PETRONAS CHEMICALS GROUP BERHAD

3Q 2023 ANALYST BRIEFING

28 Nov 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		

Zaida Alia Shaari:

Welcome to Petronas Chemicals Group Berhad Analyst Briefing for third quarter 2023. Hello and Assalamualaikum, I am Zaida Alia, Head of Investor Relations. Thank you for joining us. I am the event host and moderator for today. Ladies and gentlemen, for the first time, we are hosting this briefing over MSteams platform, so we hope the session will run smoothly and to avoid any disruption and glitches we shall not do any video today.

You should by now be able to access and download the results from the Bursa Malaysia website. The presentation materials are also available on our corporate website. As usual, the agenda for today will be a short presentation of the quarterly results, followed by the Q&A session. Before we begin, I shall go over a few housekeeping rules; to avoid any interruptions, kindly always ensure your mic is set on mute. To post questions during the Q&A, please use the raise your hands function, once I call your name, please unmute yourself. State your name and organization and then proceed to ask your question. We would appreciate very much for you to post your questions directly and verbally.

As a reminder, all information presented and provided today is strictly intended for participants of the meeting. Recording of the presentations will be made available on our website in a few days. Should you record the presentation on your end, kindly restrict the use for your own purposes only and not for public distribution.

Ladies and gentlemen, we are pleased to have our speakers for today's briefing, led by our Managing Director and CEO, Mr Mohammed 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, Head of Strategic Planning and Ventures, Mr Yaacob. Without further ado, I shall now hand you over to Mr Yusri for the performance highlights.

Mohd Yusri Mohamed Yusof:

Thank you, Alia. Hello everyone, good evening. Thank you for us joining today. At the beginning of the year, we saw unfavorable developments in the banking sector, coupled with the implementation of more restrictive monetary policies. This sparked worries about the potential repercussions on global economic recovery. Fast forward nine months, now in 3Q 2023, the global economic landscape continued to decelerate. Factors such as slower-than-expected economic data in China, persistent inflation, and disparities in regional monetary policies contributed to economic uncertainty, and negatively impact market growth.

As a result, the average global GDP growth slipped from 1.85% in the first nine months of 2022 to 1.77% within the same period this year. The slowdown is further reflected in the average Global PMI, which contracted to 49.10 during the nine months of the year down from 49.80 in the same period last year. Global manufacturing sector declined with lower manufacturing sector output primarily due to sluggish demand recovery which saw reduction on new orders Against the nine month of 2022, the benchmark Brent crude fell 23% to an average of 82 US dollars per barrel this year, on lower global energy consumption primarily in China. The struggles in the Chinese economy, accentuated by the crisis in its property and real estate sectors, gave contagious effect on other sectors, which ultimately weighed on oil demand.

Against this challenging backdrop, the chemicals industry saw subdued commodity growth, propelled by decreased consumer spending and weaker demand from the end markets. As a result, products prices declined across the board on oversupply concerns coupled with the normalisation of natural gas prices in Europe specifically for F&M products.

Ladies and gentlemen, early of this year, we kicked off with planned maintenance at PC LDPE and PC Aromatics. In the second quarter, there were unexpected downtimes at PC Fertiliser Sabah and PC Methanol Plant 2 due to supply issues from maintenance on the supplier's side. In the third quarter, we saw continued challenges, as we experienced a mechanical issue at PC Methanol (Plant 2), which saw the plant shutdown for almost a month. Nonetheless, to ensure that we remain on track with our maintenance plans, we continued with our planned maintenance activities and executed various planned activities in ABF, PC Ammonia, and PC Glycols & Derivatives. Notwithstanding the setbacks, our Group's plant utilisation rate for the period stood commendably at 85%, comparable to year-to-date 2022.

Our production volume rose by 8%, reaching 7.8 million tonnes thanks to an additional volume from our Specialty company, Perstorp. Sales volumes showed a year-on-year increase in all segments, driven by higher production coupled with additional contributions from specialty chemicals and also our Pengerang Integrated Complex. This led to a 6% uptick in Group revenue, reaching 21.5 billion ringgit despite a 29% decrease in overall product prices. Group's EBITDA, however, declined significantly to 3.1 billion ringgit, mainly due to lower product spreads, particularly ethane-related product, urea, ammonia and higher maintenance cost as well as higher energy & utilities cost. Consequently, EBITDA margin was lower at 15%, compared to 31% in the same period last year.

The Group's PAT also declined to 1.6 billion ringgit, from 5.8 billion ringgit during the same period last year mainly due to lower EBITDA, lower share of profits from our JVs and Associates and unrealised forex exchange loss on revaluation of shareholder loan to our subsidiary, Perstorp. Next, I'll have Azli, to take you through the details of the financial performance.

Mohd Azli Ishak:
Thank you, En. Yusri. Ladies and gentlemen. Thank you for joining us this evening. Now, let's delve into the fiscal highlights starting with the Olefins and Derivative segment on Page 3 of the deck, where we will compare the result of third quarter 2023 against second quarter 2023.

