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Operator: Ladies and gentlemen, thank you for standing by, and welcome to the PETRONAS Chemicals Group Analyst Briefing for Fourth Quarter 2018. I must advise you that this conference is being recorded today.

I'll now hand the conference over to your first speaker, Ms. Alia. Thank you. Please go ahead.

Ms Zaida Alia Shaari, Head IR:

Thank you, Joanna. Good afternoon, ladies and gentlemen. Alia here from the Investor Relations team. Thank you for joining us today for our quarterly briefing on PETRONAS Chemicals Group fourth quarter 2018 financial results.

Firstly, I'd like to apologize to all our participants. We know we moved the time earlier by half an hour, and we appreciate your responding to the changes.

Secondly, I'd like to apologize for some technical issues we are facing. You probably face some problems downloading our presentation materials today. I assure you that it has been uploaded, and you should be able to access them about now.

We shall start the briefing. We shall start with the briefing by our senior management followed by Q&A, as mentioned earlier. I'm pleased to have with us today our CEO, Datuk Sazali; our CFO, Madam Rashidah; our Head of Strategy, Planning and Ventures, Mr. Akbar; Head of Manufacturing, Mr. Mahadzir; and our Head of Commercial, Mr. Shamsairi.

I shall now hand you over to Datuk Sazali.

Datuk Sazali Bin Hamzah, CEO:

Okay, thank you, Alia. Good evening, everyone. Thank you for joining our analyst briefing today.

We started the year strong. Global economy started on solid footing with growth and recoveries in most major economy in the first three quarters of the year. However, things took a turn in the final quarter of the year on weaker Chinese growth and rising political concerns, such as Brexit, Italian politics that impacted the Eurozone as well as the ongoing trade conflict between U.S. and China. By the end of the year, global GDP hovering around 3.2%, and global PMI has been maintaining around about 53%.

Crude oil featured the same trend, climbing during the first three quarters on outages and geopolitical tensions, only to decline in the fourth quarter on supply surplus. Nonetheless, the average for the year was still higher at USD72 per barrel compared to USD55 per barrel last year.

Feedstock prices moved in tandem with crude oil and naphtha prices, supported by steady demand from the petrochemical sector. Chemicals products prices followed suite, with more products registering higher prices in comparison to the last year.

Now move on to my second slide presentation. Against this backdrop, I'm pleased to report that PCG has closed another record year in 2018. We completed a total of 6 turnaround during the year. This is one of the heaviest turnaround. As I mentioned earlier, 2017, '18 and '19 will be the heaviest turnaround year. And all was done in 2019 without any major incidents. Our final plant utilization, PU rate of the year was 92%, in line with our target above 90% average.

With this higher PU, we also recorded our highest production volume at 10.4 million tonnes, again 10.1 million last year. This is another record of production that we have achieved thus far.

Subsequently, sales volume rose 4% year-on-year, largely contributed by the urea production at PC Fertiliser Sabah because this year is a full year commercial operation of the PC Fertiliser Sabah.

Our revenue rose 12% to about RM19.6 billion on higher sales volume and improved average product prices. We saw record EBITDA this year at close to RM7 billion on higher sales volume and improved product spread, though partially negated by the strengthening for the Malaysian ringgit against the dollar. Financially, also, this is the best year that we have ever recorded. EBITDA margin remains high at 36%. While profit after tax, PAT, increased 15% year-on-year with higher volume and lower tax expenses.

For further details, I would like now like to invite Puan Rashidah to briefly about the financial highlights.

Pn.Rashidah Binti Alias, CFO:

Thank you, Datuk Sazali. Ladies and gentlemen, a very good evening, and thank you for joining us.

We will start with the group performance on Slide no. 5 comparing quarter 4 2018 against the corresponding quarter of 2017. I would like to begin with making a few remarks on the macroeconomic development during the period.

In quarter 4 2018, global GDP growth decelerated to 3% from 3.5% due to slower growth in major economies, particularly China and the U.K. The rate of expansion in global manufacturing production also declined to 51.8 from 54 as the manufacturing sector registered a subdued performance as of end of 2018. However, the crude oil prices saw a marginal increase of 8% against the corresponding quarter, primarily following the U.S. sanctions on Iran, lending some support to petrochemical product prices.

On the operational front, we achieved better plant utilization of 94% in quarter 4 2018 as compared to 93% in the corresponding quarter with lower level of maintenance activities undertaken during the quarter. Subsequently, production volumes saw a slight increase to 2.7 million tonnes from the previous 2.6 million tonnes. Against this improved backdrop, group revenue increased by 7% to RM5.1 billion, driven by higher product prices, higher sales volume and stronger U.S. dollar.

