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Operator: Ladies and gentlemen, thank you for standing by, and welcome to the PETRONAS Chemicals Group analyst briefing for 3Q 2020 conference call. Please note that this conference is being recorded.

I would now like to hand the conference to our host today, Ms.Zaida Alia Shaari. Please go ahead, ma'am.

Ms Zaida Alia Shaari, Head IR:

Thank you, Rohit. Hello, ladies and gentlemen, welcome to our analyst briefing for the third quarter 2020 financial results. I am Alia, Head of Investor Relations. Thank you for joining our call this evening.

You should by now be able to access and download the financial results as well as the presentation materials. Due to unavoidable circumstances, we were only able to release the financial results after the Board of Directors meeting at the evening today. We apologize for the inconvenienced caused and we are glad to have the session with you today.

We are pleased to have the group senior management present here. The briefing will be led by Managing Director and CEO, Datuk Sazali Bin Hamzah, will give highlights of the group's performance followed by detailed presentations on financial performance by our CFO, Mdm. Rashidah, followed by update on operational performance by Chief Manufacturing Officer; Mr. Kabir; and update on market and commercial performance by Chief Commercial Officer, Mr. Shakeel. Also present is Mr. Akbar, our Head of Strategy, Planning and Ventures.

I shall now hand you over to Datuk Sazali.

Datuk Sazali Bin Hamzah, CEO:

Okay. Thank you, Alia. Good evening, ladies, and gentlemen. Thank you for joining us today. Since we last met in August, we have seen continued recovery momentum in the market as lockdowns continued to ease and regional as well as global economic pickup. As manufacturing activities resumed, demand gradually returned, and petrochemical product price improved, supported by stable feedstock price.

However, despite the recent improvements, it has been an overall weaker market year-on-year. Comparing the ninth month of this year against last year, the market has been severely impacted by the COVID-19 pandemic and the global economic slowdown, so much so that GDP for the 9-month period this year indicated a recessionary state of minus 4.7% compared to 2.6% at the end of the same period last year.

Global PMI registered contraction at 47.4% as lockdowns, business closures and physical distancing measures mandated to contain the spread of the outbreak caused severe disruption in the manufacturing industry.

Crude oil prices stabilized in recent months on improved demand and lower supply. However, for the 9-month period this year, the benchmark Brent crude averaged lower at USD41 per barrel as compared to USD65 per barrel last year. This is largely due to the oil demand shock caused by the virus outbreak and the sudden supply increase in April as a result of the collapse of OPEC+ supply pact. Following the lower crude oil prices, petrochemical prices fell on lower feedstock cost and soft demand from the disrupted manufacturing sector.

Ladies and gentlemen, before we continue with our performance results, I would like to share with you some details of our efforts toward sustainability. The unprecedented COVID-19 pandemic and the volatility of chain effects across industries and economies have magnified the need for us to have a closer look at each key capital we employ in our business. Having witnessed for instant life and health threat in a massive scale, we have to reshape our thinking in employing our human capital, intellectual capital, and our social and relationship capital more effectively moving forward to help ensure we operate and achieve growth in an environmentally and socially sustainable manner. It was a timely reminder for us to step up and expedite our sustainability agenda towards long-term business sustenance for PCG, our sustainability strategy takes into consideration our material matters, and it's designed to create value for our stakeholders and safeguard the environment, and the same time, uphold strong governance practices.

On that note, I would like to share with you the 3 pillars of our 3Ps on which our sustainability program is built upon. Profit, which refer to our business sustenance, and Planet referring to our resource efficiency, and People regarding our social responsibility.

Our business sustenance, we have spoken extensively on our 3 initiatives: Operational Excellence and also Growth Delivery Excellence, all of which have helped in mitigating impact of COVID-19 and provided us with the resilience to overcome the volatility of the market. Integrating environmental and social considerations into investment decisions, we are also actively looking at bio-agenda for the future, one of which is using biomass as an alternative feedstock for chemicals. We are also looking into the NPE, one of which is the study for recycle plastic to crude naphtha. And also, we cut back on our carbon footprint as we explore ways to capture and utilize our CO2 release.

Resource efficiency goes hand in hand with the importance of HSE in our operation, our management of our effluents, be it gases, liquid or solid, how well we manage the areas surrounding us to minimize environmental effects. The management framework is currently being developed by our dedicated sustainability team for the mitigation of risks arising from climate change and also water-level changes. Our third pillar is on our Social Responsibility. Here, we are looking to empower society on 3 different aspects: Environment, Community Well-being and Education.

Through various community outreach programs, we are able to educate and create awareness on the environment with deep understanding on how to properly manage our waste, including plastic, as well as to provide aid to those people that need around our facilities. Our "back-to-school" program helps alleviate the financial burden of struggling parents by providing their children with a complete set of uniform, shoes and bags at the start of the school year. We hope this will also motivate the children to approach the new academic years with a positive mind frame.

So, ladies and gentlemen, we have planned our approach for sustainability, and we'll continue to fine-tune our initiative to better address our material matters. As part of our organization that has been around almost 35 years for PCG and PETRONAS for 50 years, our business practices and strategy has always been to do things in a sustainable manner. In line with that, we are making the commitment in order to sustain our business for a better tomorrow and to play our part to realize PETRONAS's aspiration for a net zero carbon emission in 2050. And in these challenging times, sustainability which results in resilience, is what differentiates us.