The global PMI continued to contract in the third quarter, primarily due to a slowdown in the manufacturing sector caused by weakened demand, which saw a decline in both new orders and output. Although there was a small uptick on China's data recovery, the pace was slower-than-expected, which affected the downstream industry demand. Consequently, O&D product prices were impacted.

On the operations front, our plant utilisation for the segment was lower quarter-on-quarter at 79% with the execution of several planned maintenance activities or pitstops and the unplanned shutdown at PC Olefins due to utilities disruption in Kerteh. Both production and sales volumes were lower against the preceding quarter. Additionally, the O&D was challenged by sluggish demand amidst abundant supply from the start-ups of new plants in China, along with an influx of deep-sea cargo from the US and Saudi Arabia.

Segment revenue decreased by 4% quarter-on-quarter, to 3.5 billion ringgit, mainly due to lower sales volumes, compounded by lower average product prices. EBITDA saw a significant decline by 31% to 404 million ringgit compared to 584 million ringgit in the preceding quarter. This is due to higher maintenance costs, lower sales volume, and decreased product spreads. PAT halved to 211 million ringgit compared to the same period last year.

Now lets move on to the Fertilisers and Methanol segment on Page 4. This quarter we saw positive developments in the F&M segment, particularly for Urea and Ammonia. The Urea and Ammonia prices increased by 19% and 20% respectively contributed by bullish market in September for Ammonia, driven by shortages in various regions such as in the Middle East and Indonesia. The uptrend for Urea began in July, influenced by volume shortage in the spot market, as most suppliers have committed their volumes to fulfilled their term contracts in August. This was further boosted by the Indian tender of around 1.7 million tonnes for September shipments.

On the operational front, plant utilization rate increased by 3% at 76% due to lower downtime. If you recall, we experienced shutdown at PC Fertiliser Sabah and PC Methanol Plant 2 last quarter due to feedstock supply disruption. With better plant utilisation rate, production volume rose 6% to 1,408 kmt. However, sales volume was lower, declining 6% mainly due to lower Ammonia volume with turnaround shutdown at PC Ammonia and inventory management exercise for urea to cater for our term contract requirements in the coming quarter. This has led to a 4% decrease in the F&M segment's revenue. Nevertheless, despite lower revenue, our EBITDA improved 31% to 601 million ringgit, driven by higher product spreads and lower fuel, energy and utility costs

The EBITDA margin was recorded at 33%, driven by a significant increase in product spreads, namely urea. In line with the higher EBITDA, PAT for the F&M segment surged around 50% quarter-on-quarter to 360 million ringgit.

Now let's move on to Specialties segment on Page 5 of the deck. In 3Q 2023, the Specialties segment recorded higher EBITDA. This is mainly due to lower operational expenses mainly due to lower manpower cost from summer holiday effect and lower repair and maintenance as 2Q 2023 includes planned turnaround of Stenungsund and Toledo sites of Perstorp. This was partially offset by lower revenue and compressed margins, mainly attributed by lower prices driven by competition and the slow recovery in key segments. Major markets such as construction and consumer goods faced slow growth due to the high interest rates and inflation. However, lower raw materials costs were observed with positive impacts to the margin.

More specifically, the key segments were impacted by the following. Lower volumes were observed for key products such as alkyds for resins and coatings segment. Nonetheless, we observed higher demand for powder polyester for resins and coating segments, as well as overall Lubricant oil additives & chemicals that support our positive volume variance for the quarter. There is also strong competition and price pressure from the Asian Producers which have adversely impacted selling prices across the engineered fluids and silicones segments. For the animal nutrition segment, we saw increase in margins with favourable raw material prices, and higher sales volume from better specialty products mix. All in all, the Specialties segment was stronger quarter-on-quarter but still negatively impacted by continued pressure on prices.

Next, let's look at the Group's quarter three performance on Page 6. At our Malaysian operations, our plant utilisation decreased to 77% from 82% in the previous quarter. This is mainly due to higher pitstop related shutdowns at ABF, PC Glycols and PC Derivatives, and scheduled turnaround maintenance at PC Ammonia. As mentioned by En. Yusri earlier, we also experienced mechanical issue at PC Methanol Plant 2, which saw the plant shutdown for almost a month and unplanned shutdown at PC Olefins, due to utilities supply disruption. For our international operation, we saw slightly higher production and sales volume from the Specialties segment.

Despite comparable average product prices against the preceding quarter, Group revenue declined 5% to 6.8 billion ringgit from 7.1 billion ringgit in the third quarter of 2023, mainly due to lower overall sales volumes. The Group's EBITDA and EBITDA margin was comparable at 1.0 billion ringgit and 15% respectively. However, our PAT for the quarter was lower by 31% at 439 million ringgit due to lower unrealised forex gain on revaluation of shareholders loan to Pengerang Petchem Company (RM191 mil).

