Perstorp that's in euro. And then Perstorp, as you know, is a Swedish-based company. So, the portion of currency is in Swedish kroner. So, as Swedish kroner depreciates against the euro, they need to book this forex, unrealized forex loss. While the debt will not appear in our consolidated statement because it is eliminated, Perstorp needs to record that unrealized forex losses.

Raymond Yap:
Okay. This euro debt is a euro debt that is provided by PCG. Is it to Perstorp?

Mohd Azli Ishak:
Yes. Basically, as part of the completion of the acquisition agreement, we settled the third party debt, the external financing that they had with the third party, which are external banks. So, we replaced it with our shareholders loan from PCG.

Raymond Yap:
Okay. Okay. I see. So -- okay. So, if the -- if Perstorp booked a MYR 150 million forex loss for the shareholder debt extended to Perstorp. That means the forex gain booked in the O&D side should be about MYR 300 million. Because MYR 300 million minus EUR 150 million, we'll get you that net MYR 150 million forex?

Mohd Azli Ishak:

We have in other segments as well, Raymond. So, the one that you see in Bursa is a net effect of the forex gains and losses.

Raymond Yap:
Okay. So, in that case, I mean, roughly how much would be the forex gain at the O&D side lone.

Mohd Azli Ishak:
Okay. Sorry, Raymond, do you get my response just now? Or do I accidently got cut off?

Raymond Yap:
No, I didn't hear any response.

Mohd Azli Ishak:
Okay. Basically, we have other forex gain from other segments, not just O&D and specialties. So basically, the one in the Bursa announcement is the net effect of the forex gain and losses.

Raymond Yap:
Okay. So, if I just want to identify the portion of the forex loss attributable to O&D, how much would that be?

Mohd Azli Ishak:
That will be MYR 150 million -- to be specific, MYR 150 million of that is for the Pengerang loan.

Operator:
Now we will take our next question. The next question comes from the line of Ahmad Maghfur Usman from Nomura.

Ahmad Maghfur Usman:
I just want to follow-up on a few things. What was the pre-operating loss at the Pengerang side? That's one. And can you remind me again what was it in the first quarter? And then also with regards to this Maleic Anhydride plant, I understand that it was acquired from BASF, but the transaction pricing was not revealed. Could you possibly disclose that? And what would be the impact to your bottom line come commencement in 2025 in the second half. So that's the second question. Probably answer these two first before I follow up with another 2 more.

Mohd Azli Ishak:
Sure. Alright. Ahmad Thank you. I think in our quarter 1 result announcement in May, I did verbalize that our operating loss at Pengerang petrochemical complex range about negative MYR 100 million for the quarter 1. As we progress into quarter 2, as Pengerang increased their production and we managed to evacuate most of the volumes to Southeast Eastern region. We manage to lower that negative impact to around MYR 70 million negative EBITDA. So, the negative EBITDA is reducing as the production ramps up. And we anticipate this improvement will continue into quarter 3 and quarter 4 as we ramp up the plant capacity.

For the Maleic anhydride, I think it's our both joint understanding with BASF PETRONAS Chemicals not to reveal the transaction price. So, in terms of the impact of bottom line in 2025, it's quite early to say now to give you any guidance. But this is basically as per our growth trajectory moving further downstream into the intermediates and specialty chemicals, where we can demand certainly more premium over the commoditized petrochemical product. This will be a value add as opposed to the normal building block of petchem products that we have.

Ahmad Maghfur Usman:
Okay. Just a follow-up question on the first one. What kind of utilization are -- were you running at in the second quarter. That's one. And then on the -- this -- I don't know how to

pronounce this Maleic Anhydride plant, how much utilization run rate are you expecting by second half in the initial ramp up? And what's the normalized level that you're expecting for this particular plant? And then also assuming, say, 100% utilization, is it fair to say that potential revenue contribution should be of about MYR 400 billion to MYR 500 million roughly?

