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Operator: Good day and thank you for standing by. Welcome to the PETRONAS Chemicals Group Analyst briefing for first quarter 2021 conference call. And please be advised that today's conference is being recorded. I would now like to hand the conference over to your speaker today, first speaker for today, Ms. Alia. Please go ahead.

Ms Zaida Alia Shaari, Head IR:

Thank you, Annie. Hello, Assalamualaikum ladies and gentlemen. Welcome to PETRONAS Chemicals Group Berhad analyst briefing for the first quarterly financial results for financial year 2021. I am Alia, Head of Investor Relations. Thank you for joining our call this evening. We apologize for the 5 minutes late start. You should by now be able to access and download the financial results as well as our presentation materials from our corporate website or through the links provided in the event invitation. As a health and safety precaution, today's briefing is conducted fully virtually, whereby all our management are attending remotely from our homes. As such, we would like to apologize in advance for any delays or glitches we may experience.

Ladies and gentlemen, we are pleased to have the PCG Group Senior Management present today, led by Managing Director and Chief Executive Officer; Datuk Sazali Hamzah, who will give highlights of the group's performance. As usual, our other speakers for today will be Mr. Azli, our Chief Financial Officer; Mr. Kabir, our Chief Manufacturing Officer; and Mr. Shakeel, our Chief Commercial Officer. Also present today is Mr. Akbar, our Head of Strategy, Planning and Ventures.

I shall now hand you over to Datuk Sazali for the performance highlights.

Datuk Sazali Bin Hamzah, CEO:

Thank you, Alia. Good evening, ladies and gentlemen. Thank you for joining us today. After the lows that we saw in the first half of 2020, it has been a relief to see the economic rebound that took place in the second half of the last year continue into 2021. GDP for first quarter 2021 was recorded at 3.31% compared to the negative 2.3% last year. Similarly, PMI expanded to 54.2 compared to 48.4% last year on positive vaccine development, easing of restrictions as well as positive business outlook. With the return of business, the benchmark Brent crude oil averaged 22% higher this year at USD61 per barrel, compared to \$50 per barrel in the first quarter last year. This is further supported by supply reduction following voluntary production cuts by OPEC+ members, supply disruption in the US following extreme cold weather in the first quarter or early of this year, which also impacted petrochemical product supply and rising fears of tension in the Middle East. Following the higher crude oil price and improving economy, petrochemical product price averaged higher due by higher feedstock costs and healthy demand amid supply tightness. All in all, we saw a much improved market year-on-year.

Ladies and gentlemen, the COVID-19 pandemic was a strong reminder on the need to focus on long-term sustainability over short-term profit. As we continue to refine our sustainability framework, we will continue to share our journey with you based on the 3 pillars of our sustainability agenda that we have shared earlier: people, planet and profit. While we are ensuring our business sustenance and growth, we measure the energy intensity or energy use against our operations. This quarter we recorded 3% lower energy intensity. At the same time, recorded 4% lower PU at 90% compared to the same quarter 2020 as we undertook turnaround activities at some of our facilities in quarter 1. And this was a direct reduction in energy consumption, given that we have some facilities offline during this period.

So, moving forward, we will continue to monitor and ensure reduction of energy use through our energy and loss management system which aims to optimize energy use in our facilities.

Next, we look at our second pillar, which is planet, where we monitor our greenhouse gas emission intensity and volume. Year-on-year GHG volume is 8% lower and GHG emission intensity was also lower at 4% as compared to previous quarter. Our recycling rate fell to 72% in first quarter 2021 compared to 85% in first quarter 2020. This is mainly because of we collect higher volume of nonrecyclable waste during the planned turnaround activities at PC MTBE, PDH unit as well as PC Methanol Plant 1. Several recycling opportunities have been identified to ensure that we reach our year-end target of 81% recycle the waste that we generate.

On people, we focused in the early part of the year on the planning and coordination of our CSR program. The planning cycle includes a number of engagements with Ministries, Government agencies, NGOs, trade associations and partners to discuss the coordination of the upcoming program which are scheduled to kick off in the second quarter of the year. Our program continues to focus on the Environment, Community WellBeing and Development as well as Education. Some of our key program include our signature ecoCare, which is the Mangrove rehabilitation along Kertih river.

For community development, we continue to advocate safety by sharing and educating on the Safety Handling of Chemicals at School. Adding to this, we will continue with our community relief programme where we focus on cultivating responsible and sustainable plastic and waste management practices. Our aim is to reach at least 10,000 community members by end of the year. This also includes assistance that we also give throughout the pandemic COVID-19 period.