Now, let's proceed with the cashflows and balance sheet, on Page 7 and 8 respectively. On the cash flow, we recorded slightly higher cash balances mainly due to Cash flow from Operations over the period, after taking into account capex investment incurred at PIC, Perstorp growth project as well as the Melamine project in Gurun, Kedah. This also take into account the dividend that we paid to our shareholders over the period.

Moving on to the balance sheet, total assets were higher at RM58.7 bil mainly due to higher PPE by RM1.4 bil contributed by project costs incurred at PPC and PC Isononanol, Perstorp expansion projects and TA preparation costs. There is also higher long-term receivables by RM924 mil mainly represented by deferred payment consideration arising from partial disposal of PC Fertiliser Sabah.

Total equity was higher by RM1.9 bil at RM41.6 bil mainly attributable to profit generated during the period and effect of foreign currency translation reserve due to weakening of Ringgit Malaysia against US Dollar as well as Euro.

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

Mohd Yusri Mohamed Yusof:
Thank you Azli. As always, we have our quarterly update on sustainability metrics as you see on the screen now. On a year-to-date basis, our GHG emissions read higher due to both planned and unplanned shutdowns at several of our facilities mentioned earlier. Nonetheless, we have continued with our operational optimisation initiatives, such as flaring & venting minimisation and fuel optimisation. We have also reduced our Scope 2 by purchasing Green Electricity Tariff (GET) from TNB. With that, we are on track to achieve our medium-term target of 20% GHG emissions reduction by 2030.

Our other metrics are provided here on the slide for your consumptions, but I would like to move on with our key milestone on our New Plastic Economy journey. This has been one of the key items we have been looking, in our drive towards driving plastic circularity.

Ladies and gentlemen, our journey into plastic circularity started in 2019, when we signed a memorandum of understanding (MoU) with Plastic Energy Ltd to collaborate in addressing end-of-life plastic waste, that cannot be addressed by conventional recycling method. This collaboration marked the first step we took towards circular economy to maximise the plastic value chain. Fast forward to this year, 2023, we completed our studies and strengthened our commitment to drive the circular economy for plastics with the final investment decision to build a chemical recycling plant in Pengerang, Johor. This facility, with a capacity of 33 kilo-tonnes per annum (ktpa) for end-of-life plastics, will utilise Plastic Energy's patented technology to convert such plastics into pyrolysis oil, known as TACOIL™, and this oil will then serve as chemical feedstock towards the production of sustainable plastics. The plant is set to be operational in the first half of 2026 and will play a key role in contributing to a sustainable plastics ecosystem.

We are very excited with this new venture, to support Malaysia’s aspiration to phase out single-use plastics in accordance with Malaysia's Plastic Sustainability Roadmap 2021-2030, and at the same time we are able to cater to the increasing demand for sustainable packaging from major brands and customers.

Moving forward, we plan on obtaining the circular polymer certification from the International Sustainability and Carbon Certification (ISCC), a leading globally applicable certification system that ensure compliance with high ecological and social sustainability requirements, greenhouse gas emissions savings and traceability throughout the supply chain. This effort is part of our pledge towards Net Zero Carbon Emissions (NZCE) 2050 while creating positive Economic, Environmental and Social Impact.

Now, let’s have a quick look at the market for remaining of the year. Over the past few weeks, there has been a positive development in product prices, attributed to the rising trend in crude oil prices and some increases in restocking activities before the year end lull. Ethylene prices are anticipated to be stable in view of volatile energy market, weak affordability in downstream sectors and year-end season. MEG price is forecasted to be soft on rising supply from the upcoming new plants. Polyethylene is expected to see weak demand due to lull season as market players will continue to adopt cautious buying behavior and keeping low inventories in their stock during year end. For Paraxylene, price is forecasted to be stable on tight supply balance, with on-going maintenance and unplanned shutdowns especially within China.

For the F&M segment, we expect softening urea prices as the recent Indian tender was concluded for 1.67mil MT while other key regions are seeing muted market activity. There is continued uncertainty as the Chinese government restricts export by extending the duration of legal inspection to 60 days to secure domestic supply for the upcoming spring planting season. Ammonia prices is forecasted to be stable as most of the supply are coming back online while demand is still weak. For Methanol, prices are expected to be stable following methanol unit outages in SEA region. Our own unit, methanol plant 2, restarted operations on the second week of October and in the midst of fulfilling the backlog orders after unplanned shutdown for about a month. At the same time, there is weak downstream demand for Acetic Acid, Formaldehyde and Biodiesel, owing to high inventories at major ports.

