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Operator: Thank you for standing by, and welcome to the PETRONAS Chemicals Group Analyst Briefing for 1Q 2020 Conference Call.

I would now like to hand the conference over to Alia. Please go ahead.

Ms Zaida Alia Shaari, Head IR:

Thank you, Feeann, good afternoon, ladies and gentlemen. I am Zaida Alia, Head of Investor Relations. We apologize for making you wait. Thank you for joining us today for our briefing on the first quarter 2020 financial results. We hope that everyone is in the best of health under the current circumstances. While today's presentation format will be similar to all our briefings, it is different for us here in PCG.

And for the first time, we all sitting separately from each other and got into the call like you. So we do apologize in advance for any technical glitches. We are pleased to have with us today the senior management team, led by our Chief Executive Officer, Datuk Sazali; Madam Rashidah, Chief Financial Officer; Mr. Akbar, Head of Strategy Planning and Ventures; Mr. Kabir, Chief Manufacturing Officer; and Mr. Shamsairi, Chief Commercial Officer.

You should, by now, have access to the presentation material and through the link provided on our corporate website, petronaschemicals.com.my. Without wasting any more time, I now hand you over to our CEO, Datuk Sazali.

Datuk Sazali Bin Hamzah, CEO:

Okay. Thank you, Alia. Good afternoon, ladies and gentlemen. So before I dive into the results, I would like to take a moment to introduce to you Mr. Muhammad Kabir Noordin, as our new Head of Manufacturing.

Muhammad Kabir joined us on the 1st of March 2020, taking over from En.Mahadzir, who has moved on to join PETRONAS Group Technical Solutions. Muhammad Kabir -- Mr. Kabir was previously the Head of Production for Gas Processing and Utilities Division at PETRONAS Gas Berhad. Kabir is a very experienced staff has been in the organization more than 25 years, had been in refinery in gas plant as well LNG. He has a vast experience in production and managing asset. He joined us with a track record of delivering optimal result in high-growth environment, and I'm sure we will be seeing some of those results within PCG soon enough.

So getting back to the matter at hand, throughout 2019, we saw some significant declines in the global economy as a result of the prolonged trade tension between U.S. and China, then the coronavirus created a negative shock to the already slow global economy. It's been a rocky start for 2020. Declared a pandemic in March 2020, COVID-19 brought major economies to an abrupt stop, disrupting global manufacturing and supply chain and impacting consumer demand and travel. As a result, global GDP declined to 0.2% as the global PMI, which contracted to 48.4% as compared to a 2.7% on GDP and 50.7% on PMI first quarter last year. Crude oil already impacted by severe decline in demand due to slower economic activity and continued excess supply was hit by the OPEC+ fallout, causing the collapse of the crude oil price. The benchmark Brent crude hit its lowest of USD 22.76 per barrel on 30th of March end of this quarter 1, bringing down the first quarter average to about USD 51 per barrel, 20% lower than the average of USD 64 per barrel in first quarter 2019. Petrochemical prices followed as demand weakened due to a slow manufacturing sector as many economies like China, Indonesia and Thailand, to name a few, went into lockdown to stop the spread of COVID-19. Year-on-year, our product prices declined at an average of about 15%.

Ladies and gentlemen, the weakened and uncertain economy was a heavy blow to many business. By mid-March, the government of Malaysia issued a movement control order, allowing only essential business to continue operations.

Within PCG, we quickly adopted new ways of working, for example, working from home, and other alternative arrangements, both at our corporate office and our manufacturing site were implemented in order to maintain essential service and function amid heightened HSE concerns. We also are aiming for minimum working at our plant site throughout this period. At the same time, working with various government bodies, we worked towards assisting our vendor, suppliers, logistics, contractor and customer to obtain their special operating license during this period in order to maintain continuous operation and to protect the whole value chain of our business. Our team was dedicated in ensuring that we were able to run our business and operations as efficiently as possible during this tough period, including the whole other value chain such as the classified just now, our supplier vendor, logistics and our SMP industry that related to our business.

So I believe given all the challenges, we have achieved a set of resilient results for the first quarter of 2020. Our plant utilization for the quarter was 94% comparable to last year, with production level remaining the same at 2.65 million metric tons. And sales volume was comparable at 1.9 million metric tons. And despite this comparable operation, revenue declined 6% year-on-year to MYR 3.9 billion, mainly due to lower product prices. Earnings before interest, tax and depreciation, EBITDA fell 39% to MYR 764 million on compressed margin and profit after tax falling about 39% to MYR

493 million. EBITDA margin was at about 20%. And for further detail of the financial performance, I would like now hand over to Madam Rashidah. Rashidah.

Pn.Rashidah Binti Alias, CFO:

Thank you, Datuk Sazali. Ladies and gentlemen, a very good afternoon, and thank you for joining us. We will start with the Group's performance on Slide 5. Now let's start with the comparison of the performance in the first quarter of 2020 against the first quarter of 2019. Now as mentioned earlier by Datuk Sazali, global economy was weak in the first quarter of 2020, with GDP at 0.2% and global PMI registering contraction due to lockdowns across the world to curb the COVID-19 pandemic. Crude oil prices averaged 22% lower year-on-year on lower demand and excess supply. Petrochemical product prices fell on lower feedstock prices as well as weak market demand. Now despite the weak macro economy, PCG's operations remain unchanged. We have continued to run our plants as per normal, recording plant utilization rate of 94% comparable to the 95% recorded in the first quarter of 2019. As such, we achieved similar level of production and sales volumes. And this, as mentioned by Datuk Sazali is testimony of our successful effort undertaken during this challenging situation to ensure that our plant can operate at full, with minimum manning impose on us, as well as commercially making sure that our volumes can move, despite various challenges that we face everywhere. Therefore, there were no interruption to production. However, we are definitely not spared from the market compression at MYR 3.9 billion, revenue was lower by 6% year-on-year, mainly again due to lower product prices. Although this is partially offset to a certain extent by positive foreign exchange impact.

