

PETRONAS CHEMICALS GROUP BERHAD

1Q 2022 ANALYST BRIEFING

27 May 2022, 6pm Malaysia

Management attendees:

1. Mohd Yusri Bin Mohamed Yusof Managing Director & Chief Executive Officer	4. Shakeel Ahmad Khan Chief Commercial Officer
2. M Azli Ishak Chief Financial Officer	5. Zaida Alia Shaari Head, Investor Relations
3. Mohammed Kabir Noordin Chief Manufacturing Officer	

Operator:

Good day, and thank you for standing by. Welcome to PETRONAS Chemicals Group Analyst Briefing for First Quarter 2022. (Operator Instructions) Please be advised that today's conference is being recorded. (Operator Instructions) And now I'd like to hand the conference over to Zaida Alia, Head of Investor Relations. Thank you. Please go ahead.

Zaida Alia Shaari:

Thank you, Agnes.

Hello, (foreign language), ladies and gentlemen. Welcome to PETRONAS Chemicals Group Berhad analyst briefing for the first quarter financial year 2022 financial results. I'm Alia, Head of Investor Relations. Thank you for joining our call this evening. You should by now be able to access and download the financial results from the Bursa Malaysia website, as well as our presentation materials through our corporate website or in the links provided in the event invitation.

Ladies and gentlemen, based on our usual quarterly results format and flow, today's briefing by the PETRONAS Chemicals Senior management will be led by our Managing Director and CEO, Mr. Mohd Yusri; our CFO, Azli, will brief on the details of the financial performance; followed by Mr. Kabir, our Chief Manufacturing Officer, who will brief on our manufacturing operations, and this will be followed by a brief on the market by our Chief Marketing Officer, Mr. Shakeel. At the end of the briefing, we shall open the line for the question-and-answer session. Also, in attendance today is our Head of Special Projects, Mr. Akbar. Without further ado, I shall now hand you over to Mr. Yusri for the performance highlights.

Mohd Yusri Bin Mohamed Yusof:

Thank you, Alia. Very good evening, ladies and gentlemen. Thank you for joining us today. Let's go to our first slide. We entered 2022 expecting a still volatile year amidst continued global growth and expansion. We did not, however, expect a major geopolitical conflict to be the center of that volatility. And if we were to look back at quarter 1, 2022, the Russia, Ukraine conflict dominated news, market movement and sentiment alongside rising inflationary pressures. But nonetheless, we see the world economy had shown sufficient resilience and continued its recovery with GDP coming in at 4% in the first quarter this year compared to 3.8% in the same quarter last year.

While COVID-19 remains a risk, we believe the pandemic is expected to retreat as vaccination rates continue to rise and effective treatments are becoming widely available worldwide. Global PMI slipped from 54.2% in first quarter 2021 to 53.3% this year on weaker growth, lower rate of new work and decline in international trade volumes and prolonged supply chain disruptions. We see crude oil rally gain momentum with the Russia-Ukraine conflict and peak in early March with the announcement on the ban on -- the ban of Russia energy import by U.S. and the U.K. Year-on-year, on crude oil, we see a 67% increase in an average crude oil prices. With the higher crude oil price, healthy demand amid supply chain challenges, petrochemical product prices were higher across the board compared to corresponding quarter of 2021.

Then that brings me to our performance highlights for this -- for quarter 1 2022. Let's go to the next slide. Ladies and gentlemen, we started the year with planned turnarounds for our plants in the Olefins and Derivatives segment, namely the propylene plant at PC Olefins, PC Derivatives and PC Aromatics. With 3 major turnarounds and a few pit stops for our group, the plant utilization for the quarter was lower year-on-year at 87% versus 90% in corresponding quarter. On higher -- basically, we have a lot more shutdown days. Production volume was also lower at 2.4 million tonnes against 2.5 million tonnes last year. Nonetheless, we see sales volumes was comparable at 1.9 million tonnes.

On the market front, we had initially expected a mixed market for first quarter 2022 with O&D segment remained fairly strong, also demand and high feedstock prices, but the F&M segment was too moderate with planting seasons ending thus reducing the demand for urea and methanol. However, the war between Russia and Ukraine saw the outlook change overnight with supply concerns, crude oil price and natural gas prices rose and it has remained elevated. Consequently, petrochemical product prices rose due to higher feedstock prices, strong demand amid supply limitation. Following the higher product prices, we achieved another strong quarter as revenue rose 42% to MYR 6.6 billion against first quarter 2021. EBITDA and PAT were both higher at MYR 2.4 billion and MYR 2.1 billion, respectively on expanded product spreads with notable contribution by BRB International. EBITDA margin remains healthy at 37% I'll have Azli next to take you through the details of financial performance.

Mohd Azli Bin Ishak:

Thank you, En. Yusri. Ladies and gentlemen, good evening, and thank you for joining us. So let's start with the group performance on Slide 4, beginning with the comparison of the first quarter 2022 against first quarter 2021. So as you heard from Yusri earlier, quarter 1 was filled with the news of the Russia-Ukraine conflict and the subsequent event and impact from the same event. The crude oil rose on supply concern, further pushing up prices for petrochemical products. With 3 turnarounds undertaken at our Olefins and Derivatives segment, the group's plant utilization was lower year-on-year at 87% compared to 90% last year.