On that note, bringing you back to our performance report, we are seeing the result of our initiatives in the resilient set of numbers we achieved. Ladies and gentlemen, for the 9-month period this year, despite the lockdowns and the economic slowdown, our operations have remained mostly uninterrupted. Through close and continuous collaboration with our stakeholders, be it our customer, the regulators, supplier and so on, we managed to keep our plant running at optimum level. We have ensured sales continued, and deliveries are made on a timely basis to circumvent some of the impact of the lockdown. As such, we recorded a group 9-month plant utilization at 95%, an improvement from 93% recorded in the same period last year.

Our sales team has shown commendable effort to find home for our products through close collaboration and continuous collaboration with customers and exploring the potential and possibilities of new customers and markets. Nonetheless given the significantly weaker market, sales volume fell 3% year-on-year. This is mainly on the inventory rearrangement.

Following that, revenue for the 9 months of the year fell 17% mainly due to lower product prices and lower sales volume. EBITDA was 36% lower at MYR2.3 billion due to compressed product margins, and EBITDA margin was recorded at 23%. Profit after tax, PAT declined 55% to MYR1.1 billion.

For further details of the financial performance, I will hand over to Madam Rashidah.

[Pn.Rashidah Binti Alias, CFO:](#)

Thank you, Datuk Sazali. Ladies and gentlemen, a very good afternoon and thank you for joining us. Let's now talk about the group financial performance if you can turn to Slide 6. As indicated by Datuk Sazali in his opening remarks, the COVID-19 pandemic has sent the global economy into a recession state, so we can expect that overall year-on-year comparison to be on a declining basis. Comparing third quarter 2020 against third quarter of last year, the global GDP contracted

significantly to negative 3.7% in the third quarter of this year. The benchmark Brent averaged lower at USD43 per barrel compared to USD62 per barrel in the corresponding quarter. Consequently, average petrochemical product prices fell, further dampened by the soft market demand. During the quarter, the group recorded higher plant utilization of 90% as compared to 81% in the corresponding quarter mainly due to lower level of turnaround activity as compared to fourth turnaround undertaken last year. As a result, production and sales volume increased.

Despite the higher sales volume, revenue was lower by 6% year-on-year at MYR3.5 billion mainly due to lower product prices. However, EBITDA was comparable at MYR914 million as lower spreads were negated by lower maintenance costs and lower inventory write-down. Subsequently, EBITDA margin increased to 26%. Profit after tax decreased by 19% year-on-year to MYR452 million, mainly following lower EBITDA but partially offset by lower tax expense.

Next, we move on to the group financial performance against the preceding quarter, that is second quarter 2020. Now global GDP recovered as lockdowns eased in comparison to the second quarter and businesses resumed, which led to the upturn in manufacturing activities. The benchmark Brent crude oil price rose from USD29 per barrel, which was the average in second quarter 2020, to average at USD43 per barrel in the current quarter on recovering demand, subsequently lifting prices of petrochemicals to a more favorable level. However, the group recorded lower plant utilization rate of 90% compared to 100% in the preceding quarter. This is mainly due to gas supply interruption to our PC Methanol and PC Fertiliser Sabah plant as a result of a landslide incident at our Sabah-Sarawak gas pipeline in the Sabah-Sarawak region. This result in lower production and sales volumes.

Despite the lower sales volume, revenue increased 9% quarter-on-quarter to MYR3.5 billion, largely attributed to higher product prices. EBITDA was higher by 32% at MYR914 million mainly due to higher spreads but partially offset by lower sales volume and higher maintenance costs. EBITDA margin increased from 22% to 26%. Profit after tax increased more than 100% quarter-on-quarter in line with higher EBITDA as well as lower tax expense.

Let's now look at the performance for the 9-month period of 2020. Now year-on-year, global GDP growth decelerated significantly as the COVID-19 pandemic led to rapid contraction in global economic activities. Brent price decreased from USD65 per barrel in the 9-month period last year to USD41 per barrel during the same period this year. Petrochemical product prices also averaged lower with lower feedstock cost and softer market demand.

The group attained higher plant utilization of 95% compared to 93% in the corresponding period due to lower level of turnaround activities, as mentioned earlier, which resulted in higher production volume. However, sales volume was lower following softer demand due to weaker end markets brought on primarily by the pandemic and global economic slowdown.

For the 9-month period this year, we recorded a lower revenue of MYR10.5 billion compared to MYR12.1 billion last year largely due to lower product prices. EBITDA was lower by 36% mainly due to lower spreads and sales volume, partially offset by lower maintenance costs and lower inventory write-down. EBITDA margin was lower at 23%. Profit after tax also decreased 55% to MYR1.1 billion following lower EBITDA partially offset by lower tax expense.

Now I'm going to leave the next 2 slides, which are the granular breakdown of the group performance by segment. We will move on to the update on the balance sheet and cash flows on Slides 9 and 10.

First, the balance sheet on Slide 9. For the 9-month period ended 30th September 2020, total assets increased by MYR439 million to stand at MYR39.3 billion. This is primarily due to 2 reasons: number one, higher cash and cash equivalent contributed mainly by profit generated during the period. This is partially offset by payment of second interim dividend for financial year 2019 as well as the first interim dividend payment for financial year 2020. Number two, there is also higher property, plant and equipment balance at MYR20.5 billion, and this is mainly in relation to capital investments related to our petrochemical projects in Pengerang Johor and recognition of additional right-of-use assets.

