

PETRONAS CHEMICALS GROUP BERHAD

2Q 2021 ANALYST BRIEFING

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Management attendees:

1. M Azli Ishak Chief Financial Officer	4. Yaacob Salim Head, Strategic Planning & Ventures
2. M Kabir Noordin Chief Manufacturing Officer	5. Akbar Md Thayoob Head, Special Projects
3. Shakeel Ahmad Khan Chief Commercial Officer	6. Zaida Alia Shaari Head, Investor Relations

Operator:

Good day and thank you for standing by. Welcome to PETRONAS Chemicals Group Analyst Briefing for Second Quarter 2021 Conference Call. (Operator Instructions) Please be advised that today's conference is being recorded.

I would now like to hand the conference over to your speaker today, Ms. Alia, please go ahead.

Zaida Alia Shaari:

Thank you, Ajay. Hello, Assalamualaikum, ladies and gentlemen. Welcome to PETRONAS Chemicals Group Berhad's earnings briefing for the second quarter financial results for financial year-end 2021. I'm Zaida Alia, Head of Investor Relations. Thank you for joining our call this evening.

You should, by now, be able to access and download the financial results as well as the presentation material in our corporate website or in the link provided in the event invitation. As a health and safety precaution, today's briefing is conducted fully virtual, whereby we are all attending remotely from our homes. As such, we would like to apologize in advance for any delays or glitches we may experience.

Ladies and gentlemen, we are pleased to have the group's senior management present today. Today's briefing will be led by our Chief Financial Officer, Mr. Azli, who will give highlights of the group's overall performance as well as a briefing on the financial results. Other speakers are Mr. Kabir, our Chief Manufacturing Officer; and Mr. Shakeel, Chief Commercial Officer. Also present today are Mr. Yaacob, our Head of Strategy Planning and Ventures; as well as Mr. Akbar, Head of Special Projects.

I shall now hand you over to Azli.

Mohd Azli Bin Ishak:

Thank you, Alia. So good evening, ladies and gentlemen. Thank you for joining us today, and I hope you are doing well and staying safe wherever you are. Firstly, I would like to convey Datuk Sazali's warm regards to all of you and his apology for not being unable to attend this session this evening. We rather had a long board meeting earlier today, and then he'll still start in meeting engagement with external parties.

So before we delve into the results, I'd like to take a moment and update you on some of the movement in our key management team. Firstly, I would like to introduce our new Head of Strategic Planning and Ventures; Mr. Yaacob Salim, who joined us on 1st of this month. Yaacob joined PETRONAS in 2006 as Head of Technical Assurance within the Group Technical Services. And before that, he spent more than 15 years outside of PETRONAS Group. He brings to us his experience from both technical and strategic perspective, and I'm sure, with his guidance and leadership, we will continue to realize our growth plan.

I would also like to take this opportunity to thank Mr. Akbar for his invaluable guidance, insight and support during his tenure as the Head of Strategy. Mr. Akbar now leads the Specialty Project team. Now this is a new team that will be focusing on specialty chemicals and sustainability. So with his past experience and knowledge, I'm sure we will be seeing a lot of exciting things from this new team, new projects and growth projects, in line with our sustainable business goals. So welcome aboard, Encik Yaacob, and to Encik Akbar, keep up the good work in the new department.

So now let's go back to the results on Page 3 of the deck. So we have enjoyed a strong growth momentum from the previous 2 quarters as business outlook have remained positive, following the increased vaccination rate around the world and continued easing of the pandemic-related lockdown. GDP for the first half of 2021 recorded significant improvement at 7.3% compared to a negative 5.8%, same period last year.

With the positive business outlook and demand increase, the benchmark Brent crude oil averaged around 60%, higher [than] this year at \$65 per barrel compared to \$40 per barrel in the same period last year. Following the higher crude oil prices and improved economy, petrochemical product prices also averaged higher on higher feedstock costs, stronger demand amid tight supply. So overall, it has been a steady market recovery since the fourth quarter of 2020.

Now ladies and gentlemen, alongside the market improvement that we have seen, we are also feeling the increased interest in ESG space as the ongoing pandemic continues to remind us how crucial it is for us to not just focus on long-term plans, but also ensure sustainability of the business and its ecosystem. So let me take you through some of the key indicators on sustainability that we have been tracking along this journey on Page 4 of the deck and some of you are very familiar with this sustainability metrics.

Starting with our first pillar, People. Our key programs are based on engagement with our surrounding communities and stakeholders on our focused teams on environment, community development and education. Now due to the ongoing pandemic and movement restriction, our committee reach has been quite limited. Nevertheless, we have been actively in touch with key organizations within our communities to support the efforts, especially to help those in need.

Since last year, we have contributed product and essential items as part of PCG COVID-19 relief program. We have continued to provide assistance to affected communities and stakeholders. Now this assistance includes medical oxygen concentrators, personal protective equipment, PPE that was used by the medical officer, hand sanitizers, masks, laptop for support requirement at hospitals, clinics, vaccination and sampling centers.