However, sales volume was comparable as lower production from O&D segment was offset with higher production in the F&M segment as well as higher contribution from our BRB International. As a result, group revenue grew 42% from MYR 4.7 billion in first quarter 2021 to MYR 6.6 billion this year, mainly on higher product prices. EBITDA surged 43% from MYR 2.4 billion against MYR 1.7 billion last year, mainly contributed by higher spread and margin from BRB. EBITDA margin also increased to 37% from 36% in the same quarter last year. Following that, we recorded our best performance yet for the quarterly profit after tax at MYR 2.1 billion against MYR 1.5 billion in 2021 on higher operating profit and higher contribution from BRB.

So now moving on to the group's financial performance against the preceding quarter, that is against quarter 4 last year. So during the quarter, petrochemical product prices were assessed higher than preceding quarter on higher feedstock costs and healthy demand. On the manufacturing front, our plant utilization was lower at 87% in 2022 against 89% in quarter 4 2021 due to higher turnarounds as well as maintenance works undertaken. With lower production and sales volume, group revenue dipped 5% to MYR 6.6 billion. Nonetheless, EBITDA

improved from MYR 2.3 billion to MYR 2.4 billion on improved spread further supported by higher contribution from BRB and product margins.

PAT moved up 2% from MYR 2 billion to MYR 2.1 billion, in line with EBITDA, partially offset by lower contribution from JV and associates. So next, moving on to balance sheet and cash flow. So first, we look at the balance sheet on Slide 4. Quarter-on-quarter, our total asset increased from MYR 46.5 billion to MYR 47 billion, mainly due to higher PPE primarily in relation to capital investment, as well as higher cash and cash equivalent contributed by higher CFFO.

So let's now turn to cash flow at Slide #5. Cash generated from operating activities stood at MYR 2.1 billion, mainly due to higher profit generated during the period. And net cash used in financing activities for the period was higher by MYR 1.1 billion at MYR 1.8 billion, mainly due to dividend payment to the shareholders in March. At the end of the period, our cash balance remained strong at MYR 16.5 billion. That is all for the financial performance for the first quarter 2022. I'm handing over the floor to Mr. Kabir for the manufacturing highlights.

Mohammed Kabir Noordin:

Thank you, Mr. Azli. Good evening, everyone. Kabir here. Briefly on the plant performance for quarter 1, 2022. We recorded lower plant utilization rate in view of heavy turnaround and shutdown activities during the quarter, namely at Olefin and Derivatives segment. All in, our group plant utilization rate for quarter was 87% with production volume of 2.4 million tonnes.

Moving on to the operational performance by segment, Olefin and Derivatives. Quarter 1 plant utilization for O&D segment dropped to 75% due to turnaround activities conducted at the PC Olefin, PC Derivatives and PC Aromatics. We also undertook planned maintenance pitstop for PC Glycols in Kertih and PC MTBE plant in Gebeng which are short shutdown for the maintenance purposes. Expect for PC Aromatics, which was completed in April 22, all turnaround and pitstop activity within the segment were completed in quarter 1.

During the quarter, our downstream unit, especially PC LDPE, had performed reliable throughout the turnaround window, supporting the overall production volume for the Olefin and Derivative segment.

Fertilizer and Methanol. For the F&M segment, we achieved higher plant utilization rate in quarter 1 2022 at 93% as compared to 82% achieved in the previous quarter. This was due to lower turnaround days this year when compared to the last year, which in turn resulted in the higher production of urea and methanol. However, as we are speaking now, our largest manufacturing unit, PC Fertilizer Sabah and plant 2 of PC Methanol in Labuan are currently undergoing turnaround. With this, the utilization for F&M segment for quarter 2 2022 is expected to drop below 80%. We expect the turnaround will be completed within quarter 2 itself. Once completed, with our heavy turnaround for this year, we will look forward to optimize the plant for the rest of the year. Our goal to keep plants safe and to achieve full year group PU of above 90%. That is the brief for the operational review for this quarter. Over to Mr. Shakeel for the market outlook.

Shakeel Ahmad Khan:

Thank you, Mr. Kabir. Good evening. Shakeel here. Let's proceed with market highlight. In quarter 1, 2022, prices were mostly higher compared to previous quarter amid strong crude and naphtha market and tight supply mainly impacted by the Russian-Ukraine war. Demand was generally stable for F&M products while O&D product prices were stable to stop impacted by higher feedstock costs and a cautious market with the emergence of the new COVID variant, Omicron.

3 months outlook, ethylene price is forecasted to be stable on the back of balance supply mainly due to a series of cracker turnarounds in quarter 2, while demand may be affected due to Zero COVID-19 policy and lockdowns in China.

Regional spot supply is expected to be balanced with the end of Japan cracker record turnarounds in early May and ongoing downstream output cuts by several producers amid weak margins. Cracker margins seems to be improving, but the short-term operating rate recovery in the region is still uncertain due to volatility of crude oil prices.

Moving on to polymers. LDPE price is forecasted to be soft amidst weak demand due to Labor Day and Eid celebration and bearish sentiment from volatile crude prices. Demand in Q2 expected to be in most SEA countries. Weak market sentiment remains in China as the country struggles to curb the spread of pandemic by imposing stricter logistic restrictions.

