PETRONAS CHEMICALS GROUP BERHAD

4Q 2023 ANALYST BRIEFING

26 Feb 2024, 6.00pm Malaysia

Management attendees:

1.	**Mazuin Ismail** 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:

Hello. Welcome to PETRONAS Chemicals Group Berhad Analyst Briefing for Fourth Quarter and Year Ended 31st December 2023. Assalamualaikum, I'm Zaida Alia, Head of Investor Relations. Thank you for joining us.

I'm the event host and moderator for today. You should by now be able to access and download the financial results from Bursa Malaysia's website. The same is available on our corporate website, together with today's presentation materials. As always, the agenda for today will be a short presentation followed by the Q&A session.

Before we begin, I shall go over a few housekeeping rules. To avoid any noise disruption, please ensure your microphones are on mute. To post questions during the Q&A, please raise your hand, once I call your name, please unmute yourself, state your name and organization, then proceed to ask questions. In the interest of time, we will not be taking questions from the chat function. As our management is physically present here today, we would appreciate very much for you to post your questions directly and verbally. As a reminder, all information presented and disclosed today is strictly intended for participants of the meeting. Participants are reminded that this meeting is being recorded and the recording will be made available on our website in a few days. No other parties have been authorized or granted permission to record this meeting.

Ladies and gentlemen, we are pleased to welcome for his first analyst briefing, Mr. Mazuin Ismail, our new Managing Director and CEO. Mr. Mazuin to office from Mr Yusri on 1st of January 2024. Mr. Mazuin will quick start the briefing with the fourth quarter performance highlights, after which our CFO, Azli, will provide details of the financial results. Also present to take questions after the presentation are the rest of the senior management, comprising of Chief Manufacturing Officer, Mr. Zamri; Chief Marketing Officer, Mr. Shakeel; Head of Strategic Planning and Ventures, Mr. Yaacob; and Dr. Debbie Chiu, Head of Specialty Chemicals.

Without further ado, I shall now hand you over to Mr. Mazuin.

Mazuin Ismail:
Thank you, Alia. Good evening, everyone. Thank you for joining us today.

Before we proceed to the performance review, if you would allow me a couple of minutes and let me quickly introduce myself. My name is Mazuin. I started my career in PETRONAS in 1991 as a structural engineer with PETRONAS Carigali. Then on, I want to cover various engineering disciplines and project management in upstream. Over the years, I moved across various roles in PETRONAS Group before heading the project delivery and technology division of PETRONAS.

I was given a chance to spearhead the establishment of PETRONAS Corporate Venture Capital, where we aim to manage investment fund and lead the PETRONAS Group's effort in driving technology innovation to maintain a competitive edge to support its core business and drive further growth. Prior to coming to PCG, I headed the Corporate Strategy Division of PETRONAS that oversees PETRONAS' strategy and portfolio. This is at a time when PETRONAS is expanding its portfolio to include non-oil and gas sectors, including future proofing, as well as pursuing sustainability.

During this time, I also oversaw the merger and acquisition activities, including the acquisition of renewable energy opportunities globally, including in that also PCG Specialty Chemicals acquisitions of Perstorp and Da Vinci Group or BRB. I was also involved in the commission of Clean Energy Solutions unit, which has evolved into what many of you known now as GENTARI, PETRONAS dedicated clean energy arm. So after many years in various roles within the parent company of PETRONAS, I'm glad to be here today with PCG and to take it to the next phase of its growth journey, of course, with all of you.

Ladies and gentlemen, let's now look at our performance, starting with a recap on what the market was in 2023 as compared to 2022. Despite signs of economic resilience early in the year 2023, economic activities generally fell short compared to 2022. The combination of inflationary pressures, tighter financial conditions, depreciation of emerging market currencies, ongoing political crisis, all played part in shaping the market sentiments. As a result, 2023 average global GDP growth was lower at 3% compared to 3.5% in 2022.

Global PMI was comparable to 2022 and stood at 49.0, indicating better stability in manufacturing. Countries such as China, India and Russia showed acceleration in their PMI, especially in the second half of the year 2023, contributing to the slight increase in global manufacturing output. Meanwhile, the benchmark Brent crude price averaged at USD83 per barrel in the year 2023, and that's down by 18% from USD101 per barrel in 2022, primarily due to concerns over a slower economic recovery, geopolitical turmoil and strong supply availability from the Middle East.

Against this challenging backdrop, the chemicals industry saw subdued commodity growth on decreased consumer spending and weaker demand from end markets. As a result, petrochemical product prices experienced widespread decline on oversupply concerns, lower energy prices and sluggish demand in the downstream industries. 2023 was a challenging year for the global chemicals industry including PCG. We remain steadfast and focused on our strategies and continue to deliver our commitment.
Ladies and gentlemen, 2023 was also an operationally challenging year for us. We had 2 planned turnarounds as well as 8 planned maintenance shutdowns. Additionally, we experienced unplanned downtime of about 44 days, which ultimately affected our overall performance. Turnaround activities were undertaken at PC ammonia in the third quarter, followed by PC MTBE in the fourth quarter in 2023. We experienced an expected downtime at PC Fertiliser Sabah, leading to 26.4 days, and PC Methanol Plant 2, 30 days in the second quarter. This is due to the feedstock disruption arising from maintenance activities at PETRONAS' facilities in Sabah-Sarawak gas pipeline.