In addition, under the People pillar, we are enhancing our due diligence on social and governance to ensure that our contractors are adhering to the PETRONAS contractor Code of Conduct on human rights principles. This allows us to monitor and mitigate the social

risks in our supply chain, and we are happy to see that to-date, our suppliers and contractors are in compliance with our human rights principle.

Our next pillar is Planet. The GHG emission during the quarter was 5% higher as start-up activities at the PDH plant in Gebeng saw a slight increase in flaring activities. Nevertheless, with the higher volume produced during the quarter, GHG intensity was lower at 0.77 tonnes per CO2 equivalent per metric ton of production compared to 0.79. Recycling rates improved from 72% to 74% in the second quarter with lower volume from nonrecyclable products produced and collected during the plant turnaround activities. Nonetheless, with no TA in quarter 2 last year, the recycling rate was lower year-on-year.

And finally, our pillar, Profit. We measure the energy intensity or energy used against our operation. So this quarter, we recorded a slight 1% increase in energy intensity against our previous quarter. And moving forward, we will continue to implement our energy reduction initiatives in our plants, and we'll continue to monitor and ensure a reduction of energy use through our energy and loss management system, ELMS, which aims to optimize energy use in our facilities, which is one of our cost saving measures.

Ladies and gentlemen, while we have embarked on our sustainability journey for some time, changes in scrutiny from various stakeholders are pushing us to continuously assess our sustainability pillars and metrics. So in doing so, you may see changes in our 3 P's as we move along. Hence, do bear with us as we work through refining our sustainability strategy and solidifying our plans towards lowering our carbon footprint, in line with our aim for net 0 carbon emission by 2050.

Ladies and gentlemen, moving on to our performance highlights for first half 2021 on Page 5. As I mentioned earlier, we have seen steady performance improvement in the market since fourth quarter 2020. Nonetheless, on our operating front, we started our turnaround cycle this year, mostly happening in the first half of the year. During the period, we completed 3 turnarounds for the PDH unit Gebeng in Kuantan, methanol plant 1 in Labuan and our fertiliser plant in Kedah, which has completed this quarter. All turnarounds were safely conducted while observing a strict HSE and COVID-19 SOP on site.

As a result of the TAs and some of the collective maintenance works in our urea unit, plant utilization for the 6-month period was lower at 94% compared to 97% in the same period last year. Consequently, production volume fell by 5% year-on-year at 5.2 million tons compared to 5.5 million tons last year. As a result, our sales volume also took a slight hit. Nevertheless, I'm pleased to share that our revenue for the period rose more than 45% to MYR 10.3 billion, mainly driven by our higher product prices. EBITDA and PAT saw a significant improvement to MYR 3.9 billion and MYR 3.3 billion, respectively, on higher product margins and higher share of profits from JV and associates, especially in our JV in BASF and our JV in the acetic acid business. Our 6-month EBITDA margin strengthened to 37%.

For further details on the performance, let's move on to Page 6 of the deck. So let's start with the comparison on the performance on the second quarter 2021 against second quarter 2020. You heard just now that the second quarter was a strong quarter supported by a rebound in global demand, surpassing our own expectations. The benchmark Brent crude surged from the \$30 per barrel average last year to average around \$70 per barrel on positive market development, pushing petrochemical product prices up. The turnaround that we started in quarter 1 2021, continued into the second quarter. And as a result, plant utilization for the quarter was lower at 97% compared to 100% recorded last year.

Production volume was lower by 4%, although sales volume remained comparable. Group revenue saw a 77% increase from MYR 3.2 billion in second quarter last year to MYR 5.6 billion this year, boosted by higher product prices. EBITDA has tripled to MYR 2.2 billion against MYR 695 million last year, contributed by higher spreads. And EBITDA margin increased from -- to 38% from 22% same quarter last year. PAT saw a tenfold increase from MYR 185 million to MYR 1.9 billion, supported by higher share of profit from JV and associated companies.

Moving on to the group's financial performance against the preceding quarter, that is quarter 1 this year. Now with the increase in the vaccination rate, easing of pandemic-related restrictions, global GDP continued to improve quarter-on-quarter. Brent crude improved from \$60 per barrel average in quarter 1 2021 to \$70 per barrel in the quarter under review, supporting the increase of petrochemical product prices.

On the operation front, we had a lower turnaround days in quarter 2 2021, compared to quarter 1, resulting in higher plant utilization rate of 97% compared to 90%. Both production and sales volume increased quarter-on-quarter. Against this backdrop of better performance, Group revenue saw a 20% increase from MYR 4.7 billion to MYR 5.6 billion, boosted by higher product prices. EBITDA increased by 27% to MYR 2.2 billion on higher spread and positive foreign exchange impact. EBITDA margin improved from 36% to 38% and PAT increased by 27% from MYR 1.5 billion to MYR 1.9 billion following the improved EBITDA.