EBITDA decreased 2% to RM1.7 billion, primarily due to higher operating expenditure for maintenance activities that was undertaken during the turnaround cycle. Profit after tax was higher by 24% at RM1.3 billion, with relatively lower tax expenses and higher share of profit from joint venture and associates.

Next, we move on to the group financial performance against the preceding quarter, that is third quarter of 2018. Against quarter 3 2018, global GDP declined marginally to 3% from 3.11% in quarter 3 due to economic slowdown, particularly in China and the U.K. This development added to the increasing uncertainties regarding the world economy in light of the trade conflict between the U.S. and China. In addition, global PMI expanded at slower rate in quarter 4 2018 against the preceding quarter on lower expansion index across all major economies, including U.S., China and the U.K.

Crude oil prices decreased by 11% over continued production increase by OPEC and Russia in an attempt to cover the decline in exports from Iran. This, combined with rising U.S. inventories, led to an oversupply situation.

Global economic slowdown and concerns over the health of Chinese economy also impacted demand. Subsequently, petrochemical product prices were weaker in quarter 4 '18 compared to the quarter 3 of '18.

Now against quarter 3 2018, the group plant utilization improved to 94% from 79% due to lower level of statutory turnaround activities. Consequently, production and sales volume was significantly higher for the quarter.

Despite lower product prices, revenue increased by 5% to RM5.1 billion on the back of higher sales volume, supported by favorable foreign exchange impact. EBITDA improved 4% to RM1.7 billion, in tandem with higher revenue. And profit after tax increased by 2% at RM1.3 billion.

Let's now look at the performance for the 12 months period of 2018. Now global economic risks increased over the course of 2018, driven by geopolitical developments and the trade conflict, in particular, between the U.S. and China. As a result, The IMF cut its global growth forecast at 3.7% as trade tensions have started to affect to economic activity worldwide. Global GDP growth decelerated in prior year as compared to the corresponding year, mainly due to slowdown in China's growth and continued uncertainties in the Eurozone, with Brexit bringing them down. The benchmark crude oil has risen from USD55 a barrel last year to USD77 a barrel this year. Naptha price has improved with the firmer crude oil prices. As a result, petrochemical prices improved, supported by steady demand for the product.

The group attained plant utilization of 92%, slightly higher than 91% in the corresponding year, leading to higher production and sales volume, largely also contributed by new year production from PC Fertiliser Sabah, which commenced commercial operation in May 2017. With the overall improved market scenario year-on-year, revenue increased 12% to RM19.6 billion, primarily driven by higher product prices and sales volume, partially negated by the strengthening of ringgit Malaysia against the U.S. dollar.

Correspondingly, EBITDA increased by 5% to RM7 billion on the back of higher sales volume and improved Brent. However, EBITDA margin was lower at 36% due to lower ethylene-based product in the sales mix due to the turnaround again as well as the higher maintenance cost. Profit after tax increased by 15% to RM5.1 billion with relatively lower tax expenses.

Now the next slide show a bit more granular breakdown of the group performance by segment. I will again leave these 2 slides for your consumption. I'll be more than happy to provide clarification if required at the end of this presentation.

If we can move on to an update on the balance sheet and cash flow on Slide 8 and 9. First, the balance sheet on Slide 8. For the 12-month period ended 31st December 2018, total assets was higher by RM4.1 billion at RM37.4 billion, and this is primarily represented in the form of higher cash balance due to the drawdown of term loan as well as a purchase consideration received for the divestment of 50% equity interest in turnaround petrochemical company that happened during the year. That's pretty much on the balance sheet.

Let's now turn to our cash flow on Slide 9. Similarly, cash generated by operating activities increased to RM6.7 billion, primarily contributed by higher profit generated and changes in working capital during the period. Net cash used in investing activities was lower by RM1.5 billion due to the net consideration received on the 50% divestment, as mentioned earlier. At the end of the 12-month period, our cash balance stood RM12.3 billion, putting us in a strong position to continue pursuing our current and future growth projects. That is all on the financial performance.

I hand it over to Mr. Mahadzir for the manufacturing highlights.

En.Mahadzir Rani, Head of Manufacturing:

Thank you, Rashidah. Good evening, everyone. Mahadzir here. Please refer to the Slide 10.

Let me share the operational highlight for the quarter. Our operation in quarter 4 was stable following good plant reliability and safe delivery of TA execution. Group plant utilization was at 94% for the quarter. And I'm proud to report that we achieved a commendable utilization rate of 92% for the year of 2018.

We have recorded utilization of above 90% for the group for 3 years in a row, underpinned by our operational excellence initiative, such as enhanced equipment reliability programs, sustained feedstock and utility supply reliability and effective turnaround strategies execution. Alhamdulillah, we have continued to improve over the years and, this year, delivered the highest-ever production volume at 10.4 million metric tonnes despite undergoing the heaviest period of our 3 year TA cycle.