Mohd Yusri Mohamed Yusof:
I think -- thank you, Ahmad. On run rate at Pengerang, I think currently, it's too early for us to say as the plants are in the process of starting up. So, they go up and go down, we don't track run rate per say, it is just to establish steady operation. So, until the plant moves into what we call as commercial operations, then we would then track run rate and start declaring run rate. So it is, I think, too early for us to share because it's still fluctuating currently.

And for Maleic Anhydride, again, it is too early. But typically, in our project ramp-up production, we put around 40% to 50% in the first year of operation before we ramp up to 70% and 90% and beyond in the subsequent year. So, I think that's all for now. We will continuously update on the contribution and on the project progresses, as we get closer to the start-up rate to date in 2025.

Ahmad Maghfur Usman:
All right. And then the first question, the utilization rate for the Pengerang or you'd answered that already.

Mohd Yusri Mohamed Yusof:
Yes, as I mentioned it's too early because, as I said, it all in stabilization stage. So very difficult for stable (inaudible).

Ahmad Maghfur Usman:
Okay. Last question is on the negotiation on the feedstock contract with PETRONAS. How is that coming along? And could you guide this -- guide us what we can expect?

Mohd Azli Ishak:
Well, we are still finalizing the negotiation with PETRONAS, and we will make that announcement before the year-end because that's the end of the extension that was agreed between both parties. And our expectation is it will not be materially different from what we have right now in terms of gas pricing.

Ahmad Maghfur Usman:
Okay. Sorry, one last question. How about your naphtha intake for Pengerang? Is it based on market price? Or is some form of discount or you're not able to disclose?

Mohd Azli Ishak:
We don't buy naphtha, Ahmad. We only buy ethylene.

Mohd Yusri Mohamed Yusof
We are in the petrochemical portion. So, we are not in the (inaudible) side. So, this is based on an agreed formula price that was between the 2 joint venture.

Ahmad Maghfur Usman:
And how does that compare to the current ethylene spot prices?

Mohd Azli Ishak:
It is basically market prices with a discount. So, it will be based on market benchmark with the over-the-fence discount.

Operator:
Now we're going to take our next question. And the next question comes from the line of Sumedh Samant from JPMorgan.

Sumedh Samant:
Just a couple of questions from my end. I think firstly, on the olefin side, right? We noticed that the EBITDA has significantly improved, I'm not talking about profits, which might have some foreign exchange gains. But I just want to understand better why EBITDA improvement was so strong. Apart from volumes, we couldn't find anything specific. So, can you answer that question?

Mohd Azli Ishak:
Yes. Thank you, Sumedh. One of the main contributor is lower energy and utilities costs, because O&D segment are the highest consumer of energy utilities costs. So, as you -- as LNG prices reduced from quarter 1 to quarter 2, our gas for fuel, and accordingly, our electricity tariff also reduced. So that's basically a significant comparison between quarter 1 and quarter 2 for the O&D EBITDA.

Sumedh Samant:
And may I ask like the magnitude of the utility sort of cost benefit that you have for this quarter versus last quarter?

Mohd Azli Ishak:
Okay. I don't have that in front of me. I will get back to you after I got the number, Sumedh?

Sumedh Samant:
Sure, sure. That's fine. Sounds great. And just second question also on the Specialty Chemicals, right? And again, same question, but in different direction. Clearly, the margins sort of came down to like barely 2%. And I recall in the past conversations, we had indicated that the margin is gradually improving. So, what exactly happened there? And if I had to ask you sort of second half margin, will it be going down from here? Or will it be staying here? Or will it go to sort of 10-plus percent at some point?

Mohd Azli Ishak:
Thank you, Sumedh. I'll hand over to Debbie, our Head of Specialty Chemical to answer that question.

Debbie Chiu:
Thank you for the question, Sumedh. So yes, I think we talk about the specialty area, the margin is typically around 13% to 18%. Unfortunately, we're in a strong headwind situation right now. And we don't see the situation see much improvement coming from here. The margin came down barely to 2-point something. It is mainly coming from the very, very soft market. And especially, we're very strong in Europe. We do see a lot of the influx of the cheaper import from China market. And that has majorly vastly impact on our pricing. Even though we have seen some energy cost is giving us some relief. However, the strong competition coming from the China market and also the very soft demand has made this market very, very tough at this point.