In the third quarter, we faced mechanical issues at PC Methanol Plant 2, which saw the plant shutdown for almost a month. The combination of operational challenges, extensive maintenance and turnarounds in 2023, brought down our group's plant utilization rate to 85% compared to 89% in 2022, resulting in lower production volume from our Malaysian operations. Nonetheless, with contributions from Specialty segment, our total production volume was recorded at 10.38 million metric tons, which is 2% higher than 2022. Overall, sales volume was up in all 3 segments as we recorded a full year 16% higher sales volume with our commercial team, pushing for sales, drawing down from inventories contributions from Pengerang Integrated Complex as well as volumes from the Specialty segment.

With higher sales volume, group revenue was comparable to 2022 at MYR 28.7 billion despite 26% decrease in average product prices. Group's EBITDA, however, declined significantly to MYR 3.8 billion, mainly due to lower product spreads, particularly for urea, ammonia and ethane-related products, as well as higher maintenance cost. Consequently, EBITDA margin was lower at 13% compared to 28% in the same period 2022 and the group's PAT also declined to MYR 1.8 billion from MYR 6.3 billion during the same period 2022, mainly due to lower EBITDA.

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

Mohd Azli Ishak:
Thank you, Encik Mazuin. Ladies and gentlemen, thank you for joining us this evening. So now let's dive into the financial highlights, starting with the Olefins and Derivatives segment on Page 3 of the deck, where we will compare the results of the fourth quarter 2023 against third quarter 2023.

Although there were some stabilization observed in the global PMI during the fourth quarter, it remained unsufficient to offset the impact of the weakened downstream demand due to slow growth in the industrial sectors such as construction and textile. On the operational front, our planned utilization rate for the segment was lower quarter-on-quarter at 71% due to extended downtime post turnaround and maintenance activities at our MTBE plant as well as our propane dehydrogenation plant or PDH plant in Gebeng. Also slowdown at PC olefins due to utilities disruption at Kerteh. So both production and sales volume were lower against the preceding quarter.

On the market front, the segment was challenged by subdued demand, while supply was ample from the U.S. and in China. Segment revenue decreased by 8% quarter-on-quarter to MYR 3.2 billion due to lower sales volume, coupled with lower product prices. The segment recorded negative EBITDA of MYR 67 million compared to MYR 404 million in the preceding quarter and this is due to lower sales volume, mainly for aromatics and MTBE, higher maintenance costs, mainly at PC Olefins, PC Aromatics and PC MTBE and overall lower spread in line with lower product prices.

Moving on to fertilizer and methanol segment on Page 4 of the deck. This quarter, we saw positive development in the F&M segment, particularly ammonia. The ammonia prices increased by almost 55% due to product shortage in the market stemming from prolonged shutdown of major Middle Eastern producers, tightening product availability since September. On the operational front, plant utilization rate increased to 91% due to lower downtime compared to third quarter. With better plant utilization rate, production volume rose by 15% to 1.7 million tonnes. Sales volume also increased by 17%, mainly due to higher urea volume in line with higher production at all of our urea plant.

Coupled with higher average product prices of ammonia and methanol, the segment saw 33% increase in revenue and 28% improvement in EBITDA at MYR 770 million. The EBITDA margin was comparable at 32%. In line with improvement in EBITDA, PAT for the segment surged 46% quarter-on-quarter to MYR 527 million.

Moving on to our Specialty segment on Page 5 of the deck. In the fourth quarter 2023, the Specialty segment recorded lower EBITDA, mainly attributable to higher operational expenses, largely due to higher manpower costs following a summer holiday effect on third quarter 2023 as well as higher maintenance costs attributable to planned turnaround activities at site Perstorp in Sweden. Lower EBITDA also attributable to compressed margin for the quarter, mainly driven by higher raw material costs, in line with higher natural gas prices and other energy prices. For resins & coatings and advanced materials, lower volume was observed for the key product, especially alkyds resins powder polyester and PVB film, mainly due to lower demand in construction industry.

For Engineered Fluids and additive chemicals, lower volume was observed following lower demand from end market segments such as aviation and housing industry. All in all, the Specialty segment was weaker quarter-on-quarter due to higher operational expenses and compress margin partially offset by higher volumes attributed by the Intermediates segment.