EBITDA decreased 39% year-on-year to MYR 764 million due to lower spreads as well as write-down of inventory value, as a result of lower product prices, partially offset by higher sales volume and favorable ForEx. Subsequently, EBITDA margin was lower at 20%. Profit after tax also fell 39% year-on-year to MYR 493 million following lower EBITDA and partially offset by foreign exchange gain on revaluation of our shareholders loans to a joint operation company, essentially, this is the Pengerang company.

Now moving on to the Group's financial performance against the preceding quarter, which is the fourth quarter of 2019. Global GDP slowed significantly to 0.2%, as mentioned earlier, from 2.45% in the previous quarter, largely due to the COVID-19 pandemic. Global PMI fell from the expansion level of 50.4% in the preceding quarter to the contraction level of 48.4% due to the disruptions across the global manufacturing sector. Brent crude price decreased 21% to \$50 per barrel in the first quarter of 2020, down from \$63 per barrel in the fourth quarter of 2019, primarily due to lower demand and excess supply.

On the operations front, our group plant utilization improved from 89% to 94% due to primarily lower level of maintenance activities undertaken during the quarter as well as I've mentioned earlier, our ability to move the volumes to our customers. Quarter-on-quarter, revenue declined 8% to MYR 3.9 billion, largely due to lower sales volume. This is primarily because of some spill over shipment as well as lower product prices. However, EBITDA was higher by 2% and at MYR 764 million, contributed by lower maintenance costs and partially offset by the above-mentioned lower sales volume, lower spreads, as well as write-down of inventories. Subsequently, EBITDA margin increased to 20% from 18% in quarter 4.

Profit after tax also increased 58% following higher EBITDA as well as foreign exchange gains on revaluation of shareholders' loans to Pengerang company as compared to loss -- I mean, ForEx loss in the preceding quarter.

Now let me also highlight moving on, let me also highlight the financial performance of the segment. Starting with the Olefin & Derivatives segment on Slide 6. Against quarter 1 of 2019, revenue was lower by 13% or MYR 351 million, mainly as a result of lower product prices, and this is partially offset by higher sales volume and positive foreign exchange impact. Now included in the revenue for quarter 1 this year is the revenue from Pengerang Petchem -- from Pengerang Complex, sorry, amounting to MYR 146 million. This is sales from excess molecule from the refinery. Now this is not revenue coming from our petrochemical plant. These are access molecules, the likes of ethylene, benzene, butadiene and the likes, which was produced by the refinery during the commissioning stage. This is marketed and sold by PCG through our marketing arm. So this is something that comes into this quarter's results and revenue in quarter 1 of last year. So excluding the revenue from this PIC complex, the segmental revenue or rather in O&D segmental revenue amounted to about MYR 498 million. Now this corresponds to the decline in EBITDA for this segment, which declined by roughly MYR 547 million, which are primarily due to the market impact, lower spreads as well as lower price. Notwithstanding the lower EBITDA, operating profit for PCG's Olefin & Derivatives segment is still positive in the first quarter. However, the segment recorded net loss of MYR 17 million and this is mainly due to loss from our associates, one of which undertook a turnaround during the quarter, therefore, resulting in share of loss being recognized in our O&D segment. Excluding share of loss from the associates, the segment recorded profit amounting to roughly about MYR 27 million. So that is on Olefin & Derivatives.

Now moving on to Fertilisers and Methanol, despite the higher sales volume in quarter 1 of this year, Fertilisers and Methanol segment revenue declined 8% to about MYR 1.3 billion, and this is mainly, again, due to lower product prices. However, EBITDA increased marginally to MYR 592 million, mainly due to lower operating costs, for example, our fuel costs. And this is, of course, partially offset by lower product spreads. Profit after tax was comparable at MYR 359 million.

Now that's all on the performance. If I move on to balance sheet and cash flows. On Slides 8 and 9. First, the balance sheet on Slide 8. For the 3 months period ended March 31, 2020, total assets increased by MYR 864 million to stand at MYR 39.7 billion, primarily due to 2 reasons: number one, higher cash contributed mainly by profit generated during the period. Number two, higher property plant and equipment, mainly due to capital investment related to our petrochemical projects in the Pengerang Integrated Complex. These are the remaining project costs that we are incurring during the year.

Let's now turn to our cash flow on Slide 9. Cash generated by operating activities was lower by 45%, and this is in line with the lower earnings that was generated during the quarter, as highlighted earlier. Net cash used in investing activities was lower at MYR 367 million, mainly due to lower capital spending for our Pengerang projects as the projects are nearing completion. And at the end of the 3-month period, our cash balance remains strong at approximately MYR 12.5 billion. And we are in a strong balance sheet position to take us through this challenging period of time. That is all for the first quarter of 2020 financial performance.

Now I hand over to Mr. Kabir for the manufacturing highlights. Thank you.

En.M Kabir Noordin, Chief Manufacturing Officer:

Thank you, Rashidah. A very good afternoon, everyone. Kabir here. I would like to talk on the operational highlights for the quarter. Group plant utilization improved from 89% in the preceding quarter to 94%, mainly due to high plant reliability and deferment of turnaround at MTBE plant following movement control order in March. We will instead be conducting the turnaround in quarter 4, 2020. The result in higher production volume for the quarter compared to the preceding quarter, but was comparable against the corresponding quarter in 2019. Our operation was stable for the quarter, post the completion of maintenance activity in our Bintulu plant, Labuan and Gurun facilities.