Moving forward, like Yusri has mentioned in the building construction area, which a lot of our resins in coatings segment are in debt, that market is probably going to stay challenged for a while mainly because of the inflation and the interest rate. We do see a certain other segments, for example, for the aerospace, for the automotive, we do see some light in there and they're probably going to stay better or taking up some of that. However, we do see for the second half of this year, we're probably going to stay flat as what we have done in the first half.

Sumedh Samant:
And maybe just one last thing and again, going back to the first question. Is there any sort of positive EBITDA contribution from the PIC JV in the O&D segment EBITDA. Would we -- could we say that? Or is it still loss making?

Mohd Azli Ishak:
As I mentioned, in my response to Ahmad's question earlier, for quarter 2, we still have negative EBITDA for Pengerang at around MYR 70 million compared to a negative MYR 100 million in quarter 1. So, the negative EBITDA situation has slightly improved, Sumedh. And we anticipate that as the plant continued to ramp up towards commercialization, that negative EBITDA will be reduced over the period.

Sumedh Samant:
Got it. Got it. But can I check again, right? Because in the past, I recall when you said that you had only 4 machines running or 4 plants running and now it's like 7. So, you could have seen like an expansion of losses. And why was there a compression of losses? What changed?

Mohd Azli Ishak:
We have more volumes for olefins and derivatives, especially contribution from Pengerang. So that is basically the one that drives the improvement in the negative EBITDA. So yes.

Sumedh Samant:
Okay. So, we expect the volumes to improve kind of that allows your EBITDA to continue improving?

Mohd Azli Ishak:
Yes.

Operator:
Now we're going to proceed to our next question. And the next question comes from the line of Mayank Maheshwari from Morgan Stanley.

Mayank Maheshwari:
A few questions, I suppose, following up with all that has been asked right now. I think let me just start with the specialty side. I think in terms of a bit more granularity around where the biggest pain point is from the competition from China? If you can just highlight of where that is? And also, in terms of what you guys are doing to kind of negate that impact, considering these are specialties. So, I'm assuming that you would be kind of taking your market share presence locally and trying to kind of keep your market share up irrespective of what the competition is. So, can you just give us a bit of an idea in the Specialty division, what you guys are really trying to do and where the biggest pain points are within the specialties?

Debbie Chiu:
Okay. Thank you for the question, Mayank. The biggest point is if you see we are the leader in the poly segment. And unfortunately, that is an area that we see with China is the softer domestic demand, we do see a lot of influx coming from China. So that is our biggest pain point for now. And moving down the road, as I just mentioned, the headwind is probably going to be there for another maybe a year or even longer. And we're not staying in place. We're looking at the equation of the 2 sides, right? So, we're doing everything, looking at our operational excellence in our cost position, we optimized our supply chain of network looking at all that.

On the other side, our strength compared to our competitors coming from the China market is we have a much better technology to understand the market better. So, on that side, we're developing more specialty products and also getting more application aligned with the customers. So, along the 2 sides, we're working to optimize our cost position and also we're working on our application and product position to gain more differentiated position compared to our competitors.

Mayank Maheshwari:

Okay. So, I think if you think about it, I think animal nutrition has been a pain point for some time now. Is that got even worse? And is there anything that's actually improved at the margin on advanced materials or silicones?

Debbie Chiu:
Yes. Actually, Animal Nutrition has been quite stable. As a matter of fact, I think they have done quite okay for the second quarter. And also because animal nutrition is a smaller percentage of the business. So, they -- actually, they remain quite stable this year. And also, we do see some demand pickup in the Animal Nutrition areas.

Mayank Maheshwari:
Okay. Got it. The second thing was more in terms of the impact of the lower gas costs in Europe. And obviously, it's not being shown up in the EBITDA because I suppose, partly because of competition. But in terms of cost positioning now versus, I suppose, imports from China, how would you kind of define your cost positioning now with gas costs normalizing, et cetera, versus China?