Next, let's look at our group's quarter 4 performance on Page 6. At our Malaysian operation, our plant utilization increased to 84% from 77%, mainly due to lower turnaround days compared to the third quarter. The group's revenue increased 6% from MYR 6.8 billion to MYR 7.2 billion on the fourth quarter of 2023 on higher sales volume from the F&M segment, Perstorp, as well as volume from our Pengerang Integrated Complex coupled with favorable ForEx movement. However, the group's EBITDA and EBITDA margin was lower at MYR 655 million and 9.1%, respectively. This significant drop was due to lower spread, particularly for Aromatics and MTBE as well as higher fixed costs, mainly due to higher maintenance costs at PC Olefins, PC MTBE and as I mentioned earlier, PC Aromatics.

Further to that, EBITDA was also impacted by higher cost of sales stemming from strategic sourcing activities during the quarter to cater for production shortfall in order to meet our commitment to our own customers. Profit after tax for the quarter was lower at MYR 142 million, in line with lower EBITDA.

Now let's proceed with the cash flow and balance sheet on Page 7 and 8, respectively. On cash flow, throughout 2023, we generated cash flow for operation at MYR 5.1 billion. Most of our cash used for investing are incurred for CapEx investment in PIC, Perstorp growth projects, as well as the Melamine project in Gurun, Kedah. Despite the challenging year, our cash balance increased by MYR 380 million to MYR 9.3 billion.

On the balance sheet at Page 8 of the deck, our total assets was higher by MYR 4.8 billion at MYR 60.2 billion, mainly due to higher PP&E mainly relating to CapEx investment at PetChem project in PIC, penta plant in Sayakha, India as well as other various improvement projects throughout our presence. Our total asset was also higher due to higher long-term receivable by MYR 740 million related to purchase consideration or partial divestment of PC Fertiliser Sabah shareholding, which was recognized on a deferred basis.

Total equity was higher by MYR 2.3 billion at MYR 42 billion mainly due to profit attributable to shareholders as well as movement in ForEx translation due to weakening of ringgit against U.S. dollar against euro as well as against Swedish krona. Total liabilities were higher due to higher trade and other payables by MYR 2.1 billion, mainly due to higher purchase of feedstock and utilities at Pengerang following higher production.

That's all for the financial breakdown. I'm handing back to Encik Mazuin for updates on sustainability matters as well as way forward. Over to you, Encik Mazuin.

Mazuin Ismail:
Thank you, Azli. Ladies and gentlemen, now let's move to sustainability updates. Greenhouse gas emissions from PCG's Malaysian assets was 6.98 million tonnes of CO2 equivalent in 2023 on a market-based accounting approach. Additionally, greenhouse gas emissions from Specialty Chemical business, namely Perstorp was 0.36 million tonnes of CO2 equivalent, which resulted in overall PCG GHG emissions of 7.34 million tonnes of CO2 equivalents.

By the end of 2023, we have reduced 146 kilotons of CO2 equivalent and this was contributed by a Scope 2 reduction of around 94 kilotons of CO2 equivalent from the subscription of renewable energy credits from Tenaga Nasional Berhad and Sarawak Energy Berhad. For the 52-kiloton CO2 equivalent of GHG emissions reduction was realized through ongoing operational optimization initiatives such as energy efficiency improvement and flaring and venting reduction.

With regards to Hazardous Swiss recycle rate, we achieved a 76% recycling rate, lower than our target of 79%. This is due to a higher amount of nonrecyclables generated from plant turnaround activities.

On the social impact front, we reached more than 111,000 people through our social impact programs within this region, exceeding the target of 80,000. Additionally, a further 60,000 numbers of reach was contributed by Perstorp social impact activation, bringing an overall total of more than 170,000. With regards to our mangrove rehab initiative, we planted a total of 5,700 mangrove trees in 2023, 5,500 of which was planted in Tanjung Surat, this is in Johor and other 200 trees was planted in ecoCare, Kerteh.

Ladies and gentlemen, moving on to the market outlook. The key factors that will shape the chemicals market in 2025 ars feedstock prices, geopolitical tensions, China's economic activities, capacity expansions and demand from downstream sector. China's manufacturing PMI for January this year came at 50.8, which is much better than expected, indicating manufacturers' response to the pickup in overseas demand and has been ramping up purchasing activities. This is expected to support the Olefins and Derivatives segment in the near-term. As such, ethylene prices are anticipated to be stable in view of improved downstream demand, constrained supply in the Southeast Asian region and rising crude and naphtha prices due to the ongoing geopolitical issues.

For MEG despite subdued demand, prices are expected to stabilize on tight supply conditions due to various plant shutdowns in Saudi Arabia and delayed cargo arrivals caused by the Red Sea attacks. The polyethylene market is projected to remain stable between February and April as converters are reentering the market post Chinese New Year holiday in February and to begin preparation for restocking activities ahead of the Eid season. Meanwhile, paraxylene prices is expected to soften in line with the weakening demand from PTA and polyester.

Now moving on to Fertiliser and Methanol segment. Urea prices are anticipated to soften due to low demand during off planting season. Ammonia prices are predicted to soften due to ample supply and weak downstream demand alongside declining natural gas prices.