Next, quarter 1, 2020 segmental operational highlights, Olefin & Derivatives. The Olefin & Derivatives segment achieved 100% plant utilization in quarter 1, 2020, as the turnaround plan for PC MTBE in Gebeng has been deferred to the fourth quarter. The high plant utilisation during the period was also due to the fact that we were able to continue running our facilities at optimum level despite the movement control order (MCO), that was imposed in mid-March. Ethylene production for first quarter 2020 was higher than last quarter, following reliable feedstock supply and solid cracker performance. We achieved production level that was high, was higher than average quarterly production of 247 KMT. Higher utilization for the quarter was also supported by sustainable polyethylene and derivative production. Following reliable supply of ethylene. For Fertiliser and Methanol segment, we achieved higher plant utilization rate in first quarter 2020 compared to the previous quarter, in quarter 1, 2020, against 83% in fourth quarter 2019. This was because the maintenance activity at our methanol plant in Labuan, which were carried out since mid-December 2019, repair of Auto-Thermal Reactor, ATR, dome in plant 2 was successfully completed in mid-January 2020. Meanwhile, our Bintulu facilities is also completed its maintenance activity in quarter 1, 2020 in order to manage plant threats mainly activity was retubing of Synthesis Gas Cooler. The operation in Bintulu is now stable and currently running at more than 90% utilization.

PC Fertiliser Sabah continue to see stable operation with higher production rates for the quarter, quarter 1, 2020. Plant operation has been smooth since its turnaround in quarter 3, 2019. PC Fertilizer Sabah has completed its planned shutdown, safely, in first quarter 2020 and continue to run smoothly since then.

Next, we go to project updates, PIC-Petchem. Project update of the March 2020 overall progress of PIC-Petchem was 99.9%. Performance test run for all petrochemical plant in PIC is expected to be completed by second half of 2020 prior to commercial operations. Isononanol plant already in ready for start-up stage and it's expected to start within the same period, second half of 2020. Performance highlight operational conclusion. We conclude quarter 1, 2020 performance, we were able to achieve higher production volume and utilization rate against fourth quarter 2019 and comparable against first quarter 2019 despite the challenges due to COVID-19. We will remain focused on PIC startup plans and will continue to steer the delivery of PIC-Petchem.

Following COVID-19 pandemic, we will continue to sustain plant operation at maximum rates safely while embracing the new norms in our working environment and facilities. That is all I have for the operational highlights. I would like to hand over to Encik Shamsairi for the market performance and outlook.

En.Shamsairi Ibrahim, *Chief Commercial Officer*:

Thank you, Mr. Kabir. Shamsairi, my name. Allow me to summarize on the market highlights. As we are well aware that the crude oil price started to drop significantly after the failed of dialogue between OPEC plus with Russia on March 8. When Russia rejected, the demand over proposed oil production cuts, marking the end unofficial partnership with OPEC and started the price war between Saudi Arabia and Russia. These happened while countries around the world, are battling the COVID-19 pandemic with global lockdown resulting in crumbling demand worldwide. We witnessed in March the crashing of ethylene price to 12 year low due to significant impact disruption as a result of the lockdown and then which measures by the government to control the spread of COVID-19. Furthermore, Asia Pacific naphtha prices plunged alongside massive losses in global crude oil futures, putting further downward pressure on ethylene price and ethylene derivative. Nevertheless, the recent agreement -- further agreement from OPEC+, to reduce production and as a COVID-19 pandemic is contained, demand is expected to pick up towards Q4 as the world is anticipated to gradually ease curb under movement and the lockdown. We can see that this impact the whole olefin chain, including polymers, paraxylene and so on.

Moving forward to Fertiliser and Methanol. On of this product, we see initially a lagging impact on product fertilizer and urea. The initial stage we saw fertilized urea product remains strong at around [260], [250] only recently price dropping to around [220]. Where methanol, because of the lock down, product price continue to soften to where it currently reside. Nevertheless, as I mentioned earlier, moving forward, with the crude oil price and the agreement that been achieved, we will see -- and also the pandemic is contained, we will see the price improvement towards year-end. And that is my summary of the presentation this time. As I mentioned earlier, mainly products prices influenced by the OPEC fallout and also COVID-19 pandemic global lockdown, which we are seeing things are moving positively towards year-end. Thank you for your attention. Allow me to hand over to Datuk. Datuk Sazali. Thank you.

Datuk Sazali Bin Hamzah, *CEO*:

Okay. Thank you, Shamsairi. Ladies and gentlemen, it was an unusual quarter for all of us. Though there has been signs of improvements in our fight to contain the spread of COVID-19, the impact of pandemic in major economies is yet to be determined. It is difficult to predict when business will return to normal, when actually business will return to normal. But as economies gradually open up in the following months, we can expect some recovery in the market albeit as slow, slow movement. Recently also, you will see the price trending is start picking up.

So hopefully, it's continuing. Although the same can't be said about crude oil as demand has fallen amidst the economic slowdown and oversupply. Geopolitical tension between producing countries has increased the volatility and uncertainty regarding crude oil prices. Given the heightened uncertainty and volatility in the market, it is imperative that we remain resilient. By first sustaining our strong HSE culture, prioritising the safety and health of our employees while maintaining our safe operation; second, continued focus on operational excellence to ensure optimum plant operation, and capitalize our strong commercial excellence to remain flexible and responsive to the constantly changing business environment; and lastly, maintain financial position through cost optimization and other austerity measures. We will continue to capitalize on our advantage of having access to low-cost feedstock and our position in being centered to the growth region. As well as our proximity to our customers that enable our close relationship alongside our ability to deliver product based on their needs in a timely manner. Our long-term plan is not hindered by the current events. We will continue to pursue our growth strategy, and we look forward to commission and commercializing the Pengerang Integrated Complex. Secondly, we also continue to pursue opportunities in the specialty chemicals space, if you recall to date, we

have 2 projects that have been reached FID, one in Kerteh and another one in Pengerang. Our team are working hard on both to ensure that we deliver on time. That said, the outlook and the market remains uncertain. Business dynamics are changing it is impossible to estimate when market will normalize and how and when. However, over the long term, we expect the strength and the demand of our team and our commitment to operational discipline will help us weather this rough period and continue to deliver value to our stakeholders and shareholders.

