

PETRONAS CHEMICALS GROUP BERHAD

4Q 2021 ANALYST BRIEFING

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Management attendees:

1. Mohd Yusri Bin Mohamed Yusof Managing Director & Chief Executive Officer	5. Yaacob Salim Head Strategic Planning & Venture Management
2. M Azli Ishak Chief Financial Officer	6. Akbar Md Thayoob Head, Special Projects
3. Mohammed Kabir Noordin Chief Manufacturing Officer	7. Zaida Alia Shaari Head, Investor Relations
4. Shakeel Ahmad Khan Chief Commercial Officer	

Operator:

Good day, and thank you for standing by. Welcome to the PETRONAS Chemicals Group's Analyst Briefing for Fourth Quarter 2021 Conference Call. (Operator Instructions) Please be advised that today's call is being recorded. (Operator Instructions) I would now like to hand the conference over to your first speaker today, Ms. Zaida Alia Shaari. Thank you. Please go ahead.

Zaida Alia Shaari:

Thank you, Revathi.

Hello, Assalamualaikum, ladies and gentlemen. Welcome to PETRONAS Chemicals Group Berhad Analyst Briefing for Financial Results for the Fourth Quarter Financial Year 2021. I'm Alia, Head of Investor Relations. Thank you for joining our call this evening. You should by now be able to access and download the financial results as well as presentation materials in our corporate website or in the links provided in the event invitation.

As a health and safety precaution, today's briefing is conducted fully virtual, that is, we are all attending remotely from either our homes or workstations. 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 senior management present today and led for the first time by our newly appointed Chief Executive Officer; Mr. Mohd Yusri Bin Mohamed Yusof. As usual, our lineup of speakers for today are Chief Financial Officer, Mr. Azli, Chief Manufacturing Officer, Mr. Kabir, and Chief Commercial Officer, Mr. Shakeel. Also present today are Mr. Yaacob, Head of Strategy Planning and Ventures; as well as Mr. Akbar, Head of Special Projects. For those who have yet to meet Mr. Yusri, he is no stranger to PCG. He actually spent most of his career in the Petrochemicals division of the PETRONAS Group. His last position was as Head of Manufacturing of PCG before he left in 2017 to head another division within PETRONAS. Without further ado, I shall now hand you over to Mr. Yusri for the performance highlights. Over to you, En. Yusri.

Mohd Yusri Bin Mohamed Yusof:

Thank you, Alia. Good day, ladies and gentlemen. Thank you for joining us today, and thank you, Alia, for the introduction as well. And it's good to be back in PCG. The last few years, I've seen the company growth plan gradually materialize and beginning to bear fruit. I'm excited to be here to help the company to ensure it continues to realize its growth aspirations. Let's look at 2021, ladies and gentlemen.

2021, we saw economic recovery take place at a rapid pace, as countries open up for business. Vaccine rollout saw improved customer confidence and manufacturing sector ramp up on pent-up demand despite the challenges on pandemic-related disruptions, such as port congestion and limited shipping capacity.

With positive developments in the market, GDP for the year was recorded at 5.5% compared to the recessionary rate of negative 4% the previous year.

Similarly, PMI expanded to 54.2% from 53.8% previous year on a consistent strong manufacturing sector performance. The benchmark Brent crude oil peaked in October of 2021 at USD 86 per barrel on strong demand. For the full year, we saw Brent crude price average 69% higher than 2020 at \$71 per barrel against \$42 per barrel on the continued production control by OPEC+ and the demand recovery following a stronger global economy.

Following crude oil and market improvements, Petrochemical product prices averaged higher year-on-year on healthy demand and supply tightness amidst global market disruption.

While we enjoyed a good year, it did not mean that we overlook our sustainability metrics. It is a well-known fact that the demand for ESG-linked investments went up during pandemic.

And with that came increased scrutiny on our actions, our ESG practices and commitments. So let's go through some of our sustainability highlights and achievements, starting with the economy pillar, where our focus is business operations.

Within this pillar, since our business initiatives such as operational excellence, commercial excellence and the growth delivery excellence. Operational excellence looks at how well do we run our plants. In the fourth quarter of 2021, PU, or plant utilisation was at 89%, lower than the third quarter of 2021 due to some turnarounds and maintenance activities at our plants.

Nonetheless, for the full year, we saw plant utilisation at 93% and sales volume is comparable on all parameters. On growth delivery initiatives, aside from traditional growth from green and brownfield projects, our strategy also includes optionality for growth where research and development is key in developing applications and solutions that addresses customers' needs, which includes green solutions.

We have mentioned on of our research in converting biomass into differentiated chemicals before. To that effect, we built a pilot plant on our research center in Bangi to test the technology, and I'm happy to say that we have achieved our first drop of Bio MEG in December 2021. We are now further testing the technology for commercial scale up.

Moving to our environment pillar, we will continue to monitor our impact on the environment in terms of our energy use, emissions as well as waste. Against both the

corresponding and the preceding quarter, our energy intensity was lower at 14.5 gigajoule per tonne of production, mostly due to lower plant operations.

For the full year, despite heavier turnaround activities compared to 2020, energy intensity was comparable at 15.8 gigajoule per tonne versus 15.7 gigajoule per ton. At 1.69 million tonnes of CO₂ equivalent, our fourth quarter 2021 was lower than the preceding quarter and corresponding quarter by 8% and 4%, respectively.

For energy emission, the full year saw a slight reduction from 7.1 million tonne of CO₂ equivalent to 7.0 million tonne of CO₂ equivalent on various emission reduction initiatives at our manufacturing sites, coupled with the turnaround optimisation programs that we did.

GHG intensity declined quarter-on-quarter with lower number of plants in operations and lower production volume. For the full year, GHG intensity was slightly higher with lower production volume. Recycling rate was better quarter-on-quarter, with higher volume of recyclable waste being sent for recycle and recovery, but lower on a full year basis due to the higher amount of nonrecyclable materials product during the year's TA.

Our third pillar looks at our social impact where our focus remains on community development and well-being through education and governance. During the quarter we saw that we rolled out more than 25 programs via both physical and virtual engagements with participants totaling over 290,000 people. The programs include our COVID-19 community relief program in our various areas of operation. And our largest reach was through our Plastics, Sustainability and You Education module under our New Plastic Economy program for teachers and primary as well as secondary school students.