Debbie Chiu:
Right. So, the energy, the gas position has been improved. So, our cost position has improved in that sense. But one thing we do understand is China, they're kind of (inaudible) dumping because they have different thinking. So, in a lot of times, they could go even undergoing into the market. So, looking at our cost position, I would say we're still at a disadvantage compared to the Chinese selling price. However, we're pretty confident with -- when we're looking at all our cost position, and we're doing all the optimization, we will be quite at par to compete with Chinese product in the European market.

Mayank Maheshwari:
Got it. And I think coming back to -- I think just on Pengerang, if you can just help us talk about like how much total volumes of PE, PP and even MEG that you were able to kind of report in the production volume number for O&D?

Mohd Azli Ishak:
I think that request is quite detail. I think throughout this starting up period, is basically on tender basis and it's not yet operational. So, the equity offtake is not based on shareholding entitlement. So, I think just to point out that -- during this period, ECG has been managed to secure most of the volumes during this operational period. And we may need to sell it to spot markets throughout Southeast Asia region. So, I think to identify the product volume specific to Pengerang because we are looking at as part of our total O&D portfolio. So, it's quite difficult to really iron out for PP, HDPE, LDPE, how much is it for Pengerang at the moment. I think moving forward, is this something that we can consider.

Mohd Yusri Mohamed Yusof:
Again, as I mentioned earlier, at this point of time, our focus is to be stable operationally. So, we're not tracking it by segment yet. We're just lumping the volume and even the mode of sales are not through equity yet. It's still through tender as and when available. So, it’s difficult for us to segment that currently.

Mayank Maheshwari:
Got it. So, the reason I was asking this was basically not to just get the volumes to get a sense in terms of how the losses will reduce over time because MEG obviously has been very challenging for everybody and PP has not done as well. So, I'm assuming that you -- because your losses reduced partly because, I suppose, energy costs and partly because of the mix shift, which may be in favor of PE over the other products. Is that a fair comment? Or?

Mohd Yusri Mohamed Yusof:
I think if you want to just use the rule of thumb, maybe quarter 2 (inaudible) quarter 1, not specific product, but in terms of overall volume from Pengerang.

Mayank Maheshwari:
Okay. Okay. And I think the last question was more related to the FX impact. Sir, is there like -- is there any hedging policies or anything that you're kind of looking at to kind of reduce this volatility around FX loans, et cetera, that you have? Or is this now a new normal that we'll have to kind of look at going forward?

Mohd Azli Ishak:
We have assessment, Mayank, especially to cater for the unrealized forex loss that we have in – for our loans Perstorp. We are assessing whether we want to convert the functional currency of Perstorp from Swedish Kroner to Euro. Basically, having a natural hedge against most of the borrowings which are in Euro. So, I think this is still under assessment. Because it's not as easy to switch that functional currency instantly. And if we will manage to do that, then most of this unrealized forex loss from relating to Perstorp could be eliminated significantly. And I think that is something that we are exploring.

We don't do hedging per say, Mayank, at least for (inaudible), as you know, a lot of our revenues and costs for that matter, especially if feedstock costs are U.S. dollar denominated. So, in a way, we do have a natural hedge for most of our commodity products in the specialties exposure on the forex that we are managing at the moment.

Operator:
Now we're going to take our next question. And our next question comes from the line of Kong Ho Meng from UOB Kay Hian Research.

Ho Meng Kong:
Ho here, can you hear me?

Mohd Yusri Mohamed Yusof:
Yes Ho Meng.

Ho Meng Kong
Just to follow up on several questions. Okay. First, I'd just like to touch on the specialty chemicals again the EBITDA was quite weak in the quarter. And you did highlight the market outlooks and things like that. Just to double check on one thing. I think in terms of first expansion plan (inaudible) is supposed to built a new plant in India. Has that already started? And if yes or no, that plan partly contributed to the maybe free operating costs or (inaudible) contributed to lower EBITDA in the second quarter.