While continuing with the program we have identified, we are also working to develop our Net Zero-Emission by 2050 roadmap in line with PETRONAS sustainability agenda. This will be a big part of our sustainability journey moving forward and this road map will target to complete at least by end of this year.

Ladies and gentlemen, moving on to our performance for the quarter. As I mentioned earlier, improvement we saw in the second half of 2020 has continued into the first quarter of this year. As guided late last year and even earlier this year, in 2021, we begin another 3-year cycle of heavy turnaround annually. During the quarter, we started the turnaround operations for the PDH unit at PC MTBE and PC Methanol plant. And for PDH unit, we coordinate closely with our partner BASF for BPC plant where they also shut down at same time to reduce the amount of total duration of the whole value chain. Both turnarounds were conducted while observing the strict HSE and COVID-19 SOPs on site. As you are aware, this turnaround was conducted during the peak period of COVID-19 where a lot of efforts have been made to ensure that the disruption is not severe to execute our turnaround. As a result of the 2 turnarounds and corrective maintenance work at our urea unit plant, utilization for the quarter was recorded at 90% compared to 94% in the corresponding quarter.

Consequently, production volume fell by 5% year-on-year at 2.5 million tonnes due to this turnaround of the 2 plants. Sales volume was comparable year-on-year as bad weather caused some December 2020 shipments to spill over into 2021.

Following that, I'm very happy to share that our revenue for the quarter rose 20% to MYR 4.7 billion are mainly due to higher product prices. EBITDA and PAT more than doubled to MYR 1.7 billion and MYR 1.5 billion, respectively, on expanded product margin and higher share of profit from JV and associates. We recorded a healthy EBITDA margin of 36% for the quarter. For further detail of the financial performance, I would like to now hand over to Mr. Azli to further elaborate on our financial performance.

En.M Azli B Ishak, CFO:

Mohd Azli Bin Ishak^ Thank you, Datuk Sazali. Ladies and gentlemen, a very good afternoon, and thank you for joining us. So, let's start with the group performance, our financial performance on Slide no.6. So, let's start with the comparison for the performance for the first quarter 2021 against first quarter 2020. So as previously mentioned by Datuk Sazali, first quarter 2021 was exceptionally better quarter overall. At plant utilization of 90%, we were lower compared to the same period last year, mainly due to the maintenance activities undertaken during the quarter. Although production volume was lower, our sales volume was comparable and in light of this, group revenue increased by about MYR 800 million or 20% to MYR 4.7 billion, boosted by higher product prices.

Our EBITDA surged to MYR 1.7 billion, mainly contributed by higher spread and write-back of inventory value. And as a result, our EBITDA margin increased to 36% compared to 20% in the same quarter last year. Our PAT, profit after tax, tripled to MYR 1.5 billion following higher EBITDA.

So, moving on to group's financial performance against the preceding quarter, that is fourth quarter 2020. So, on the operations front, our group recorded a lower plant utilization rate of 90% compared to 94% in the preceding quarter, mainly due to maintenance activities undertaken during the quarter. As a result, our both production and sales volume were decreased. Nevertheless, if you will compare quarter-to-quarter, our group revenue increased by more than MYR 800 million or 22%, boosted by higher product prices. Our EBITDA improved by close to half, close to 50% to MYR 1.7 billion due to higher spread, lower maintenance costs and write back on inventory due to higher

net realisable value. Our profit after tax increased more than 100% quarter-on-quarter at MYR 1.5 billion, following higher EBITDA.

So, ladies and gentlemen, in the interest of time, I will not go through the group's performance by segment as much of this analysis overlaps with what I've just mentioned within the group. So as is our practice, we will provide the slide on the group performance by segment at the end of the deck for your own consumption. So, if you have any further clarifications, I will gladly provide further information at the end of this presentation.

So, moving on to the balance sheet and cash flow on Slide 7 and 8. So there's not much major changes with regards to our balance sheet. A few things I want to mention, at least what happened during the quarter, is the total asset increased by MYR 1.5 billion. Our total assets stood at MYR 41.3 billion. This primarily driven by 2 things. One is the higher cash and cash equivalents generated, mainly due to profit generated during the period. Our cash balance at close to about MYR 700 million over this period. Secondly, there's a higher property plant equipment, mainly due to CapEx spend on PIC, petrochemical, Pengerang Integrated Complex as well as the turnaround costs incurred during the quarter. Also, to note that our trade receivable balance increased slightly, in line with higher revenue. Nevertheless, our overdues in terms of total trade receivable balance is about 1% to 2% of total receivable balance, which is very manageable.