The performance of our specialties segment continues to rely on the improvements in end-markets demand that tracks the macroeconomic environment, as well as effective feedstock management especially in Europe. Ongoing macro-economic uncertainties are expected to continue and weigh on organic growth, but the weak in demand for focused segments is expected to have bottomed out moving forward. End-markets such as construction is expected to remain sluggish, in the prevailing global inflationary environment. As compared to US and EU, China’s economic development and recovery is still slower than expected, which may limit the support for recovery in specialties segment. Overall, market remains challenging towards the year end.

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 market volatility.

Ladies and gentlemen, before we proceed to the Q&A session, let me touch briefly on our ongoing projects and strategic focus areas.

Our 9-months performance results was marked by persistent inflationary pressures and the ongoing impact of monetary policies on economic growth. Despite these challenges, our commitment to growth and diversification remains. Our joint-venture projects—the Specialty Ethoxylates plant in Kerteh and the Nitrile Butadiene Latex plant in Pengerang are progressing on schedule and are expected to be operational this quarter. Perstorp's Pentaerythritol (Penta) plant in Sayakha, India, is on track for commissioning in the first half of 2024. Simultaneously, we are focused on implementing post-acquisition integration work plans, to deliver identified value creation projects, to strengthen our pursuit of growth and expansion at Perstorp.

And as we mentioned earlier, we are most excited about the final investment decision to build the advanced chemical recycling plant in Pengerang, Johor, which is set to be operational by the first half of 2026.

Meanwhile, on operations front, we recently completed the scheduled plant turnaround at PC MTBE and there are still some smaller maintenance activities towards year end. Our focus is for an effective execution of these plans while prioritising the safety of our employees and all the contractors involved.

And with that, ladies and gentlemen, concludes my update for today. Now, let's open the floor for the Q&A session.

Zaida Alia Shaari:

Thank you, Yusri. Ladies and gentlemen, to post in your questions, please use the raise hand function. Once I state your name, please unmute yourself. State your name and organisation, and then proceed to ask your question.

Please be reminded that we will not be taking questions posted through the Q&A function.

The first question is from Homeng, UOB.

Homeng:
Hi, can you hear me? I just want to double check that you said the Methanol plant had an unplanned shut down. If I can recall from the news, it was reported that the unplanned shutdown happened early August but then you said it was early October. Can you confirm whether there were too many shutdowns? And also, recently in your Kertih plant, was that a planned shutdown or unplanned shutdown? And when did it start?

Zamri Japar:
Hi Homeng, Zamri here.

For the methanol shutdown, it lasted for 30 days. And as for the second question, the shutdown in Kertih facility was a planned shutdown that we had to delay to come back up because of the utility disruption from external supplier.

Homeng:
I see. When was this supposed to start? And can you confirm the actual restart was only in October or was it around November?

Zamri Japar:
The actual restart was in October, Homeng.

Homeng:
Okay. Actually, that was in October but it wasn't a full restart right? It was a partial restart as from what I read in the news.

Zamri Japar:
When we restarted the plant, it was a full restart.

Mohd Yusri Mohamed Yusof:
Yes, I think coming out from the turnaround, we started up and then the utility supplier had a failure on their side. So that brought several plants in Kertih down again. And we gradually, once they are ready, start them back up, Homeng. I am unsure of the news that mentioned about the restart. But after the turnaround, we restarted and the site tripped because of the utility supplier, afterwards we restarted back.

Homeng:
This was reported by the Polymer Update. It stated that the number one cracker in Kertih was shutdown around early October and then restarted maybe end of October – towards the end and it was operating at 60% capacity.

So, this period was due to the utility site failure?

Zamri Japar:
Yes. If you are referring to the cracker only, cracker was not in any of the planned shutdown. But when the utility and power disturbance happened, it tripped that cracker and immediately after it recovers, we ramped up the rate.

Homeng:
So overall, what will be the impact towards your fourth quarter numbers or should we expect no impact because of the utility side failure? Will we claim back anything from them or how does it work?

Zamri Japar:
Well, for the fourth quarter numbers based on the last couple of months, overall PU will maintain above 85. I am referring to PCG overall plant utilisation, Homeng.

Homeng:
From this issue alone, will the Kertih downpipe issue become a big major impact? What will be the guidance from this particular event due to the utility impact, financially speaking.

Zamri Japar:
The impact of the third quarter incident will not be huge because we ramped up immediately after we recover the utilities.

Homeng:
Okay, got it. Thank you.

Zaida Alia Shaari:
Next question from Raymond Yap.
Raymond, please go ahead.

Raymond Yap:
Yes, hi, good evening everyone. Okay, so I wanted to circle back to the point that Azli made on specialties. You said that specialties OPEX actually fell in the third quarter compared to second

quarter and it was because of lower repair and maintenance, and also lower manpower cost due to the summer holidays. So, I was scratching my head there. Does that mean people don't get paid during summer holidays?

Mohd Azli Ishak:

No, I think it is usual in Europe that they take holidays during those periods. Some of those expenses, we pay -- don't worry Raymond, we still pay their salaries but some allowances and other fixed costs relating to manpower are minimised during those holiday period. In essence, during those holiday period, there is a minimal manpower during that particular period.