Meanwhile, methanol prices are anticipated to be stable on tight supply in Southeast Asia, while Middle East producers cut the output with some opting for shutdowns as natural gas is prioritized to meet demand requirements. The performance of our Specialty segment continues to rely on the improvements in the end markets demand that tracks the macroeconomic environment as well as effective feedstock management, especially in Europe. Global market conditions remain dynamic with ongoing political tension, but gradual recovery in the market demand is expected for 2024.

EU's weak economic activity continued to impact chemicals demand, while U.S. and China are showing recovery, albeit at a slow pace. The weakness in building and construction sectors is expected to persist, but automotive and aviation sectors continue to see positive developments in demand and organic growth. The automotive sector showed better momentum with higher new car registrations. However, the construction and industrial sectors remain weak worldwide due to high interest rates and slow recovery in the global manufacturing PMI.

Overall, 2024 will be another challenging year for the chemicals industry. However, as industry opens in cycles, we anticipate that ongoing down cycle will turn as the global economy improves and demand catches up with the supply.

Ladies and gentlemen, before we move to the question and answers, I would like to briefly touch on our ongoing projects and strategic focus areas. Over the past 12 months, our performance has been influenced by persistent inflationary pressures and the continuing effects of monetary policies on economic growth. Despite these challenges, we remain steadfast in our commitment to growth and diversification. We are looking forward on the commencement of commercial operations for our new plants in 2024.

First up is the Melamine plant in Gurun, Kedah followed by the expansion of the two EHA plant in Gebeng through our joint venture company, BASF PETRONAS Chemicals or BPC. The third addition to our portfolio, which is within our Specialty Chemicals segment is the Penta and calcium formate plant in Sayakha, India, which is expected to come online in the first half of this year. We are also actively engaged in implementing post-acquisition integration work to realize identified value creation projects, further bolstering our pursuit of growth and expansion at Perstorp.

On the operations front, we have scheduled 5 planned turnarounds, and our primary focus is on effectively executing these plans while prioritizing our safety of our employees and contractors involved. We have also addressed most of our operational challenges and we have positioned ourselves to capitalize on opportunities when the market rebounds. We will continue to closely monitor market dynamics by 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, that concludes our update for today, and thank you for listening. And now let's open the floor for questions-and-answers session. Thank you.

Zaida Alia Shaari:

Thank you, Encik Mazuin and Azli. We shall now begin the Q&A. To post any question, please use the raise hand function. Once I state your name, please unmute and proceed to ask the question. Please be reminded that we will not be taking any questions from the Q&A function. We first have Ahmad from Nomura. Please go ahead, Ahmad.

Ahmad Maghfur Usman:
Hi, good evening everyone. Just a few questions. On the maintenance costs, I just want to understand, how much higher is it Q-on-Q for the fourth quarter against the third quarter? And how much is it relatively on a full year basis against FY23? So that's the first question.

And then I think there was an Edge article last week citing that MOU you also announced, probably, can you give us more clarity what is the game plan on that front for the green ammonia and green urea side of things? That's number two.

And then number three, can you just remind me again on the Sarawak PetChem deal? I understand that PCHEM will be the marketing agent. So, can you guide us how does that impact the pricing for you given that you also have a competing product as well whether they will affect the supply-demand dynamics? And then what is the marketing agency fee for selling the product basically? So those are the three questions on my side.

Mazuin Ismail:
Thank you, Ahmad, maybe -- Mazuin here. Maybe I take the your second question first on the MOU that's signed between PCG and Sarawak PetChem. This is on a joint feasibility study for ammonia plant and urea. And the thing is when we look at the market moving forward, the demand for cleaner and greener products are going to be there. So, one of the stated strategy for PCG is actually for us to increase more sustainable products moving forward.

Now when we look at that and the market will be there, what are some of the opportunities that we have to pursue that. This will bring in better margin because that will be in demand. This will bring in stability because it will also be preferred products moving forward. And more importantly, it will become also competitive. So, it can bring value, it can bring stability and also future proofing products for PCG. And that's why we enter a joint feasibility study side with Sarawak PetChem to look at how we can do the best moving forward. So, we look at how do we design this better, how to -- actually we utilize the power and what kind of power do we use and will there be opportunities for example, for us to use CCS also in this opportunity. So, we're pursuing that together with Sarawak PetChem.

Ahmad Maghfur Usman:
Just -- sorry, just to follow up on that. Is there already a technology vendor that will -- I mean that you are looking into as a candidate for this? Or it still is pretty much still in exploring stage at the moment?

Mazuin Ismail:
Exploring stage, Ahmad. We haven't pinned down.

Ahmad Maghfur Usman:
Okay. Because the thing is this -- I know there's been a lot of investments announced in this area. But then some actually even decided to call it off given the massive capital outlay, I think -- and then also some call off the IPO as well, yes. So, what are your thoughts on that? Do you think it will be -- I know it's still in feasibility study, but do you think that it will happen in the first place given the volatility in the prices, so how do you manage to counter that?