Next, for MEG. Ethylene glycol price is forecasted to be stable on the back of balanced supply and weak demand due to China lockdown. Heavy maintenance in Q2, coupled with ongoing production cuts in Asia may disrupt MEG supply. However, new China plant start-up may mitigate potential shortage.

As for paraxylene, prices forecasted to be stable amidst limited supply due to plant turnaround despite slower demand during COVID-19 lockdown in China and downstream plant turnarounds. Downstream PTA producers in China continue to face mounting cost pressure, especially with the recent depreciation of Chinese yuan against U.S. dollar.

As a result, PTA producers may increase turnaround frequency in view of squeezed margins.

Now let's proceed with Fertilizer and Methanol segment, starting with urea. Urea price is forecasted to soften despite limited supply due to ongoing Russian sanctions. In China, export continues to be restricted as domestic demand will increase for the summer season. Nonetheless, most SEA and Middle East plants are running at normal operating rate. Demand in South Asia is muted as many markets closed for Eid celebrations, and the delayed issuance of Indian tender. Moreover, most buyers are focused on fulfilling term commitment. In Australia, buyers are on the sidelines after recent price falls in the global market.

Moving on to ammonia. Ammonia price is forecasted to be stable on scarce spot availability on top of limited Russian supply due to Ukraine tensions despite all plants running at normal production rate. Slow market demand in SEA owing to the Eid holiday, as well as slow downstream demand in South Korea with both acrylonitrile and caprolactam plants running at lower OR due to weak margin.

Lastly, on methanol, prices will be on the correction mode following the lockdowns in China affecting demand. Supply will be tight, especially in South Asia due to few plant shutdowns until June. SEA demand is expected to be stable due to gradual easing of movement control in the region, and that's all I have on market update. Back to Mr. Yusri for the growth update. Thank you.

Mohd Yusri Bin Mohamed Yusof:

Thanks, Shakeel. Before we end our presentation, allow me to share some brief updates on our growth commitments and achievements. I'm pleased to say that Pengerang Integrated Complex, the refinery have restarted earlier this month, and I believe that this is the news that we have been looking forward to hear. So far, the start-up and commissioning activities are progressing quite well. We will continue to monitor the progress and activities towards a successful integrated start-up for the whole complex. We expect the petrochemical plants to start up in phases following the stabilization of the refinery unit and the steam cracker unit.

Also, ladies and gentlemen, as many of you are aware by now, we recently announced our conditional and security purchase agreement with Financière Forêt private equity firm to acquire 100% equity of Perstorp Holding of Sweden. This acquisition is a major milestone for us in establishing our specialty chemicals platform to meet our objective of diversifying into specialty chemicals and solutions in order to capture new growth opportunities for us.

As a quick recap, Perstorp was established in Sweden 140 years ago, and it's a niche global specialty chemicals manufacturer, specializing in intermediates and specialty chemicals for resins and coatings, engineered fluids and animal nutrition. Perstorp operates currently 7 manufacturing sites across the globe, alongside 3 R&D centers. There are 2 sites in Sweden, Stenungsund and Perstorp; 1 site in U.S. in Toledo; 1 site in Netherlands, Waspik; 1 site in Italy, Castellanza; 1 site in Germany, Bruchhausener and 1 site in China at Zibo. There are also 2 tolling facilities in Netherlands, for DuPont and 1 in Italy for some of our Perstorp specialty products. It has presence in 26 countries worldwide with sales predominantly coming from Europe, about half of that, followed by APAC and the Americas, respectively.

Perstorp currently serves slightly more than 2,600 customers globally through its 130 products offering from the 30 products group that it produces. It anchors itself on its proprietary oxo and polyol chemistry. And because of that, this acquisition will also provide us the critical talent know-how -- the critical talent, the know-how and the technology platform, as well as proven customer channels to address the pressing needs of the market for more sustainable solutions. In 2017, Perstorp has intensified its commitment towards sustainability and has launched its finite material neutral ambition with the end goal of switching to alternative resources that are abundant or renewable or even to close the loop in order to recycle those that are finite in line with our net 0 carbon emissions aspiration.

Ladies and gentlemen, we are very, very excited over the idea of being able to expand our specialty chemicals range with a company that is not only established and knowledgeable, but also progressive with a strong drive for sustainability, and we look forward to be able to replicate and expand on what Perstorp has built in Europe, here, in this region where the demand for specialty products are high and on the rise. We are now in the process of applying for regulatory clearances. And these clearances and shareholders' approval through EGM are expected to be obtained within 4 months of the signing of SPA.

Next slide, okay. When we talk about sustainability, let's look a bit of our sustainability metrics that we have published. We have mentioned previously on how serious we are with regards to sustainability. We have embedded sustainability at the core of in all the things that we do and have begun to include ESG-related calculation, such as carbon pricing when assessing our new projects. This is to ensure that we move forward with projects that are sustainable and processes that leave lower, if not very minimal carbon footprint that bring value to both the company and our stakeholders.

While continuing to address improvement in the ESG space, we are continuously monitoring our day-to-day operations and the impact on our sustainability pillars. So let's go through some of our sustainability indicators for the quarter, starting with the economy, which focuses on our business operation. We've mentioned that our operation and commercial front, we spoke about lower utilization due to our planned turnaround and maintenance activities. And then subsequently, that drives our current sales volume with the lower production volume, our environmental where we measure and monitor our impact on the environment was impacted slightly.