Raymond Yap

So, in other words, come forth quarter, the manpower cost will go back to normal and in the past, you mentioned that for specialties, there tends to be a bit of a destocking effect in the fourth quarter before restocking comes in the first quarter. Do you see that happening already?

Mohd Azli Ishak:

To tell you the truth, we've been talking about this since quarter four last year and then that particular restocking somewhat underwhelmed. And we still expect a little bit of destocking towards the year end as consumer tends to have a lower inventory towards the year end. And that is why when we conclude our message today, we mentioned that the special segment will remain challenging, although there are pockets of recovery in some key segments.

Raymond Yap:

Right. And also the average selling price for specialties products seems to be going through quite a continuous decline. So even in the third quarter compared to the second quarter, the dip in the ASP is quite marked. Is this trend continuing into the fourth quarter, Azli?

Mohd Azli Ishak:

So, I think in the quarter 4, Raymond, that is a good progress moving into quarter one next year.

Raymond Yap:

Okay, right. Now, just moving onto the F&M side. You mentioned that there was higher production in the third quarter compared to second quarter, but sales volume actually declined as you are managing something to do with the urea. So, I wasn't sure if I understood correctly or understood fully what you said, Azli.

Then the follow up question to that, is the sales volume going to snap back and grow faster than production in the fourth quarter?

Mohd Azli Ishak:

If you recall in the last quarter, quarter two, we had this unplanned shutdown because of the feedstock supply disruption. We managed to mitigate the impact by drawing down from our own inventory but as we pulled out from that particular incident, we are building up in our inventory. So of course, production volume goes back to normal, but we need to have a certain level of inventory before we can schedule shipment moving forward. So it's more of inventory management rather than not producing as much. So that's why you see some discrepancy between sales volume and production volume, because we need to manage the inventories for our shipment in the in the next particular month.

Raymond Yap:

I see. Okay then. Just two more questions on the O&D side. So, the O&D and F&M have seen quite a lot of unplanned events and that probably has led to quite a lot of maintenance costs in the second and third quarter. So far, tracking the fourth quarter, do you see maintenance costs possibly trending at a lower rate compared to second and third quarter?

Mohd Azli Ishak:
Like Yusri mentioned earlier, we still have a few planned maintenance activities but not as busy as quarter two and quarter three. We anticipate a much lower maintenance cost into quarter 4.

Raymond Yap:
And my final question is, what kind of commissioning losses did you incur for Pengerang this third quarter?

Mohd Azli Ishak:
Okay, thankfully the commissioning losses has somewhat reduced as the volume increases once they grow up in term of ramping up rate and it is also supported by the fact that we have favourable US dollar over Ringgit. So that in a way, the FOREX gain does help the contribution of PPC into PCG.

Raymond Yap:
So last quarter was 17 million and this quarter is lower than that.

Mohd Azli Ishak:
Yes, much lower than that.

Raymond Yap:
Do you have a figure, Azli?

Mohd Azli Ishak:
Half of that.

Raymond Yap:
Okay, sure. Alright, that's it for me. Thank you.

Mohd Azli Ishak:
Thank you, Raymond.

Zaida Alia Shaari:
Next, we have Jeremie Yap.

Jeremie Yap:
Hi, good evening. I have a few questions. So, my first one would be, I think throughout the Bursa pack, you guys mentioned that the O&D quarter on quarter, was down due to a lower mark to market gains on your shareholding loan to your Aramco JV entity, right? So, do you mind reminding us how much is the total loan?

Mohd Azli Ishak:
That is basically the revaluation of our shareholders' loan to Pengerang.

Jeremie Yap:
Yes. But do you mind reminding us that what is the size of this total loan?

Mohd Azli Ishak:
It's about 500 million dollars.

Jeremie Yap:

USD 500 million. Okay. So, my follow-up question would be how much was the gain of these mark-to-market gains, right, in third quarter? And how much was it in second quarter?

Mohd Azli Ishak:
That's basically too -- being too specific, Jeremie. We don't typically disclose that by company. I hope you will appreciate that, Jeremie.

Jeremie Yap:
Okay. My follow-up question would be, what is the reason for such high tax rates for third quarter?

Mohd Azli Ishak:
Okay. As explained in our Bursa Announcement, some of the higher tax expense for the quarter, is mainly due to higher deductibles. To be specific, is to do with our accruals for the BRB earn out, which cannot be deductible. So, we see this as a onetime occurrence. And as a guidance moving forward, we anticipate our effective tax rate from quarter-to-quarter will be range bound around 10% to 15%.

Jeremie Yap:
Okay. Going through like segment by segment, right, like so for your O&D segment, what is your target for fourth quarter plant utilization rate and also for F&M?