So, in terms of cash, moving on to Slide no.8. Our cash generated from operations, CFFO, stood at MYR 1.4 billion, which is 80% higher compared to the same period last year. In terms of net cash in investing activities, it was primarily driven for the CapEx spent on Pengerang as well as the turnaround activities. For the cash flow used in financing activities, primarily due to the interim dividend that we paid in March, amounting to MYR 560 million. So, at the end of the 3-month period, our cash balance remains strong at approximately MYR 13.4 billion. So that is all on the financial performance for the first quarter of 2021.

So, I would like to hand over the session to Mr. Kabir to highlight on the manufacturing segment. Over to you, Kabir.

En.M Kabir Noordin, Chief Manufacturing Officer:

Thank you, Mr. Azli. Good afternoon, everyone. Kabir here. Let me share the operational highlights for the quarter. Our operation in quarter 1 was stable despite turnaround at PDH plant in Gebeng and methanol plant 1 in Labuan. We recorded a quarter performance of 90% plant utilization following good reliability in Olefin and Derivatives segment. Ethylene producers, namely PC Olefin and PC Ethylene sustained high reliability without any shutdown activity for the quarter. However, the first quarter of 2021 utilization rate at fertilizer and methanol segment was impacted as our urea facilities required corrective maintenance. Through Plant Threat and Bad Actor Management program, this corrective maintenance activity has been completed, with current focus is to continue running towards sustainable operation. We are expecting greater urea volume in the following months.

Next, for Olefin and the Derivatives segment, plant utilization performance for the quarter was high at 100% despite plant turnaround at our PDH plant. The turnaround was executed in compliance with standard operating procedure, SOP, following movement control order, MCO. We are very strictly followed the procedure in case of the COVID-19 happening seriously in Malaysia. And high ethylene production was recorded at PC Ethylene. The PC Olefin and PC Ethylene were operating well with reliable ethane supply, resulting in commendable ethane volume for the quarters.

Next for fertilizer and methanol. Plant utilization for fertilizer and methanol segment for the quarter was at 84%, which was lower compared to preceding and corresponding quarter. This was due to several activities conducted at our facilities during the quarter, such as turnaround at PC Methanol Plant 1. Started since early March, turnaround was conducted with no serious safety incident recorded. Next was maintenance activity at all urea plants, namely ABF, PC Fertiliser Kedah and PC Fertiliser Sabah.

Next, moving on the progress of our project. PIC Petchem. As for PIC Petchem, the objective remains to achieve safe and successful start-up and ultimately stable and sustainable operation. This is the most critical milestone in completing the project. In order to achieve this, PIC management implemented Targeted Green Bubble called TGB Initiative with the intent to protect everyone in PIC, including their family members, by proactively detecting COVID-19 cases during the quarantine phase and prevent the spread to work areas. The Targeted Green Bubble initiative provided confidence to workers and family members that PIC is safe and great workplace to work.

Next, for conclusion, quarter performance, we sustained 90% plant utilization for the quarter. We achieved strong performance for Olefin and Derivatives segment without any shutdown activities at our ethylene production facilities. We also successfully completed turnaround at PDH plant in Gebeng and Methanol plant in Labuan, together with completion of corrective maintenance activity at urea plant. We are expecting greater production volume for the group in the following months. And lastly, we are strengthening our PIC startup activities by implementing Targeted Green Bubble initiatives without neglecting our process safety rules. Moving forward, we are going to carry out our plant turnaround at fertilizer plant in Kedah and Bintulu and planned shutdown activity at one of our ethylene plant in Kerteh.

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

En.Shakeel Ahmad Khan, Chief Commercial Officer:

Thank you, Kabir. Good evening, Shakeel here. Let us proceed with the market highlights. In quarter 1 2021, product prices were higher compared to previous quarter amid improved energy market, plant outages, mainly from Middle East feedstock shortages as US experiencing intense polar storm as well as regional production cuts. This is further supported by healthy downstream demand as global economy slowly recovers.