On governance, ladies and gentlemen, we are continuously looking to enhance our code end practices. In 2021, we conducted an exercise -- we conducted an exercise to review the human rights risk from our contractors. The due diligence exercise was to ensure that our contractors are adhering to PETRONAS contracted code of conduct on human rights principles.

These assessments are based on the 9 principles in PETRONAS -- in PETRONAS contracted code of conduct on human rights principle, which are freedom of labor, prevention of child labor, wages and benefits, working hours, grievance mechanisms, nondiscrimination, freedom of association, humane treatment and foreign or migrant workers. And I'm happy to report that at the end of the exercise, we found that our contractors are in full compliance of those principles.

Before we move on, I wanted to share with you that we have just recently completed our Net Zero carbon emissions road map as part of our commitment towards creating positive economic, environmental and societal -- and social impacts and while lowering our carbon footprint. This road map has set up our carbon reduction goals and pathways with immediate aim to reduce 20% of our baseline emissions by 2030.

There will be more to share on this in the near future, so bear with us as we continue to share our progress with you.

Ladies and gentlemen, moving on to our business performance highlights. Market wise, it was a strong year. As I said earlier, economy rebounded and continued to recover despite supply chain disruptions brought by the COVID-19 pandemic. We have -- we completed all 4 turnarounds in 2021 at PDH unit in MTBE, PC Methanol Plant 1, PC Fertiliser Kedah, and last that we completed for 2021 was our plant in Bintulu, Asean Bintulu Fertiliser. We

have maintained our zero-tolerance policy with regards to safety in the workplace. As such, we have ensured that all our TAs and maintenance works were and are being conducted while observing strict HSE and COVID-19 SOPs on site.

Accounting for all the TAs, our full year of 2021 plant utilisation was, I mentioned this earlier, comparable at 93% against 94% the previous year. Production volume fell 3% against 2020 at 10.4 million tonnes compared to 10.7 million tonnes last year, nevertheless, with sustained sales volume at about 8.1 million tonnes. For the full year 2021, we recorded our best financial performance to date with revenue of MYR 23 billion, driven by the surge in the product prices.

EBITDA and profit after tax, both climbed to MYR 8.3 billion and MYR 7.3 billion, respectively, on expanded product margins and higher share of profits from JV and associates. EBITDA margin is healthy at 36%. And I do have Azli next to take you through the details and more color on financial performance. Azli?

Mohd Azli Bin Ishak:

Thank you, En. Yusri. Ladies and gentlemen, a very good evening, and thank you for joining us. So let's start with the group performance on Slide #6, beginning with the comparison of the fourth quarter 2021 against fourth quarter 2020. So as mentioned by En. Yusri, 2021 was a good year.

In fact, the best year for PCG so far and we finished strong in the fourth quarter 2021 as the pandemic-related constraint eased up with the rising vaccination rates as well as business adaptation. The global GDP recorded at 4.04% in quarter 4 2021, against negative 3.2% in quarter 4 2020. The average Brent price increased by \$36 per barrel to \$80 per barrel with positive market development.

Tight global energy supplies and rising demand ahead of the winter season provided a boost to the price, particularly keeping petrochemical product prices very high.

Our production volume was slightly lower, deriving from the lower plant utilisation due to the statutory planted around activities at ABF in Bintulu. Nevertheless, our sales volume was comparable as we draw down our inventories towards the year-end. The group's revenue grew 82% from MYR 3.8 billion in quarter 4 2020 to MYR 7 billion this year on higher product prices.

EBITDA has more than doubled to MYR 2.3 billion against MYR 1.1 billion last year, contributed by higher spreads. And EBITDA margin increased to 33% from 30% in the same quarter last year. Profit after tax surged from MYR 456 million to MYR 2 billion on higher product operating profit by higher share of profit from JV and associated companies, especially our JVs with BASF for the acrylic acid and oxo product and INEOS for the acetic acid products.

Now moving on to the group's financial performance against the preceding quarter, that is quarter 3 this year. So global GDP decelerated in quarter 4 2021 compared to quarter 3 2021 as the economic recovery felt the impact of ongoing disruption from COVID-19 pandemic, especially on the Omicron variant resurgence.

The Brent price increased by 9.6% at \$80 per barrel, mainly contributed by rising demand following the winter season. During the quarter, petrochemical product prices were assessed higher than preceding quarter on higher feedstock costs and healthy demand amid supply limitation.

We also witnessed the price for urea shot up to \$1,000 per tonne and methanol at \$600 per ton, and ammonia prices continue to climb and breached \$800 per tonne in December. On the manufacturing front, with the statutory plant around at ABF in Bintulu, plant utilisation rate was lower at 89% compared to 94% in the last quarter.

Despite the lower production, sales volume was higher as our commercial team pushed more volume within the market and drawing down from our inventories. Group revenue improved 21% to MYR 7 billion with higher prices, mainly due to urea, methanol and ammonia.

EBITDA also improved by 10% from MYR 2.1 billion to MYR 2.3 billion in view of wider spreads mainly for urea and ethane-related products, though EBITDA margin was lower at 3.3% due to higher fixed costs arising from maintenance and manpower. Profit after tax was comparable at MYR 2.0 billion.

So now let's take a quick look at the group financial performance for the cumulative 12 months 2021. We saw some strength in the year as the world economy moved and the recovery to expansion. All in the business demand have been positive. Oil prices movement remained positive and stronger than anticipated and expected to remain strong.

The demand for petrochemical product has been solid, alongside recovering global economy and manufacturing sector. Operationally, we recorded comparable plant utilisation at 93% for the 12-month period this year against last year, despite the 4 plant turnaround activity that we have conducted.

Production volume was slightly lower at 10.4 million tonnes against 10.7 million tonnes last year. Sales volume remained unchanged at 8.1 million tonnes. Nonetheless, with the improvement in product prices year-on-year, group revenue for the period rose 60% from MYR 14.4 billion to MYR 23 billion. EBITDA surged from MYR 3.5 billion to MYR 8.3 billion on expanded spread and EBITDA margin was recorded at 36% against 24.5% in the same period last year. PAT has more than quadrupled from MYR 1.6 billion to MYR 7.3 billion.

Ladies and gentlemen, as you may have read in our media release and Bursa announcement, the Board has, today, approved the declaration of second interim dividend of MYR 0.23 per share, totaling MYR 1.84 billion. Combining with the first interim, which is declared in August, and special dividend declared in November 2021, PCG have declared a total dividend of MYR 4.5 billion with a payout ratio of more than 60% of PATANCI. This is the highest dividend declared so far by PCG, both in terms of amount and payout ratio.