Again, both corresponding and preceding quarter, our energy intensity was a little higher at 17.07 gigajoules per tonne of production as we recorded low production volume, as we mentioned earlier. Similarly, at 1.73 million tonne of CO2 equivalent emitted, our quarter 1 2022 GHG emissions was also slightly higher than both the preceding and corresponding quarter, respectively. GHG intensity also increased in quarter 1 2022 compared to the comparative

quarter, again due to the lower production volume. Recycling rate was lower compared to the preceding and corresponding quarter due to higher nonrecyclable waste produced during the turnaround -- this is mostly due to the turnaround activities that we have in our quarter 1.

Our third pillar that looks at our social impact where our focus is on community development and well-being through education and governance. Our outreach programs for 2022 are being finalized in quarter 1, having engaged various ministries, government agencies, NGOs, through associations and partners to discuss the coordination of the upcoming program. As we speak, as Malaysia moved into endemic period, and we are now going to start and began our various CSR and outreach activities in earnest starting quarter 2 of this year.

On the governance, ladies and gentlemen, we continuously look to enhance our current practices. Social reassessment for 2022 is to close the gaps identified in previous assessments. Currently, 25% of the identified gaps have been closed, and we're working hard on the rest. All that I have said are part of our net zero carbon emissions road map and are key in our commitment towards creating positive economic, environmental and social impacts and lowering our carbon footprint. At this point, we are on track towards our immediate aim to reduce 20% of our baseline emission by 2030. There will be more to share on this in the near future. So bear with us, we will continue to share our progress with you.

Next, ladies and gentlemen, before I end, a brief review of what we expect for the rest of 2022 with regards to our key focus areas. On growth delivery, I've spoken earlier on the restart of Pengerang Integrated Complex and the acquisition of Perstorp Holding. Next, we are looking - - next, looking at the business environment, we're still looking at continuing economy expansion, albeit -- maybe a slower rate attributed by the conflict between Russia and Ukraine, as well as we believe rising inflation. Uncertainty remains as the key risk for crude oil prices owing to supply limitation as Russia's exports are curtailed, production disruptions in various producing countries, namely Kazakhstan, Libya and Middle East, though we'll be cushioned by some of OPEC's gradual output increase.

With all the uncertainties looming and increased volatility, it is imperative that we manage our operations well to minimize the risk, which are within our control and optimize our manufacturing asset and maximize value to our sales, leveraging on the opportunities that we see as the market presented itself.

In fact, to date, I'm proud to say that we have not experienced any loss of sales due, for example, due to lockdown in China. Though we have cargoes meant for China that were affected by the logistic restrictions in Shanghai, we have managed to divert the volume to other unaffected ports in South China and also our other ASEAN markets.

On the operational front, to date, we have mentioned -- Kabir had mentioned that we've completed our planned turnaround for our Olefins and Derivatives segment with no major HSE. We are currently undergoing turnaround for our F&M segment with both methanol plant 2 and our fertilizer plant in Sabah. And we hope that we're continuing our record of completing the turnaround with clean HSE record.

We will continue our focus and our efforts on our strict HSE culture to ensure health and safety of our employees, contractors and uninterrupted operations continue. We remain vigilant on the threat of COVID-19 and continue to observe strict SOP at all our premises and during all activities that we planned.

With regards to our net zero carbon aspiration, the team continues to monitor ways to cut back on our impact environment and to monitor any new and emerging technologies options that can be implemented at our facilities that will bring the best value for us on our sustainability commitment. That, ladies and gentlemen, bring me to the end of our presentation. I think let's open the floor for question-and-answer.

Zaida Alia Shaari:

Operator, we shall hand over to you to open the line for questions.

+++ q-and-a

Operator:

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

Khir Peng Goh:

Let me start with the 2 questions first, is regarding you mentioned the diversion of China deliveries to other China ports and ASEAN markets. May I know what is the current exposure in your first quarter in terms of your production? How much does China account for your sales? And when you diverted to other ports in China or ASEAN, did you incur a lower revenue? Or was there higher cost involved?

Shakeel Ahmad Khan:

I think to answer your question, typically about 14% to 15% of our -- from our volume goes to China. That was average for last year '21. This year, due to the lockdown, we have lost close to 5% of our volume to China, which has been diverted to the other market in South Asia. And that's for the first one.

Mohd Azli Bin Ishak:

And to further support the Shakeel's response, with regards to the impact, although some of the cargoes were diverted to other unaffected markets within ASEAN and Southeast Asia, we don't have any impact to our netback from that particular cargoes that was diverted. So no particular impact on China lockdown rising from the diverted cargoes. I hope that answers your question, Alex.

Khir Peng Goh:

So does that mean your revenue would have been the same instead of going to those parts in China for like Shanghai, you ran over the other parts of Southeast Asia, you would still have generated the same revenue. Is that right?

Mohd Azli Bin Ishak:

Correct.

Khir Peng Goh:

Okay. Would that mean going forward, you would want to have a more diversified exposure to those other markets? Or how would your strategy be going forward in terms of your marketing?