Let's now turn to our cash flow on Slide 10. Now cash generated by operating activity was lower by 54% primarily due to lower profit generated. Net cash used in investing activities was lower at MYR903 million mainly due to lower capital expenditure for our Pengerang projects as the projects are already nearing completion. At the end of the 9-month period, our cash balance remains strong at approximately MYR12.6 billion.

That is all on the financial performance for the third quarter of 2020. I hand over to Mr. Kabir for the manufacturing highlights.

En.M Kabir Noordin, Chief Manufacturing Officer:

Thank you, Madam Rashidah. Very good afternoon. Kabir here. I will talk on the operational highlights for the quarter. Alhamdulillah, our quarter 3 performance was good. Plant utilization as of year-to-date 2020 for the group remains high at 95%. Quarter 3 plant utilization dropped to 90% following the decision to stop gas flow to our urea and methanol plant in Sabah due to landslide at Sabah-Sarawak gas pipeline in July 2020. Our olefin and derivative facilities remain stable with no major reliability issue. Based on planning, we should be able to deliver the production target of above 10 million metric tons for the year.

Next. Olefin and Derivatives segment. Quarter 3 performance of O&D segment was high at 100% plant utilization. We saw improvement in ethane supply to our crackers contributing to high ethylene production for the quarter. We were also supported by smooth operations of our downstream facilities. I believe O&D segment will be continued to be the key to our operational success for this year.

Next, Fertiliser and Methanol. For the F&M segment, quarter 3 plant utilization was recorded at 84%. We experienced some unplanned downtime of about 20 days at our methanol plant in Labuan, an urea plant in Sabah early in the quarter due to feedstock disruption. This was due to the maintenance work on the certain parts of Sabah-Sarawak gas pipeline. The activity was completed successfully ahead of the expected downtime repair. Since then, we have been running at full capacity in order to meet our operational target for the year. I am confident that we should be able to meet our target for this year as our plant has been operating, reliably and also efficiently.

Next, PIC-PETCHEM. For our project updates as of September 2020, overall progress of PIC-PETCHEM is at 99.9%. As many of you aware, our petrochemical plant maintenance activity are completed. They are now maintained under preservation mode to ensure all equipment is operating at its maximum once in operation. Plant operation and maintenance activity are in place, preparing towards starting up in early 2021.

Next. In conclusion, as a recap, ladies and gentlemen, manufacturing operation for the third quarter of 2020 was stable in view of maintenance activity at our supplier facilities. We recorded good

volume from Olefin and Derivatives business segment. At the moment, we completed the turnaround activity at our MTBE plant in Gebeng safely and timely despite the COVID-19 challenges.

Moving forward, we shall remain focused in safety, managing our asset and its reliability in order to sustain year-end plant utilization above 90%, In Shaa Allah will be 95%, and production level above 10 million metric tons. That's all, I have the operational highlights.

I would like to hand over to Mr. Shakeel for the market performance.

En.Shakeel Ahmad Khan, Chief Commercial Officer:

Thank you, Mr.Kabir. Good afternoon. Shakeel here. Let's proceed with the market highlights. I will begin with Olefins and Derivatives. In quarter 3, ethylene prices were higher amid improved energy market, plant outages and regional production cuts, further supported by healthy downstream polyethylene demand. Three months' forecast from November to January 2021, ethylene price is expected to be firm in November to January as energy prices are improving amidst news of potential COVID-19 vaccine. This is further supported by unexpected tight supply due to the recent fire at a Korean cracker and minimal deep-sea cargoes from the US. We may see a reopening of US-Asia arbitrage when US. facilities recover from hurricane impact, especially if Asia price continues to firm up.

Moving on to polymers. Quarter 3, 2020 versus quarter 2, polymer prices have improved amid a stronger and persistent tight supply in the region, especially for HDPE and LLDPE.

Additionally, due to Hurricane Laura, there was a lack of supply from US. coming into Southeast Asia. Improved demand was supported by restocking activities and strong gains in key market China.

Three-month forecast. Polymer prices are projected to be stable on the back of stable supply and improving demand. The supply is expected to be limited in the near term amid regional plant turnarounds and shutdowns as well as limited cargoes from the US. Further to this, new plant start-up has been delayed and are expected to only come on stream in quarter 1 2021.

Next, for MEG. MEG price hiked up in quarter 3 2020 in line with higher feedstock prices and reduced supply due to production cut as a response to poor margins. MEG market also saw a lack of supply from US. producers due to the hurricane.

And 3 months forecast, MEG prices are forecasted to be stable supported by sufficient supply and improved polyester demand. Supply in China is anticipated to decrease amidst higher offtake rates during peak demand season. However, increased domestic China supply from newly commissioned capacities and rising coal-based MEG production to put pressure on price improvement. Polyester demand in India and Southeast Asia is expected to pick up further as downstream production activities resume.

As for paraxylene, for quarter 3, 2020, Paraxylene price was higher primarily driven by firmer price in the upstream naphtha market and in improving supply, demand fundamentals as inventories are gradually on a decline following several operating rate cuts seen at PX facilities.

For the 3 months forecast, our PX prices in Q4 are forecasted to be at the same level as previous quarter supported by stable downstream demand despite ample supply as it is offset by the lower

operating rate. Overall, supply is expected to be sufficient despite most producers returning after major turnarounds in addition to the new capacities that will be onstream in Q4. This is mainly offset by low run rates maintained at PX facilities on the back of squeezed margins.