So ladies and gentlemen, as always, the segmental performance slides are provided at the end of the deck for your own consumption. Should you have any queries with regards to their performance, I'll be happy to address them during the Q&A.

So now let's move on to the balance sheet and cash flow on Slide 7 and 8. So we first look at the balance sheet on Slide 7.

Quarter-to-quarter, our total asset increased from MYR 44.8 billion to MYR 46.6 billion, primarily due to the higher cash and cash equivalents by MYR 1.4 billion, contributed by higher cash flow from operations.

Now let's turn our attention to cash flow at Slide #8.

Cash generated from operating activities increased by MYR 425 million to MYR 2.7 billion, mainly due to higher profit generated during the period.

And during the period, net cash used in investing activities were lower by MYR 72 million at MYR 418 million. This is mainly due to purchasing of property, plant and equipment. Net cash used in financing activities for the period was lower by MYR 1 billion at MYR 783 million. This is mainly due to the payment of a special dividend of MYR 800 million made in December 2021. At the end of the period, our cash balance remained strong at MYR 16.4 billion. That's all for the financial performance for the fourth quarter 2021.

I would like to hand over the session to Kabir for the manufacturing highlights. Over to you, Kabir.

Mohammed Kabir Noordin:

Okay. Thank you, Azli. Good afternoon, everyone. Kabir here. This overview briefly on quarter 4 performance for manufacturing. Alhamdulillah, we managed to deliver 2.5 million tonnes of production volume, with 89% plant utilisation in quarter 4, which is above our plan, despite of having turnaround activity at ABF and some maintenance activities at PC Methanol.

We also recorded highest ethylene production volume in quarter 4 as well as the highest ethylene production since 2017 despite pitstop activity in 2021. We conclude 2021 with 10.4 million metric tonne of production volume at 93% plant utilisation above world-class industry standard of 90%, while undertaking 4 turnaround activity and 1 pit-stop on 5 of our production sites.

For Olefins and Derivative, moving on the segmental review, with improved feedstock supply in quarter 4 supported by smooth operation of our downstream plants such as PC Derivative and PC LDPE, we were able to record the highest production volume of 1 million tonne with 101% utilisation rate in quarter 4.

On the full year basis, the Olefin and Derivatives segment plant utilisation rate was at 100%, with total production volume of 3.9 million tonnes. This great achievement was contributed with more than 1 million tonne ethylene production, which is the highest production volume since 2017, attributed by improved ethane feedstock supply.

So next, we go to the fertilisers and methanol. For the fertilisers and methanol segment, we achieved 83% plant utilisation rate in fourth quarter of 2021. With reliable operation at PC Fertiliser Kedah and PC Fertiliser Sabah we were able to realize higher urea volume in quarter 4 as compared to the previous quarter despite undertaking turnaround activities at our facilities plant in Bintulu.

Methanol recorded lower quarterly volume as a result of proactive maintenance activities during the quarter to manage the plant threats. On the full year basis, the fertilisers and methanol segment recorded a production volume of 6.5 million tonnes, with plant utilisation rate at 89%, mainly due to turnaround activities undertaken during the year at PC Methanol Plant 1, PC Fertiliser Kedah and most recently, Asean Bintulu Fertiliser.

Moving on the progress of our projects. With regard of PIC-Petchem, to date, PIC-Petchem has achieved excellent HSE performance with no lost time injury and fatality recorded. At this point, we continue our activities towards the integrated startup. Our current focus is to strengthen equipment reliability and readiness prior to start-up, risk implementation, asset integrity, confident enhancement, what we call AICE program in December 2021.

In summary, our manufacturing team has done well for the year. We have sustained high PU of 93% and several turnaround activities. Moving forward, we aim to continue our operational excellence initiative to ensure that we are able to achieve above 90% PU for 2022.

We have 4 turnaround planned for 2022 and 2 pitstop. We are currently carry out turnaround activity for the O&D segment, namely for PC Derivatives and PC Aromatics. In the second quarter of 2022, the turnaround activity will be within the F&M segment, which will affect 2 of our largest manufacturing units, PC Methanol Plant 2 and PC Fertiliser Sabah. As COVID-19 remain a threat, we will ensure that all our TA and maintenance activities strictly follow the COVID-19 SOPs, while observing other HSE requirements.

That is all I have for the operational highlights. I would like to hand over to Mr. Shakeel for the market performance and outlook. And over to you, Shakeel.

Shakeel Ahmad Khan:

Thank you, Kabir. Good evening, everyone. Shakeel here. Let's proceed with the market highlights. In quarter 4 2021, product prices were mostly higher compared to previous quarter amidst strong crude and naphtha markets, tight supply and prolonged logistics issues.

Demand was generally stable for F&M products, while O&D products were impacted by China's power rationing and slower year-end demand. Furthermore, markets were also cautioned by the emergence of the new COVID variant, Omicron.

The 3 months outlook, ethylene price is forecasted to be a firm on the back of stable supply despite regional cracker startup, while demand may be affected due to downstream production restriction during the winter Olympics in quarter 1 2022. Furthermore, good prices forecast to be on growth as market kicked off 2022 on a positive note despite the resurgence of new COVID-19 variants.

Moving on to polymers. Polymer prices are expected to be firm in Q1 as demand likely to improve post Lunar New Year when buyers start to restock after inventories -- restock their inventories. Supply tightness will remain in the short term due to slow import activities in Asia following persistent logistic issues.

Next, for MEG, ethylene glycol price is forecasted to be firm on the back of balanced supply, supported by strong feedstock prices. Downstream demand, especially in polyester operations typically peaked before the Lunar New Year despite concerns over the Omicron variant. As for paraxylene. Paraxylene price is forecasted to be firm supported by balanced supply amidst stable demand. New China mega plant start-up will mitigate potential supply disruption following planned turnaround in quarter 1 2022.

Now let's proceed to fertilisers and methanol segment, starting with urea. Urea price is forecasted to soften following price correction and volatile natural gas price. Supply is sufficient to cater term commitment despite limited China export volume as most SEA and Middle East plants are running at normal operating rate.

Soft demand globally as buyers are cautious and purchasing on need to basis in current downturn market. Furthermore, end of planting season in main markets such as India and Thailand will dampen demand until next application season.