Mazuin Ismail:
Yes. I'm very optimistic on this opportunity Ahmad. That's why having a partner that brings advantages to the table is very important. As you know, we are very experienced in that industry, but also Sarawak PetChem together with some other partners that bring in renewable energy sources and partners that have carbon capture sequestration capability is actually very important to make that happen. So, no one party can do it alone. That's why we have to explore this and choose the right partner, the right energy, as you said, spot on that to make it happen. But I think we are in good space in good spirit to start this. Is it full proof 100%? No, that's why we take joint feasibility study at this stage.

Mohd Azli Ishak:
Since we are in the subject of Sarawak, so maybe I can answer your question number three. So, as you rightly pointed out that PCG will offtake 100% of the volume coming up from Sarawak PetChem Methanol Plant. Currently, we anticipate that the volume will be already in the middle of the year. And we have lineup -- our commercial team has lined up various customers for that particular volume that's come in.

Unfortunately, I cannot reveal to you Ahmad, what is our marketing fee because it's very commercially sensitive arrangement between us and Sarawak PetChem. So, I hope, Ahmad, you can appreciate the confidentiality nature of this particular transaction, but it further bolsters our presence of being a reliable and big methanol player, not just within the region, but also globally.

Ahmad Maghfur Usman:
Yes, sorry. Just to touch on question number three again. Then how do you ensure that you don't cannibalize your own product then?

Mohd Azli Ishak:
We will look at everything in the total portfolio basis because there's a rising demand for methanol. And we believe that through a portfolio basis, we can also optimize not just volume from our own methanol plant, but also volume from Sarawak PetChem. So that is something that we will ensure that whatever best netback available will be attributable to the group portfolio regardless of where the source comes from.

Ahmad Maghfur Usman:
Alright, okay thank you for the clarification.

Mohd Azli Ishak:
On your first question, Ahmad, this is quite detailed. Quarter-on-quarter, our maintenance cost, especially for the O&D increased by MYR 50 million compared to quarter 3. And as I mentioned earlier, there is maintenance cost that was incurred in quarter 4, this is basically for maintenance for PC Olefins. As you know, the cracker, the furnaces will require a higher maintenance cost as well as PC Aromatics because it was supposed to undertake a planned pit stop this year, but somehow we managed to bring it forward into quarter 4 while they were having an unplanned shutdown since the equipment is already ready at site.

And on top of that, we also have maintenance at PC MTBE in line with its scheduled plant turnaround. So, to answer you, it is basically MYR 50 million higher compared to quarter 3. So as the guidance for 2023, our total maintenance cost for the plant in Malaysia is about MYR 300 million. If we were to split between the segment, MYR 200 million is basically attributable to O&D and another MYR 100 million is mainly attributable to a F&M segment. I hope this quite detailed explanation answers your question, Ahmad.

Zaida Alia Shaari:
Next, we have Ashman from AM Invest.

Ashman:
Hi, thank you Alia. Hi Encik Mazuin and Azli. So I also have a number of questions. The first is on the effective tax rate recorded for the fourth quarter. I understand that at an absolute level essentially an improvement. However, looking at it from the effective tax rate perspective, it seems to be quite -- there seems to be quite a significant increase and appreciate if you could clarify on the matter. That's my first question.

My second question is on the -- again on the Sarawak PetChem plant. I think if I'm not mistaken, you mentioned earlier that the methanol market is expecting to be tighter going into 2024. But the capacity that is expected to generate -- to be generated by the Sarawak PetChem is quite significant at 1.75 per metric tonne per annum. Would you think this will somewhat significantly take up the supply costing environment that you expect to see in 2024? And if you could, I understand the details on the customers are a bit sensitive. But if you could perhaps give us a bit of insight into the customers that you expect to cater for with -- from this plant.

Thirdly is earlier this week or -- sorry, I'm not sure the last week or today, but S&P Capital issued the commodity newsletter and mentioned that the EBITDA margins for the petrochemical sector will continue to be quite difficult for naphtha-based producers. With the commencement of your PIC plant in Pengerang, which is mostly based on naphtha, do you guys have any arrangement to address this situation? And lastly, the gas feedstock interruption that you've been seeing, is there -- are there any plans -- sorry, are there any plans to address the situation in the future?

Mohd Azli Ishak:

Okay. There's quite a long list, Ashman. Let's take it one by one. So, the effective tax rate, yes, it's higher in quarter 4. It's 41% as what we described in the Bursa announcement, the higher ETR is basically due to higher nondeductible for the expenses. It's basically unrealized ForEx loss on payables as well as the shareholders' loan. And it's also amortization of intangibles that is also nondeductible.

But as you can also appreciate, Ashman, I think in PCG, we have 2 distinct tax jurisdiction. One is the one in a Labuan, it's 33%, where our marketing arm derived most of the revenue. And the other is the 24% at plant level. So, as you know, the plant is on a tolling mode. So, they do have profit -- fixed profit margin.

So, in a very challenging environment, where product prices as well as product spreads were thinning, so less profit being generated at the Labuan entity, or to be taxed at a Labuan tax jurisdiction. So as a whole, the ETR will go higher. And we also have a slightly bigger presence outside of Asia, where we don't enjoy this kind of tax incentives like what we have in Labuan. So naturally, our ETR also gets higher.