Mohd Azli Ishak:
Okay. I will give a total PCG group plant utilization overall for 2023. In light of our recent incident for the feedstock disruption at our Sarawak Sabah Gas Pipeline as well as the unplanned shutdown at PC Methanol, which is both are big plants. And we probably have challenges to meet our internal target of plant utilization of 90%. We are anticipating our plant utilization for the full year 2023 above 85%.

Jeremie Yap:
Okay. My final question would be regarding Pengerang. When do you guys plan to COD? Plan for COD? And when will you guys like consolidated depreciation and interest costs into your PCHEM's books.

Mohd Yusri Mohamed Yusof:
Okay. Jeremie, I think it is -- what we call this -- is progressing. We -- to be specific, we still have about 5 performance test runs to be completed. Three on the polypropylene plant, one on the glycol plant, and one on the PC -- on the isononanol plant. So, we are progressing. And those -- and we expect the PTR to be completed in quarter 1. So, the decision to move from a project to a commercial operation date will be taken around that time assessing all the PTRs that we have done. So currently, 1 of the 3 PTR on the PP is ongoing, started today. we expect the glycol PTR in December. And hopefully then, we can schedule the isononanol PTR in January, February. So that's the current plan that we have, Jeremie.

Mohd Azli Ishak:
And on your second question, we will start to depreciate the plant in quarter one next year.

Jeremie Yap:
Okay. So, basically in the middle of quarter one?

Mohd Azli Ishak:
Yes.

Zaida Alia Shaari:
Next, we have Vivek.

Vivek Rajamani:
Hi sir, thank you so much for the presentation. I hope I'm audible?

Mohd Azli Ishak:
Yes.

Vivek Rajamani:
Thank you so much for the presentation. Just one question from my side. I think in the last quarter, you had mentioned that, particularly for Perstorp, you are also facing a lot of competition from low-cost Chinese exports as well. If you could just give some color in terms of how the both the demand and supply situation is evolving in Europe going into the fourth quarter, that will be very helpful.

Mohd Yusri Mohamed Yusof:
Yes, I'll let Debbie, our COO for specialty to answer the specific question for you, Vivek.

Debbie Chiu:
Okay. Thank you for the question. So, we have been seeing this competition, the low cost, the import going from China to Europe. And we have seen -- there's two factors that has been stabilized in order to lessen the condition. One is the Chinese market has been picking up. So, they can supply for their domestic. And two is, we would have a different approach to fend off with the Chinese -- for example, if Europe has something like the U.S. antidumping. So, the situation with the quarter 4, we see there's a little bit lessen coming from the competition. But it's not a dramatic change. So, the general belief coming from the market is we've probably seen the bottom of the trough. But we'll keep our finger crossed, the general consensus, we will see some recovery in the second half of 2024.

Vivek Rajamani:
Thank you so much for that. And just a follow up. Is there any particular segment that seems to be significantly worse affected? Or is it just a broad-based phenomenon across the board?

Debbie Chiu:
It's a -- generally speaking, it's a general phenomenon. If you're talking about specific segments, we've probably seen most market segment has been suffering not only from the competition, but also from the soft demand with the geopolitical and all the impact that we have been talking about. There are very few segments that they're still maintaining pretty okay growth. Namely, it is the automotive and aviation, right? In those two segments actually suffered the most in the -- during the COVID time. So those two -- except those two segments, most other markets have been very soft.

Vivek Rajamani:
Sure ma'am, thank you so much. And just a last clarification from me. I think sir mentioned that the losses on Pengerang have narrowed. Did you mention the losses of half on a sequential basis?

Mohd Azli Ishak:
Yes, compared to quarter 2, the losses of Pengerang into quarter 3 has halved.

Thank you, Vivek.

Zaida Alia Shaari:
Next, we have Azim from BIMB. Please go ahead Azim.

Mohd Yusri Mohamed Yusof:
We cannot hear you Azim.

Zaida Alia Shaari:
We will move to the next question from Ahmad. Please proceed Ahmad.

Mohd Yusri Mohamed Yusof:
Maybe we move first, and then let them come back.

Zaida Alia Shaari:
Raymond? Please go ahead Raymond.

Raymond Yap:
Yes. Can you hear me?

Mohd Azli Ishak:
Yes, yes. Raymond.

Zaida Alia Shaari:
Yes. We can hear you.

Raymond Yap:
Okay. Okay. Sure. Azli, I just wanted to get back to the comment you made just now about the effective tax rate guidance at 10% to 15%. So, in the past, your guidance had always been 6% to 9% because of the Labuan gift incentive. Why has it increased to 10%, 15% now?

Mohd Azli Ishak:
Because as you see, as the product spread gets higher, more revenues and more spreads are being taxed under the gift incentive in Labuan. But under the softer spread environment, the proportion will be less, it will be taxed at Labuan. So, in terms of ratio, that will bring the effective tax rate down. I think you can also look at our 2020 quarter results for the 4 quarters, you will see our effective tax rate were higher compared to the normal 6% to 10%.