Now let's move on to the market outlook. The 3 months forecast. Ethylene price is expected to stabilize as supplies is seen to be sufficient balanced by start-up of crackers in Northeast Asia, which is expected to take place between May and July 2021. Furthermore, despite the restart of US plants from previous shutdowns due to the US storms, there is still lack of deep-sea supply as West to Asia arbitrage remains closed. Demand is expected to be supported from large capacity growth in China, domestic downstream, MEG and styrene monomer sectors.

Moving on to polymers. 3-month forecast, polymer prices have climbed up drastically in quarter 1, especially for LDPE, where it reached 10-year historical high at USD 1,700 per metric tonne level. However, prices are now gradually undergoing correction and stabilizing in view of increasing supply due to capacity additions in Southeast Asia and China, between quarter 2 and quarter 3, 2021. Regional demand was temporarily subdued due to Ramadan and Eid holiday. However, it is expected to improve as buyers slowly replenish inventory after Eid holiday as well as continued economic market growth on the back of COVID-19 vaccine rollout.

Next, for MEG. 3 months forecast, the MEG price is expected to be stable due to ample supply as Middle East producers are ramping up production after completion of maintenance activities. Further, adding to the supply is start-up of 2 new plants in China with total capacity of 2.6 million metric tonnes. On the demand side, downstream polyester operation was higher amid improving sales and falling inventories, providing support to the prices.

As for paraxylene, 3 months forecast, PX price is forecasted to be stable as many PX units in Northeast Asia and India will undergo turnaround with estimated production loss of about 0.5 million MT. Demand is also expected to be reduced as downstream PTA plants will be also undergoing planned turnaround. However, three new downstream PTA facilities in China are expected to start-up, which may help to keep PX demand healthy.

Now let's proceed to fertilizer and methanol segment, starting with urea 3 months forecast. Urea price is forecasted to be stable on the back of sufficient supply as Middle East producers are running at optimal rate after turnaround. In India, MMTC, which is Metals and Minerals Trading Corporation, is expected to issue tender for estimated 1.5 million MT for July shipment. Demand is expected to improve as India prepares for its main application season in the coming months. Apart from India, demand will also be supported by upcoming planting seasons in Thailand, Australia and New Zealand.

Moving on to ammonia, 3 months forecast. Ammonia price is projected to be a firm as limited supply remains amid planned turnaround in Middle East. A strong downstream demand is expected in South Korea as producers of acrylonitrile and caprolactam are up and running well, while applications of ammonia ramped up in the US for its spring season, especially for corn planting.

Lastly, on methanol, 3 months forecast. Methanol price is expected to be stable with sufficient supply as most producers are running at optimal rate despite few planned outages. In China, MTO demand is expected to be stable with the return of its MTO plants in May and higher operating rates may continue in the coming months. Likewise, in South Korea, as its formaldehyde and MTBE units are running well.

That was from my side, commercial. Thank you. Over to you Datuk.

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

Yes. Okay. Okay. Thank you Shakeel. So, ladies and gentlemen, we have had a good start for the year and so far with positive news on the vaccination rollout globally and its efficacy, it looks like that we should be in a better year. Although concerns might remain as we see countries such as India and also Malaysia continue to fight against rising COVID-19 infections and even here as we are now going into a third lockdown. So therefore, we will continue to remain cautious in our business approach to continuously build on our strong business fundamentals as we navigate our way forward. Our continuous focus on operational and commercial excellence has ensured strong operation and sales delivery even in the toughest time. We will continue and refine these initiatives as the business grows.

Supporting the operational and commercial excellence is our strong HSE culture where the safety of employees takes precedence. So, as well as we continue to be committed to strictly control our and to apply our financial discipline and the cost optimization throughout the period. Despite the setbacks partly caused by the pandemic, we are committed to ensure the Pengerang Integrated Complex will be ready for start-up in the second half of this year. We are working towards smooth execution of our growth projects that have been FID'd so far and as well as building our first pilot

plant for bio-based chemicals in PETRONAS Research Centre. We will continue to evaluate business opportunities to expand our specialty chemical offerings as well as looking into more R&D in the green chemical space, in line with our sustainability commitments.

So that brings me to the end of our presentation. So, I would like now open for Q&A. Back to you, Alia.

Ms Zaida Alia Shaari, Head IR:

Thank you, Datuk. Apologies for earlier. Annie, over to you for the Q&A? Annie, can we proceed with the Q&A, please?

Operator: Our first question comes from the line of Bennett Lee of Citigroup.

Chun Ho Lee, Citigroup

You can hear me?

Datuk Sazali Bin Hamzah, CEO:

Yes.