With that, let us open up for questions and answers.

Operator: Your first question comes from Ajay Mirchandani from JP Morgan

Ajay Mirchandani, JP Morgan

Four questions for me. The first one is just specifically more detail on the Olefins division. Given the fact that in the fourth quarter of 2019, we had seen some like MYR 350 million or MYR 450 million of one-off maintenance expenses. So I'm a little surprised that we've not seen the recovery in EBITDA, given the fact that these very large expenses were incurred in Q1. Maybe if could just help us better understand. That was my first question.

The second question I had was specifically on RAPID. If you could help us in terms of any kind of color on the EBITDA contribution of the net profit contribution, given the revenue number you mentioned? And if you could also confirm the depreciation, whether that's already started?

Number three, my question was specifically on the revaluation gain on Pengerang loans. Can I confirm that's pretty much done? Or could we see future -- such gains in Q2 or Q3?

And fourth question I had was specifically on CapEx expected for 2020.

Datuk Sazali Bin Hamzah, CEO:

Rashidah, if you can answer the -- probably the question?

Pn.Rashidah Binti Alias, CFO:

Yes, sure. Ajay, I didn't quite get the first question, you're talking about one-off maintenance expenses in fourth quarter of 2019? And you're asking... sorry, go ahead, Ajay, if you can just clarify on the first question just now?

Ajay Mirchandani, JP Morgan

Yes. So the first question is basically related to Q4 '19 results. During the last results presentation, you had talked about certain one-off expenses, which were dragged and about MYR 300 million to MYR 400 million, which was expensed in Q4. And as a result, the weakness in Q4 2019 results in the Olefins division had included a one-off expense around about MYR 300 million, MYR 400 million. Given that expense would be longer be there in 1Q, 2020. And in spite of that, you've obviously seen neither have dropped. I'm just -- and I understand the weakness in prices, et cetera, but I'm just trying to better understand what happened to that one-off expense in 4Q '19? Why would we not see an improvement in the Olefin division Q-on-Q? So that's the question on Q1.

Pn.Rashidah Binti Alias, CFO:

Okay. Yes, okay. I get some of it, Ajay. I think I'm also struggling to hear some parts of the question. I think the team is trying to help me write-down, those who hear. If I can comment, in terms of the maintenance expense in quarter 4, yes, if you recall, we talked about some maintenance activities,

and these are mainly happening at several plants. I'm trying to recall, this is actually at the Fertiliser Sabah, some activity at the OGD plant, Olefin, Glycol Derivative and also methanol. So all of this maintenance activity, they have been completed in fourth quarter 2019, which is why I think in one of the slides presentation, that I spoke about just now. One of the reasons for the better financials was actually lower maintenance cost in quarter 1 2020. It's lower easily by roughly about MYR 250 million if I'm not if I'm not wrong. So there are a slightly heavier maintenance happening in quarter 3, quarter 4 that spills over into quarter 4. These are for the Fertiliser Sabah, OGD as well as Methanol. If I -- I hope that answers the question. On the second one, which is, I think, yes, you're talking about the revaluation gain. In -- sorry, for the shareholders' loans to the Pengerang company. As you are aware, we gave PCG provided loans, which is the shareholders loans, which is denominated in U.S. dollar to the Pengerang company. So as accounting requirements, accounting requirement dictates us to actually translate this at every reporting period. So you would see this happening every quarter, every reporting period for that matter. So we will continue to translate. This is unrealized portion, so to speak. But is there a movement in the dollar ringgit, so we will have this unrealized translation gain or loss in the P&L. CapEx for 2020 is not expected to be very high. We have our normal operational CapEx to maintain what we call operational CapEx to maintain our plant and also, of course, for any turnaround activities. So we do have that baseline CapEx. At the same time, we have in term of sanctions project. You would have seen also our announcement in the past that I think we have fit a few projects, but we are on a smaller scale. So we would have that kind of CapEx coming in for next year, but it won't be as high as this year. In actual fact -- sorry, in actual fact, I think it's fairly comparable to this year. Because this year, similarly, we have operational CapEx, and we have the tail end or the remnants of the CapEx for the Pengerang complex, Pengerang Petchem. Next year, we would have operational CapEx we would also have, like I said, there's some spending on the projects that we have FID, but these are on a smaller scale. So roughly speaking, it will be about comparable to this year's level of CapEx. Did I missed out anything?

Ajay Mirchandani, JP Morgan

Yes, there was a question on RAPID, the contribution to bottom line or EBITDA in the first quarter?

Pn.Rashidah Binti Alias, CFO:

Oh, yes, yes. Sorry. So in terms of RAPID, you are asking about EBITDA, number one; and number two is depreciation. So if I talk about depreciation first, depreciation has not started because as Mr. Kabir mentioned just now, in terms of the commercialization, commercial operation that will happen in the second half of this year. In terms of EBITDA, given the market compression or downturn that we are seeing today, we are not projecting a positive EBITDA at this point in time. So we're looking at -- yes, we're not looking at any positive EBITDA for this year, mainly, more so, because of the compression in price and margin. But because the production or rather the commercial operation will start only in the second half of this year. Then in terms of the impact of that EBITDA is also not expected to be huge.