Now let's have a quick look on the group's performance for the cumulative 6 months this year. Operationally, we recorded lower plant utilization at 94% against 97% same period last year, on higher maintenance and turnaround activities this year. Production and sales volume took a slight dip. Nonetheless, with the improve in product prices year-on-year, group revenue for the period rose 45% from MYR 7.1 billion to MYR 10.3 billion. EBITDA has more than doubled from MYR 1.5 billion to MYR 3.8 billion and EBITDA margin has recorded at 37% against 21% in the same period last year. PAT saw an almost fivefold increase from MYR 678 million to MYR 3.3 billion.

Now ladies and gentlemen, in the interest of time, so I will not go through the group performance by segment as much of the analysis overlaps with the group. So as is our practice, we have provided the slide on the group performance by segment at the end of the deck for your own consumption. So should you require further clarification, I will gladly provide your clarification at the end of the presentation.

So now let's move to the balance sheet and cash flow on Page 7 and 8. First, the balance sheet on Page 7. From quarter 1 this year, total asset increased by MYR 3 billion to stand at MYR 44 billion, mainly due to higher cash and cash equivalent by MYR 1.6 billion due to profit generated during the period. There's also higher property, plant and equipment mainly related to capital investments relating to our petrochemical project in Pengerang. This is also in line with higher revenue during the quarter as we saw higher trade receivables.

Now let's turn to our cash flow at Page 8. Our CFFO saw significant improvement to MYR 3.3 billion, primarily contributed by higher profit generated. And our net cash inflow for the quarter stood at MYR 2.2 billion, giving a strong cash balance as at 30th June at about MYR 15 billion. Now as you're also aware, quarter 2 2021 is our best quarter ever, and we managed to achieve this despite the challenging operating environment.

Now given the stellar performance that we have achieved, I'm pleased to share that the Board of PCG has approved a dividend of MYR 0.23 per ordinary share, equivalent to MYR 1.8 billion, being the first interim dividend for 2021, payable in September. As you may

notice, this is our highest dividend that we have declared since our inception, and we would like to share the fruits of our excellent performance with our esteemed shareholders.

So that is all for the financial performance for second quarter 2021. I would like to hand over the session to Kabir, our Chief Manufacturing Officer, for the manufacturing highlights. Over to you, Kabir.

Mohammed Kabir Noordin:

Thank you, Encik Azli. Good afternoon, everyone. Kabir here. Let me share the operational highlights for the quarter.

Alhamdulillah, Group plant utilization for quarter 2 was at 97%, higher than the preceding quarter. Our operation at olefins, derivative, fertiliser and methanol segment in quarter 2 were stable despite turnaround activity at Gebeng, Labuan and Kedah. This resulted in higher production volume, again the preceding quarter, but was slightly lower than the same quarter last year due to the turnaround activities.

In addition to that, we were able to continue running despite total lockdown imposed by the government in June. Effective engagement with relevant government authorities with full compliance to SOP the in controlling and containing the spread of COVID-19. Continuous collaboration with our suppliers help in ensuring reliable and improved feedstock supply for the quarter.

Next, let's see the segment of the olefin and derivative. O&D segment operated at the plant utilization of 98% in quarter 2, slightly lower than 100% achieved in quarter 1. We recorded comparable ethylene production with preceding quarter. but with slightly lower volume for the segment due to some challenges which required maintenance activities at the downstream unit, namely LDPE and aromatic plants. We were able to complete the repair work as per schedule.

Next, for segment, fertiliser and methanol, we achieved higher plant utilization rate in quarter 2 at 96% as compared to 84% achieved in previous quarter, both areas -- both urea and methanol production volume were above the quarterly average. High urea production at PC Fertiliser Sabah has contributed a significant volume to the group total production, 329 KMT in quarter 2 and 259 KMT in quarter 1. As for methanol, improved plant reliability were contributed by better performance of PC methanol plant, supported by reliable feedstock supply resulted in higher methanol volume for the quarter as compared to quarter 1.

Next. Moving on to the process -- progress of the -- our plant, our project, PIC-Petchem. As for PIC-Petchem, the objective remains to achieve safe and successfully start up and ultimately stable and sustainable operation. To date, PIC-Petchem had achieved excellent HSE performance with no lost time injury and fatality recorded, (foreign language).

In order to keep start-up progress on track, PIC-Petchem has worked together with Petronas Pandemic Preparation and also Response Team, PPRT, to enhance the requirement before entering the facilities, which consists of PIC entry requirement and PIC vaccination program. This initiative will continue as to provide confidence to workers and family members that PIC is a safe and great workplace to work.

Next. We have one on the conclusion, okay. To wrap up the quarter performance, we sustained high group plant utilization of 97% for the quarter. We successfully delivered above average quarterly products volume of ethylene, urea and methanol. Reliable plant operation of both olefin and derivative and fertiliser, methanol segments. We also

successfully completed turnaround at PDH plant, PC Methanol Labuan, PC Fertiliser Kedah and planned maintenance activity at PC Ethylene, Polyethylene. We are confident to deliver the targeted volume of ethylene of more than 1 million tons per annum, as well as targeted volume for methanol and urea, comparable for preceding year. We are confident to deliver the targeted volume for both methanol and urea.