Another remarkable achievement during the year is high plant utilization at PC Fertiliser Sabah during its first full year operation, which was above 95%. Indeed, this is the testament of our ability to run our assets well.

Next, I'm going to cover the fourth quarter 2018 segmental operation performance. Please refer to Slide 11. First, on the Olefins and Derivatives. 2018 plant utilization for the O&D segment was good and stood at 97%. There were no major maintenance activities in Olefins & Derivatives segment during the quarter. Ethylene production was high at 270,000 metric tonnes as both of our crackers were operating well during the period. The total ethylene produced in 2018 was comparable to 2017 despite the turnaround activities in quarter 3 2018 at PC Ethylene and PC Polyethylene.

We are seeing sustainable performance at other facilities as well. Our focus on effective plant reliability program has resulted into significant improved performance and, subsequently, sustainable plant operation.

Next, on the Fertiliser and Methanol. Please refer to Slide 12. For F&M, plant utilization performance was 89% following series of statutory turnarounds throughout the year. In quarter 4, we concluded the last turnaround for 2018 at ABF safely.

Another success story recorded this year is first full year of PC Fertiliser Sabah operation at above world-class PU performance. The plant achieved a remarkable plant utilization rate of above 95% for the year. With smooth operation of PC Fertiliser Sabah, urea production for group was comparable to 2017 despite 2 turnaround activities in 2018, which were at PC Fertiliser Sabah in quarter 3 and ABF in quarter 4.

As for methanol, the total production for 2018 was above 2 million metric tonnes. We have achieved this for 3 consecutive years despite statutory turnaround at PC Methanol Plant 2 in quarter 3 this year. Overall, with multiple improvement effort done on operational excellence, F&M production volume was higher since listing, contributing a significant amount to the group.

Next, I'm going to cover the project updates. Please refer to Slide 13. For PIC-PETCHEM, as at end 2018, PIC petrochemicals project are at 96.1% completion, on track to commence production in the second half of 2019. We delivered operational readiness program timely with the completion for PIC-PETCHEM, which includes the full deployment of RTTs, recruit to train personnel and experienced staff for commissioning and operation, and readiness of management system to support commercial operations. Plans for PIC's operation and commercial readiness have been completed as scheduled. Route-to-market readiness is at its final stage, and we are well prepared to offtake the product.

As the conclusion for operational highlights, we achieved highest production volume at 10.42 million metric tonnes and sustained best-in-class plant utilization performance, above 90% for 3 years in a row. And we also have successfully completed 6 turnarounds this year safely. In 2019 will be another heavy statutory turnaround year for PCG on a similar level as that of in 2018. Nevertheless, our commitment remains, which is to deliver operational performance at above 90% plant utilization.

That's all I have for the operational highlight. I would like to hand over to Shamsairi for the market performance.

En.Shamsairi Ibrahim, *Head of Commercial*:

Thank you, Mahadzir. Good evening. Shamsairi here.

In quarter 4, price were lower compared to preceding quarter as supply was long with high inventories largely due to reductions in downstream consumption and cracker resume operation from turnarounds, coupled with sharp decline of crude oil price.

Please refer to Page 14. Moving into first quarter of 2019. Olefin prices are expected to stable with ethylene price firming. Ethylene supply from ME and NEA is expected to be short given that several plants are down for maintenance.

Demand from downstream is taper down as manufacturers have stopped producing a week before Chinese New Year. However, usual business activities has gradually picked up after long break supported by firming crude oil price.

Moving to polymers. Average prices in quarter 4 were lower due to bearish market sentiment across all polymer products. More suppliers from Middle East and Asia were lowering their offer to destock inventories prior to year-end.

In quarter 1 2019, polymer prices are expected to improve post Chinese New Year. Supply is sufficient, although there are some disruption reported in market, particularly in Middle East and Southeast Asia. Furthermore, the anticipation geopolitical developments due to Venezuela tension, coupled with positive development that between U.S. and China will give positive impact to the market.

Next, to MEG. In quarter 4, MEG price decreased in tandem with the softening of ethylene price following high supply availability resulted from the reductions in downstream consumption, coupled with slowing demand with year-end. Comparing to preceding quarters, MEG price is projected to respond to positive crude oil price movement upwards.

As for paraxylene, the price in quarter 4 2018 remain stable compared to the preceding quarter, mainly due to the slowing down of the downstream demand. PX price is forecasted to soften in quarter 1 2019 on the back of excess supply due to production restart in January despite stable demand of PPA. Oversupply situation arises from supply increase after several restart of production in the region. The expected recovery of demand with the completion of maintenance at downstream PTA facilities is not enough to support the price stabilize. Nevertheless, as I mentioned just now, the geopolitical sentiment will further influence the market price.