Operator: Your next question comes from Alex Goh from AmBank Research.

Alex Goh, AmBank

I have 3 questions. The first one is a bit forward-looking. I'm just looking because the worst part of the COVID-19 impact happened in April. I'm just wondering whether we are going to see a delayed impact to your earnings in the second quarter. What I'm trying to ask is, is your second quarter going to be much worse than your first quarter, right? Taking into consideration the lower prices,

right, especially in April and also the impact of the timing difference between the prices that you would normally register okay. That's my first question.

My second question is, was there any contract cancellations, especially from China? Or any calling for force majeure on any of those exports to those countries?

And my third question is, what is the percentage utilization of your storage facilities currently? I mean, we've seen the impact of all storage in U.S. where prices are negative. I'm just wondering, what is the -- how many months of storage do you have? And what is your capacity utilization currently? And my -- sorry, can I slip in one fourth question, could you give us your turnaround and maintenance schedule for this year? Any changes?

Datuk Sazali Bin Hamzah, CEO:

Okay. Rashidah, you answered the first question. And then the last 3 questions, probably, I will answer that. Number one is I think I think whether the forward looking...

Pn.Rashidah Binti Alias, CFO:

Correct. I -- Alex, so yes. Thank you, Datuk. Alex, so for April, we do see -- in our observation, we do see that the market prices for April kind of like bottom, as you rightly pointed out, we see a heavy impact in April. I'm quite sure you're very well aware as well. If you follow the market trend of the product prices. However, starting from May, we are seeing some recovery in terms of the prices. Cautious recovery though, but we do see some pickup in terms of the market price, starting from May, which is why I think we are hoping or rather, we are seeing that we have probably passed the point of the lowest point of COVID, provided there is no second wave, yes. So we have probably passed the worst point of COVID, and the market is demonstrating some recovery from May onwards. Volume is not affected. Datuk was talked about it in your second question when he talks about contract cancellations. But so far, volume has not been a fact that very similar to quarter 1 with all the efforts that we have put in. So with that, I think when it comes to quarter 2, let's see how it goes, but you can see that the market is lower compared to quarter 1. Like I said, volume is not affected. Yes. So that is as factual an observation as I can guide in terms of this answer or clarification? Yes. So over to you, Datuk for questions 2 and 3, 4? Yes.

Datuk Sazali Bin Hamzah, CEO:

Thank you, Rashidah. So the second question, you talked about the -- any contract cancellation, especially in China. Throughout this period, we have not seen any cancellation. A lead part of COVID-19 issues in March, we see that the issue is more on the closure of ports in China. So during that time, we diverted some of the product -- our product to Southeast Asia. And there is no cancellation, which they carry forward into the next month. And now China is picking up back. So we redirect back to China. And so far, does not impact of our plant capacity of plants production capacity. That's number one.

Number two, in terms of percent utilization of storage, what happened is we have what we call it bus target, we maintain our storage capacity at certain range between 30% to about 50% sales. So depending on the market situation, we will say this within this way. And so far, we're still maintaining within this rate. So it depends on the number of days. Some plant talk about 7 days, some plant go to even a month. So we don't see any issues on managing our storage. We don't have high inventory. We are at the normal inventory, I would say, and it's quite a normal inventory level that we are facing now. So that is the third question.

And your last question is about turnaround. This year, we plan 2a turnaround one is, Kabir, correct me if I'm wrong, which is Methanol and MTBE. As you aware, MTBE, we have pushed back in

October rather than we should do it during March, but because of COVID-19, so we managed to talk to DOSH our authority to defer it in October. So we are geared up to do that turnaround in October. And for Methanol, we are planning also sometime in the month of -- end of this year. But it's also subject to situations because we are also negotiating whether we can push it the following years because we feel that the plant is still able to run as far as catalyst is concerned. So as a base case, we have 2 turnaround, and this will be the lowest turnaround period for PCG. I hope I answered this question.

Alex Goh, AmBank

Yes, yes, that's wonderful. So does that mean your plant utilization can hit, what, almost 98% utilization for this year?

Datuk Sazali Bin Hamzah, CEO:

At this moment, average is about 94%, I think, yes.

Alex Goh, AmBank

I see. Okay. And just coming back, I'm just trying to understand, you mentioned there's no impact on volume. That means even if you were to go full utilization, there will still be offtake for your product? Is it -- do I understand that?

Datuk Sazali Bin Hamzah, CEO:

Correct, Correct. For example, may volume 100% booked already and June volume also already almost 100% booked, already. I think we just left about 3% before it was place for the spot. So depending on the situation, I think that's no issue. And this for the level, we see that it's still quite normal for us. We don't see any major shift in terms of booking.

Alex Goh, AmBank

I see. Okay. I mean, I was in....

Datuk Sazali Bin Hamzah, CEO:

Sorry. Sorry, Alex.

Alex Goh, AmBank

With all the port closures earlier on in March, April, you mean that there was no -- there was no -- the volume was not affected or was it deferred or postponed.

Datuk Sazali Bin Hamzah, CEO:

So for example, in Indonesia, some -- ports is closed, then we shifted our products to China. Then later on, when it what is open, we shift back the volume there.

Operator: Our next question comes from Oscar Yee from Citi.

Oscar Yee, Citigroup

Could you provide a bit more details about the current status for your cracker complex? Because as far as I know, due to the fire at the diesel hydrotreater at the refinery, the whole complex was shutdown? So my question is, first, when do you expect the cracker to restart, which will then provide the feedstock for your PPP and energy.

And second is if the refinery startup is delayed, does it mean that your cracker will also continue to get postponed?