Moving on to ammonia, ammonia price is forecasted to soften on improving supply as production resumes and normalizes from plant shutdowns. Lastly, on methanol. Methanol prices are forecasted to be stable with reduced supply from Iran and China due to winter feedstock diversion.

High crude and LNG prices amid the winter season will further support methanol prices at current level. Demand is largely stable due to gradual easing of movement control in the region despite uncertainties surrounding the new COVID-19 variants. That's the end of market outlook from me. Back to En. Yusri for his closing remarks.

Mohd Yusri Bin Mohamed Yusof:

Thanks, Shakeel. Coming to the end of the annual presentation, but before that, allow me to share some brief updates on our growth commitments and achievements. In December 2021, our silicone blending facility in Gebeng, Pahang has commenced commercial operations.

This state-of-the-art facility has a capacity of 8,000 tonnes per annum, and this facility will further strengthen our DVGs offering in 3 product portfolios, silicone gum blend, silicone antifoam and silicone emulsion. Target markets for these products are here in Asia Pacific and the MEA where demand is on the rise.

Earlier this year, in 2022, we also announced that we will be developing and constructing a melamine plant in Gurun, Kedah, adjacent to our existing fertiliser plant at PC Fertiliser Kedah.

This project is part of our extend value chain lever to optimise our existing production. This project will be executed and implemented by our subsidiary, PC Fertiliser Kedah, with the feedstock being existing urea. This plant is expected to be ready in 2024 to serve the domestic market and the Southeast Asian region in segments like laminates, coatings, molding compounds and dinnerware to name a few. So we will have more updates for you as the project progress.

Another key in our growth strategy is Pengerang Integrated Complex. The refinery and cracker is now scheduled to start up in the second quarter of 2022. And our petrochemical units will follow accordingly. In terms of financial contribution, we do not expect Pengerang Petrochemical to have material contribution to our 2022 earnings.

Ladies and gentlemen, the last 2 years, we have experienced uncertainties and lockdowns during -- due to the pandemic. With the rollout of vaccines, economic recovery gained speed and momentum alongside rapid vaccination rates. Despite the positive movement, the sustainability of recovery remains uncertain with mutating variance of COVID-19 causing resurgence of infections, spiking concerns and disrupting recovery.

In running our business, we will ensure that we will continue to maximize value through our operations and commercial excellence initiatives by improving production and sales volume as well as ensuring that we maximize our value in our sales.

All of this will be underpinned, obviously, by our strict HSE culture to continuously ensure the health and safety of our employees and contractors and to ensure uninterrupted operations. With the recent spike in COVID-19 infection, we are maintaining our working arrangement for split teams, taking a maximum of only 50% of our staff capacity on site to maintains strict SOP measures.

We will also require that staff coming to site will be fully vaccinated. On the growth front, our team is continuously evaluating business opportunities to expand -- to expand our specialty chemicals portfolio, including green or eco-friendly chemicals in line with our sustainability commitment.

We are looking at a pipeline of projects in various stages of studies and approval. And we look forward to share them with you once we reach FID. And that brings me to the end of our presentation, and let's go to the Q&A. Thank you.

Zaida Alia Shaari:

Thank you, En. Yusri. Revathi, We can now proceed to the Q&A.

Operator:

The first question comes from the line of Alex Goh from AmBank.

Khair Peng Goh:

I have a number of questions. The first is regarding what it would be your CapEx this year. Just looking at your cash flow last year, your spending on plant and equipment, it's only about MYR 1.5 billion. But your earlier guidance was about over MYR 2 billion. Just wanted to find out what is the difference? And also, was there -- this MYR 2 billion CapEx includes the effective stake from PIC?

My second question is regarding your turnaround schedules activity for this year, how would it affect your plant utilisation for 2022 compared to last year? And also a bit more guidance in 2023 would be much appreciated.

My second question is regarding your dividend payout. It's over 60% with your last -- with the MYR 0.23 declaration for fourth quarter. I'm just wondering, is this the kind of level we should be looking at? Or should we be looking at nearer towards the 50% range?

Mohd Yusri Bin Mohamed Yusof:

Maybe I'll leave to some of the...

Mohd Azli Bin Ishak:

Yes. I'll take the questions. Alex, thank you for your questions. I spotted 3 or 4 questions. In terms of CapEx, yes, if you look at the Bursa announcement, you can see the cash flow from the investing activity is MYR 1.5 billion. Typically, our guidance, Alex, is our CapEx between MYR 2 billion to MYR 2.5 billion.

That has always been our CapEx estimates, but over time, sometimes there's some adjustment to the CapEx program. And then because of COVID, especially, there may be certain projects we deferred to another period. So that basically explains some of the variance compared to our first guidance. So I hope that explains the CapEx.

And moving forward, Alex, our guidance continues to be MYR 2 billion to MYR 2.5 billion in terms of CapEx spend for 2022, okay? So now to address your second question with regard to your -- to the turnaround schedule. In fact, as we speak, there's 2 plants undergoing the turnaround, this PC OGD in Kerteh and then soon, it will be PC Aromatics also in Kerteh.

So -- and then in May, there will be 2 -- like Kabir mentioned, there will be 2 additional plants, especially in the fertiliser methanol segment undergoing statutory turnaround, which are PC Fertiliser Sabah in Sipitang and as well as plan 2 for methanol in Labuan.

So that is basically 4 certainly plant turnaround that we have planned for 2022. And with all these statutory plant turnaround, as usual, we will expect our planned utilisation rate to remain above 90% as what we desire, which is above the industry benchmark.

Your maybe final question with regard to the payout ratio. I think as usual, my normal script with this regard, Alex, any time we declare a dividend, we will always be guided by our dividend policy of 50% PATANCI. Of course, from time to time, we look at our performance, as you noticed, when we declared our dividend as well as when we declared our special dividend in November last year.

So that is basically the guidance principle for PCG. We are not changing our dividend policy. So that will remain intact. I hope that in a way answers your question, Alex?

Khair Peng Goh:

Regarding your CapEx, could you give a bit of clarity on how much the melamine plant is going to cost? Also how much was spent for the silicone blending facility?

Mohd Azli Bin Ishak:

Okay. I may not be able to divulge the exact CapEx amount, Alex, to be fair. But in terms of the melamine plant, you can probably get it on the media release from others such as Dialogue and Technip. They have already disclosed in some of the publications, the EPC amount. So it will be around that range, around MYR 150 to MYR 200 million.