Moving forward, we are going to carry out turnaround at fertiliser plant in Bintulu in quarter 4. We remain focused on strengthening our PIC start-up activities, and the same time, complying to the strict SOP in containing of the spread of COVID-19. That's all I have for the operating highlights, I would like to hand over to Shakeel for the market performance and outlook.

Shakeel Ahmad Khan:

Thank you, Encik Kabir. Good evening, Shakeel here. Let's proceed with the market highlights. In quarter 2, 2021, product prices were generally higher compared to the previous quarter amid the continued firing of crude and naphtha markets, tight supply and the continued logistic issues. Downstream demand was also generally healthy with most major economies slowly recovering as vaccination rates intensified and some countries see the relaxation of pandemic-related activity restrictions by governments.

Now let's move on to the market outlook. Ethylene price is expected to be stable despite the increase of supply from Northeast Asia region with new China cracker setup. The market is seen to be supported by the steady oil prices, which has reached above \$70 per barrel. Cracker TA in SEA region and delay in start-up of South Korean crackers.

Moving on to polymer. Polymer prices are expected to be bullish in the next 3 months on the back of stable supply in the region due to new capacities start-up, balanced by the lack of export activities caused by high freight costs, port congestion and prolonged shortage of containers globally. Demand is expected to gradually increase in August '21 and September as buyers continue to restock the inventories prior to Golden Week holiday in China from October '21 (onwards).

Next, for MEG. MEG price is expected to be stable, supported by the firming oil prices despite the rising supply from new plant start-ups in China, returning supply from South Korea's Lotte-chemical, On the downstream demand side, China demand is expected to increase on a seasonal boom in quarter 3. There is growing optimism that orders from made-in-China apparel will be positive.

As for paraxylene, PX price is forecasted to be stable to soft, mainly in anticipation of new capacity in China, which is expected to begin to startups in the July and will lengthen the supply. However, near-term supply is unlikely to witness a drastic change as the company is not expected to run at optimal rates due to the lack of crude import quota and further balanced by several turnarounds in the region.

Now let's proceed with fertiliser and methanol segment, starting with urea. Urea price is forecasted to be stable on the high side as tight global supply remains coupled with China's minimal export volume. India has been unable to buy its required volume on supply, constrained by Chinese government to export, forcing up prices from other origins. On demand side, India is expected to continue issuing tenders in coming months as the country's supply remains to be in a shortfall of around MYR 3 million for July to September volume.

Moving on to ammonia. Ammonia prices is projected to be stable on the high side as tight supply continues to limit activity in the market on volume shortage from Saudi Arabia due

to its plant disruptions. Healthy demand in India as buyers continue to purchase to support the country DAP production.

Lastly, on methanol. Methanol price is expected to be stable with sufficient supply as most producers are running at optimal rate despite a few plant outages. Methanol demand between China and South Korea are stable with Taiwan market were well covered for its term commitments. Additionally increased COVID-19 situation and drier weather conditions in India have supported downstream consumption in the country.

That's all for me. Thank you. Over to Alia.

Mohd Azli Bin Ishak:

Thank you, Shakeel.

So ladies and gentlemen, to conclude, let's move on to Page 15 of the deck. So as you may notice that the robust global economic recovery in the first half of the year have well surpassed our own expectations. Nonetheless, we also see many smaller developing economies continue to grapple with COVID-19 as resurgence in infections continue to limit their recovery efforts. As the pandemic continues to flare up, putting its mark on the ongoing economic recovery, we will continue to remain vigilant in our business decision and approach. We continuously build on our strong business fundamentals as we move forward. We will continue to -- our own initiative towards operational and commercial excellence, to ensure the sustainability of our operations and business.

Our strong HSE culture remains key to support these initiatives as we continue to advocate the safety of our employees and the operations even more during this ongoing pandemic. Despite the improved performance we have seen this year, we will continue our strict adherence to the prudent financial management, including prioritizing our projects and continuing our cost optimization initiatives.

On our growth commitment, we are continuing our efforts to ensure that PIC will start up by end of this year. Other growth projects, such as the silicone blending facility in Gebeng, Kuantan, the Nitrile Butadiene Latex plant, the JV that we have with LG Chem in Pengerang, the oxyalkylates plants in Kertih, as well as the building of our own pilot plant for bio-based chemicals, all these projects are progressing well within their time frame. So moving forward, we will continue to evaluate business opportunities to expand into specialty chemical portfolio, including green chemicals, in line with our sustainability commitment.

So now that brings the end of our presentation. Let's open up the floor for Q&A. Over to you, Alia.

Zaida Alia Shaari

Thank you, Azli. Ajay, we can now proceed with the Q&A.

+++ q-and-a

Operator:

(Operator Instructions) Your first question comes from the line of Raymond Yap from CGS CIMB.

Kok Hoe Hoe Yap, Raymond:

So my first question is about the F&M division. And I noticed that the second quarter revenues have been extremely strong compared to the immediately preceding first quarter. So revenues went up by 43% against the first quarter, but production went up by 15%

quarter-on-quarter. So the difference must reflect a price impact, I presume, that saw second quarter realized prices much higher than the first quarter.