Now let's proceed to Fertilisers and Methanol segment, starting with urea. Urea price in quarter 3 was higher, driven by healthy demand in India, following a good monsoon and government initiatives with farmers doubling crop plantings for Kharif season between June through September. Supply is tight with Indian tender absorbing most available volume. For the 3 months forecast, urea prices are expected to be stable with steady demand with most volumes going to Indian tender despite ample supply globally. Furthermore, plants are running at normal rate and no planned turnaround in Q4.

Additionally, there is demand coming from Australia and New Zealand for its seasonal requirement. Other than India and Australia New Zealand, markets are quiet, except in China due to increasing domestic demand in preparation for next harvest season.

Okay. Moving on to ammonia. Q3 2020 ammonia price hiked up in Q3, led by improved industrial demand in China, coupled with restocking for next season. Furthermore, supply is tight due to turnaround and delayed plant start-up. Three months forecast. Ammonia prices are expected to be stable amid normal supply and healthy downstream demand. Indonesia plants are running well after returning from turnaround, and no scheduled turnaround in Southeast Asia and Far East Asia. India demand for ammonia is steady with importers looking to secure raw materials early for the Rabi season, which is for wheat Bali. For North East Asia, downstream demand is healthy in China for both industrial and fertilizer usage as buyers are ready for its November and December shipment as well as better caprolactam demand in South Korea industrial producers.

Lastly, on the methanol. In Q3, methanol prices was higher supported by strong downstream demand and firmer MTO demand in China. Three months forecast. Methanol price is forecasted to be stable on the back of healthy downstream demand, and supply is returning to normal as plants resume from turnaround activities. Most producers resumed from planned turnaround on their higher production rate, hence, balancing the supply despite production hiccups in Middle East and upcoming Kaltim planned outage. Demand in Southeast Asia is picking up mainly for biodiesel in Indonesia to fulfill its B30 mandate.

That's all from me on commercial.

[Datuk Sazali Bin Hamzah, CEO:](#)

Okay. Thank you, Shakeel. Ladies and gentlemen, I believe we have done well so far, given the circumstances, particularly in ensuring that the impact of COVID-19 and related events are mitigated. Again, I must say our sales team have done really well in ensuring that our products find home. And we have been able to run our plants fairly well as we manage matters within our control.

Though we faced some interruption to our operation due to feedstock disruption, we have been able to maintain our plant utilization above 90%. As such, I would like also to mention as what Mr.Kabir have highlighted, we are still on track to meet our year-end target production volume, which is above 10 million metric ton.

The 9 months so far, it has been very rough, and we are not out of the wood yet as we speak now. Economic recovery has gained some momentum as manufacturing and business operation has improved. Crude oil price has shown some stabilization as producing countries revert to their

production cut agreement to manage the supply availability and demand returned with the resumption of manufacturing activities and the reopening of businesses. However, with the recent reintroduction of COVID-19 containment measures to mitigate the third wave of infections, there still remains a lot of uncertainties on how much economy recovery we will see for the rest of the year.

Similarly, to my thought last quarter, despite the positives we have seen, volatility remains a large factor for the market, and it's imperative that we ensure our resilience to be able to ride out this challenging period. Ensuring strong operation is not a choice rather than it is a must, and we will continue to do so through our solid HSE culture, prioritizing the safety and health of our employees and our stakeholders while maintaining safe operation though continued focused on operational excellence to ensure continuous optimum plant operations, and through commercial excellence initiatives, we remain flexible and responsive to the constantly changing business environment while ensuring strict financial discipline.

And speaking of financial discipline, we put a lot of focus on cost management and addressing the performance of and also challenges facing by our JV and associated companies. This include also seconded some of our top talent to support our JV partner in driving that business.

On that note, I would like to touch on an announcement we made earlier today on the decision made to close the BDO plant in Gebeng. To those who have been following us closely, you will recall that we have been taking losses from one of our associate companies, BASF PETRONAS Chemical or BPC, for some time now. After a long and thorough review of the product portfolio, this market behavior and future performance of BDO, we have collectively come to the conclusion that it is not feasible to keep the plant running. The BDO market is in an oversupplied position in Asia, and margin has been on a declining trend, and this has been negatively impacting BPC and, of course, PCG and BASF, a shareholder of the company.

BPC has made a number of plans, and this decision to close BDO plant does not affect the other plant within BPC. We expect that upon the closure of BDO plant with the available of product portfolio within BPC, profit, should improve, and we should start seeing better financial performance from BPC and will this be reflected in our share of profit. BPC will also ensure that all the customer of BDO will be taking care effectively with the support from BASF, our counterpart.

Next, on our venture into specialty chemical space, we have not slowed down of our pursuit to play in this game, and our team is constantly exploring and researching opportunity for growth that best fit our long-term aspiration to grow in this area. And this include our downstream investment in specialty chemical targeting in our asset in Kerteh and Pengerang. Our steppingstone for this is Pengerang integrated complex and schedule, which is scheduled to start in the first quarter of 2021. All of this and our commitment for a better tomorrow are to ensure that we built a resilient and sustainable company for the future that will continue to bring value to our stakeholders.

Ladies and gentlemen, before I end, I'm sure many of you have seen the [investor] Bursa announcement made on the 30th of October. Today's briefing will be the last one for Puan Rashidah as her tenure as our CFO, which will end on 31st December 2020. She will be assuming another important role within PETRONAS next year, reporting directly to our President.