Chun Ho Lee, Citigroup

Thank you for the opportunity to ask questions and also congratulations on the solid results. So I have a couple of questions. First one is for the RAPID project. What is the latest start-up timing expected for crude feed-in into CDU? How long will the naphtha cracker of PCHEM's downstream starts after CDU starts?

Second question is how much higher will the CapEx go up as compared to the original budget, given the extended delay?

Third question is, could you remind me again what was the unit under turnaround in first quarter? And what will be the key units under turnaround for second, third, fourth quarters, separately?

Final question is how much inventory gain were recorded for the segment, O&D and F&M in first quarter?

Datuk Sazali Bin Hamzah, CEO:

Okay. For the first question, Bennett, thank you for the question. And I would like to apologize for a bit of hiccup at the beginning just now, because this is the first time that we use online analyst meeting. Hopefully we learn something from this and improve moving forward.

Okay. Your first question is on RAPID, which talk about when is the latest timing crude or CDU? So we are working on the second half around months of June to August, yes. So we will fit into this time frame. However, bear in mind that we still have some challenges in terms of COVID-19 pandemic situations. And I think that was the closure of some of the rectification work that we need to do. So, we put the target is still within the second half of this year.

And your second question is when actually we can start the cracker after we start CDU. Roughly, it will take about probably about 3 weeks between 2 to 3 weeks after CDU start, we will be able to start the cracker, provided the plant is run smoothly. But bear in mind that this plant has been idle for some time more than a year. And when you start-up back the unit, we may face some little

issues. So, depending on how smooth the startup is, then it can drag further if there is some issue that we face along the way. So, we're still targeting also to start the Petchem within the second half of this year.

In terms of CapEx, what I would say that we still work within the FID number that with the PIC number that we have allocated at the beginning of the project, it's still manageable. And at this moment, I would say that other than the extended costs, other than that, I think it's all within the control. So, the extended cost is mainly because of we need to do preservation before we can do the oil in. So that is on the second question.

The third question is on the turnaround you asked what is the turnaround in quarter 2, 3 and 4. In quarter 2, we don't have any turnaround. We are going to have quarter 3 is it is it actually quarter 2 late or early quarter 3 our PC FK plant, we target to do the turnaround sometime end of June. And then another plant of ethylene in quarter 3 and another one, Kabir, if you can add, what is the other one, Kabir?

En.M Kabir Noordin, Chief Manufacturing Officer:

ABF Datuk, that's all, fertilizer. October.

Datuk Sazali Bin Hamzah, CEO:

October of this year. That's the three turnaround that we are going to do the rest of the year.

The fourth one, I didn't get the question. Can you repeat again the question, no.4?

En.M Azli B Ishak, CFO:

I think the question is about how much the inventory gain is. If you can refer to the our Bursa announcement that we published today, our inventory write back to the NRV for the quarter is MYR 34 million. I hope that answers all four of your questions. Bennett?

Chun Ho Lee, Citigroup

Thank you. For the inventory gain, can you split it into segments, O&D and F&M?

En.M Azli B Ishak, CFO:

Mostly due to O&D.

Operator: Next question is from the line of Alex Goh of AmBank.

Alex Goh, AmBank

I have a number of questions. Perhaps I'll just run through one at a time. So, it is easier for you to also respond.

My first question is regarding your associate and JV contribution. It was a significant turnaround to MYR 133 million profit. I am just wondering what is causing that? Is that largely a function of the improved product prices? Were there any lumpy items in them? Or was there in any way, any

Pengerang contribution here? I understand you are starting off in the second half, but was there anything coming from that?

En.M Azli B Ishak, CFO:

Okay. Datuk, do you want me to answer that?

Datuk Sazali Bin Hamzah, CEO:

I think you can answer it. Yes.

En.M Azli B Ishak, CFO:

Thank you, Alex. That is a very good question. I think that for share of profit from associates and JV, there are 2 main contributors for the increase. One is profit from BASF PETRONAS Chemicals, BPC. So, majority of the improvement is due to BPC. If you compare with quarter 4, 2020, we have a loss in terms of contribution from the JV because of the closure of BDO, as well as impairment on some of unit. So that improvement in BASF PETRONAS Chemicals is mainly due to improvement in products. So, the key 2 products that contributed to the better results for BPC is acrylic acid, as well as Oxo alcohols. So that majority derived from BPC.