For the silicone blending, so that's basically slightly lower in terms of CapEx. So it's basically around MYR 50 million because if the capacity is 8,000 tonnes per annum, but the typical scale of specialty chemical plants. So they're not big, they are basically produced to market and respond to the market dynamics. So there are more of margin driven as opposed to volume driven.

Khair Peng Goh:

Okay. Coming back to your CapEx, the fact that you spent less last year, MYR 1.5 billion last year compared to your normal to MYR 2.5 billion range, does that mean this year is all going to be backloaded into this year? I mean, suddenly, you may see the CapEx shoot-up to, what, MYR 2.5 billion or maybe even MYR 3 billion. Would that -- is that going to happen?

Mohd Azli Bin Ishak:

No, it should be on the contrary. As the Pengerang Complex start-up, so you will see less of CapEx spend in 2022. So it'd be more of new projects, for example, the new projects that we are embarking in Kerteh for the specialty polyols, our JV with PCC of Europe. And also the project we have in Pengerang for the Nitrile Butadiene Latex our JV with LG Chem. So the good thing is all these 2 projects they receive financing. So not everything is financed by equity injection.

Khair Peng Goh:

I see. Okay. And that MYR 2 billion to MYR 2.5 billion, does that include an effective stake of CapEx from Pengerang?

Mohd Azli Bin Ishak:

Very minimum.

Khair Peng Goh:

Yes. I see. Okay. Great. And regarding Pengerang, you indicated that integrated start-up is still commencing. And that's been delayed, I think, almost 2 years, right? I remember the original time line was back in 2020 and then there was a fire explosion. I'm just wondering, what is the actual outlook -- I mean oil price rate is definitely, do you expect when this integrated start-up commences you will be able to breakeven or at least make a profit this year itself?

Mohd Yusri Bin Mohamed Yusof:

As any start-up of a new project, Alex, I think we will go through the gradual increase of capacity and stabilization period. So we expect that we have to go through that. And the - our first measure is we would be looking at a positive contribution margin from those operations.

Khair Peng Goh:

I see. What would be a factor plant utilisation for this year, the first year?

Mohd Yusri Bin Mohamed Yusof:

If the first year -- I think we will be very gradual. So we are targeting that as we stabilize the ramp-up rate for the subsequent years would be towards the 80%, 90%. But this year, depending on the stabilization, we -- it will be something that may be of a lower rate. So maybe we'll see.

Khair Peng Goh:

I see. But I mean you mentioned positive margin, your expectation. Are you looking at the EBITDA level or on a pretax level?

Mohd Yusri Bin Mohamed Yusof:

We're looking at contribution margin, Alex.

Mohd Azli Bin Ishak:

Yes. So yes, just to add to Yusri, I think he mentioned earlier in his presentation, that for 2022, we don't expect the Pengerang will contribute material contribution to our 2022 earnings. And then we only depreciate the plan once it's achieved commercial operations, so that will relieve some of our expenses.

Khair Peng Goh:

Yes. Okay. Great. And what would be your level of maintenance cost to? Would it be similar to last year is it around [400] level?

Mohd Azli Bin Ishak:

Maintenance or depreciation?

Khair Peng Goh:

Maintenance costs.

Mohd Yusri Bin Mohamed Yusof:

Similar.

Mohd Azli Bin Ishak:

Similar to last year.

Mohd Yusri Bin Mohamed Yusof:

Similar.

Operator:

The next question comes from the line of Ahmad Maghfur from Nomura.

Ahmad Maghfur Usman:

Can you hear me?

Mohd Azli Bin Ishak:

Yes.

Mohd Yusri Bin Mohamed Yusof:

Yes.

Ahmad Maghfur Usman:

Okay. I have a quick question with regards to your melamine plant, right? So the capacity is about 60,000 metric tons per annum, feedstock will be urea. How much of a feedstock of urea would it required to produce that 60,000?

Mohd Yusri Bin Mohamed Yusof:

It's about -- yes, it's 180,000, Ahmad.

Ahmad Maghfur Usman:

Okay. All right. Okay. So does that mean your current existing urea production run rate will still be maintained. So -- but then you just supply internally basically?

Mohd Yusri Bin Mohamed Yusof:

Yes, yes. It's a lever of value addition to the urea.

Ahmad Maghfur Usman:

Okay. Okay. Because we -- it's very hard to get data points for melamine, right? So what would be the lever in terms of leverage from the urea input? We're talking about here in terms of price.

Mohd Azli Bin Ishak:

I think -- Ahmad, thank you for your question, but that one is a bit too specific. But when we look at our economics when we FID this project, there's always a positive margin producing melamine out of urea. And what Yusri had mentioned, we are not sacrificing in terms of production run rate for urea. So there's the point that we can optimize more value for selling more urea as opposed to melamine and we will do so.

And typically and historically, melamine has been generating sufficient margins over urea, hence, why we FID this project.

Ahmad Maghfur Usman:

Okay. And then it was mentioned somewhere in the press release that it will be the first melamine plant in ASEAN, right?

Mohd Yusri Bin Mohamed Yusof:

Southeast Asia, yes. We are a big importer of melamine and there's no production capacity in this region.

Ahmad Maghfur Usman:

Okay. So that basically it can be 100% utilized from day 1 itself. I mean from -- not day 1 from year 1 itself?

Mohd Yusri Bin Mohamed Yusof:

We believe the economics of the project, and it is a good project. I think that's why we sanctioned the project, leveraging on our existing urea capacity.

Mohd Azli Bin Ishak:

In terms of the melamine, before we even FID, we do a customer validation and majority of the product will be oftaken locally because like what Yusri mentioned, previously and currently, most of these manufacturers on feedstock for melamine have been importing.

And so there has been a lot of pain points that have been encountered, especially due to lower quality from imported products. So this is basically solving the pain points while also preserving our margin.

Ahmad Maghfur Usman:

I see. Okay. All right. So the oftakers are pretty much predominantly local, so that's encouraging. How about with regards to silicone blending. So that would be -- I understand that it will be mostly export, right? I remember -- I mean, half of it is exported at least?

Mohd Azli Bin Ishak:

Correct, Ahmad. Most of the demand is what Yusri mentioned, is Southeast Asia as well as Northeast Asia because this goes into a lot of product application including food and beverages and personal care.