However, if I look at the spot prices in the market, I think most of the urea and methanol price increase actually happened in the first quarter and not so much in the second quarter. So I'm quite curious as to why the second quarter revenues and the realized prices actually became -- while you achieved much higher realized prices in the second quarter rather than the first quarter per se, is there some kind of delay that usually happens under these circumstances?

Mohd Azli Bin Ishak:

Raymond, that's your first question. You mentioned that you have a few questions?

Kok Hoe Hoe Yap, Raymond:

Okay. The next question is a financial question. In terms of the CapEx, I think last quarter, you guided for an annual CapEx of MYR 2.5 billion. But for the first half of this year so far, you only have just slightly over MYR 600 million. So is there some kind of delay there? And -- or are you still keeping to your full year guidance of MYR 2.5 billion CapEx.

And the other thing, the last question I'd like to address is about the transfer pricing arrangement between the naphtha cracker and the downstream plants in Pengerang. Is the transfer pricing arrangement still intact? Is it still based on a favorable pricing, perhaps below market price? Just wanted to double confirm that arrangement is still intact as you bring your Pengerang online. Thank you.

Mohd Azli Bin Ishak:

Thank you, Raymond. So let us answer the first question with regards to fertiliser and methanol. Like what Shakeel mentioned earlier, in quarter 2, we witnessed the price have increased more so for urea and ammonia for quarter 2. So I guess, Raymond you're asking -- comparing with your own readings and research, the increase in price more so in quarter 1, right? So maybe perhaps Shakeel can put some additional light on this. Shakeel?

Shakeel Ahmad Khan:

Thank you, Encik Azli. I think just to add to what we have said just now. I'll give an example here, we have seen our ammonia average price in the quarter was about MYR 527 compared to ammonia quarter 1, priced at MYR 336. We have also seen in urea, quarter 2, price averaged at MYR 377 compared to quarter 1, MYR 345. I mean, basically, those are the main contributors from the supplier side, I think, supporting the prices in comparison to quarter 1.

Kok Hoe Hoe Yap, Raymond:

Shakeel, do you sell ammonia directly? Or is that largely converted to urea?

Shakeel Ahmad Khan:

The price of ammonia that I've given you is selling as well, ammonia, in the market.

Kok Hoe Hoe Yap, Raymond:

Yes. I mean, do you only sell ammonia as is? Or is it largely converted to urea to be sold at year end?

Shakeel Ahmad Khan:

No, we do have ammonia we sell into the market apart from urea.

Mohd Azli Bin Ishak:

Yes. I think. Raymond, as you are well aware, we have 3 ammonia plants. I think we have one dedicated ammonia plant in Kertih. So that will produce ammonia as ammonia.

On your second question, Raymond, CapEx. Now I think we still stand guided by -- with our annual CapEx program of MYR 2.5 billion. Yes, you correctly pointed out that the first half of the year, we only spent MYR 600 million. That's not an intention (sic) unintentional, so that we do have few CapEx program and project in quarter 3 and quarter 4. So you will see that these coming quarters, there will be CapEx, realized spent and paid in quarter 3 and quarter 4.

Now with regards to your third question, transfer pricing. I think I've mentioned earlier and separately during our various engagement on investor relations, the integrated facility, petrochemicals and the refinery and cracker were meant to run on an integrated basis. So for the petrochemical plant to run, it must be incentivized with favorable feedstock of ethylene and others from the refinery and cracker. So to answer you, those transfer pricing arrangements are still intact, even though there's still -- there's a slight delay on the start-up. So yes, it's still intact.

Kok Hoe Hoe Yap, Raymond:

Okay. Yes, Azli, I just wanted to pin you down on the commencement date you mentioned by the end of 2021. Is it all the plants? Or is this spilling over into 2022? Or everything will be up by 2021?

Mohd Azli Bin Ishak:

Our aim is to start up the plant by end of the year. So as you recall in our previous quarter, I think the first plant to start up will be the CDU for the refinery, and then may be within 1 month, the Petchem plan will start to start up. So the idea is for the entire integrated complex to start up by end of the year.

Operator^ Your next question comes from the line of Bennett Lee from Citigroup.

Chun Ho Lee, Bennet:

Hello, you hear me? Hello?

Mohd Azli Bin Ishak:

Yes, Bennett, we can hear you.

Chun Ho Lee, Bennet:

I have 3 questions. So basically, the first one is actually on the latest update in terms of the refinery start-up plan? Has the company started the CDU and produce naphtha already? And what about the naphtha cracker and downstream? And are there any further delay due to lockdown? Second question is what is the latest status of the BASF PETRONAS JV, given the force majeure for acrylics in late June? Has the plant restarted yet? And third question is on first half effective tax rate, because we see very low effective tax rate of around like 6%. What is the reason behind? And what is the guidance into second half and next year as well?

Mohd Azli Bin Ishak:

Bennett, if you don't mind, can you elaborate on the second question with regards to the JV BASF on acrylic acid?