The second part is basically also improved margin from acetic acid. So, in terms of profit, it was double compared to the quarter 4, 2020. So that is why you see in terms of in total our share of profit for associate and joint venture, it boosts significantly compared to the last quarter as well as the same period last year. So, it is mainly due to the better spreads in products. I hope that answers your question, Alex.

Alex Goh, AmBank

That's wonderful. But can I say that this MYR 133 million is going to be recurring, which is the main point I want to gain. Whether I am just trying to figure out, was there any lumpiness? And given the fact that oil prices have gone even further up after your third after this first quarter numbers, should we expect a stronger JV and associate contribution?

En.M Azli B Ishak, CFO:

In terms of outlook, I think, yes, we expect in terms of price and spread, there will be upward trend for at least for the coming quarter. But in terms of the second half of the year, I think it is fair to say that we remain cautious on the outlook. Because in light of the recent resurgence of COVID so we are remain vigilant on the outlook, because we want to assess the impact of these resurgence to the total market, just like how we've been doing so far.

Alex Goh, AmBank

Okay. All right. And then coming to PIC, you mentioned that you are now looking at a second half start-up. But during the previous quarter, you have indicated you are looking at starting to start off in the first quarter. What, which month are you looking at to actually starting off Pengerang the actual commercial operation? And what is the outlook now given that product prices have gone up, would you expect this division now to be able to breakeven at least on the net profit level?

Datuk Sazali Bin Hamzah, CEO:

Okay. As we have mentioned earlier, the outlook for this year, I would say that there is contribution from PIC would be none. I would say that because, one, is that we are in the start-up mode. And the start-up will happen late of second half of this year. And if that also depending on the situation of, as I mentioned, the completion of the mechanical verification as well as the readiness of the plant that we modified after the incident. But we are quite confident that will be started within this second half, sometime in the middle or late of this second half. So, the impact of the contribution from PIC will be negligible this year.

So, when you talk about commercial operations, I will say that it is good to assume that starting next year, we will reach the stable commercial operation. I hope that can give value. So, this question can be posed again in the next quarter review, then we have a better picture of the situation of PIC.

En.M Azli B Ishak, CFO:

Go ahead, Alex.

Alex Goh, AmBank

Yes. Given the fact that product prices have done so well since the beginning of this year, are you revisiting your earlier expectation that you will probably make a loss on net on your after including depreciation and interest costs next year, let's say, your PIC actually is fully launched?

Datuk Sazali Bin Hamzah, CEO:

This is talk about PIC right? So PIC, if it has not reached near-stabilized at more than 90%, I think it still quite tough, because at this moment, the bigger portion of PIC is also on the refining side. So, refining margin if you see has improved, but not as what before the crisis. So, we still have to observe the price trend. And if you see the lockdown of situations all over the world, have resulted also the demand of fuel, petroleum fuel has yet to pick up at what we expected. So, that's one portion that I think is still a big factor for us.

Alex Goh, AmBank

Okay. And now given the fact that you have so much turnaround programs this year, are you still expecting your overall plant utilization to be above 90% for this financial year?

Datuk Sazali Bin Hamzah, CEO:

Yes. This year, we're still targeting above 90%, as I mentioned. Our aim now during heavy turnaround even we will target for more than 90%. As of now, we believe that it is still doable, and that will reap up also the benefit when the market is good in quarter 1 and quarter 2.

Alex Goh, AmBank

I see. Could you also guide us now, what is your CapEx for this year and next year?

Datuk Sazali Bin Hamzah, CEO:

Yes. Azli, if you can confirm the CapEx for this year and next year?

En.M Azli B Ishak, CFO:

So, as usual, I think in terms of our CapEx run rate, it's about MYR 2.5 billion and MYR 2.6 billion. So, I think from year-to-year, that would be our number as a guidance for moving forward.

Alex Goh, AmBank

All right. Just coming back again to your inventory gains of about MYR 34 million. Can I assume that this entire MYR 34 million was of complete profit for you in this quarter?

En.M Azli B Ishak, CFO:

Can you repeat that again? The second part of your question.

Alex Goh, AmBank

The inventory gain of MYR 34 million that you recognized in this first quarter, was that did you fully pass down to your to the pretax level?

En.M Azli B Ishak, CFO:

Yes.

Operator: Next question is from the line of Yayati Tyagi of UBS.

Yayati Tyagi, UBS

So, I just have left with one question now after the previous question. I want to know for the effective income tax rate, so despite the profit that has increased in this quarter, the effective tax is quite lower compared to the previous quarter. So, what would be the reason for that, please?