Ahmad Maghfur Usman:

Okay. All right. Okay. Last question on my side with regards to Pengerang. So just to get my understanding right. So the reason for the delay is basically because of the COVID and possible new variants being disruptive to your operations. Is that how I should put it?

Mohd Yusri Bin Mohamed Yusof:

I think you know the incidents that happened in the refinery. So we have to rebuild some portions of the refinery. So in the cost of the rebuild, obviously, COVID-19 hit, and that created some, what we call, some constraints. On how we manage the rebuild. So because of heavy construction and that's some constraint for that construction.

Ahmad Maghfur Usman:

Okay. But yes, I'm just trying to understand this because I mean, the last briefing said is December when everything goes pretty much on track. Then why the delay, again, you see? I'm just trying to understand whether there's still a technical issue that needs to be solved or something?

Or is it the contract agreement with Aramco that has yet to be finalized, wherever the commercial agreement is? So I'm just trying to understand...

Mohd Yusri Bin Mohamed Yusof:

Yes. Okay. So there's no -- what I call is there's no contractual issues. In fact, both shareholders, both our sides, Aramco and PETRONAS are focusing to have a successful and safe startup. But the important point here is to have a safe and successful start-up.

As we rebuild the refinery, and as we're putting it back into operation, there are what we call these certain things that we still need to sort out to ensure that we achieve our objective of safe and successful start-up.

So yes, there are some activities that we need to do to ensure that the rebuild is complete.

Ahmad Maghfur Usman:

Okay. And second quarter would be, what, tail end of the quarter or early second quarter?

Mohd Yusri Bin Mohamed Yusof:

I would think so. I will see towards the tail end of second quarter.

Ahmad Maghfur Usman:

Okay. So June. Okay. All right. Okay, then yes. But at the moment, there is no cost incurred currently from the Pengerang site. Basically, you only start incurring costs when operationally commence day 1, right? In terms of depreciation and what not?

Mohd Yusri Bin Mohamed Yusof:

Yes, correct.

Operator:

The next question comes from the line of Raymond Yap from CGS-CIMB.

Raymond Yap:

My question is on the Olefins and Derivatives division. In the fourth quarter, the profit after tax in the O&D was MYR [649] million as disclosed on Page 12 of the Bursa release. And in the immediately preceding quarter, which is ended 30th September, the profit after tax for O&D was MYR 955 million.

So there was a steep drop in the profit after tax during the quarter between the third quarter and the fourth quarter. Whereas, if you look at the revenues, it actually increased. So revenues increased in the fourth quarter compared to the third quarter for O&D, but profits went into the reverse direction. May I understand a bit more why this is the case?

Mohd Azli Bin Ishak:

Okay. Thank you, Raymond. As you know -- noticed that the revenue increase is in line with the higher product prices. But in terms of the EBITDA, so it's mainly due to higher feedstock prices, especially for the propane and butane. So that's basically the main reason for that.

As you know, for the ethane, our cost structure is relatively flat. But I think this is more of a contribution from higher feedstock from -- on propane and butane.

Raymond Yap:

And naphtha as well, right?

Mohd Azli Bin Ishak:

Yes. For the Aromatics product, yes.

Raymond Yap:

Right, right. I'm surprised it would make such a big impact on your earnings for one quarter.

Mohd Azli Bin Ishak:

Yes. Because the composite spread of paraxylene and benzene of naphtha is quite softening. So that is basically the impact of the spread over the aromatics earnings.

Mohd Yusri Bin Mohamed Yusof:

And I think if you track crude prices, you see quarter 4 crude prices and quarter 3 crude prices you see 2 tranches, Raymond, and it tracks that.

Raymond Yap:

So the paraxylene spreads have started to widen again in the first quarter of this year. So we should expect the O&D profits to improve again, right, in the first quarter?

Mohd Azli Bin Ishak:

Yes. Typically, it's a lagging effect, Raymond before can be realized. So there's always the catch up in terms of pricing and feedstock cost. So you're right. We hope it was first quarter this year. That particular spread has widened, and we can see a full impact of that in quarter 1.

Raymond Yap:

Okay. And my last question is on urea. The market price for urea seems to have come down very sharply in the past couple of weeks. China is still not exporting urea yet. So the fact that urea prices can come down very sharply, is this slightly -- is this mostly through a seasonal factor, the fact that the planting season is over, when is the planting season expected to come back again?

Sorry, I'm not very good in agriculture. Maybe you could help me on this one.

Mohd Azli Bin Ishak:

Yes. I think, Raymond, maybe I can first take a step on this maybe Yusri and Shakeel could help me. As you know, the recent spike in urea price that reached \$1,000 per tonne, that's mainly due to the price shock and arising from higher gas prices in Europe that forced a lot of producers, especially YARA in Europe to curtail their production.

And hence, giving a lot of flexibility, arbitrage for Middle Eastern producers diverting their cargoes to the Europe. And that basically resulting a lot of vacuum in South Asia, hence the benefits to PCG. So right now, as the gas prices also start stabilizing and then the producers globally are ramping up, you see the stabilization of urea prices.

So I think as we speak, the urea prices still hovers around \$550 and \$600 per tonne, which is still above the historical rate that we've seen previously. So Yusri and Shakeel?

Mohd Yusri Bin Mohamed Yusof:

Yes. It's more that supply and demand, but I think the supply has always been there. The demand was restricted because of the curtailment because of the high feedstock prices in Europe. So -- and the prices that you saw previously, I think those are very unusual abnormally high prices.

And I think though it dropped now is still, as Azli said, 20%, 30% higher than, what, the typical average urea prices that we use -- that we saw previously.

Operator:

The next question comes from the line of Mayank Maheshwari from Morgan Stanley.

Mayank Maheshwari:

A couple of questions. One, if I can just start with digging a bit more deeper into Pengerang. Can you just highlight in terms of how much has been the interest cost capitalized for Pengerang in 2021?

Mohd Azli Bin Ishak:

You're basically referring to interest in construction capitalized in 2021?

Mayank Maheshwari:

That's correct.

Mohd Azli Bin Ishak:

Okay. Maybe you can proceed with other question. First Mayank before I search it on for the other answer.

Mayank Maheshwari:

Sure, sure.

Mohd Azli Bin Ishak:

I don't have it right now with me.