Mohd Azli Bin Ishak:

I think we have various channels -- marketing channels, and the various customer base. And these are mainly based on the supply and demand and then the customer's contract. And we will monitor the situation closely as when, we want to deliver those cargoes. So any event that the particular cargoes are being affected from lockdown, and we were able to find alternative routes, alternative markets for us to divert such cargoes.

Khir Peng Goh:

Okay. That's wonderful. Can I just ask now regarding your plant maintenance and CapEx. Could you give us a bit of an indication for the rest of the year, the next 3 quarters, would that -- what

are the turnaround activities that you will be planning and the potential impact to the -- and the plant utilization. I understand you mentioned overall you're looking at 90%, but we just want to have a feel of in each quarter, how would the plant utilization, the trend be?

Mohammed Kabir Noordin:

Okay. So this year, our plan for turnaround only quarter 1 and quarter 2. So quarter 1 already completed. Now we have 2 big plants in progress and almost will be completed. So for quarter 3, quarter 4, we don't have any activity. No turnaround and also no pitstop for the plant -- all the plants. So for quarter 3 and quarter 4, we expect that we can be recovered is above the 90. So I think that -- to answer your question, but we try to keep all the plant is safe and also reliable, try to target more than 92%.

Khir Peng Goh:

In the second quarter, can you run through again, which-- 2 big plants that you will be doing this turnaround.

Mohammed Kabir Noordin:

For the second quarter is PC Methanol, Plant 2, the biggest plant and also PC Fertilizer, Sabah.

Khir Peng Goh:

Okay. This means that your O&D will rebound back in the second quarter. Would that be right?

Mohammed Kabir Noordin:

Yes, true, second quarter, third quarter and fourth quarter.

Mohd Yusri Bin Mohamed Yusof:

Yes. As I said, you see our segment in quarter 1, O&D in the 80s, where F&M in the 90s. Quarter 2, we expect that to flip -- sorry -- yes, expect that to flip, and F&M will be in the 80s, O&D will be in the 90s, yes.

Mohd Azli Bin Ishak:

And quarter 3 and quarter 4 onwards both will be in the 90s.

Mohd Yusri Bin Mohamed Yusof:

In the 90s.

Khir Peng Goh:

Okay. Yes, I just want to find out in terms of your CapEx, the maintenance, as well as for revenue growth, what will it be for the full year this year and next year?

Mohd Azli Bin Ishak:

As our normal guidance to the analysts, it would be around MYR 1 billion to MYR 1.5 billion. That's inclusive of CapEx for maintenance and CapEx for turnarounds, CapEx for other particular capital investment projects. So I think that's basically the guidance that we provide.

Khir Peng Goh:

If you were to strip out the growth projects, how much would your normal maintenance capacity?

Mohd Azli Bin Ishak:

It would be around MYR 700 million to MYR 800 million for maintenance, yes.

Khair Peng Goh:

Do you see any inflationary pressures coming in because of the current lockdown?

Mohd Azli Bin Ishak:

Yes. I think in terms of inflationary pressure, that's already embedded in our scenario analysis, and we do not rule out such rising inflationary pressure, like what Yusri has mentioned earlier. But we do have some contingency plan because we do have good relationship with these contractors. And we may engage them in our other turnarounds and maintenance activities. And this is where we leverage our strong relationship with them in terms of managing costs moving forward as what we have experienced in the pandemic 2 years ago.

Khair Peng Goh:

All right. And maybe my 1 final question, and then I leave the floor. Regarding your PIC, you are starting on 8th of May, but what should we be looking in terms of the plant utilization as you move towards the rest of this year and next year?

Mohd Yusri Bin Mohamed Yusof:

The plan is to stabilize the operation, Alex. We are looking at maybe in the mid-60% initially before -- and if we are stable at that level, and then we'll slowly gradually raise it up. But in the initial couple of months period, post start-up, that's the level that we're looking at.

Khair Peng Goh:

I see. Okay. But generally, by next year, you should be looking at closer towards 80% to 90%. Would that be right?

Mohd Yusri Bin Mohamed Yusof:

Yes, definitely, definitely. Our target is by next year, the plant is stable, and that will be running at its normal operating rate of close to 90%.

Operator:

Our next question comes from Ho Meng Kong from UOB.

Ho Meng Kong:

I just have 3 questions. My first question is more of a reminder. You probably have covered this in your earlier briefing on Perstorp, but just hopefully a reminder again, between the, say, the Perstorp portfolio versus your additional portfolio, which one have the higher exposure towards the volatility of feedstock cost. And say, once you have consolidated both portfolios under the group, what is your plan to narrow the gap or fix weakness in, from the weaker portfolio? Then that's my first question. And my second question is I think -- sorry, go ahead.

Mohd Azli Bin Ishak:

Can you repeat that particular question because your line was not really clear on our side.

Ho Meng Kong:

Sorry. Okay. My first question is basically to, just a reminder again on the -- in terms of pitstop cost volatility between the Perstorp portfolio, as well as your existing portfolio which has a higher exposure. And then once you merge the portfolio, what is your plan to fix the weakness or narrow the gap.