Debbie Chiu:
Yes. Okay. Thank you for the question, Ho Meng. Actually, I'm glad actually you brought this up. Our India plant has not yet been start-up yet commercially. We will start up the plant commercially in fourth quarter this year. And we believe once that plan gets started, we will have a much better position, cost position because mainly a lot of supply is coming from Europe today. So, once we have this India plant up running, we will be able to supply much more region for regional. And the cost is going to be much more competitive with our peers. So, we're actually looking forward once we have this plant startup, we will see improvement in our cost position and supply situation.

Ho Meng Kong:
Got it. And maybe can you remind us also relative to your existing plants around the world or let's say, for example, Europe, India and China. How big is the new plants relative to the other regions?

Mohd Yusri Mohamed Yusof:
This yes. So, we have several plants specifically for the product line. And India is about the same size, the biggest size of our biggest site in Europe.

Mohd Yusri Mohamed Yusof:
I think it's about the same size that we have in Sweden. China is half of that. And then we have 2 other smaller type in Germany.

Ho Meng Kong:
All right. Okay. Got it. I move forward to the -- where you have updated that the -- your divestment for the (inaudible) asset has already been completed in July. How much -- which for upcoming third quarter results, which reflect the July numbers, right, a number that you should expect one-off financial closures in the debt yes.

Mohd Azli Ishak:
The impact of that conclusion of the divestment has already been published in our Bursa announcement.

Ho Meng Kong:
Okay. So, we can follow the same guidance from there now?

Mohd Azli Ishak:
So what we disclosed today in the Bursa announcement is an updated version of the indicative number when we announced the deal. So that has taken into account the latest financials as at 31 July 2023. So that will be the latest number.

Ho Meng Kong:
Okay. And to double check on the revaluation of the loan of Pengerang. So that is represented in the forex gain of around MYR 150 million. And -- but also in your note on the operating profit level, right, you have right up of inventory gain, I think, that MYR 32 million versus -- in the first quarter, you have a write-down of MYR 20-plus million of inventories. So yes, can you share a bit of that on the inventory side.

Mohd Azli Ishak:
On the inventory side, it's basically based on market movement. So, because we compare our inventory value based on net reliable value, cost reliable value. So as and when there's a plant experiencing unplanned shutdown. And it will obviously increases our cost per ton of the product compared it with the volume of inventory we have left. So that's basically the main driver. And as I mentioned earlier, the F&M segment, especially the methanol and urea -- sorry, the ammonia and urea prices declined from quarter 1 to quarter 2. So that will have an impact on our revaluation of inventories. So, majority of the write-down is basically because of the F&M inventory that we have.

Ho Meng Kong:
So even though you had the unplanned shutdown in your evidence side in the second quarter, but that kind of benefited in the inventory revaluation?

Mohd Azli Ishak:
Yes. Correct.

Ho Meng Kong:
Okay. All right. And also for the -- I think you mentioned earlier in 1 of your comments that the SSGP related disruption that was around 20 days, right? But you also mentioned that you also had disruptions that come from the MLNG side and pick that. Is that also within that 20 days mention?

Mohd Yusri Mohamed Yusof:
There's no distraction of MLNG side. I think we lost gas supply because of pipeline was repaired and that cost us 20-odd days and it has been completed and the plant is up already, both plants are up.

Ho Meng Kong:
Okay, got it. Okay. Just one more question for me. Just want to understand, you have overall lower volume on a quarter-to-quarter basis but your greenhouse gas emissions is higher on a quarter-to-quarter basis. Is that -- does not mean that by segment, right, your intensity of the greenhouse gas emissions from the O&D side is higher than the F&M side because the volume of oil side is the one that was higher on the quarter basis?

Mohd Yusri Mohamed Yusof:
I think on overall quarter 2 -- we compare half year to half year, right? But on the per ton basis, the intensity reduces because we -- when we look at first half of 2022, the production was lower than the first half of 2023 -- so if you look at -- this is comparing not quarter-to-quarter, but half year to half year, -- and this year, overall production is higher than first half of last year. Hence, the GHG emission is higher. -- on a mission, I did not track quarter-to-quarter, and we always share half year to half year.