Datuk Sazali Bin Hamzah, CEO:

Okay. Thank you for the question. So the first question is, what is the status of cracker complex in Pengerang. And at the moment, as we said that the plan is total shutdown. So the situation is like this, we are because of the fire occurred as one of the unit in the refinery and cracker unit, but that unit can be bypass. So the bypass line is now under construction, I think we will finish soon. And we are targeting to commission sometime in the early second half. And without the refinery, actually, the cracker can be started as well. So we are so cracker that can be started. But because of this big incident, we took time to make sure that we are really ready in terms of people in terms of support services, and we also review back all the design and the start-up procedure. That's why for us, we take time to make sure that we are confident to restart again. And our target now is early of second half of this year. And the refinery definitely is when we are able to bypass DHT, the one that involved in fire incident, so we still can start the plant. So the plan is early of this second half, we will start the whole units, basically the refinery, cracker and petchem. I think that's what our plan is.

Operator: Your next question comes from Vivek Rajamani from Morgan Stanley.

Vivek Rajamani, Morgan Stanley

I had 3 questions. First and foremost, I think can you just talk about what are your key export markets currently? And how much of your total volumes are exported and O&D as well as on the fertilizer side?

And the second question was related to inventory losses. Like this quarter, how much of that has been booked on the -- especially on the O&D side?

And the last thing was related to the cash flow statement, there was this entry on, I think, other noncash items, which you see as part of your operating cash flow, which was a big negative number of MYR 150 million. What was this regarding?

Datuk Sazali Bin Hamzah, CEO:

Okay. At least question number 2 and 3 will be answered by Rashidah. I will attend number one, just now, can you repeat the first question?

Vivek Rajamani, Morgan Stanley

Sure. So the question was more related to your sales volumes. How much of those are exported by each division, O&D and F&M? And which are the key markets that you're exporting these volumes to?

Datuk Sazali Bin Hamzah, CEO:

Okay. Our key market is China and also Southeast Asia in that is key. The Southeast Asia, China and Malaysia. So the ratio roughly is about 30% in Malaysia, about 30% to 38% in Southeast Asia, China probably about 18% during -- before COVID. But after COVID, we see the dip in month of march but now is picking up even above 18%, probably in the range of 20% to 22%. So in terms of the market spread, Malaysia and export, I think the ratio is at moment, remains stable. Only the shifting is between China and Southeast Asia. And as you're aware now, the COVID-19 impact in Southeast Asia is still net -- is still on the recovery mode. And China is already in recovery mode. So we have pushed a bit of our product to China. So -- but we see that the trend in month of June, July, probably July and August is shifted back to Southeast Asia than -- when they are start opening up the business again. I think that's how we shift our product volume. Okay, Rashidah if you can answer

number two, about inventory losses. And number three is cash flow treatment of negative MYR 150 million noncash.

Pn.Rashidah Binti Alias, CFO:

Yes. Sure. Thank you, Datuk. So in terms of inventory impact, roughly, we booked in about MYR 90-odd million into our accounts. And that's about have almost double, almost double about MYR 40 million (inaudible) a MYR 40 million higher compared to quarter 1 of last year. And then in terms of the last question, the noncash item that is primarily relating to the translation gain on the shareholders loan of about MYR 170 million this now that I spoke about. So because that's a gain that gets deducted from the PBT for cash fleet statement purposes, then the MYR 20 million is roughly some item, deferred income, so on and so forth. Smaller items, various smaller items. But the big one is the cancelation gain on the shareholders' loans.

Vivek Rajamani, Morgan Stanley

So because of this change because of the shareholder loan, is there some impact on the tax rate as well because the tax rate this quarter has been relatively lower. So can you give guide for the full year tax rate as well here?

Pn.Rashidah Binti Alias, CFO:

The tax rate in terms of the unrealized -- sorry, unrealized translation loss. There is no impact on the tax rate because that is excluded from tax calculation anyway because that's unrealized. But in terms of the effective tax rate, if I'm not wrong, that it's about 13 -- 12% or 13-odd percent or so. Effective tax rate. That is roughly above the level of our tax rate because, as you are aware, we have a mix back in terms of our tax rate, Labuan is taxed at a lower rate compared to the corporate income tax of 24% so on a blended average, we do roughly about 11%, 12%, I mean, ranging between 11% to 13%. So roughly, that's about the level of effective tax rate.

Vivek Rajamani, Morgan Stanley

So for 2020, post, I think rapid coming in, will this number go down further? Or do you think this is about to stay around this level?

Pn.Rashidah Binti Alias, CFO:

Because rapid, again, as I've also highlighted earlier on, because of the market situation this year, we don't expect though -- we're not expecting a positive EBITDA the numbers are not expected to be big anyway because we are also starting -- we're only starting in the second half in terms of the commercial production. And the volume, and we are still going to ramp up the plant. Upon start-up, we are going to ramp up the plant. So there would be -- we don't expect so we don't expect a significant contribution from rapid. And therefore, in terms of the impact, the tax rate is also expected to be minimal.

Operator: Our next question comes from Raymond Yap Kok Hoe from CGS-CIMB securities.

Raymond Yap, CGS-CIMB

So I have just 4 questions. The first one is concerning the U.S.-China trade deal. So I believe that China is giving some exemptions on the tariffs. For U.S. exports of polymers into China. And I'd just like to ask whether that has resulted in less competitive pressure from U.S. polymer exports to Southeast Asia, it's a Southeast Asian market, seeing less competitive pressure from those U.S. volumes coming in?

Second question, just a clarification question for Rashidah. You mentioned just now that some ethylene, benzene and butadiene sales from the PIC complex contributed to the first quarter results. I couldn't catch what was the value of that revenue.