Mayank Maheshwari:

Okay. You can just come back to me later. That's perfectly fine. The second question on Pengerang was more related to -- in terms of -- you talked about the technical issues on the refining side, but can you just highlight from the technical issues on the cracker side.

Are you all okay on that front? Or even there you need to still test? And how will this ramp up? Will you stand to have issues if you kind of go slowly and steadily as you test the coupon on the cracker side?

Mohd Yusri Bin Mohamed Yusof:

The cracker, as far as we understand, we have been doing a lot of tests and reassurance, Mayank, on all the (inaudible), all the plants there in addition to the refinery. We believe that the cracker -- which have been started up, has to reach a certain level of utilisation before the issues with the refinery.

We believe that, though it has to be fully ramp up and stabilize, we believe that, in terms of integrity, in terms of reliability, we are in a better shape than what we are in the refinery.

Mayank Maheshwari:

Got it. And at the PETRONAS Chemicals side on the downstream polyethylene and polypropylene side of things, has that been also been in the same story like the cracker that you have tested and the reality is reasonably okay?

Mohd Yusri Bin Mohamed Yusof:

Yes. Yes. There are still a couple of plants that we haven't started up, which is still under the care and custody of the contractor. And those have to go through the same process. But the plant that have been started up, they have done the performance test run, they are under our care and custody, they are under preservation. We're waiting for feedstock.

Mayank Maheshwari:

Got it. So is it fair to say once you start assuming everything goes fine by end of second quarter, and you kind of get your ethylene feedstock in, from your perspective, you should be able to ramp up it at least to 50% quite easily by the end of the year. Is that a fair comment?

Mohd Yusri Bin Mohamed Yusof:

We believe so.

Mayank Maheshwari:

Got it. Okay. And the second question related to non-Pengerang side was on the fertiliser front. If you look at, I think your operating cost per tonne has kind of moved up quite a bit on the third, fourth quarter level for fertilisers. So what is really causing that? Is it just some turnaround cost? Or is it something more than that?

Mohd Azli Bin Ishak:

Basically, it's more turnaround costs, Mayank, especially cost for early preparation for the turnaround.

Mayank Maheshwari:

And you have not capitalized those costs that is being expensed right now?

Mohd Azli Bin Ishak:

Yes.

Mayank Maheshwari:

Got it. Okay.

Mohd Azli Bin Ishak:

And some of it also has to do with plant maintenance.

Mayank Maheshwari:

Okay. because normally, the plant maintenance has to happen on -- it has been going on at pretty much almost every second quarter. So I thought that is there some special costs because of which this number is going a bit high?

Mohd Azli Bin Ishak:

No, there's no unusual item or unusual expenses occurred during quarter 3 and quarter 4.

Mayank Maheshwari:

Got it. And I think the last, sorry.

Mohd Azli Bin Ishak:

Sorry for me. I finally got the answer for your first question. So the IDC interest during construction for the Pengerang petrochemical site is around \$250 million. So our portion would be 50% of it.

Mayank Maheshwari:

Okay. And that is for 2021, correct?

Mohd Azli Bin Ishak:

Yes. That's -- no, that has been accrued thus far.

Mayank Maheshwari:

Okay. So overall till now?

Mohd Azli Bin Ishak:

Yes, yes.

Mayank Maheshwari:

Okay. And I think the other question, sir, was more in terms of any inventory gains, et cetera, that you have booked in the current quarter?

Mohd Azli Bin Ishak:

No. Actually, if you look at our Bursa, we do actually have a provision for write off -- provisions for inventory write-down, but it's very negligible.

Mayank Maheshwari:

Okay. Because you have seen a big increase in pricing across the board on most products. I was just thinking is there any booking at all? Or you have kept inventory levels reasonably low, I suppose, then?

Mohd Yusri Bin Mohamed Yusof:

Yes.

Mohd Azli Bin Ishak:

Yes.

Mayank Maheshwari:

Okay. And I think the final question from me was in terms of your associate BASF PETRONAS as well as on the other plants, smaller plants around the -- on the JV side that you have, can you just give us an update in terms of how's been the operations and earnings in the fourth quarter for those plants?

Mohd Azli Bin Ishak:

Okay. I think if you compare quarter-to-quarter, Mayank, quarter 4, the share of profit from the JVs are slightly lower than quarter 3. I think you can see this from the Bursa announcement itself. Mainly due to some technical challenges at the JV with BASF, they have some slight production matters, which has not been resolved mainly on the acrylic acid production.

But in terms of overall, if you look at our PAT, 10% of our PAT on a year basis contributed by the share profit from JV. And moving forward, we believe that this contribution will continue to be significant for PCG.

Mayank Maheshwari:

Okay. Okay. Sorry, sir, just last one, sorry, I've just realized the tax rate has been pretty low as well. Do you think it sustains?

Mohd Azli Bin Ishak:

Well, that is basically the tax jurisdiction that we have subjected to, as you know, we are subjected to the income tax act as well as the Labuan Tax Act. So as you note from the Bursa announcement, our effective tax rate is at 5% for 2021 as well as for quarter 4 2021. So that effective tax rate will eventually be subjected to the movement of prices as well as a spread, as you may have noticed year-on-year.

Mayank Maheshwari:

Okay. So I think the numbers have been lower because I suppose the contribution from fertilisers is higher, I suppose, and that kind of swings back, that number could be more closer to 8%, 9%, which you used to do before?

Mohd Azli Bin Ishak:

Yes. Yes.

Mayank Maheshwari:

So even in 2022, no real changes in this tax rate as such, even in 2022, correct, you will be able to kind of do the similar up and down depending on which contribution comes in from where, correct?

Mohd Yusri Bin Mohamed Yusof:

Yes.

Mohd Azli Bin Ishak:

Correct. If you look at 2022, if you know that imposition of prosperity tax.

Mohd Yusri Bin Mohamed Yusof:

Cukai Makmur...

Mohd Azli Bin Ishak:

Cukai Makmur -- so I think while we cannot provide you some guidance for 2022 tax. But if you were to see relate the impact of prosperity tax based on 2021 results, I would say that it will not have a material impact to our tax expenses.

If you look at our tax expenses for the full year, which is about MYR 391 million, we only anticipate slight increase arising from the prosperity tax and the slight increase in our effective tax rate. So when we calculate our simulation. The effective tax rate probably increased from 5% to 5.2%, so not as much.