Now let's proceed to Fertiliser and Methanol segment, starting with urea. Quarter 4 prices were higher than previous quarter due to tight supply in Middle East, Southeast Asia and China, supported by strong demand mainly from issuing of India tender with exclusion of Iranian cargoes to participate in the tender. Urea prices are expected to soften in quarter 1 as the rest of India tender only issue 4515,000 metric tonnes compared to anticipated volume of 800,000 tonnes. As the tender was not been issued fully, Middle East and Iranian urea producers are more concerned to keep flowing for export rather than defending the price.

In Vietnam and Thailand, the inventory level is high as the planting season has yet to start. Furthermore, new plant in Russia, Azerbaijan, Turkmenistan and India have started commercial production in December, which added 3.4 million tonnes to global urea price. Most buyers are expected to remain on the sideline take a wait-and-see approach as they expect price to drop further.

Moving to ammonia. Prices for ammonia in quarter 4 2018 were firm compared to preceding quarter following limited supply due to gas curtailment and maintenance work of a major producer in Trinidad. Whereas, demand remained stable for downstream products. Price of ammonia in quarter 1 2019 is anticipated to be soft as supply will be long. Supply is anticipated to be surplus in most market as plants are running well. Southeast Asia plant is operating at above its capacity. There are no fundamental changes in demand, and we remain stable for all ammonia derivative.

Lastly, on methanol, prices weakened in quarter 4 2018 on the back of ample supply with major players operating in the range of 90% while demand was softening. In quarter 1 2019, prices are forecasted to be soft. Supply outlook continues to be healthy, and all major plants are running at optimal operating rate. On the other hand, demand is mainly expected to improve for operational methanol derivative.

Last but not least, we see geopolitical development with Mr. Trump imposing new sanctions on Venezuela, and yesterday's positive outcome of negotiation with the U.S. and China I believe will further influence the market sentiment. Let's monitor closely the market movement.

With that I thank you and pass back to Datuk. Thank you.

Datuk Sazali Bin Hamzah, CEO:

Okay, thank you, Shamsairi. Ladies and gentlemen, taking the cue from Shamsairi's short-term outlook, 2019 is looking to be quite a challenging year. Various uncertainties and concerns remain in the market. Market is expected to be volatile this year, reacting swiftly to any news and happening that we have an impact on economic crude oil prices as well as investor sentiment. Geopolitical uncertainty is a key concern as there is a lot of nervousness surrounding the trade talks between the U.S. and China. Eurozone remains weighed down by Brexit worries. And U.S. sanctions against Iran and Venezuela are fueling the uncertainty. Furthermore, all eyes on key economies like Indonesia, Thailand, India, Argentina and Canada have an election season in. All these countries are going for election, and we also have the geopolitical uncertainties to that.

However, crude oil has come back on USD74 per barrel. And we started the year to the current mean of USD60 per barrel pushed up by OPEC curtailing production. There remain pockets of uncertainty with the political climate in Libya and Argentina as well as the possible increase in U.S. output. Nevertheless, global oil demand is expected to grow in 2019, lending support towards stabilization of crude oil prices.

On the petrochemical front, supply and demand fundamentals remain strong. However, the petrochemical business is expected to feel the impact of the volatile macroeconomic landscape. We foresee 2019 will bring us a mix of opportunities and challenges. And we are ready for them as we continue to concentrate on our key focus areas to maintain our competitive, positive and improved shareholder value. HSE excellence is the foundation of our operations as we drive productivity and efficiency throughout the Group. This will be our utmost priority as we are faced with another year of heavy turnaround activities at our facilities.

We will carry on with our operational and commercial excellence initiative as we strive to continuously create value for our shareholders. And in creating that value, I'm also thrilled at the progress that we have been seeing in Pengerang. As Mr. Mahadzir mentioned earlier, the overall

completion of the petrochemical plant stands at 96% at the end of January, and we are on track for commercial production in the second half of this year. This will make things more interesting.

That's all that I have today. Let's move on the question-and-answer session.

Operator: Our first question comes from the line of Ajay Mirchandani from JPMorgan.

Ajay Mirchandani, JP Morgan

Two quick questions for me. One was on the RAPID project. Just wanted to check with management because we're still awaiting further details specifically on the pricing of the specific feedstock from parent, specifically on the ethylene side and the other related petrochemical products. Any update on that? Or any time lines when PIC management can give us a better understanding of that? The second question I had was specifically, actually, on minority interest. There's actually been a meaningful reduction in 2018 versus 2017 on minority interest. Would love to just get a little bit more granularity in terms of better understanding what exactly is driving that because your underlying ownership in each of the assets are not too different. I understand, of course, ethylene would have had some impact, specifically because of the maintenance. But I'm still not seeing that recover in Q4 as well, so any kind of color on that would be helpful.