Raymond Yap:
So, you're seeing that as the spread increases, the ETR increases?

Mohd Azli Ishak:
No. The other way around. As the spread increases, the ETR reduces.

Raymond Yap:
Okay. So...

Mohd Yusri Mohamed Yusof:
The Labuan portion becomes bigger, Raymond. The non-Labuan portion is smaller. So, when the spread reduces, the Labuan portion -- the pie of the Labuan portion is smaller, comparative to the rest of the tax regime that we have.

Mohd Azli Ishak:
Yes. Because the other -- Labuan taxpayer -- Labuan -- the other non-Labuan residential company, they are paying at 24%, and versus Labuan is 3%. So, in terms of ratio over pie, when we have less spread recorded at Labuan, that's why the ETR is higher.

Raymond Yap:
I see, I see. Okay. And this BRB accrual, this is regarding the special payment that you made. Was it made this year or last year, I can't remember.

Mohd Azli Ishak:
We made year. Raymond, we paid it, if you look at our Bursa Announcement in April, it was made -- it was announced in April, paid in May.

Raymond Yap:
Okay. Okay. There was one payment last year as well, was that?

Mohd Azli Ishak:
No. Thank you Raymond.

Zaida Alia Shaari:
Ahmad, please proceed.

Bineet Banka:
This is Bineet. I'll -- so Ahmad is not able to connect, I think. So I'll ask on his behalf. Okay. So, first question is, has Perstorp India already commenced operations?

Mohd Yusri Mohamed Yusof:
It is in the process of starting up with target commercial operation in quarter 1, Bineet.

Bineet Banka:
Yes. Okay. And have we signed any new customers for the new plant? For the Perstorp India plant.

Mohd Yusri Mohamed Yusof:
Okay. I'll let Dr. Debbie answer that Bineet.

Debbie Chiu:
Okay. Yes, there are some premarketing has been done, but mainly -- this is with the Sayakha coming up. We -- a couple of good things. One is we will use Sayakha to supply APAC region because in the past, we have to ship the product from Europe to APAC. So, this is going to help us to manage much better supply chain. And also with the existing volume that we have done, meaning the pretrial, premarketing with the customers. So yes, there are some new customers that has been aligned.

Mohd Yusri Mohamed Yusof:
So, it's in the first phase of, qualification with the customer currently Bineet. So, we hope to turn that qualification into sales and contract long term after this.

Debbie Chiu:
Yes.

Bineet Banka:
Okay. Okay. Got it. And is there any update on the outcome of ethane price negotiation that has been ongoing.

Mohd Azli Ishak:
Bineet, I'm not sure whether you managed to catch another Bursa Announcement that we did today. So, based under Bursa Announcement, we're happy to announce that another 1-year extension has been granted. So, the ethane and propane contract will be extended for another year under the same terms and conditions. So, it will expire in 31 December, 2024.

Bineet Banka:
Okay. And one more question on the Capex of the plant that you announced, the plastic recycling plant. So, what is the Capex approximately?

Mohd Azli Ishak:
We don't typically announce the Capex, Bineet. But -- it's around 150 million dollar, but I cannot give you an exact amount.

Bineet Banka:
Okay. And lastly, on the losses from the PIC. So, what contributed to the halving of the losses. Is it mainly due to higher volume or due to the higher prices Q-on-Q?

Mohd Azli Ishak:
It's a mixture of better spread as well as volume. But I would say, like I mentioned earlier, the one that helped is basically the Forex gain from the favorable movement of dollar against the ringgit.

Bineet Banka:
Okay, thank you so much sir. That is all I have.

Zaida Alia Shaari:
Next, we have Desmond. Desmond, please go ahead.

Desmond Law:
Management (technical difficulty).

Mohd Azli Ishak:
Go ahead, Desmond.

Desmond Law:
Management, can you (technical difficulty).

Mohd Yusri Mohamed Yusof:
Yes, Desmond.

Desmond Law:
Right, right. So basically (technical difficulty) questions. So, the first one, may I know the (technical difficulty) of the new (technical difficulty) start-up timing (technical difficulty) and what is the annual sales and EBITDA (technical difficulty) and then this is (technical difficulty).

Mohd Azli Ishak:
Desmond, you're breaking up. Can you repeat that question again, the first question?

Desmond Law:
Sure. Can you hear me now?

Mohd Azli Ishak:
Yes, it's much clearer now.

Desmond Law:
Okay, right. So, I have two questions basically. The first question is related to (technical difficulty) what is the (technical difficulty) needed for the loss (technical difficulty) plants? And what is (technical difficulty) start-up time? And then what is EBITDA (technical difficulty).

Mohd Azli Ishak:
I'm sorry, it seems like you need to repeat that again. We are still hearing, breaking sounds from you.

Desmond Law:
Can you (technical difficulty).