Mohd Azli Bin Ishak:

Maybe I'll answer that question first. I think as what you acknowledge from reading the Perstorp's report, which they publish every quarter, their portfolio is more towards

intermediates and specialty chemical. And being in specialty chemicals, they are able to pass on any increase in cost, especially feedstock down to their customers while preserving their margin, which is around 15% to 20% for the past -- how many years, right? You will notice that from the report. So once they are consolidated in our pool, so that is basically the kind of operating philosophy that we will embed in a way that is there any certain feedstock that we can leverage with the PCG's portfolio, we will do so. That's basically the quick win that we can get from this particular acquisition.

Ho Meng Kong:

Understood. That's very clear. And okay, my second question is, I think recently there is some article that state to decompose the global petrochemical industry, that would roughly cost about USD 800 billion, of course it is a moving target and it's across the peers. But just wondering whether have you done your studies and what would be your share of that of the cost over the years.

Mohd Azli Bin Ishak:

Okay. You will notice, (inaudible) that last year, we have made known, especially in our sustainability report on our a net zero carbon emission road map towards 2050, with an immediate reduction of 30% of carbon emission by 2030. So that is a short-term, medium-term and long-term goal towards net 0 by 2050. And along that 3 phases, we have initiated -- we have a list of initiatives and targets that we are embarking. So we are still early in this journey, but I think compared to our peers and other players in this region, we are quite well ahead. So -- but as what Yusri has mentioned, we will educate and we will disclose the results of these initiatives as we move forward once we briefed the analysts at public on a quarterly basis.

With regards to cost associated with it, currently it's a bit too premature to really put this on public domain yet. We will, of course, make known in terms of the necessary CapEx or OpEx for sustainability initiatives as we move forward towards these initiatives.

Ho Meng Kong:

Okay. Understood that it's premature. So it is probably also not realistic to just supply a market on the industry multiplied by the \$800 million -- just for your guidance.

Mohd Yusri Bin Mohamed Yusof:

Yes.

Ho Meng Kong:

My last question is just to -- I know you don't -- it's not your project, but you do have a partnership arrangement with the Sarawak Methanol plant. So just wondering whether do you happen to know the parentage or completion of that plant as of the latest data you have here?

Mohd Azli Bin Ishak:

Actually, we are not a party to that particular project, and we don't know the progress of that particular project to be specific.

Ho Meng Kong:

Okay. I thought you have talked of a marketing arrangement, if I my memory serves me correctly.

Mohd Azli Bin Ishak:

That's currently in discussion and then what sort of collaboration that we have. But currently, we have no concrete information about the progress of the plant and then where they are in terms of our project status.

Operator:

Our next question comes from Desmond Low from Citi.

Desmond Low:

Management, can you hear me?

Mohd Yusri Bin Mohamed Yusof:

Yes, but you need to speak louder, Desmond.

Desmond Low:

Okay. Can you hear now? Is it better now?

Mohd Azli Bin Ishak:

Yes.

Desmond Low:

Right. I had a few questions. So the first one is, may I know why is the F&M EBITDA margin down from 49% to 42%?

Mohd Azli Bin Ishak:

Okay. The -- basically, one of the main reason is we see for additional maintenance work that's incurred for fertilizer and methanol segment, especially at ABF Fertilizer in Bintulu for quarter 1, 2022. So that's basically the main reason for lower EBITDA margin for F&M segment.

Desmond Low:

So then my second question is, I saw that there was a big increase in EBITDA from other segments. So what exactly drove this? And will this amount persist in the future quarters?

Mohd Azli Bin Ishak:

Okay. There is basically contribution from our BRB. So currently, BRB fits in our other segment. So I would say around 90% of what you see in the other segment is basically from BRB. And those particular segment has recorded -- no, BRB has contributed a lot and then due to improved margin on silicone business as well as the lubricant and additive chemicals globally and mainly in the Europe continent.

Desmond Low:

Got it. And then I have last 2 questions. And then so given refinery has started as well, so when do you expect the cracker and various downstream to start operation?

Mohd Yusri Bin Mohamed Yusof:

Well, I've mentioned that it will be upon stabilization of refinery. Desmond, I think we expect now the cracker to start within the next couple of weeks. And subsequent to the cracker start-up and stabilization, we expect by -- we did June, then we have -- we will be starting the -- regarding the petrochemical plants within the complex.

Desmond Low:

So then the last question. So given the Perstorp M&A, right, will this affect the peak and current dividend payout ratio, which is about 50%.

Mohd Azli Bin Ishak:

As we mentioned last week in our analyst briefing with regards to Perstorp acquisition, this particular M&A activities will not affect our dividend policy. And that dividend policy of 50% of PATANCI will still remain.

Operator:

Our next question comes from Piyanan Panichkul from UBS.

Piyanan Panichkul:

I have 2 questions, please. So let me ask one by one. If you look at production volume for the F&M segment, look like both methanol is up from last quarter and urea is pretty flat. And if you look at the price of urea and methanol, they are both up. So could you explain why the EBITDA and EBITDA margin drop this quarter?

Mohd Azli Bin Ishak:

Can you hear me?

Piyanan Panichkul:

Yes, Azli. Can you hear me?

Mohd Azli Bin Ishak:

Yes, yes. I think I basically have answered that -- your questions from -- question from [Ho Meng Kong] just now. It is basically a lower EBITDA margin for fertilizer methanol is mainly due to, #1, the maintenance activities undertaken at the Bintulu Fertilizer, that happens in quarter 1, as well as we -- we see a little bit more normalization of the urea prices in quarter 1. So that's basically the main reason for the reduction in EBITDA margin for F&M.