Datuk Sazali Bin Hamzah, CEO:

Okay, thank you, Ajay, for your first question. So question no.1, I'll try to answer the question. Basically, you're asking about the pricing feedstock price between the refinery and petrochemical. We have come into a conclusion. We have finalized it. And it is all in order. And I can't disclose what is the price, but it will be competitive. I think we are okay with that, and we are looking forward for the production. So in term of agreement with all the shareholders as well as the ownership between refinery and cracker, it's very clear now. And question number two, I would like to Puan Rashidah to answer. Yes.

Pn.Rashidah Binti Alias, CFO:

In terms of that significant reduction on the non-controlling interest (NCI), you can see that in the cash flow, we did acquire the remaining NCI in PC Olefins and PC Derivatives during the year. This is acquired from our JV partner, Sasol. It was also a disclosure in the Bursa report. Therefore, then now, we have increased our shareholding into 100% ownership in olefins and derivatives. So that is the main reason why that NCI has gone down as well.

Ajay Mirchandani, JP Morgan

And can I confirm this is both PC Olefins and PC Ethylene or only in PC Olefins?

Pn.Rashidah Binti Alias, CFO:

Actually, it's Olefins and LDPE. This is the olefin complex. No change to ethylene. It's the olefin complex.

Operator: Our next question comes from the line of Abhishek Nigam from Nomura.

Abhishek Nigam, Nomura

I have 3 questions. So one, if I look at your Olefins & Derivatives EBITDA for this quarter, on a Y-o-Y basis, it seems to be up, the EBITDA level went down in terms of profit level. So what is happening here? That is one. Second...

Pn.Rashidah Binti Alias, CFO:

Sorry, Abhishek. Abhishek, I'm so sorry. We can't quite hear you. Maybe you can move a bit to the speaker.

Abhishek Nigam, Nomura

Okay. Hello, yes, now is am I...

Datuk Sazali Bin Hamzah, CEO:

That's better.

Pn.Rashidah Binti Alias, CFO:

Can you repeat your question?

Abhishek Nigam, Nomura

Yes. So if I look at your Olefin & Derivative EBITDA on a Q-o-Q basis, so EBITDA is up 7%, but net profit from O&D is down 8%. So what is happening here? So that is one. Second, on 2019 utilization numbers, is there any guidance that you can provide? And three, any color on the plant utilization? And do you expect any start-up costs? So those are my 3 questions.

Pn.Rashidah Binti Alias, CFO:

Sorry, for the first question...

Datuk Sazali Bin Hamzah, CEO:

Very quickly, I answer no.2 and no.3.

Pn.Rashidah Binti Alias, CFO:

Oh, okay. Yes, okay.

Datuk Sazali Bin Hamzah, CEO:

So let me answer question no.2 and no.3 first. You asked on PU for 2019, right? So while we're saying that we're also targeting above 90% in our utilization, so we remain, because we believe that 90% is the most optimum, so anything that is above 90% is okay. So 2019, we put that as a target. Third question before I go back to question no.1, which on RAPID PU. So initial operation, it is quite difficult to estimate now where we target the first commercial operation will be in October. So roughly, if we can calculate, it's much less, probably 70% for last 3 months of this year. So that is a rough estimation. It's also subject to the progress time to time. I will say probably in quarter 2 or quarter 3, we have a better picture on how much the utilization is. Yes, we will report that later on in quarter 2 or quarter 3.

Abhishek Nigam, Nomura

Okay. Just on 2019 utilization, I know I understand it will be above 90%. Is it possible to say it will be probably be slightly higher than 2018?

Datuk Sazali Bin Hamzah, CEO:

In terms of volume, probably slightly higher because our turnaround is 1 day lower average turnaround. So relative, say, I will say it's about the same now, but the volume came be just slightly higher, yes. Okay, going back to question no.1, yes?

Pn.Rashidah Binti Alias, CFO:

Okay. Abhishek, you're referring to the full year performance, right, 2018...

Abhishek Nigam, Nomura

I'm referring to your fourth quarter EBITDA for olefins is MYR 1 billion. It's up 7% Q-o-Q.

Pn.Rashidah Binti Alias, CFO:

Yes. Right, Q-on-Q, yes. So EBITDA is higher.

Abhishek Nigam, Nomura

But fourth quarter net profit is 683, which is down 8% Q-o-Q.

Pn.Rashidah Binti Alias, CFO:

693 versus 637. 637 is 2017.

Abhishek Nigam, Nomura

It was 743 in the third quarter, right?

Pn.Rashidah Binti Alias, CFO:

Oh, you're talking about the third quarter.