Third question is concerning the depreciation for Pengerang. So Datuk already mentioned that you'll be starting the petrochemical plants in the early part of the second half. So in terms of modeling in the depreciation, should we model in 4 months, 5 months or 3 months? So just roughly on a weighted average basis, that might make an impact on the earnings.

Finally, I think, Methanol, the plant turnaround for, I believe, was for Methanol plant #2 that started, I believe, in December last year and concluded in January this year. And you mentioned there was another methanol turnaround at the end of this year. So I presume that it's for methanol plant 1. Just wanted to clarify that.

Datuk Sazali Bin Hamzah, CEO:

Okay. #1 question on finance so okay. Shamsairi, can you answer the number one, we see as China frankly, is there any impact to our competitiveness between Southeast Asia and China. I believe there is none, but can you confirm that?

En.Shamsairi Ibrahim, Chief Commercial Officer:

None. In fact, become our opportunity for us to move our products more to China. But nevertheless, as we are aware that the netback is remain low. The netback to China is lesser compared to South East Asia. Once the market recover, we will refocus our attention to Southeast Asia.

Raymond Yap, CGS-CIMB

On the second question?

Pn.Rashidah Binti Alias, CFO:

Yes. Second question, I will take that second question. This is on the excess molecule sales just now, right? Yes

Raymond Yap, CGS-CIMB

Yes.

Pn.Rashidah Binti Alias, CFO:

Yes, Raymond. So the sales from the excess molecules produced by refinery during the commissioning stage that amounts to roughly about MYR 150 million for the quarter. Yes. So that's, I think, roughly about 4%, 5% of the total group revenue for quarter 1, roughly thereabout. Yes. And in terms of depreciation, yes, Datuk mentioned just now that the complex as it will start-up starting from early part of second half. But of course, we have several plants in the complex. It was easily about 4 to 5 plants. So that will -- in terms of start-up that was stagger so I suppose in terms of -- if you want to take an average depreciation, probably 3 months would be a good average because we have several plants that will start-up on the staggered basis. Yes.

Datuk Sazali Bin Hamzah, CEO:

Okay. I think I agree with Rashidah about 3 months because remember to start the unit it start from refinery first. So it will take some time before you reach the Petchem side. And some of the Petchem side also is the first time that we commissioned this plant, for example, the flexi PE plant. So this

may take some time. So I would say even three month probably is quite optimistic. But as average, I think, for this moment, we can take after 3 months. The last question is on the methanol plant. Yes, you're right, is plant 1 actually that we plan to do it this year, end of this year. However, were still in evaluating the performance. So if we can continue to drag the turnaround at latest stage, we may do so. But as of now, we still plan to shut down the plant by end of this year.

Raymond Yap, CGS-CIMB

Okay. So I just wanted to go back to the first question because U.S. exports have been starting to start East Asia. So I'm just not sure that given that Chinese demand has recovered, whether some of the volumes are being diverted to China, leaving your position in Southeast Asia a little bit better off is that happening? Or are the U.S. exports to flooding in the Southeast Asia?

Datuk Sazali Bin Hamzah, CEO:

Sham, can you give some light?

En.Shamsairi Ibrahim, Chief Commercial Officer:

Yes. I think what happened is with the current scenario Okay. So because the lockdown in most of the Southeast Asia country. So that's why we have to move our products to Northeast Asia, where the Northeast Asia situation on the COVID-19 have recovered. And that's why as Datuk mentioned, that our volumes in Northeast Asia increased with additional sales of more than 100,000 tonnes that have landed in China. As we believe we see of COVID-19 moving forward. And also the OPEC+ that have reached some agreement and moving towards year-end. We believe market will recover gradually, and we will be back to our business strategy to focus in South Asia, more than 70%. And the rest will be Northeast Asia and rest of the world.

Operator: Your next question comes from Anna Park from Macquarie.

Anna Park, Macquarie

I have just 1 question. Could you please repeat why O&D division recorded operating loss in 1Q? Sorry, I couldn't clearly hear your explanation earlier the more comment on the amount of one-off expense and reason for the loss should be greatly appreciated.

Datuk Sazali Bin Hamzah, CEO:

Rashidah, if you could respond to that?

Pn.Rashidah Binti Alias, CFO:

Sure. Anna, this is the loss from the Olefin & Derivatives segment? Yes. Is that right?

Anna Park, Macquarie

Yes, please.

Pn.Rashidah Binti Alias, CFO:

Okay. Okay. So our Olefin & Derivatives segment recorded losses in quarter 1 for 2 main reasons: number one, that we are were badly impacted or we are hit by the lower market price and lower spreads. If I'm not wrong, I think just now I quoted about MYR 400 million something close to about MYR 500 million. In terms of the impact from the lower market spread for O&D segment because as you can, as you're very well aware, the ethylene market and also polyethylene and ethylene glycol. These are products that has registered quite a significant dip in terms of market prices and also spread. So as a result, our spread has dropped quite significantly, I think about MYR 490 million or MYR 500 million, something like that.

And then second reason, on top of that, our associates -- sorry, our JV. This is the BASF PETRONAS chemicals in Gebeng Kuantan the underwent turnaround in quarter 1. So that was in March of this year. And therefore, they also recorded some losses. I think it's to the tune of roughly about MYR 44 million or MYR 45 million. So that results in loss to the O&D segment. If we exclude out the impact of the share of loss in BPC, in BASF PETRONAS, in actual effect, our operating profit is still positive. Although it is much lower compared to last year, again, because of the drop in market spread just now. However, when we layer in the share of loss from BPC, BASF PETRONAS chemicals, that turns our earnings, our bottom line into loss after taxation. I hope that's clearer.