Piyanan Panichkul:

Okay. Azli, let me ask 1 more related to this. So for the maintenance cost for Sabah in Q2 and methanol, would it be more or less than Q1?

Mohd Azli Bin Ishak:

It will be slightly more, Piyanan, because it involves even larger unit, especially the methanol and not to forget the fertilizer plant in Sabah, which is the bigger one that we had compared to our other fertilizer plant.

Piyanan Panichkul:

Second question is on the PIC. Could you now give us some color on the profit or selling price structure of this project? And can you confirm that the cost overrun at the refinery, if any, would not be spill over to PCHEM?

Mohd Azli Bin Ishak:

So basically, what we will book in our balance sheet and income statement is our 50% portion of the revenue, EBITDA and other financials, including the balance sheet in the PETCHEM complex. But as what I iterated earlier and before in the analyst briefing earlier, the whole refinery cracker and petrochemical are meant to work in a fully integrated basis. So the idea is for each of the whole value chain is supposed to work on a systematic and then provide integrated return to others. So we don't foresee any cost overrun or anything that affects the refinery being burdened to the petrochemical unit. Because #1 it's 2 separate entity. One is the JV with PETRONAS and Aramco, which owns the refinery and cracker. And the other is a JV with PCG and Aramco, which owns the petrochemical.

Piyanan Panichkul:

And in terms of profit or margin of this project, should we look at the integrated margin from naphtha to polyethylene? Or is it just ethylene to polyethylene, just the downstream part?

Mohd Azli Bin Ishak:

Yes. I think we can have more color on that particular analysis, Piyanan, once the complex has started on the second half of the year. So -- but basically, the economics of -- with the petrochemical is based on the price of ethylene and propylene that Pengerang Petrochemical Complex buys from the refinery. So that is basically based on the over the fence prices based on published prices.

Piyanan Panichkul:

Okay. Last quick question, please go back to the maintenance cost. Could you give us the amount of maintenance costs in Q1?

Mohd Azli Bin Ishak:

On this, basically, we do not, in general, Piyanan, as you know, we do not disclose our maintenance cost quarter-by-quarter. But in general, what I mentioned earlier, our typical maintenance costs for the whole year is basically around MYR 700 million to MYR 800 million. So that will be the guidance for the year 2022. So I hope that will be sufficient for your valuation purposes.

Operator:

Our next question comes from Anshool Singhi from JPMorgan.

Anshool Singhi:

I have a few questions. Sir, I'd like to start with, as you mentioned, others contribution was mostly driven by BRB. Could you provide more details regarding the margin, the exact contribution for that business?

Mohd Azli Bin Ishak:

So basically, internally, they did perform well compared to what we even expected -- what we even budgeted internally. So currently, they contribute around 5% of EBITDA of PCG Group, and we expect BRB to contribute even more for this quarter and for the remaining of the quarter 3 and quarter 4.

Anshool Singhi:

Okay. My next question is regarding the effective tax rate. So we saw it climb a bit quarter-on-quarter. I remember you saying that the impact from the prosperity tax would not be that high last quarter. So I just want to confirm if it was -- is it something else or is it due to the prosperity tax?

Mohd Azli Bin Ishak:

No. Basically, the increase in effective tax rate is very major. It's -- our effective tax rate is currently stood at 6% for the quarter. So that is basically based on the margins that we have incurred during the quarter. And this is not anything to do with the prosperity tax as what we have simulated earlier.

Anshool Singhi:

So effectively, on a full year basis, we could see around 6%, 6.5% going forward?

Mohd Azli Bin Ishak:

So basically, our guidance to the analysts is that our effective tax rate for year-to-year and also apply for 2022 is between 6% to 9%. So that will be the guidance that we provide to analyst.

Anshool Singhi:

Perfect. My next question is regarding the associate contribution. So it's continuing to drop for the past 2 quarters. Could I have idea why this happened?

Mohd Azli Bin Ishak:

So as you see, Anshool, the contribution from JV associate for this quarter is lower compared to quarter 4 as well as the corresponding quarter last year. I mean this is basically due to 2 things. One is a lower contribution from our JV with BASF, BPC, BASF PETRONAS Chemicals. That is basically mainly due to some plant issues that they have experienced in quarter 1, as well as the lower spread for oxo and acrylics. And then there was also a lower contribution from IPSB, acetic acid business, also due to lower spread for acetic acid. So that basically resulted in lower JV and associated contribution to our bottom line.

Anshool Singhi:

Okay. My last question is regarding the SG&A costs. So just -- could you remind us why we saw a spike in the fourth quarter?

Mohd Azli Bin Ishak:

Anshool, can you repeat that question, again?

Anshool Singhi:

The spike in SG&A expenses. SG&A, selling, general and administrative.

Mohd Azli Bin Ishak:

Spike in SG&A.?

Anshool Singhi:

Yes.

Mohd Azli Bin Ishak:

So that's basically mainly due to the market environment. So basically, the SG&A is in line with the increase in product prices. So that correlates with the SG&A.

Operator:

Our next question comes from Raymond Yap from CGS-CIMB.