Having joined PCG in December 2015, Puan Rashidah has been in PCG for 5 years, very much involved and extremely knowledgeable in every aspect of the Group business. She has contributed significantly toward the group performance, growth and excellence. Her outstanding leadership qualities, high level of discipline and dedication combined with expertise in area beyond finance

and accounting have made her an invaluable member of the PCG team. We have very much relied on her skills, judgment and advice on countless business decisions. Among the many roles she played, she was instrumental in the acquisition of DA Vinci Group. Under her financial stewardship as CFO of PCG, PCG has grown into a resilient corporation in a solid financial position. We would like to thank Puan Rashidah for her hard work, and wish her a bigger success in her new role.

In January, we will have Mohd Azli Bin Ishak stepping in as the Group CFO at PCG. He's currently the Head of Merger and Acquisition at Corporate Strategic PETRONAS, a charter accountant by training, and Azli joined PETRONAS in 2000 from KPMG and has still various managerial position within the former Petrochemical Business unit and merger acquisition department in corporate strategy. Having been with PETRONAS for 20 years, he is no stranger to us and is very well-versed in the petrochemical business. You are assured that a smooth handover and transition is currently underway.

With that, I would like to thank you for your participation, and we look forward to see you again next year, Puan Rashidah. And of course, she will support us through President office. Lastly, I would like to close our session today and would like to open for the Q&A, subsequently. Pass over back to Alia.

Ms Zaida Alia Shaari, Head IR:

Thank you, Datuk. Rohit, over to you.

Operator: We have the first question come the line of Ajay Mirchandani from JPMorgan.

Ajay Mirchandani, JP Morgan

Before I ask my questions, just best of luck, Rashidah, for the new role. Three questions from me. The first one was specifically for RAPID itself. Given the changing outlook we're seeing on spreads, has management kind of revisited the potential profitability of that project as we move into 2021? And any guidance specifically on the contribution of that asset?

The second question I had was specifically on the methanol kind of one-off impact. It still seems you had a very good quarter on the Methanol division. Maybe you could just help us better understand if there were any one-off costs. And does that mean we could see even stronger margins as we move into the fourth quarter for the Fertiliser and Methanol division?

And thirdly and lastly, just broadly around the fourth quarter itself, how does management see the outlook for that business from a financial standpoint? Because it looks like all decks are kind of lined up, and it looks like a pretty strong quarter in the making. So, those are my 3 questions.

Datuk Sazali Bin Hamzah, CEO:

Thank you, Ajay. Let me answer first 2 questions. And then number 3, I think I pass it to Puan Rashidah, who's here. You're talking about the outlook. So first, on the RAPID. At this moment, yes, we continue to evaluate our spreads margin for refinery as well as petrochemical. And that decision at this moment, we still keep our target to start the unit in quarter 1 mainly because we have yet to finish the commissioning of this plant and also do the performance a test run. Then from there, we will evaluate the maximum potential of this unit.

So we would say that the half, first half of the year and end of first half of the year, we will be able to tell this ability of this unit with regard to the current margin situation. So, as you ask whether is

there what is the guidance internal contribution for this year, I would say, because it will be at the start of the year, I will not see any contribution from this unit because we only focus to start up the unit. And with the current situation of margin, our focus is just to get the plant running and stabilize, so, the results then, so, I would say that we will not count any contribution from the asset for this year.

Your second question on methanol, yes, we believe F&M, Fertilisers and Methanol, spreads remain, and price also remain positive as well as remain stable, and we believe will follow through in fourth quarter. This also aligned with some of the harvest season we relate to Fertiliser business or urea business, whereas Methanol, we're also seeing to start picking up back on the biodiesel use, plus I think the ease of COVID-19 have also started some energy use of methanol. So, we believe that quarter 4 will remain stable as what we experienced in quarter 3. And the last question, I would like to pass to Puan Rashidah.

Pn.Rashidah Binti Alias, CFO:

Thank you very much your kind wish. So, on fourth quarter, 2 things. Just now, Mr. Kabir spoke about this turnaround that's happening at MTBE. So, from a production standpoint, we have that turnaround at MTBE. That was done on schedule, on time, on budget. So, that was all right.

And on the second part, for quarter 4, we are seeing good recovery on the market front. As you can see in terms of volume, sales volume, we have not been affected pretty much by the pandemic, we're still able to sell our volume despite the challenges mainly on the logistical front to move the volume at some point. At the peak of the lockdown, we do have that in quarter 2, but that hasn't hampered our ability in terms of sales volume. Demand is still there.

So, but on the market front, we are seeing recovery in quarter 3, and we thought this would, even until today, and this is like, what, mid-November, we are seeing that the price is going sideways through quarter 3. So we expect that we'll end quarter 4 with a similar level somewhat a similar level from a market standpoint.

And MTBE, coming back to my first point, that will also not have a very big impact on the financials for quarter 4. But you have also heard, that's Datuk Sazali talk about the BDO plant closure just now. So that's probably the third point that, in terms of the key happenings within quarter 4. That will not impact.

So, the last point on BDO that will not impact our EBITDA because this is from our JV, is our JV associates. But that will come in through the share of profit from, by way of reduction in share of profit from BPC. So, those are, if I can sum up, those are the 3 things that are rather key in quarter 4.

Operator: The next question on the line of Alex Goh from AmBank Malaysia.