Abhishek Nigam, Nomura

Yes, 4Q versus 3Q. So EBITDA is up, but net profit is down, and it's a big jump, 7% and minus 8%.

You can always come back to me.

Pn.Rashidah Binti Alias, CFO:

Yes. Let me just come back to you. I'm think I'm trying to get the figure for the profit piece. I'll come back to you shortly, yes?

Operator: Our next question comes from Mohshin Aziz from Maybank.

Mohshin Abd Aziz, Maybank

I would like to get some guidance on the tax rate that's going to hover around for 2019. Since it's been jumping here and there, very difficult for me to guess lately, so I might as well ask from you.

Pn.Rashidah Binti Alias, CFO:

Okay, I think in the past, we have given some guidance that our tax rate should be hovering roughly between mid-10s. I think we've given guidance somewhere in the region of 12% to 15%. Now this time around, it's on the lower end, which is about 10% for the entire year, yes, which is, again, during the year, we have completed all of our functional realignment. So the last complex, which is the olefin complex, is also now on tolling arrangement. We've spoken about the rationale of doing this

in the past. That is mainly for the entire organization to be realigned so that the plant can focus on their operational performance and the marketing can be focused under PC Marketing Labuan. So that was more about the tolling arrangement and everything that was undertaken progressively. So in 2018, we completed the last legs, which was bringing onboard the olefin complex. That was also tied back to the acquisition of the remaining M that we were talking about just now. So with that, obviously then, because we are also, PC Marketing Labuan is also under the GIFT regime, Global Incentive for Trading, which carries a lower interest rate. So with them coming onboard the tolling arrangement, the overall effective tax rate structure of the group has come down to the lower end, which is about 12%. So on top of that, there's also a one-off adjustment pertaining to PC Fertiliser Sabah. It has deferred tax liability arising from capitalization of project in progress. However, the deferred tax liability wasn't booked in, so that resulted in that further reduction in ETR, the effective tax rate. It wasn't booked in because, at the same time, PCFS also had investment tax allowance coming in, and that is the DTA. So we have discussed that with our auditors, and there's not a need to book in the DTL for PCFS. So that was a one-off adjustment. So moving forward, yes, you should still be looking at our ETR around about 12% to 15%. But we have also, in the past, given guidance that, that is there due to the different regime that we're operating in Labuan and Corporate income tax. For as long as that has doesn't change, we will be getting that kind of ETR.

Mohshin Abd Aziz, Maybank

Okay, fully understood on that. And then my next question, this one is specific to Pengerang project again. Now I understand you want to say that it's secret, that the price of crude, naphtha, ethylene, and so on and so forth, but you also mentioned that it is competitive. May I get greater clarity? When you say it's competitive, are you alluding to discount relative to the market? And if yes, can you also guide us what benchmark, what benchmark market are you referring to? That's my 2 questions.

Datuk Sazali Bin Hamzah, CEO:

Yes. When I say competitive, it's mainly based on our economic numbers. So I also cannot disclose our economic numbers. In the pricing, of course, it will benchmark to the market, yes, whether its ethylene based or propylene based, but is on the certain discount percentage, yes. I think that's the only guidance. I would say that later on when you evaluate our contribution, profit contribution from RAPID, so maybe you can do some estimation.

Mohshin Abd Aziz, Maybank

Probably another 2 years or so to get there.

Datuk Sazali Bin Hamzah, CEO:

No, I think by first quarter next year, you can be able to see earning, quarter 1 2020.

Mohshin Abd Aziz, Maybank

Okay. No problem. I understand the level of confidentiality.

Pn.Rashidah Binti Alias, CFO:

Right. Before we move on to the next question, can I just clarify the question from Nomura just now, Abhishek, on the PAT. Okay, let me just get you right. EBITDA, this is comparing third quarter versus fourth quarter for Olefins & Derivatives, right. EBITDA increases from MYR 965 million to about MYR 1 billion, whereas profit after tax dropped from MYR 740 million to about MYR 690 million. Am I right, Abhishek, that's your question, right?

Ms Zaida Alia Shaari, *Head IR*:

He's not in the queued.

Pn.Rashidah Binti Alias, *CFO*:

Oh, I see. Okay. So that's why I can't hear you. If I can just provide the answer, then later, if you have further question, I can attend to it. But essentially, why PAT is lower because we had to derecognize some unutilized tax losses as well as reinvestment allowance. This is pertaining to the recent Malaysian budget, which enforced a limit of 7 years utilization for business loss and reinvestment allowance. So we have a bit of that balance that we don't foresee will be utilized in the next 7 years so we have to derecognize that bit, which is why the PAT dropped while the EBITDA from an operational standpoint, it was a higher result or higher performance. But from the PAT standpoint, that was because of the derecognition of the business loss and the investment allowance. If you have further question, you can raise it a bit later or I can attend to it later.