Anna Park, Macquarie

Just for clarification, roughly MYR 500 million impacts on the O&D division. The first reason you mentioned earlier, that's the number relative to 1Q '19 number or just the absolute impact recognized in 1Q?

Pn.Rashidah Binti Alias, CFO:

That is actually comparing quarter 1 this year, 2020 versus quarter 1 of 2019. This is at the spread level. At EBITDA level, the impact on the drop in EBITDA, if you recall, I mentioned just now, EBITDA declined by about MYR 547 million. Now the spread impact is roughly about MYR 490 million, roughly thereabout. So the drop in EBITDA is substantially due to the drop in that market spread.

Operator: Your next question comes from Ahmad Usman from Nomura.

Ahmad Maghfur Usman, Nomura

I have a question. I have 1 question. I just want to follow-up with that molecule thing. So the molecule revenue was MYR 150 million. Correct me if I'm wrong, and that is booked at the O&D side, right?

Pn.Rashidah Binti Alias, CFO:

Yes, that's right.

Ahmad Maghfur Usman, Nomura

Okay. So -- and this is considered as nonrecurring, is that a correct assumption?

Pn.Rashidah Binti Alias, CFO:

It is recurring item. However, it will be of a lesser quantum because some of this molecule will go into our Petchem plant. So during the commissioning, during the -- if I use a simple -- the test run of the refinery, of course, they are producing all of these molecules, right? So some of this is will later go to our Petchem plant when our Petchem plant start up. Some there are still some excess, not so much, but there's still excess that excess will still continue to be sold to the market by our team -- by PCG. So you will see this recurring. Yes, but the quantum, it will be a smaller portion.

Ahmad Maghfur Usman, Nomura

All right. I understand. Okay. And then on the paper hedging, right? I mean, given the decline in oil prices, are you looking for some derivative hedging strategy, although I understand that you're on the '18 cost part of things. But with your naphtha cracker coming up, is that something that you are looking forward to with regards to structuring your hedges potentially moving towards the future?

Pn.Rashidah Binti Alias, CFO:

When it comes to hedging, our financial policy has always remained the same. We do not do any form of paper hedging. What we do is timing. The moment a transaction is locked then we were almost immediately hedge it so that we will -- that will, we hope to minimize the FX fluctuation from operational standpoint. We always try to lock it almost immediately. But that is what -- that is our financial policy, but we will never -- we have not done any form of paper. It's always with underlying. So in a way, that is very much tantamount to riding the market itself. So if the market falls, then for sure we will fall, but in terms of ForEx fluctuation, that will be minimized. So it will fall from the -- because of the market drop itself, but not because of Forex.

Ahmad Maghfur Usman, Nomura

Okay. All right. Understand. And given the significant drop in naphtha prices and if that continues to be the case, you see that it will be more viable to use naphtha as a feedstock compared to ethane?

Pn.Rashidah Binti Alias, CFO:

Okay. So for us, as you are aware, we've got these 2 revenue streams, two production streams, right? So we would have naphtha with Pengerang coming on board, we would have the naphtha source, whereas our current existing operations, those are gas days. Those are ethane and methane based. So that will remain. But the Pengerang one will be the naphtha sourced anyway. I mean I hope I get you right. I hope I get you right.

Ahmad Maghfur Usman, Nomura

Yes. So it depends on the -- basically on the plant. So all right, okay, understood.

Operator: Your final question comes from Galvin Wong from Aberdeen Standard.

Galvin Wong, Aberdeen Standard

I just wanted to follow-up on Ajay's and Anna's question, specifically on O&D segment in first quarter. So if I look at it on a quarter-on-quarter basis, O&D revenues fell by roughly MYR 175 million quarter-on-quarter, but EBITDA only fell by roughly MYR 100 million. So you had some positive costs coming down of roughly MYR 75 million. And you mentioned just now some associate losses of roughly MYR 45 million. So take together there some positive of roughly something like MYR 120 million, MYR 130 million. But I remember in fourth quarter, last year, you mentioned that you had a one-off impact -- one of expense that was captured because of higher turnaround of roughly 9% to 10% of cost of goods, we translated to roughly MYR 300 million to MYR 350 million. So my question is, shouldn't we be seeing that sort of reversal of the impact, so the positive impact should be closer to MYR 300 million and MYR 350 million rather than see the MYR 120 million, MYR 130 million. Do you get what I mean?

Pn.Rashidah Binti Alias, CFO:

Yes, yes, precisely. Of course, you see that last quarter, in quarter 4, we had that maintenance costs, I mean, relatively higher maintenance costs. But for quarter 1, the impact doesn't flow proportionately because in quarter 1, we also have the inventory write-down. Because of the drop in prices. I think for that matter now, I remember, I probably missed 1 of the question earlier on. I can't remember from who, but almost the whole of that inventory impact, I think, roughly about 90 -- about 90%, 90-odd percent that for the O&D segment. Yes, it's for the O&D segment because urea methanol the price doesn't -- although it dropped, but it's not as pronounced, it's not as drastic as O&D. So the inventory impact is pretty much concentrated at the O&D side. So that kind of like offset that -- the drop in maintenance activity costs, yes.

Operator: There are no further questions at this time. I'll now hand back to Alia for closing remarks.

Ms Zaida Alia Shaari, Head IR:

Thank you, Feeann. Thank you, everyone, for participating today. If you have any more questions, please e-mail us for analyst publishing reports to send us your reports once they're ready. To all our muslim participants. We wish you Selamat Hari Raya Maaf Zahri & Batin. Thank you again for joining.

Pn.Rashidah Binti Alias, CFO:

Thank you.

Datuk Sazali Bin Hamzah, CEO:

Thank you. Thank you, all.