Chun Ho Lee, Bennet:

Yes. That is the force majeure. So has the plant restarted yet?

Mohd Azli Bin Ishak:

Okay. All right. To answer your question, the first one, I think similar to my response to Raymond's question. The entire CDU and naphtha and the integrated petchem complex will start up by end of this year. So that remains our agenda. That remains our commitment together with PETRONAS and Saudi Aramco. So I think the definite date, we will potentially -- can -- we'll make available to you once there's a progress in terms of exact date, maybe in quarter 3.

So, I think, on the latest updates on the BASF JV, I think that plant is already operating at full capacity.

In fact, most of our PAT also contributed from the stellar performance from this JV. So I think in terms of -- there's a good price realized from acrylic acid as well as oxo-alcohol business that adds up to our bottom line and improve our share of profit.

On your last question, effective tax rate, I think so far, our effective tax rate, if we look at the Bursa Announcement, it's around 6% to 7%. Just to give you guidance for the rest of 2021 and the full year of 2021, our effective rate -- the effective tax rate will be ranging between 7% to 10%. Does that answer your question, Bennett?

Chun Ho Lee, Bennet:

What about next year? Sorry, next year's guidance on the tax rate?

Mohd Azli Bin Ishak:

Well, that will depend, Bennett, in terms of the market prices and product prices. As you know, as product prices improve and as spread improves, most of these revenues and product margin will be captured in our marketing arm, which is enjoying Labuan tax initiative. So effective tax rate will be much lower as the product prices get increased. So our guidance on 2022 will be based on the outlook for the product prices.

Operator:

Your next question comes from the line of Alex Goh from AmBank.

Khair Peng Goh, Alex:

Congratulations on the fantastic set of our results in the second quarter. I have a number of questions. The first question is regarding some guidance for this third quarter. Do you think that such a strong performance in the second quarter is able to be repeated in the third quarter given the fact that you are looking at a flattish oil price outlook and -- for most of our products, and you are looking actually at higher prices in terms for the polymer segment?

So -- and also in terms of this kind of plant utilization that you are looking at, would it be fair to say that we should be looking at something that's similar in the third quarter compared to the second quarter of this year, right? That's my first question.

My second question is regarding your OpEx and your maintenance for -- in the second quarter. Was there anything unusual about it that caused the margins to improve? And what sort of trajectory should we look at for the second half of the year, right?

And my third question is regarding the PIC. Given the current high prices that you are seeing, right, and looking at the second quarter results for the whole group, do you think that Pengerang is able to break even on the pretax level, right? And could you give some

sort of guidance on what sort of plant utilization rate should we look at next year when the plant starts kicking in completely, right?

And my fourth question is on your ESG side, looking on your Page 4, it looks like your numbers appear to be slightly deteriorating, especially for your GHG emissions, the water recycling rate and your energy intensity seems to be deteriorating. Could you give a bit of explanation of why is that?

Mohd Azli Bin Ishak:

All right. Thank you, Alex. So let's tackle your first question with regards to the quarter 3 guidance. So as Shakeel has mentioned, I think for quarter 3, we expect the price and spread to be moderate. But good thing is that for quarter 3, there will be no plant turnaround. So in terms of plant utilization, we expect to see higher plant utilization in quarter 3, barring any unplanned plant hiccup or slowdown, right? So with that, we hope to see a slightly better quarter in quarter 3.

So on your second question with regards to OpEx and repairs and maintenance for quarter 2, there is no unusual R&M or OpEx expenditure for or quarter 2 or quarter 1 that deviate in terms of the numbers.

So with regards to PIC, I think we have mentioned in the last quarter analyst briefing. That we expect the PIC to breakeven when we reach 60% to 70% plant utilization. And we hope this 60% to 70% will be happening once the plant starts to ramp up upon starting or commencement of operations in -- by end of this year. So 60% to 70% may happen in 2022 throughout the year.

So on the fourth question, Alex, I think I probably need some -- for you to clarify, again, which particular metric that you're referring to. I understand it's the GHG emission? Or is it energy intensity?

Khair Peng Goh, Alex:

Yes. I'm looking at the GHG. The numbers seem to be increasing. Also, your waste recycling rate seems to have come down in the second quarter. How should we look at this?

Mohd Azli Bin Ishak:

All right. I think what I mentioned earlier during this presentation, the GHG emission increased slightly compared to last quarter, mainly because there's a lot of flaring activities as a result of completion of turnaround and plant starting to start up. So upon start-up, there's a lot -- we can expect a lot of flaring activities that contributed to the GHG emissions. And because of the plant turnaround, in fact, the quarter 2, the 3 plants are that are around, PDH plant and -- in Gebeng, plant 1 methanol, ending in -- both ended in early May; and plant fertiliser in Kedah turnaround in June. So we have 3 plant turnaround during the period. So you see a lot of -- recycling rate higher. I hope I've answered your question, Alex.