Operator: Our next question comes from Mayank Maheshwari from Morgan Stanley.

Mayank Maheshwari, Morgan Stanley

Couple of questions from my side. One was pertaining to the market where I think you guys alluded for the destocking, which had led to a tough demand for the fourth quarter. I just wanted to understand of how you are seeing the market now after the Chinese New Year. What have you seen in the market in terms of demand, restocking, etc? And the second question was more related to the RAPID project. You did talk a bit about it, but like when we think about RAPID now going into a level of 100% utilization, which year potentially that could happen? And also what is the breakeven utilization which you're kind of thinking on RAPID from a breakeven earnings perspective going ahead?

Datuk Sazali Bin Hamzah, *CEO*:

First question, I would like to Shamsairi to respond on the market.

En.Shamsairi Ibrahim, *Head of Commercial*:

Yes. Thank you, yes, Mayank for the question. As mentioned earlier, we look at the demand-supply scenario. There additional 3.4 million tonnes of urea introduced into the market by 3 the countries I mentioned, Russia, Turkmenistan and Azerbaijan. Nevertheless, moving forward, we will be entering planting season, then demand for market will be there. But I don't expect the price will be very strong as it used to explain previously.

Mayank Maheshwari, Morgan Stanley

Can you share some insight on polyethylene as well? How are you seeing the market posting around polyethylene?

En.Shamsairi Ibrahim, *Head of Commercial*:

Polyethylene, as we know very well, that China, with PDH plant, will be coming in operation from the turnaround, so we are expecting that polypropylene will continue to remain as what we are experiencing. Nevertheless, as we know, moving forward that other than north Asia, China especially, there will be shale based, for example, will not be able to produce production propylene base. And we are expecting that market price will improve moving forward long term.

Datuk Sazali Bin Hamzah, CEO:

Okay. Mayank, you asked about the utilization just now. Normally, for this kind of complex, the first year probably around 70%. So then, surely, we are going to ramp up to 90%. How fast then we can ramp up between 70% to 90% is subject, we have to see. Next year, I think around 2020 middle, then we will be able to know. But normally, that is where we put a target.

Mayank Maheshwari, Morgan Stanley

Is there a breakeven utilization you're thinking about on this project?

Datuk Sazali Bin Hamzah, CEO:

70% initial stage. It can be between 3 to 6 months or even a year. And the second phase, we'll be moving into about 90%. I think that's what the target is.

Mayank Maheshwari, Morgan Stanley

Okay. And do you think like at 70%, you'll be able to breakeven on earnings on this?

Datuk Sazali Bin Hamzah, CEO:

It's a good question. If 70% we believe it's still, as integrated, we should be able to pass the hurdle. But bear in mind during the early start-up, there's a lot of challenges that we may anticipate. Example that, because it's highly integrated, one unit down can cause other units to be interrupted. And every time interrupted, there will be quite a volume, quite to the implied number of product that would be on off specification. Sometimes, we have to dispose this at a lower grade but depending on the behavior of the plant.

Mayank Maheshwari, Morgan Stanley

So from a stabilization perspective, what you're saying is that we could get there in 6 months' time or something from start-up, let's assume for October or whenever.

Datuk Sazali Bin Hamzah, CEO:

I think it's too early to predict because very difficult at this moment. We just started crude distillation unit. On that sense, we are quite okay. But moving into the second phase is much tricky because it involve some catalytic unit. It may put a lot of challenges as well because it depends on mainly type of equipment, especially instrumentation parts as well as the rotating part. So let us see. I think it's too early for me to forecast whether 6 months or 1 year, yes.

Operator: Our next question comes from the line of Alex Goh from AmBank.

Alex Goh, AmBank

Two questions. One is how many turnaround activities are you expecting for 2019 based on your plant utilization rate of over 90% this year? I mean, last year 2018, you had 6 turnaround. And this year, how many do you have? And which quarters do you expect those turnaround activities to occur? That's my first question. On my second question, it's regarding the Pengerang. Thanks for a bit of clarity on the utilization rate on the first 3 to 6 months. But I'm just wondering which month exactly will your plan be starting this year? And from what I understand, it will be progressive ramp down, but I'm just wondering the rate of the increase from 70% to 90%, how soon can that be achieved?

Datuk Sazali Bin Hamzah, CEO:

Okay. For the first question on turnaround in 2019, I would like Mahadzir to talk about it. Mahadzir?

En.Mahadzir Rani, Head of Manufacturing:

Okay. For 2019, we're going to have 5 turnaround at our facilities. And the initiation date for this particular turnaround varies from quarter 1 to quarter 3.