Raymond Yap:

I will keep it short. So just now the guidance was for the effect of 6% to 9%. Could I just double check that 6% to 9% is based on the denominator that excludes the associate profit? Technically, it should exclude the associate profits because taxes are lumped into the associate line in a single line.

Mohd Azli Bin Ishak:

You're right, Raymond. So -- because what we booked from the JV is profit after tax. So that is -- it is now excluding the contribution from the JV.

Raymond Yap:

Okay. And the 6% to 9% guidance on that basis as well, right?

Mohd Azli Bin Ishak:

Yes. Basically, we have a wide range because based on the market movement. So at the time where the product prices spread is higher, our effective tax rate is lower, as you would notice over the past 5 years.

Raymond Yap:

Yes, okay. Just a small question on depreciation. I noticed that the depreciation for O&D actually fell quarter-on-quarter. Is that sustainable? And what's the reason for the decline?

Mohd Azli Bin Ishak:

Basically, Raymond, some of our assets, mainly in Olefin and Derivative segment has reached the end of depreciation on the life. But that is basically nothing to worry about because we have been incurring CapEx, sustaining CapEx since 10, 15 years ago. So that is basically the result of that lower depreciation.

Raymond Yap:

Okay. So it sounds to be sustainable going forward. And the last question is on the BRB. You mentioned that in the first quarter, it was 5% of group EBITDA. May I know what it was? What was it in the fourth quarter of last year?

Mohd Azli Bin Ishak:

It was around -- (inaudible) Raymond, it was about 4.5. So the contribution from BRB is quite small. So even if it increases on BRB level is high, but over the, let's say, the MYR 8 billion of EBITDA that we had last year, still move slightly small in term of percentage.

Raymond Yap:

Okay. So the 4.5% you mentioned is for the whole of 2021, right?

Mohd Azli Bin Ishak:

Correct. Yes. Correct.

Operator:

Our next follow-up question comes from Alex Goh from AmBank.

Khair Peng Goh:

I just wanted to follow up on the question on the associate and JV. You mentioned that it's because of BASF Petrochemicals was down because of plant issues. I just want to find out, have these issues been resolved because I've noticed that number keeps coming down over the last few quarters. So has the issue been resolved? That's the first question. And the second question is, given the fact that all prices are up, petrochemical prices up, why was Oxo and acrylic prices down?

Mohd Azli Bin Ishak:

Okay. #1, Alex, the plant issues have been resolved, and it was resolved expeditiously, if I say so, because both Yusri and I were at the JV 2 days ago, and we have been updated on this on the timely manner. And with regards to the prices, I think that the prices are down because of supply and demand. They are also producers of Oxo and acrylic acid within this region. So that basically supply dynamics impacted the margin for Oxo and acrylic.

Khair Peng Goh:

I see. But going forward, that you have settled your plan issues, should we be expecting your JV to rebound in the next few quarters?

Mohd Azli Bin Ishak:

We expect so, Alex, but it all depends on the market dynamics, especially the prices and spread mainly for Oxo and acrylic.

Operator:

Our next follow-up comes from Ho Meng Kong from UOB.

Ho Meng Kong:

Just 2 quick follow-up questions to keep it short. I'm just wondering in terms of the demand related to China, especially. Say, with the news on the easing lockdowns from China, as well as, if I'm not mistaken, some of the petrochemical plants in China are supposed to undergo maintenance period in the middle of this year, probably after third quarter. Are you seeing -- and to me, if you do this lockdown, are you seeing increased bookings really for China, meaning a reversal of the trend that you saw in first quarter where you need to shift products to the non-China market? (inaudible) do you see the reversal now back to China?

Shakeel Ahmad Khan:

I think it was earlier on, our CFO, Azli has answered. What we are seeing is basically as and when we see the market changes, we will do our strategy of placement of volume. So I think we have planned for China and also the other regions. But as when the market dynamic changes, we will change our plan accordingly.

Mohd Yusri Bin Mohamed Yusof:

We don't expect it will be beyond our normal average because our sales channels are basically within the same range in a year out. I think that's basically, I think, the guidance we will be giving in terms of allocation of products to the different markets.

Ho Meng Kong:

Understood. And my second question also raises redemand, but more on the effect on the end sectors that may consume your demand. Say, for example, if the inflation comes in and that affects, say, the use of your product that supports heavy sectors like, let's say for -- automotive sectors, food sectors and so forth. But at the same time, events like China's lockdown maybe kind of like give some angle that probably products for health care sector, packaging, and masks will still be strong. Do you see that? And in terms of the demand of our product -- are still resilient to these kind of factors relative to the other sectors that are more -- that could be more prone to the inflation pressures, yeah?

Mohd Azli Bin Ishak:

I think that's -- one of the benefits that we, as PCG have from producing commodities. So it can serve a lot of industries. And quite have a versatile and valid use of this particular commodities. So in the event that 1 industry suffers from demand disruption, from rising inflation, there may be other opportunities that we can find from other particular industries that may be booming and then opening doors for us to grab that particular opportunities. So that is basically one of the benefits that we can tap in the event that there are particular disruption in the markets. And being quite big in this region, so we are able to capture market opportunities as we see fine post on the slowdown of this demand.

Operator:

So we have reached the end of the question-and-answer session. I'll now turn the call back to Ms. Zaida Alia for closing remarks.

Zaida Alia Shaari:

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

Operator:

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

END