Alex Goh, AmBank

Yes. Thank you so much for the opportunity. And again, Puan Rashidah, hope all the best for you and I'm pretty sure probably a promotion. The first I have regarding the Sabah incident. How many days this incident affected the methanol operations over there? And how is it that the fact that your utilization for the F&M actually dropped by 17 percentage points to 84% quarter-on-quarter, but your EBITDA and the profit net profit actually rose? Was it largely due to the price movements? Okay, that's my first question.

My second question, on the BDO association, could you give us, let's note, what was the losses in the third and 9-month period of this year? And will there be any impairment that you'll be expecting next quarter because of the closure of this plant?

And my third question, could you give us, could you run through exactly what would be the plant maintenance schedule for the fourth quarter and maybe next year as well so that we can actually kind of have some bit of and perhaps give us a bit of indication on the overall plant utilization level.

Datuk Sazali Bin Hamzah, CEO:

Ok, your first question is on the Sabah incident, how long it takes. I think it's about 20 over the 20 days, I think, because of what happened is it's landslide issues. And the main gas pipeline to our SAMUR and also methanol have been affected. The pipe itself is okay, but we take extra precaution because of the condition of the landslide so in order to do the proper analysis also investigation to reinforce the soil, so that took about 22 days.

Second question is plant. I go to the third question first. Second question, I will pass it to Rashidah where about the plant TA in fourth quarter 2020, basically, we don't plan any plant turnaround in fourth quarter. And for 2021, we will have what 5 plants will be under, it's going to be a turnaround. So, there will be natural. There will be a heavy turnaround yet. However, we're still maintaining our target of utilization of [above] 90%. For question number two, with regard to BDO.

Pn.Rashidah Binti Alias, CFO:

Again, thank you very much for the kind wish. Now on BDO, when it comes to the financials, perhaps, I will talk about, I'll point out 2 things. In the Bursa announcement, you can see that in terms of this share of profit coming from our JV associate for quarter 3 itself, this is now already positive. Of course, this is total. Yes, it's a positive MYR12 million. Compared to last quarter, if you compare that against last quarter, that's a negative, which is a share of loss of MYR30 million. So, for this quarter, most of our JV associates, if not all, have turned for the better, BPC included. So, within BPC, obviously, we've got BDO. We've got other complexes as well.

BDO, on average, it has been like recording about MYR5 million loss per month, roughly thereabout. So, it's like kind of like breaking even, not breaking even—each level. So BDO has been clocking in around about that level. But this has been compensated by other complexes within BPC, for example, the Aroma complex HR-PIB to EH acid. So, overall, our share of profit from JV associates has improved a lot for quarter 3. And we are hoping that we are confident this will continue to move into quarter 4. However, for the, and to your question on impairment, there's no impairment recorded in quarter 3, but the financial impact as a result of the decision to close that will be recorded in quarter 4.

We still have, for example, some carrying amount on the plan on recent costs that we've incurred, rejuvenation costs and some catalyst change. So, we've got some costs remaining in the book that will need to be written off, and we will also have to make provision for decommissioning, for example. So, I think if you make reference to our announcement, we have put in the financial impact to be roughly estimated at about USD52 million. If I'm not wrong, that's our share. So, that's roughly about MYR200-plus million. That's also in our Bursa report. Yes, MYR232 million roughly. So, that will come in, in our quarter 4 results in the form of reduction in share of profit. This will be recorded in BPC's book.

Alex Goh, AmBank

Thanks then.

Datuk Sazali Bin Hamzah, CEO:

I let just now you asked about our review for F&M decrease, but EBITDA increase is mainly because of the price of the product. If you look at quarter 3 average about USD 259 per metric tonne compared to quarter 2, roughly average about USD 230 today is the main contributor of high EBITDA to do.

Alex Goh, AmBank

Just one follow-up on the BDO plant. What would happen as to the molecules that you would be using instead? Would you be using the actual raw materials. Would it be used now for the Specialty Chemicals segment that you are planning to invest in?

Datuk Sazali Bin Hamzah, CEO:

So, basically, at this moment, the BDO is taking butane from us. So, what we do, we sell to merchant first, but we are now taking another study to upgrade this molecule into higher-grade chemicals. So, we will announce later if these projects reach FID. So, in the meantime, we route it to the merchant, but there's a market on this molecule code actually.

Operator: We have the next question. This is coming from the line of Mayank Maheshwari from Morgan Stanley.

Mayank Maheshwari, Morgan Stanley

A few questions from my end. I think the first one was more related to, I think, on the PX side of the business. I think it has been a bit of a challenging PX and benzene environment last quarter. I just wanted to get a sense in terms of how are you kind of thinking about operating these plants? Because I think they have been running near or slightly below cash cost, if I was correct. So, just wanted to get a sense on what's your view on that?

Datuk Sazali Bin Hamzah, CEO:

Okay, Mayank. For PX, benzene, you're right, that at this moment, it is a tough rate for this plant. However, we believe that this will get better probably in a year's time, yes, because of the supply and demand situation. But if you look at the overall value chain to PCG, actually this plant actually bring a positive EBITDA to us. Because, as you know, that this plant also have interrelated to ammonia, our acetic acid. So, it's a comingle integration. So, that's the beauty of having highly integrated plant. If you look at our PX /BZ alone, it may be negative. But if you look at the total, it's still positive.

Mayank Maheshwari, Morgan Stanley

Okay. Okay. And sir, the second thing was more related to contribution from the other plants, especially on the JV side that you have been kind of commissioning and ramping up. So, can you give us a sense of how are these plants kind of going across the different value chains that you have now?