Datuk Sazali Bin Hamzah, CEO:

Right. So in some plant, it will be in quarter 1, some other plant will be in quarter 3. I think that's what we can, and in between also this few of them in between. So okay, going into the second question, again on the utilization, I know everybody is excited to see how fast RAPID can bring back the volume. But I will say that probably Rashidah later on also can talk. In term of financial contribution on RAPID, I would say it's still I can say it's not material for 2019 because it is a start-up phase. We are saying that the commercial operation is in the second half. So second half is also toward the end. So if we're lucky, we'll do a bit earlier. But the 2019, I will say that it will be reached 90%. If we reach 90% only for testing purposes, yes, so we're yet to see 2018. But initially, we will target to stabilize the plant at 70%. After which steady then slowly we'll ramp up to about 90%. I think that's what we can share. If you want to get a better picture, probably by end of 2019, we will have a better ramp-up forecast for the following years.

Operator: Our next question comes from the line of Jianyuan from Affin Hwang Capital.

Jianyuan, Affin Hwang Capital

Just have a particular question on your Olefins & Derivatives. Just try to have a better understanding in terms of the market pricing of fourth quarter. I think that in your previous guidance, you actually guided the fourth quarter in terms of pricing was actually a bit more bearish than what actually happened in the fourth quarter. I mean, it was disclosed in your Bursa pack that the pricing was actually relatively flat in the fourth quarter for the O&D. So basically, was it a positive surprise for you guys on that?

Datuk Sazali Bin Hamzah, CEO:

I think the way that we observed in quarter, we have seen that the prices start going down and a bit bearish, yes, and then you see also quarter 1. Except for polypropylene, it remain strong. Chemical part, you can see that it is a bit bearish. So we feel that it will stay there for some time, probably in this quarter. And whether it pick up again, we have yet to see how the market respond. And I'm also sure some of the buyer very concerned about RAPID commencing earlier. So this normally also have impact, a bit, at the market. So if you ask me quarter 1 this year, there should be at where we are now, stable at what we are now, except for polypropylene, which is quite good at this moment, will remain there for the whole quarter, at a high bar. But now it's about 1,005.

Jianyuan, Affin Hwang Capital

Yes, sure. But can I just refer on the fourth quarter alone. Was the prices a slight surprise to what you guys actually expected?

En.Shamsairi Ibrahim, Head of Commercial:

As you are aware, 2nd November Mr Trump did declaration, with the sanction for 8 countries to import product from Iran and that impacts the whole market. Yes, we do ask a question. It's something that we don't really anticipated well in that manner.

Operator: Our next question comes from the line of Sean Lim from Hong Leong Investment.

Sean Lim, Hong Leong Investment

I just have one questions on the depreciation charge. As the PIC is going to ramp-up in phases in second half of the year, how much incremental depreciation charge can we expect from PIC alone in 2019? And on a full year basis, how much additional depreciation charge we should expect in 2020?

Pn.Rashidah Binti Alias, CFO:

Sean, I think we have also announced the project cost in the past. That's about USD3-odd billion. So depending on when the plan will come on-stream commercial operation bit, then the depreciation will start from that point. Yes, so it'll be a proportionate charge to the income statement as per the normal accounting convention. Yes. Because, I mean, I think it's quite hard for me to pin down on a number because it depends on when the plant will come on-stream. So I think in the past, we have also released about USD 3.1 billion or USD 3.2 billion for the CAPEX for the PPC, yes, this is excluding the..

Sean Lim, Hong Leong Investment

On a full year basis, how much can we expect, let's say, on a full 12 months depreciation, let's say, if it kicks in full?

Pn.Rashidah Binti Alias, CFO:

Yes. We undertake normal component-size depreciation method. So on a component that varies. But roughly speaking, that's between 20 to 25 years. Depreciation charge maybe can take, on a blended rate, 21, 22 years, something like that on a blended basis, yes.

Operator: Our next question comes from the line of Anna Park from Macquarie.

Anna Park, Macquarie

I have just one quick question. Could you elaborate more about your payout policy looking forward? That's it.

Pn.Rashidah Binti Alias, CFO:

Yes. Anna, we're keeping the 50% payout policy for the time being. Yes.

Operator: As there are no further questions at this time, I'll now hand the call back to today's presenter. Please continue.

Ms Zaida Alia Shaari, Head IR:

If there are any more questions, if you like to email us, please do so. Please send us your reports as you publish them. Thank you, everyone, for joining the call today.

Datuk Sazali Bin Hamzah, CEO:

Okay, thank you.

Pn.Rashidah Binti Alias, CFO:

Thank you.

En.Mahadzir Rani, *Head of Manufacturing:*

Thank you.

En.Shamsairi Ibrahim, *Head of Commercial:*

Thank you.

Operator: Ladies and gentlemen, that does conclude our conference for today. Thank you for participating. You may all disconnect.