Operator:

The next question comes from the line of Anshool Singhi from JPMorgan.

Anshool Singhi:

Can you hear me?

Mohd Yusri Bin Mohamed Yusof:

Yes.

Anshool Singhi:

Sir, I have a couple of clarifications. You mentioned there was 2 maintenance turnaround in this quarter in 1Q '22 and then 2 more in 2Q '22. Could you just mention how many days they are for?

Mohd Azli Bin Ishak:

Kabir, correct me if I'm wrong. Typically, our turnaround will take between 40 to 50 days. Is That correct, Kabir?

Mohammed Kabir Noordin:

Yes, yes. I think that is normally -- that is our turnaround this.

Anshool Singhi:

So PC Aromatics at Kerteh 40 to 50 days, each turnaround will take 40 to 50 days?

Mohammed Kabir Noordin:

Yes. Yes, yes.

Anshool Singhi:

Okay. My last question is about the contribution from the silicone blending facility. So you mentioned that started in December 2021, any guidance for its contribution in -- for this year?

Mohd Azli Bin Ishak:

Okay. The contribution will be very minimal, Anshool. As you know, the contribution of BRB, the specialty chemical arm of PCG is less than 5% of our EBITDA. But this is a starting point platform for us as we continue to grow into specialty chemical.

And the silicone blending plant is the first testament. And in fact, this is the first plant in South Asia to have food-grade silicone. And once we see the reception from the market, which has so far has been very encouraging, we have the opportunity to increase in terms of volume and capacity. And we hope that this contribution for specialty chemical will improve towards the 20% of our EBITDA from specialty chemicals.

Anshool Singhi:

So currently, it's around 5%, and you expect it to increase 20%?

Mohd Azli Bin Ishak:

Yes. I mean as what we mentioned in other analyst briefing, that's our ambition. We have a meaningful and sizeable desired portfolio from specialty chemical.

Anshool Singhi:

Yes. My last question is regarding the PIC, so both the refinery side and the cracker side are expected to start in end of 2Q '22? Or is there a time difference between the start-up for the respective equipment?

Mohd Yusri Bin Mohamed Yusof:

I mean, PIC is an integrated complex. So all the start-ups are staggered in the sense that you would need to get at least a stable slow rate, first from refinery to get a sustainable naphtha to the cracker, and now you stabilize the cracker, they will start the downstream, either the polymer or the glycol once we have a certain rate of olefins coming out from the cracker.

So we'll start first with the refinery. We expect within 2 weeks to 4 weeks of each other will start the subsequent plants, put it online. I think that's the plan.

Anshool Singhi:

So like, correct me if I'm wrong, so the refinery is expected to start at the end of June and then 4 weeks to 6 weeks after that will be the transition to...

Mohd Yusri Bin Mohamed Yusof:

Yes, we expect, for example, the polymer plants maybe start in July.

Operator:

We have a follow-up question again from the line of Ahmad Maghfur from Nomura.

Ahmad Maghfur Usman:

I have a follow-up question. On your BASF side, right, what can we expect in terms of quantum of earnings in the subsequent quarter or year? Could it be at similar levels as well? That's one. And then #2, probably, can you give some remarks with regards to the current Ukraine and Russia development.

And how could that possibly impact fertiliser prices, whether it's urea and ammonia because I understand on possible sanctions imposed and whatnot, that's question #2.

And question #3, would you say that given the current oil price spike and which would impact your naphtha feedstock, how do you think Q1 performance would be so far on a Q-on-Q basis? That's all those 3 questions.

Mohd Azli Bin Ishak:

Your question, Ahmad, is forward looking, but I'll try to answer the BASF part. Yes, I think in terms of 2021, the contribution from -- the performance financially for BASF has been remarkable, been due to the higher spread, especially on the acrylic as well as Oxo.

But they do have other complex, Aroma complex, HR-PIB and another. But the main contributor is Oxo and acrylic acid. And we hope...

Ahmad Maghfur Usman:

And how much is that contribute to BASF in terms of the total top line or bottom line contribution, those 2?

Mohd Azli Bin Ishak:

For the 2 products?

Ahmad Maghfur Usman:

Yes.

Mohd Azli Bin Ishak:

For the two products is basically more than 50% of their EBITDA.

Ahmad Maghfur Usman:

Okay.

Mohd Azli Bin Ishak:

Yes. So those are the key driver for BASF earnings. And for the Ukraine and then the third question, I think.

Mohd Yusri Bin Mohamed Yusof:

It is very difficult to -- first and foremost, I think you saw crude oil prices spikes up today. There's a breached \$100 per barrel. Brent, both for physical and futures, and that obviously will impact petrochemical prices moving forward.

And especially if you see naphtha-related products, namely for us, Aromatics would be, I think, under pressure. You also have at other naphtha-linked products, though we are not 100% naphtha producer -- I mean, the users; But market, I mean, the prices would be impacted. So we wouldn't be able to give you an outlook of quarter 1. But we feel that, as we say that as crude oil spike, we'll start seeing some pressure on the petchem prices.

Urea, I think it's a bit of -- it's very difficult to say -- because it is aligned more on the gas rather than the crude, if you saw gas prices spike as what we saw 2, 3 quarters back in Europe, and then you start seeing urea producers in the Europe side stepping down, then we might see the same impact. But so far, we have not seen any of those yet. The only reaction from Ukraine for now is on crude.

Ahmad Maghfur Usman:

Understood.

Mohd Azli Bin Ishak:

Maybe if you -- maybe not forward-looking, if you were to trace back our performance, against the movement of crude oil. So we tend to benefit more from crude oil price increase as opposed to our...

Ahmad Maghfur Usman:

Yes, because you're predominantly ethane-based, okay, that's fine.

Operator:

I would like to hand the conference back to Ms. Zaida Alia Shaari for any closing remarks. Thank you.

Zaida Alia Shaari:

Thank you, Revathi. We have now reached the end of today's briefing. Once again, thank you, ladies and gentlemen, for your kind participation. Please reach out to us should you have follow-up questions. We look forward to receiving the report once published. Good evening, and have a great week ahead. Assalamualaikum. Thank you.

Mohd Azli Bin Ishak:

Thank you, all, stay safe.

Mohd Yusri Bin Mohamed Yusof:

Thank you

Operator:

Thank you. That concludes our conference for today. Thank you for your participation. You may all disconnect your lines

END