Mohd Azli Ishak:
Hello, Desmond?

Desmond Law:
Can you hear me now?

Mohd Azli Ishak:
Okay. Let's try one more time.

Desmond Law:
Hey, hi. Can you (technical difficulty) Hi, can you (technical difficulty).

Mohd Azli Ishak:
Still -- you're still breaking out Desmond. I'm not sure was it's our line or it's your line.

Desmond Law:
Hi (technical difficulty).

Mohd Azli Ishak:
No. You are still breaking up, Desmond.

Zaida Alia Shaari:
We'll move to Ho Meng.

Ho Meng Kong:
Hi, I just wanted to ask more of a long-term question. We are seeing that with national security reasons happening, on the long term, I think the perception is that China is moving towards self-sufficiency. And China is used -- it used to be a big export market for a lot of chemical players around the world. But moving forward, India moving toward self-sufficiency, then the export markets for the major chemical players in this region, especially will have to change. And then there's also the issue of -- the breakeven cost is also an issue here as well because you have to compete with the Middle East and the U.S. producers. So, what is your feeling in terms of the long-term positioning? Do you foresee that you will need to grow more in specialty chemicals to embrace the structural shift that is coming.

Mohd Yusri Mohamed Yusof:
Yes, I think Ho Meng, your vision is true. I think the expectation is the trade flow may change slightly. China is going to be more self-sufficient. So that means players who are playing in China previously has to either have presence in China or have to find new market. I think for PCG typically China though it is important, it's not a big market. It is 15% lower than that-- it is around 10% of our market. We are focusing specifically on Southeast Asia and may be growing a little bit more here rather than China. I think that's one thing.

Secondly, I think the reason why we are pivoting to specialty is for that basic reason, and with specialty, there's where we envisaged our growth is going to be. And with specialty also with Perstorp, especially now, we have presence in China. So, we would be defending our market in that perspective. And also, we also see when China will be self-sufficient, there are markets that we already have presence, especially Europe for specialty and America, North America, specifically, those are areas that we are focusing in addition to APAC for us.

Mohd Yusri Mohamed Yusof:
Okay. Ho Meng?

Ho Meng Kong:
Yes, just by -- in your comment on the European markets, right, and the U.S. markets, but then -- the super majors of the Middle East and also the American markets are -- I mean in terms of chemical producers will also have -- we will also establish a presence there because their own cost position will also become more competitive over time. So, I guess, obviously, the Southeast

Asia market will still be your core market, but do you see more intensifying competition, assuming if the China market size is -- will fall over time, are you able to capture the largest slice of the Southeast Asia market to compensate for that?

Mohd Yusri Mohamed Yusof:
Definitely, competition will be higher. But when I talk about Europe and North America, it's mostly on the Specialty side, which we already have. On commodity side, our focus remains in our backyard, Ho Meng. And we are strengthening our marketing offices in Southeast Asia. We have now marketing offices in Indonesia, Thailand, and hopefully, we will strengthen our presence more in Philippines and Vietnam soon. In preparation for increasing competition and for us to penetrate the market better.

Ho Meng Kong:
Alright, I see. Thank you, that is all I have.

Zaida Alia Shaari:
Desmond and Azim who wanted to ask questions, but I think we are facing some technical glitches. So please...

Desmond Law:
Management, can you hear me?

Mohd Yusri Mohamed Yusof:
Yes, Desmond. But no. Maybe not as clear as we would like to. But please try again.

Desmond Law:
Sure. Sure. So I have two questions. The first question is related to the Capex. So, what is the Capex needed for the new pyrolysis plant? And then what is the expected start-up timing? What is the annual sales and EBITDA expectation -- EBITDA margin expectation? And then the second question is related to the pre-operating expenses booked in 3Q related to the Pengerang complex. Do we see similar amounts in 4Q? Thank you.

Mohd Azli Ishak:
Okay. Thank you, Desmond. On the first question, like I mentioned earlier, we do not give the total project cost for the advanced recycling plant in Pengerang. But I guided earlier just now that the project cost was around USD 150 million. And as what Yusri has mentioned earlier and as disclosed in our Analyst Briefing deck, we anticipate the operation of the project will be in 2026. So, for your second question with regards to Pengerang, on the pre-operating expenses. We still have a negative EBITDA for the quarter 3 for Pengerang, but the amount I'm sorry, I cannot disclose that at the moment, but it was 50% lower compared to quarter 2.

Desmond Law:
Thank you for the answer. Sorry I have missed the previous answers earlier, but it is all good now.

Mohd Azli Ishak:
Thank you, Desmond.

Zaida Alia Shaari:
Thank you. So, we have come to the end of the analyst briefing. Thank you all for your participation. Please reach out to us via e-mail. Should you have any follow-up questions. Thank you again for joining us. Good evening.

Mohd Yusri Mohamed Yusof:
Thank you.

Mohd Azli Ishak:
Thank you.

END