Datuk Sazali Bin Hamzah, CEO:

I would say for the JV, mainly focused on the aroma complex in BPC Gebeng. In the past, we have managed to bring back this plant to the highest more than 90%. And the margin or the spreads for this product is really good. And I guess, our technical team have managed to find the sweet spot how to really ramp up the plant in a very short period of time. So, based on our first experience starting up this unit last time, it took us more than 3 months to stabilize from 0, I put it probably 70%, 80%. But now we can do it over probably about a week time. And this is a new technology. It

requires a certain skill to achieve after we have certain experience in running this unit. So, that's one of the achievement that we see.

The rest of the JV, I don't see any issues in ramping up the plant. It's go back to back with the market question. So, if the market is not run well, so, we will reduce certain capacity according to the supply and demand.

Mayank Maheshwari, Morgan Stanley

Sir, but have they all now been positively contributing to your bottom line, the Aroma plant and the others?

Datuk Sazali Bin Hamzah, CEO:

Yes. Yes. That's why you look at this year, I think the first quarter that we managed to run stable at above 80%. And because of that also, it contribute to BPC for positive EBIT this quarter.

Mayank Maheshwari, Morgan Stanley

Okay, okay. And ma'am, a question to you in terms of the financials, I just wanted to check-in terms of any extraordinary items that you have on inventory gains, FX-related in the EBITDA line item or the net profit line item this quarter?

Pn.Rashidah Binti Alias, CFO:

In terms of FX, we have unrealized translational loss, given that dollar has weakened or rather getting stronger because, as you're aware, we do have shareholders' loans that is denominated in dollar that we give to Pengerang, so there's that translational loss that, if I'm not wrong, that's about MYR85 million.

And then in terms of the other bit, that's pretty much it. Perhaps maybe what I can highlight. The other one is on our tax expense. For the quarter itself is on the slightly lower side because there's also some adjustments to the tolling fee that is been, these are all interplant. Yes. These are all interplants. There are some adjustment to tolling fee. So, in order to improve the efficiency of charging in between plant and the marketing outfit, so we have changed some parameters within the tolling fee that now tolling fee is largely on actual.

But like I said, these are all inter companies within PCG, but obviously, that has a certain tax implication because of the differing tax regime between Labuan and Malaysia. So, you see that the effective tax rate for quarter 3 itself is relatively on the low side. That's about 6%, if I'm not wrong. But on a year-to-date, that gets normalized. On a year-to-date, that's roughly about 15%, 16% effective tax rate, which is around about the level of ETR that we can expect when market is slightly on the lower side.

Forex loss, effective tax rate, that's pretty much inventory write-down. That's not much. For this quarter, it has come down because market has, as you can see, as market recovers, we've got a lot less inventory write-down impact, if I'm not wrong, that's about MYR 100 million or so compared to before, that's about 150 million, 160 million, if I'm not wrong, yes.

Mayank Maheshwari, Morgan Stanley

So on then....

Pn.Rashidah Binti Alias, CFO:

Sorry.

Mayank Maheshwari, Morgan Stanley

Yes. And ma'am, just on the tax rate, just wanted to follow-up. Like, so when you kind of look at for 2021 now, like what do you think will be your effective tax rate range?

Pn.Rashidah Binti Alias, CFO:

We expect market, I mean like I said, the tax rate, as you can see, as of today, you can already see, when the market is at a certain high level, will get our effective tax rate to hover around about 11%, 12% or even 10%. So 11%, 12% is roughly the level. But when market is at this level of pricing, then it will range at around 15%, 16%. So next year, our view, I suppose the market is recovering, but not, it will not come to any level like the pre-COVID level. So, my take, if at all, the rate will hover around about 14%, 15%; 14%, 15%, 16%, which is about this year's level, if the market stays at this level.

Operator: We have the next question from the line of Ahmad Usman from Nomura.

Ahmad Maghfur Usman, Nomura

I wanted to ask on the with regards to your opening remarks on the ESG front. You mentioned that you wanted to use biogas or biomass, either one of those, as your feedstock. Can you explain more in detail about that?

Datuk Sazali Bin Hamzah, CEO:

Okay, Ahmad. At this moment, we have looked into the conversion of biomass from empty crude branch of palm oils to convert it into chemicals that can be used for polyester downstream, and also, we look at the application to be used in some of personal care usage. So, this is in our pilot stage, in our R&D center. So hopefully, in a year or 2, we'll be able to commercialize this product. We plan to come into testing sometime next year.

Ahmad Maghfur Usman, Nomura

I see. Okay. And the financial implications on it from a cost perspective, would it be cheaper compared to traditional feedstocks?

Datuk Sazali Bin Hamzah, CEO:

I will say it can be as far. However, based on our client requirements, they would prefer this kind of product rather than conventional. So, in terms of marketability, they have a better opportunity. But I'm sure if you are able to do this, we can play around with the price of this product because this product is really highly sought, and there is no definite solution. So, let us finish our R&D first and see the viability of these products. Some testing that we have done, and the product, the quality is good.

Ahmad Maghfur Usman, Nomura

And then lastly, on the BASF plant closure. On the financial charge that we could expect in the fourth quarter, I believe, was USD 32 million, okay, let me put the question another way. How much is that noncash? And how much is that is cash on a proportionate basis?

Datuk Sazali Bin Hamzah, CEO:

If I can try to understand you how much that we iterate as an impairment, I would say. And then how much is real cash impact to the company. Is that what is your question, right?