Ho Meng Kong:
Okay half year to half year makes sense if you look at volume.

Mohd Yusri Mohamed Yusof:
Volume against the first half of last year increases.

Ho Meng Kong:
Okay. Just trying to understand whether on a quarter-to-quarter comparison because you do disclose in like I think your recent volumes on the quarter, which (inaudible).

Mohd Yusri Mohamed Yusof:
Sometimes if you do quarter-to-quarter, the impact of (inaudible) also contributed to GHG emission. So sometimes that kind of destocked the whole equation. So that's why we need to appreciate (inaudible).

Ho Meng Kong:
Or when you (inaudible).

Mohd Yusri Mohamed Yusof:
Yes, yes, then you have more exposure to emission.

Operator:
And the next question comes from the line of Raymond Yap from CGS-CIMB Securities.

Raymond Yap:
I just wanted to follow up on the urea price. Euro prices have recently gone back up to about USD 400 per tonne. And -- Yusri mentioned that it was due to demand from the planting season. Could you give me a bit of color how long will this planting season ends? And also, the Indian tender, how large it is? And are you supplying to that? Are you bidding into that?

Shakeel Ahmad Khan:
Shakeel here. I think on the Indian tender, volume-wise, you're looking at 1.7 million tonnes. So that's basically -- I think market is high for that basically adding to the bullishness of the urea price. At the moment, it's overly about 380. I think with the Indian tender and also planting season in Myanmar and in some other parts of Australia and all that. So likely to support the prices in the next month or two.

Raymond Yap:
Okay. What happens after that? Do you have a bullish or bearish or neutral view on the direction of your prices after the season, I think?

Shakeel Ahmad Khan:
There will also be seasons, but it was minor, not major, I would say.

Raymond Yap:
Sorry, could you repeat?

Shakeel Ahmad Khan:
I was saying that, basically, a major cycle is in the next quarter month. After that, to be minor season but not as -- the demand may not be as strong as what we see in the next 1, 2 months.

Operator:
Now we're going to take our last question. The last question comes from the line of Ahmad Maghfur Usman from Nomura.

Ahmad Maghfur Usman:
Just 3 questions, quick one. The – have you started incurring depreciation from Pengerang side, given that you′re running on pre-operating operations? That's one. Second, I understand that there will be some plant integrity test where you will be required to run utilization run rate of about 90% over the course of 3 months. Is that the case? And if that's the case, what happens after that integrity does the utilization come down depending on the demand and supply? Or will you continue to maintain that utilization run rate of 90% as per the site by the integrity test. That's the second question.

And then also, last one, I'm not so sure whether you had answer, but what is the price that Saudi Aramco sells the crude to the refinery? Is it based on whatever announced price by the Saudi government? Or is there some form of discount to that as well?

Mohd Azli Ishak:
So your first question, we've yet to depreciate the Pengerang complex because it is yet to achieve the COD. And the second question regards to the financing tax. So, as you know and as disclosed in our accounts, as part of the government in the project financing, the integrative plan is to demonstrate the test, the operation test compared to the planned production rate. So, I think as you see mentioned earlier, the whole complex is gearing up for this particular test. So, they are preparing for it as we speak.

Mohd Yusri Mohamed Yusof:
I think once we have satisfied at the complex will be run based on economics. So, we will be running the complex as integrated complex, which product gives the best economy to the compact, that's how we run it.

Mohd Azli Ishak:
Okay. On the third question, Ahmad, unfortunately, we can answer that question because we don't own the refinery -- and even then, I think we are not at liberty to disclose the crude price.

Zaida Alia Shaari:
So, we have now reached the end of today's briefing. Thank you, everyone, for your questions and your kind participation. Please reach out to us should you have follow-up questions. We look forward to receiving your reports once published. Good evening and have a good week ahead.

Mohd Azli Ishak:
Thank you.

Mohd Yusri Mohamed Yusof:
Thank you.

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

END