So, on a guidance basis, I know you are going to ask this question anyway, Ashman. For 2024 onwards, our ETR, we expect between 15% moving forward. So that could be a guidance for you to in place in 2024 because of these reasons.

On the Sarawak PetChem, yes, I think as a start, our team, commercial team will start off taking the volume. I think the numbers here that quarter, 1.7 million tonne is correct, but it will be on a spot basis until we are quite assured that the operation from the methanol plant has been somewhat tested before we can convert some of this volume into a term contract. So, once we can convert these volumes into term contract, we can be quite confident that the volume, although it's significant will not be a challenge for us because we have been doing this our route to market for this particular volume over the first few months, and we've been aggressively going through the market, not just Southeast Asia, beyond Southeast Asia to look at potential customers.

So, in terms of market, end markets that will potentially use methanol, I mean, methanol is quite diverse application. Ashman, there's a route for methanol-to-olefins, there's a route for transportation. There's also route into a formaldehyde. So, there's a lot of application that is quite diverse and it's quite fungible. And we believe there's also end markets in Southeast Asia that can take -- able to take this huge volume from Sarawak PetChem, okay.

On the third question with regards to EBITDA margin for naphtha cracker or integrated liquid-based petrochemical, I think we know when we invest into Pengerang, we will be getting a typical EBITDA margin for liquid cracker. We cannot compare the return that will be generated from Pengerang against our gas cracker -- the two gas crackers that we have in Kerteh because of its -- supported with the advantage feedstock.

And as I mentioned in the previous analyst briefing, we do have special arrangement between the petrochemical plant and the refinery and cracker plant where certain time when the PetChem business is suffering, there can be an additional discount in terms of discount over ethylene discount over propylene that will be provided by the refinery and cracker to support the viability of the PetChem plant because all in all, it has to be run viably and on an integrated basis. The PetChem need the refinery and cracker and vice versa. So that is some special arrangement that we have with the cracker and refinery.

On the feedstock disruption, that is particularly happened in quarter 2 this year, affecting our plan in Labuan as well as in Sabah which has been covered in the previous analyst briefing. The disruption that we saw in quarter 4 affecting PC Olefin is basically utilities from PETRONAS Gas, in particular, is steam disruption and that affects our gas crackers. It -- there were no feedstock disruption from PETRONAS during quarter 4. I hope that clarifies, that answers your question, Ashman?

Ashman:
Yes, it does. Thanks very much Azli.

Zaida Alia Shaari:
Next, we have Jeremy from Maybank.

Jeremy:
Hi, good evening. I've got three questions. So, my first one would be, when are you guys aiming to consolidate Pengerang into your financials?

Mohd Azli Ishak:
Do you want to finish the question first, Jeremy?

Jeremy:
No, I'll ask one by one.

Mohd Azli Ishak:
Oh okay, no problem. As we mentioned in our media release, you can get it from our website, the whole complex is clearly finishing the performance test run. There are another three plants that are supposed to complete a performance test run this quarter. And they will -- we will declare COD, commercial operation date once this performance test run has been fully completed. And I hope by the time we meet again in May for the next Analyst Briefing, we can pinpoint the date for the COD, but roughly, we're looking at in the quarter 2 this year.

Jeremy:
All right, thank you. And my second question would be, what is your target 2024 plant utilization rate for both O&D and also the F&M segments?

Mohd Azli Ishak:
As always with our ambition, Jeremy, that our plant utilization, despite what Encik Mazuin mentioned the plant turnaround, the planned maintenance that we have for the year to be above 90% plant utilization.

Jeremy:
So, this is for both segments, yes?

Mohd Azli Ishak:
Yes. Yes, for both segments.

Jeremy:
Okay. I assume that how about next quarter, I mean, upcoming like first quarter 2024. Is there any planned maintenance?

Mohd Azli Ishak:
Well, since you asked, I may as well give you that the planned schedule turnaround that we're going to foresee in the year. So currently, in this quarter, as we speak, our plan in Gurun, PCFK is undertaking a planned turnaround. And it will last until early March or early to middle March because it would typically take around 50 days to complete.

And next is Plant 1 Methanol in Labuan, that will be happening in quarter 2, starting in June. That would typically take around 60 days to complete. In quarter 3, which will be our ethylene, our first gas cracker, PC Ethylene, and since the PC Ethylene is connected next to the polyethylene, we also do a planned turnaround in PC Polyethylene. That will happen in September, and it would also typically last around 55 to 60 days. And lastly, quarter 4, we are planning for a scheduled turnaround at ABF Bintulu. It will start in January and typically last for another 60 days.

So this is basically plan, Jeremy. But of course, we will try to shorten the turnaround time, product to product. And if possible, we can try to defer or optimize the turnaround time. So as to cater for rising prices and all that.

Jeremy:
Okay, this is all from me. Thank you.