Khair Peng Goh, Alex:

Yes. But just going back on the third question regarding the breakeven for 60% to 70%, you are talking about a plant -- a pretax level, right? On a pretax level?

Mohd Azli Bin Ishak:

Yes, that's our aim. But again, it will depend on the market price outlook, Alex.

Khair Peng Goh, Alex:

Yes. I mean taking today's prices into consideration, yes. So it looks like you can actually be slightly profitable, right, if I'm not wrong.

Mohd Azli Bin Ishak:

We hope so. Yes.

Khair Peng Goh, Alex:

Okay. Yes. And you mentioned that you need to -- you are looking at this level of 60% to 70% by the end of this year itself. That means in fourth quarter, should we be seeing some sort of contribution coming in already for PIC?

Mohd Azli Bin Ishak:

No, no. I think I mentioned 60% to 70% throughout 2022. So that plant start up in next year. So you will expect a slightly smaller percentage of plant utilization and it will continue to ramp up and averaging around 60% to 70% in 2022.

Khair Peng Goh, Alex:

I see. Okay. And your depreciation and your interest charges is going to be spread out evenly as your different segments of your plants are coming to operation, right? So you largely spread out the cost in that case, in that way. Am I right?

Mohd Azli Bin Ishak:

Correct. As per accounting principle, we will start to charge the project in progress into our fixed assets and start to depreciate as soon as we achieve the commencement of operations.

Operator:

Your next question comes from the line of Ahmad Maghfur, Nomura.

Ahmad Maghfur Usman:

So I just have one question with regards to your specialty chemicals. At the moment, based on the first half numbers, what is the revenue and EBITDA contribution from Da Vinci? And with the -- can you give us -- remind us on the time line on the commencement of the 3 plants again and whether there has been a deferment because of the current lockdown imposed here in Malaysia. And what would be the expected earnings contribution roughly from those 3 plants, especially the one -- I think I believe the silicone plant in Gebeng is the first one to come up. What could -- should we be modeling into our assumptions for -- from that plant?

Mohd Azli Bin Ishak:

Thank you, Ahmad. I think the -- you have 2 questions there. The first one is the contribution of DVG, our silicone business in Europe to bottom-line. So as we mentioned earlier, the contribution in our EBITDA of DVG into group EBITDA remains very low at below 5%. And we expect with this -- our new ambitions to grow big into specialty chemicals, we can increase the portfolio to a much larger pie to contribute to our bottom line. But nonetheless, I think over the 6-month period, our friends in the DVG or BRB have also improved in terms of their financial performance and recorded significant contributions to EBITDA to our bottom line.

So in terms of the time line for the 3 plants, let me go one by one. In terms of the silicone plant, seeing -- we anticipate the plant in Gebeng will start to commence operation in quarter 4 this year, right? So -- and then the second plant, which is the Nitrile Butadiene Latex, our JV with LG Chem, we expect those -- the plant will be commencing operation

in quarter 2 2023. And for the other plant, our ethoxylates JV with PCC plant located in Kertih that we expect to also start up in quarter 2 2023. So that plan remains unchanged, and the time line remains the same as what we mentioned to you in the last quarter. So the effect of this pandemic did not impact the time line and milestone of these projects. I hope that answered your questions, Ahmad.

Ahmad Maghfur Usman:

Congrats on the good set of results by the way.

Mohd Azli Bin Ishak:

Thank you, Ahmad.

Operator:

Your next question comes from the line of Piyanan Panichkul from UBS.

Piyanan Panichkul:

I have 3 questions. The first question is regarding your associate income. Could you elaborate what drove the big increase this quarter?

Secondly, on the FX impact on your margin and on your business, could you remind me how many percent of your feedstock cost is in local currency? And what the FX sensitivity to EBITDA, please?

Finally, thanks for the nice dividend announcement. I wonder if we could think about this dividend as a sustainable dividend base going forward? What would management say on that?

Mohd Azli Bin Ishak:

Thank you, Piyanan. Let's tackle your first question. The share of profit from our JV associates. I think I mentioned earlier during my presentation, there are 2 particular JVs. If you were to single out, that contributed the most to our bottom line. This is -- first is a JV with BASF, the plant in Gebeng. So I think the improved performance is mainly due to the favorable spread that they have realized on acrylic acids, as well as oxo-alcohol business that contributes significantly to the JV and hence, our 40% portion of that.

The other JV is the JV that we have with INEOS. Formerly, it was held by BP. This is acetic acid business. So in terms of performance compared to last quarter, the net profit quite significantly increased and also contributed a lot to our bottom line.

So to your second question, I think in terms of currency denomination, for us, we -- most of our feedstock are denominated in dollar. And it provides a natural hedge because it's -- our revenue was also predominantly in the end, dollar. So the rapid volatility in currency, it may have impact on us but not significant impact because in a way, we are naturally hedged in terms of currency. So with regards to, I think, your third question, can you repeat that, Piyanan? I may have lost that into my notes.

Piyanan Panichkul:

Yes, the dividend announcement? Would you maintain the amount per share of dividend going forward? Or should we think about it as a percentage of earnings?