En.M Azli B Ishak, CFO:

So, thank you for that question. So, our effective rate for the year, we expect our effective rate is between 10% to 15%. So of course, as our product prices get better yield, better netback and better margins, so some of those profits are being taxed at Labuan as such more lower tax. So, that is why have a guidance moving forward for 2021, our ETR is within 10%.

Yayati Tyagi, UBS

Okay. So the way I understood is that the units that are tax-efficient or maybe tax are contributing more volume and revenue? Is that it?

En.M Azli B Ishak, CFO:

Yes. Because our tax rate is blend between a Labuan tax and a corporate tax regime. So, depending on the market condition, so some income that we generate from our marketing, which is Labuan based, will impact the effective tax rate accordingly. So, in a situation where product prices are low and income generated by Labuan declines, our ETR will also be higher will get higher proportionately. So, in this case, where product prices are higher, our income generated at Labuan will get higher. That is why our effective tax rate will be lower, because the Labuan has a lower tax rate as opposed to the corporate tax regime.

Operator: Our next question is from the line of Raymond Yap of CIMB.

Raymond Yap, CGS-CIMB

So, just a one question for me. In terms of the polymer prices, we have been seeing a gradual trending downwards over the past couple of weeks. Generally, if I see spot prices trending down, how quickly does it get reflected into your sales figures?

Datuk Sazali Bin Hamzah, CEO:

Yes. Shakeel probably can help us on this. Shakeel?

En.Shakeel Ahmad Khan, Chief Commercial Officer:

Yes. Raymond, Shakeel here. Okay. Just to have a bit more clarity, you're seeing the prices trending down, talking the impact, it's still...

Raymond Yap, CGS-CIMB

Yes. So because I'm trying to get a sense of how quickly spot prices get reflected into your revenue and sales lines. So that will depend on whether you are selling with a lag as in whatever that you sell this month is based on last month's prices. Things like that, some kind of commercial arrangements, which might delay the impact of reducing spot polymer prices on to your actual P&L?

En.Shakeel Ahmad Khan, Chief Commercial Officer:

Okay. I think what is happening now is, after we see the first 4 months of the year 4 to 5 months, we see higher prices of polymer I think, yes, you're right. That is trending down, but we do have our mix of term contract and spot contracts to address the market. So basically, it was I mean, in anticipation of price weakening so we have our basically the flexibility to maximize on terms so that we can protect our volume from being impacted by the slide in price. I think, similarly, in the when the prices move up, we maximize more on spot. So, we have that flexibility. This suffices, Raymond?

Raymond Yap, CGS-CIMB

Okay. Yes, roughly. So, if you could just give me a little bit more clarity on the duration of your term contracts. How often is it rolled over?

En.Shakeel Ahmad Khan, Chief Commercial Officer:

Our contracts are annual contracts, so basically Jan to Dec period contract.

Raymond Yap, CGS-CIMB

Okay. This is a term contract for volume, not for price. Am I right?

En.Shakeel Ahmad Khan, Chief Commercial Officer:

Yes. Yes, it's a volume contract, yes, you're right.

Raymond Yap, CGS-CIMB

Okay. So, I'm specifically trying to pin down on the pricing aspect, if spot prices are dropping, let's say, if it dropped this month relative to last month, how quickly would that drop this month get reflected into your P&L? Will it get reflected next month or 2 month later or something like that?

En.Shakeel Ahmad Khan, Chief Commercial Officer:

It is retroactive right? Raymond, if you understand, I think, depending on the market because you don't look at just 1 quarter. I think when you talk about retroactive it's about 4 quarters in the year. So, it gets adjusted by itself along the year.

Raymond Yap, CGS-CIMB

Okay. I mean, some companies, I know they basically sell, let's say, whatever is retail for May is based on April prices. So basically, it's a 1-month lag. Does it apply to PCHEM as well?

En.Shakeel Ahmad Khan, Chief Commercial Officer:

Yes. We have flexibility depending on products. Like at least some products are basically will take 3 or 4 weeks prior to the lifting, some are around the BL. So I think we have F&M and also on O&D, the pricing approach are slightly different between products. But in the end, when you average it out, it is good for the company.

Raymond Yap, CGS-CIMB

Sorry, if you average it out, what kind of delay are we expecting?

En.Shakeel Ahmad Khan, Chief Commercial Officer:

I mean in the end, I think it's about how you price your cargoes. But to answer exactly -- I mean...