Zaida Alia Shaari:
Next, we have Raymond from CGS-CIMB.

Raymond Yap:
Hi, good evening guys. Just one simple question on my side. The remeasurement gain on trade payables which you noted was worth MYR 114 million, was this actually included in the O&D EBITDA line?

Mohd Azli Ishak:
No, no, no. Raymond, this is not -- it will not affect the EBITDA line. It's clearly affecting the PAT. So, there's no impact to the EBITDA. Accounting entry, accounting item, not the -- it doesn't affect cash flow even.

Raymond Yap:
Okay. Understood. You talked about the target planned maintenance of 90% this year. I mean that's your target, but could you give us -- I'm not sure whether you could give us what is truly achievable?

Mohd Azli Ishak:
We will not put a target unless we believe it's achievable, Raymond. But I mean, on -- if there's no outside disruption, for example, feedstock disruption or utility disruption beyond our control, we believe above 90% utilization rate is achievable because we've done it, we achieved it before.

Raymond Yap:
Okay. Your third quarter O&D utilization was already quite low, but in the fourth quarter, it went even lower. I think you had some issue with the olefins because of the steam interruption. That started in the third quarter and was carried over into the fourth quarter, right?

Mohd Azli Ishak:
That's twice. We had that disruption twice. The first one that you mentioned in quarter 3, that one is, if I'm not mistaken, is electricity supply from PGB. Next one happened in quarter 4 that one is steam supply.

Raymond Yap:
Okay. And you also mentioned there's an extended turnaround at MTBE, was it more than the typical 60 days?

Mohd Azli Ishak:
Yes, considering the age of the plant and historically, the MTBE has always have a problem when it wants to restart following a successful turnaround. So that particular, as you know, PC MTBE has MTBE plant as well as propane dehydrogenation plant.

One, in MTBE plant, we managed to resolve the issues, but the plant is currently running, but at the reduced load. So, the one that -- the other situation is a propane PDH plant. We expect the plant to resume its operation in 2 days time. And then as I mentioned earlier, Raymond, as of now, we have addressed most of the internal challenges affecting our plant in our Malaysian operation. And in fact, I can also share with you our January plant utilization is at 92%.

Raymond Yap:
For overall?

Mohd Azli Ishak:
92% for the whole Malaysia for F&M and O&D.

Raymond Yap:
Okay. Okay. You talked about the turnaround schedule in response to the earlier question. You said ABF would be starting in January, that's next year, right?

Mohd Azli Ishak:
Sorry, November. November this year. And maybe last until end of December or early January. So, it typically takes 60 days.

Raymond Yap:
Okay. So last year, if I looked at the reason why your utilization rate wasn't as you wanted it, though a lot of it has to do with your suppliers, the methane gas supply and the PETRONAS Gas. Are there any inherent issues that we should be worried about? I mean, what's happening with PETRONAS Gas and are you worried that they would somehow not be able to fulfill your needs? And is there some sort of recourse on your side that you can obtain for yourself because of these disruptions?

Mohd Azli Ishak:
Okay. Obviously, Raymond, I can't comment on behalf of PETRONAS Gas. But there is this integrated coordination between PCG as far as PGB to some extent, also goes all the way to PETRONAS level in terms of integrated value chain impact.

But when you mentioned about recourse, typically, this kind of exposure risk to us, is assessed on an annual basis. And all this while, our nomination -- daily nomination has always been above our contracted nomination. So, we don't foresee that on annual basis, there's a shortfall from PGB in terms of its delivery to one particular contract year. So, unless a strong disruption than the actual for the year is much below than what they -- much below than what we nominated, then there could be avenue for us to get some recourse from PGB. Currently, as we assess, that's none because, as I mentioned earlier, we've been off taking higher than what we nominated.

Raymond Yap:
Okay. I see what you mean. So, although there were disruptions last year, overall for the full year, they still met the service level obligations and the contractual volume pass-through or take-up. But in the future, if the issues persist for a lengthy number of months and overall, on an annual basis, it falls short, then perhaps the recourse will be examined at that point.

Mohd Azli Ishak:
There is an avenue for a recourse. That's for sure.

Zaida Alia Shaari:
Thank you. Next, we have Mayank from Morgan Stanley.

Mayank Maheshwari:
Thank you for the presentation. I think just two questions from my end. First was related to Perstorp. I think this was a quarter where you highlighted your volumes have actually started picking up quarter-on-quarter, but the margins came off due to certain higher cost from operational expense. Can you just elaborate what they are? Because at the end of the day,

you were seeing lower gas cost and fuel cost in Europe in fourth quarter over third quarter. So, what really led to this increase in cost? Or is it one-time items there as well?

Mohd Azli Ishak:
Okay. Thank you, Mayank. I mentioned earlier, as I verbalize it through my presentation, there are two main reasons why the operational expenses for specialties were higher. Number one, there is a scheduled turnaround maintenance at site Perstorp in Sweden. So, that is -- something that happened in quarter 4, which we don't see in quarter 3.