Mohd Azli Bin Ishak:

Okay, thank you. I think we will remain, in terms of dividend, when we put out the proposal to our Board, remain guided with our current dividend policy of 50% out of our PATANCI. Yes, we do acknowledge the request from our shareholders as well as the request -- and

the current economic conditions. And that's why for this particular interim dividend, we are quite generous in terms of our dividend.

Also due to our stellar performance, I mean, we would like to share the fruits of our excellent performance with our esteemed shareholders. So moving forward to answer your question, Piyanan, I think we will still be guided by our existing dividend policy. Of course, it will be deliberated at the Board, and the Board will take all these factors into account whenever we decide on the dividend. I hope that answers your question, Piyanan.

Operator:

Your next question comes from the line of J.Y. Tan from Affin Hwang.

Jianyuan Tan:

Just to have a bit of clarity on the JV profit. Apart from the fact that the ASP trend continue to be on an upward trajectory, was there any reason for the stronger JV profit?

Mohd Azli Bin Ishak:

Okay. Is that your only question, Tan?

Jianyuan Tan:

Yes, that's my only question.

Mohd Azli Bin Ishak:

Okay. All right. There's no abnormality in terms of the JV that we have. And simply, the stellar performance from our JV are mainly due to the spread that they have realized during the quarter and during quarter 1 2021. So you also notice that in quarter 1 2021, there's also a significant contribution from our JV. So it's just that during quarter 2, they realized product spread and margin as even significantly increase. So that's basically the main reason for the strong profit that they have generated.

Jianyuan Tan:

Okay. Perhaps I could do a follow-up. What about in terms of the spread in the third quarter? Has this been stable or deteriorated in any way?

Mohd Azli Bin Ishak:

Quarter 3 this year, for this quarter?

Jianyuan Tan:

Yes.

Mohd Azli Bin Ishak:

Okay. I think the similar goes to our other products in terms of outlook. These products, we were talking about, acrylic asset, oxo-alcohol and acetic acid, they tend to be very -- in term of outlook, tend to be very moderate for quarter 3 and quarter 4.

Operator:

(Operator Instructions) We have your next question from the line of Anshool Singhi from JPMorgan.

Anshool Singhi:

Can you hear me?

Mohd Azli Bin Ishak:

Yes, Anshool. We can hear you.

Anshool Singhi:

So I had a couple of clarifications. The first thing is, you mentioned that the plant utilization rate for PIC is expected to be around 60% to 70% in FY '22. So is that for the whole year? Or are we going to see it ramp up to 60%, 70% by the end of the year? And my second question was about your 5% EBITDA contribution from DVG. So that's for the first half '21 EBITDA contribution? That's all.

Mohd Azli Bin Ishak:

Okay. Thank you for your question, Anshool. I think for the PIC, the plant utilization. As I mentioned earlier, it starts to creep up as when they start operation by end of the year. So it's typically -- 60% to 70% will be a good benchmark for any plant starts to ramp up after commencement of operation. So that's why we expect a full year 2022, it will be between 60% to 70%.

So in the -- in terms of contribution of Da Vinci, I mentioned it's below 5% EBITDA contribution to our bottom line. So I think the idea is for us to continue looking at business opportunity to grow into specialty chemicals to increase this portfolio of specialty chemicals contribution to our general EBITDA. So the idea is to have it more than 5% revenue.

Anshool Singhi:

Just for the half year, next '21.

Mohd Azli Bin Ishak:

Yes, that is currently the contribution of DVG into our group EBITDA, less than 5%.

Operator:

We have a follow-up question from Alex Goh from AmBank again.

Khir Peng Goh, Alex:

Just one question on your plant utilization for the whole group. In your first half, you achieved 94%. And you've indicated in the third quarter, there will be no turnaround. So should we look at second half of this year, where your plant utilization will be higher than 94% in the first quarter -- for the first half of the year?

Mohd Azli Bin Ishak:

The guidance, I think, Alex, because there will be no plant turnaround in quarter 3, although we have a few pit stops on some of the plants happening. But in quarter 4, we have 1 plant turnaround, as I mentioned, as we mentioned in the last quarter's analyst briefing. That plant is our ASEAN Bintulu, fertiliser plant in Bintulu. That will happen sometime in November. Overall...

Khir Peng Goh, Alex:

Okay, with that, we've achieved.

Mohd Azli Bin Ishak:

I think -- just to conclude, overall, for the year, we hope to -- our plant utilization to achieve around 93%, 94%.

Operator:

Thank you. As there are no further questions at this point of time, I would like to hand the call back to Alia for any closing remarks. Thank you.

Zaida Alia Shaari:

Thank you, Ajay. Thank you, everyone, for participating today, and thank you for all your questions. Do send us your reports once they are published. If you have any more questions, do get in touch with me or Safarah through call or e-mail. Thank you, everyone, and good evening.

Mohd Azli Bin Ishak:

Thank you, everyone. Stay safe.

Operator:

Thank you. That concludes the conference for today. Thank you for participating. You may all disconnect now. Thank you all.

END