Raymond Yap, CGS-CIMB

Okay. How about if we just look at polymer, if you just look at polyethylene, what kind of delay should we expect in terms of the whatever price today being reflected into the P&L?

En.Shakeel Ahmad Khan, Chief Commercial Officer:

You see now between the time we conclude the price and also delivery, it takes between 3 to 4 weeks, right? So, like I said earlier, in a slight upward market, you will have basically when you do an assessment, what we achieve will be lower than when the market is on up-priced. On the other way, when the market goes down, what we have achieved the month before will be reflected higher in the following month. So, which is what I say, it is adjusted quarter-to-quarter.

Raymond Yap, CGS-CIMB

Okay. Sure. So, it sounds to me like it's about 3, 4 week delay, right? Between the time you contract the price and the time you deliver. So you only record the sale in your P&L when you deliver, so it's essentially going to be a 1-month lag approximately. That is what I seem to understand from what you said. Yes. Okay. Thank you.

Operator: We have a question from the line of Anshool Singhi of JPMorgan.

Anshool Singhi, JP Morgan

Can you hear me?

En.M Azli B Ishak, CFO:

Yes, Anshool.

Anshool Singhi, JP Morgan

Yes, I had a couple of questions. So, the first one is you mentioned that there are 3 turnarounds left for the year. Could you tell us how many days will those last, each one of them?

Datuk Sazali Bin Hamzah, CEO:

Azli you can answer?

En.M Azli B Ishak, CFO:

Yes. In terms of turnaround, typically, our turnaround number of days reach between 40 days, Anshool.

Anshool Singhi, JP Morgan

Okay. So, this is for the ethylene plant as well as well as the ABF, the fertilizer plant in October. All these are going to be around 40 days?

Datuk Sazali Bin Hamzah, CEO:

Yes. 40 days. Kabir, can you share the duration?

En.M Kabir Noordin, Chief Manufacturing Officer:

Okay. For PFK, we're about 40 days. And for ABF, actually, we have 50 days. But during quarter 1, we already do the major overhaul on the compressor. So, we will reduce the numbers of days also about 40 days. And also for our PC OGD, we already defer to next year. And PDH is about 40 days already completed. Methanol, about 45 days already completed.

Anshool Singhi, JP Morgan

And the ethylene plant?

En.M Kabir Noordin, Chief Manufacturing Officer:

Ethylene plant, this is the pit stop, it's about 27 days in June.

Anshool Singhi, JP Morgan

Okay. 27 days in June. Okay. My last question is, could you give us an update on the specialty chemical projects, which are ongoing right now under construction. What is the progress on this?

Datuk Sazali Bin Hamzah, CEO:

At this moment, Anshool, our Brant project basically, this is the blending silicone plant in Gebeng. This is now under construction. Another project is on the ethoxylate plant in Kerteh, that is also on 5EPCC contract already award, now under contraction. So civil construction already started. And then the third project is our Nutmeg, our partner with LG. So, this project was just awarded EPCC

contract with recently, then they are going with the detailed engineering and also construction at site as well. So, these three projects are currently ongoing for our specialty chemical.

Anshool Singhi, JP Morgan

And when are they supposed to COD, the Gebeng and the Kerteh?

Datuk Sazali Bin Hamzah, CEO:

Butadiene correct me if I'm wrong, Akbar is here for the timelines?

En. Akbar, Head of Strategy, Planning and Ventures:

For the Butadiene Latex project down in Pengerang, we are looking at initial acceptance in 2023. We are talking about the first quarter. And then for the ethoxylate plant plan in Kerteh, that will also be completed by fourth quarter of 2022. And for the plant in Kuantan, the silicone blending plant, we are looking at the commissioning that will start towards the end of this year.

Operator: There are no further questions. I would now like to hand the conference back to the presenters. Please continue.

Ms Zaida Alia Shaari, Head IR:

Thank you, Annie. Thank you, ladies and gentlemen, for participating today. We apologize deeply again for the glitch we had earlier. We apologize for the inconvenience caused. Please reach out to us if you have any follow-up questions, and we look forward to receiving the analyst reports once published. Thank you, everyone, and good evening.

Datuk Sazali Bin Hamzah, CEO:

Thank you. Thank you, everybody.

En.M Azli B Ishak, CFO:

Take care.

En. Akbar, Head of Strategy, Planning and Ventures:

Thank you.