Ahmad Maghfur Usman, Nomura

Yes.

Datuk Sazali Bin Hamzah, CEO:

Right. Okay, so, impairment led Rashidah said. But for the cash, I believe, it will help us rather than become worsened because BDO plants have been running at loss for the last 3 years, I guess. And taking down this plant will improve the EBITDA to overall complex. So, on the impairment Pn. Rashidah?

Pn.Rashidah Binti Alias, CFO:

Yes. To just add a bit more from the implications, financial impact on quarter 4 alone, we were talking about USD56 million actually. So we're looking roughly at about 70/30, 70% being non-cash impact. Roughly about 25% to 30%, these are in the form of decommissioning costs. Severance, I mean, manpower, relocation, personnel and whatnot. So, but that, of course, in terms of outflow, will stagger, I think, about 2 years, 1.5 to 2 years to complete the decommissioning and also manpower or personnel relocation. So, roughly about 70/30.

Ahmad Maghfur Usman, Nomura

All right, understood. And what can we expect in contribution from associates beyond fourth quarter 2020. Do you expect a huge swing in terms of profitability on the associate level?

Pn.Rashidah Binti Alias, CFO:

We expect it to be positive, but let's see because this is very much related, tie back to how the market will recover, right? So, we're seeing very positive recovery, say, at Idemitsu, one of our JV associates, as well as BASF, BPC. We're seeing that very encouraging numbers for quarter 3. So provided market continue on this recovery trajectory. I'm quite sure it will be positive moving forward. It depends a lot on the market. Yes.

Operator: We have our next question from the line of Raymond Yap from CIMB Research.

Raymond Yap, CGS-CIMB

Just a question about Pengerang. You mentioned, Datuk Sazali, that is going to start up sometime in the first quarter. Does that mean that the depreciation charges should begin to kick in from maybe April onwards? And the second question is about your expectation for the profitability of Pengerang. Initially, sometime back, you guided the market that you expected to be EBITDA positive. And then sometimes maybe 6 months ago, given the prices of selling prices were very low, you said that you no longer expected it to be EBITDA positive. Given the prices today, are you confident that it will be back to EBITDA positive?

Datuk Sazali Bin Hamzah, CEO:

I would say that okay, let me reflect back because the original plan for us to start this plant sometime in late 2019. So, we think that 2020 will be the stabilization period. That's why we said 2021 will be a positive contribution. However, it was delayed because of fire incident on March 2020, and it's deferred the start-up to quarter 1 2021. Then this 2021 becomes a stabilization period. So, if we want to look at the best profitability for this asset will be in 2022. So, let us run. I think we can give better guide sometime mid- of 2021 to see what the performance of this unit plus the update on the risk letters margin of PETCHEM during that period. It's too early for us to give some guidance at this moment.

Pn.Rashidah Binti Alias, CFO:

So, on the depreciation, to your first question, the full depreciation, I would say that will be recorded for quarter 3/quarter 4 because, although we are starting up in quarter 1, this will be on a staggered ya Raymond. So, the cracker will start-up first. I mean refinery cracker and then going into PETCHEM. And finally, Isononanol. So, these are on a target basis, no doubt. The depreciation will first be recognized around about May in second quarter itself, but the full-blown depreciation will be from quarter 3/quarter 4, quarter 3 onwards. Yes. So, if you take half a year, half a year worth our depreciation. That will be a good approximation for your model.

Raymond Yap, CGS-CIMB

Okay. Yes, you know exactly what I'm after, don't you.

Pn.Rashidah Binti Alias, CFO:

Yes.

Datuk Sazali Bin Hamzah, CEO:

But bear in mind, I would suggest that also you continue to keep the update on the progress of this start-up because we still have some challenges to close some of the gap that we have by end of this year. That will depend on how we start the year, but we still put a target now in quarter 1 next year.

Raymond Yap, CGS-CIMB

Well, given that the plants are ready, but they are not actually operating, does it cost you a lot of money to keep them operation. I mean, keep them ready for start-up? What are the maintenance costs involved?

Datuk Sazali Bin Hamzah, CEO:

Basically, it's all on the preservation cost where we need to put nitrogen to the system and do certain what we call cool-run or no load run of some of our rotating equipment. So, there is a cost in addition to paying the salary of the people that run the asset. However, we took this opportunity at the same time also to train our people. They have gone through many cycle of training to operate this plant as well as any abnormal situation. The guys, I guess, is ready to restart the plant when it is ready.

Raymond Yap, CGS-CIMB

And these costs are prior to commissioning prior to actual start-up are all capitalized, I believe.

Pn.Rashidah Binti Alias, CFO:

Yes.

Datuk Sazali Bin Hamzah, CEO:

Yes. They call it pre- COD cost would be capitalized until commercial operation.

Operator: Thank you. I would like to hand the conference back to our host. Please take over.

Ms Zaida Alia Shaari, *Head IR*:

Thank you, Rohit. So, that is the end of the Q&A as well as the analyst briefing for today. Thank you, everyone for your kind participation. Please reach out to us if you have follow-up questions. We look forward to receiving any reports when published. Thank you, and good evening.

Datuk Sazali Bin Hamzah, *CEO*:

Okay. Thank you all.

Pn.Rashidah Binti Alias, *CFO*:

Thank you very much. Thank you.

Operator: Thank you. Ladies and gentlemen, that concludes our conference for today. Thank you all for your participation. You can disconnect your lines now.