And then number two, in Sweden, there is this allowance for summer holiday allowance. So, when people were away taking their summer holiday, the employer is obliged to pay a summer holiday allowance. So that is basically arising from that particular situation, which happens once every year. I need to caution the analysts that we probably need to see this happening pattern almost on an annual basis. So those two are the main reasons the higher operational expenses compared to quarter 3. I hope that clarifies.

Mayank Maheshwari:
Yes. On that, I think can you just give us the impact of these two expenses for the EBITDA for the fourth quarter?

Mohd Azli Ishak:
Okay. The impact is somewhat -- I think in terms of manpower is about MYR 15 million, and the planned turnaround is about another MYR 15 million.

Mayank Maheshwari:
Okay. So, if you kind of normalize this EBITDA, we are still down for the quarter, quarter-on-quarter. So, I was just trying to see you have a good increase, which is starting to show up. Yes. So where was the -- and obviously, gas costs have come down, which has been, I think, historically, you've highlighted that has been a challenging part of it.

So, if we kind of take these two things into account, like where do you see within the 5, 6 segments that you highlighted that we're still seeing margins being under pressure within Resins & Coatings? Or is it still the animal nutrition part, which is still challenging? Like where has been the hit in margins coming from?

Mohd Azli IshaK:
Okay. For this, Mayank, I'll hand over to Dr. Debbie herself to explain to you the situation.

Debbie Chiu:
Okay. All right. Thank you for the question. Where we see most compression is still coming from the Resins & Coatings, which Azli has mentioned, the building construction is still a very challenging for us. And I think in the past, we have mentioned we see the competition coming from the Chinese supplier. So, we see a lot of Chinese products flushed into the European market, and that's where we see a still very compressed on the margin.

Mayank Maheshwari:
Okay. And so the volume increase has largely happened because of some other reasons is what you're kind of highlighting here, correct? It's not because of Resins & Coatings that there is still volume pressure.

Debbie Chiu:
Correct. Actually, our Animal Nutrition business is -- has been performing better starting last -- the fourth quarter. So, we do see the pickup coming from different sectors, but the coatings -- Resins & Coatings still under a lot of pressure.

Mayank Maheshwari:
Got it. And any comments you can kind of clarify, I think, on the industry itself around whether this pressure is going to be just because of imports or it's also -- there's still destocking going through in the value chain?

Debbie Chiu:
There's a couple of things going on. One, we have been talking about destocking in majority of 2023. We see that activities probably start to level off. Number two is the competition coming from the China's market and that's going to be depending on how fast the Chinese economy is going to recover. And the third, we're talking mostly coming from the inflation. If the Fed is going to relax on the interest rate, we may see that begin to easy off. So, it's going to be depending on the few factors.

Mayank Maheshwari:
Okay. Okay. Very clear. And I think the second question I had was more on the O&D side. If you take into account the MYR 50 million of the impact of shutdown, Olefins EBITDA was still a negative number for the fourth quarter. Because I'm just trying to understand like what really happened apart from maintenance, which caused this challenge in fourth quarter?

Mohd Azli Ishak:
Yes. There's also a lower volume, Mayank as well as product spread. But also, I did not mention earlier that whenever we had an unplanned shutdown of our plant, we need to buy certain products that we typically produce from third party to satisfy the obligation that we have particularly will increase our cost of revenue, which is higher than typically what we produce.

So, in a situation where heavy unplanned shutdown, in this case, for aromatics, for MTBE as well as PC Olefin, we need to buy a certain volume. I think I mentioned it earlier in my presentation that the term called strategic sourcing. So that is basically to meet the commitment that we have with our customers by buying the product that we're supposed to produce, and we're buying it from the people within this region.

Zaida Alia Shaari:
Thank you. And next, we have Anshool from JPMorgan.

Anshool Singhi:
Hi good evening, most of my questions were answered. I just have 1 housekeeping question. Was there any pre-operating cost book related to PIC this quarter as well?

Mohd Azli Ishak:
Basically, the cost attributable to the product that we are producing during commissioning stage has already been expensed. And -- but because it's yet to achieve COD, we are still capitalizing the interest as and we are yet to depreciate the plan. So other than that, we've already expensed off those expenses relating to the product that have been sold.

Anshool Singhi:
Understand. Did you book any volumes in the O&D segment from PIC?

Mohd Azli Ishak:
I think if you look at the sales volume in the O&D segment, includes the volumes from Pengerang. So that's why you see, although we have a few internal challenges in our O&D segment, the sales volume remains comparable. That is basically the impact of the marketing from Pengerang volume itself.

Anshool Singhi:
If you can share how much of that is attributable to PIC?

Mohd Azli Ishak:
I don't have the number right now, Anshool. Maybe in the next analyst briefing, we can quantify those volume coming from Pengerang and those volume coming from other plants. So, I think if it's okay with you, I will provide that in our next analyst briefing.

Zaida Alia Shaari:
There are no other questions in the queue. I think that concludes our briefing for today.

END