

PETRONAS CHEMICALS GROUP BERHAD

2Q 2022 ANALYST BRIEFING

22 August 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 the PETRONAS Chemicals Group Analyst Briefing for Quarter Ended June 30, 2022 Conference Call. (Operator Instructions) Please be advised that today's conference is being recorded.

I would now like to hand the conference over to your speaker today, Alia Shaari, you may begin.

Zaida Alia Shaari:

Thank you, Crystal.

Good evening, ladies and gentlemen. (foreign language) Welcome to PETRONAS Chemicals Group Berhad Analyst Briefing for the second quarter financial year 2022 financial results. I'm Alia, Head of Investor Relations. Thank you again 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 the presentation materials in our corporate website or in the link 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, CEO, Mr. Mohamed Yusri; our CFO, Mr. Azli will brief on the details of the financial performance followed by Mr. Kabir, our Chief Manufacturing Officer, who will touch on our manufacturing operations. This will be followed by a brief on the market by our Chief Marketing Officer, Mr. Shakeel. Also in attendance from our management lineup is Mr. Akbar, our Head of Special Projects.

Ladies and gentlemen, we are very pleased today to have with us our independent nonexecutive directors, Yang Berbahagia Datuk William Toh as well as Dr Zafar Abdulmajid. Following the briefing by the senior management, we will open the line for a questions-and-answers session. Without further ado, I shall now hand you over to our CEO, Mr. Yusri. Thank you.

Mohd Yusri Bin Mohamed Yusof:

Thank you, Alia.

Good evening. Good day, ladies and gentlemen.

Thank you for joining us today. Let's look at the first slide. The first half of 2022 has proven to be quite a ride with major geopolitical conflict changing the energy outlook of overnight back in March. Energy prices rose on supply tiers, while economies scuffled with rising inflationary pressure.

Economic growth has slowed, and sales of potential recession has reached a [volume decrease of] GDP for the first half of the year came in at 3.52% compared to the robust 7.32% in the same period last year.

In China, the continued fight for zero COVID-19 causing much concern with continued lockdown impacting market sentiment. PMI dipped to 52.80 against 54.50 in the first half -- against 54.50 in the first half of last year on lower manufacturing sector and continuing supply chain disruptions.

Crude oil averaged 66% higher at \$108 per barrel on supply limitation amidst the Russia-Ukraine war and better demand on the overall improved COVID-19 situation. With higher crude oil price, healthy demand amid supply chain challenges, petrochemical product prices were higher across the board compared to the first half of 2021, which brings me to the performance highlights for the quarter.

Go to Slide 2.

Ladies and gentlemen, the turnaround maintenance plan for the year was quite extensive. We started the planned turnarounds for our plants in the Olefins and Derivatives segment, namely the propylene plant at PC Olefins, PC Derivatives and PC Aromatics and followed by the Fertilizers and Methanol segment for PC Methanol Plant 2 and PC Fertilizer Sabah in quarter 2. With such major shutdown, plant utilization was lower at 79% compared to 94% last year.

Production volume declined to 4.4 million tonnes, against 5.2 million tonnes last year. Nonetheless, our sales volume was only lower -- was lower at 3.5 million tonnes against 4.1 million tonnes last year.

On the market front, prices were higher across all products, driven by higher energy prices and overall improved demand. Following the higher product prices, we recorded MYR 12.3 million in revenue, 29% higher than last year. EBITDA and PAT were both higher at MYR 4.4 billion, and MYR 3.9 billion, respectively, on expanded product spreads. EBITDA margin remains healthy at 33%.

I have Azli next who will take you through the details of our financial performance.

Mohd Azli Bin Ishak:

Thank you, Mr. Yusri.

Ladies and gentlemen, good evening, and thank you for joining us.

So let's start with the group's financial performance on Page 3, beginning with the comparison of the second quarter 2022 against second quarter 2021. So for quarter 2, we saw slowing economic growth alongside recession concerns and inflationary concerns amidst the ongoing Russia-Ukraine war.

Further to that, we've also seen the Chinese government unwavering stance on the fight against COVID-19 with a renewed zero COVID restriction. So crude oil price rose 67% to average at USD 114 per barrel in quarter 2, 2022 compared to \$68 per barrel in quarter 2, 2021, mainly due to supply limitation amidst the Russian-Ukraine war. Additionally, demand was robust, spurred by the global summer travel season.

Following the higher crude oil prices, petchem product prices were strong on higher feedstock costs, improved demand year-on-year following the economic recovery. On our operational front, we undertook higher turnaround this year compared to what we did last year, which saw our plant utilization rate came down to 72% against 97% in the same quarter last year.

As a reminder, we undertook turnaround shutdown at two of our largest plant, which is PC Methanol Plant 2, which has the design capacity of 1.7 MTPA as well as PC Fertilizer Sabah with a capacity of 1.2 MTPA. Additionally, our turnaround for PC Aromatics that started in first quarter 2022, spilled over into quarter 2.

We also experienced some maintenance issues at our urea facility in Bintulu and the ratification and maintenance work also impacted our utilization rate. But the good news is all our turnaround and methanol activities has been completed since then.

All in, year-on-year, our production and sales volume were lower by 26%. So despite the lower production volume, group revenue grew 17% from MYR 5.6 billion in quarter 2 2021 to MYR 6.6 billion this year, mainly on high product prices. In terms of EBITDA, EBITDA declined 8.6% to MYR 2 billion against MYR 2.2 billion last year. This is mainly due to lower sales volume but partially offset by improved product spread.

At 30%, our EBITDA margin was lower in comparison to 38% achieved in the same quarter last year. Our PAT for the quarter was comparable at MYR 1.87 billion against MYR 1.85 billion in the same quarter last year.

Moving on to the group financial performance against preceding quarter, that is against quarter 1 this year. So, during the quarter, petchem product prices were assessed higher than preceding quarter on higher energy prices, while demand was mixed. On our operations, I had mentioned earlier that we undertook heavy plan turnaround shutdowns in quarter 2 2022. As such, plant utilization was lower quarter-on-quarter at 72% versus 87%, both production and sales volume took a hit, decreasing at 70% and 60%, respectively. Nonetheless, group revenue is comparable at MYR 6.6 billion.

In terms of EBITDA, EBITDA declined 19% from MYR 2.4 billion to MYR 2 billion, in line with lower sales volume, partially offset by improved spread. PAT was lower by MYR 200 million or 9.7%, in line with lower EBITDA, partially offset by lower tax expenses following the recognition of deferred tax asset for DTA on business losses at PC Aromatics.

So next, let's look at our performance for the first half of 2022. The excitement of the economic recovery we saw in the first half of 2021 was when as soaring energy prices eroded customer purchasing power. The Russia-Ukraine war saw inflation rising and the extended COVID-19 related lockdown in China caused further disruption to supply chain and cost pressures.

Brent crude prices averaged 66% higher against first half of 2021 and petchem product prices were assess higher across all products. On supply shortage, higher crude oil prices and freight charges. Our plant utilization was lower year-on-year due to the heavy turnaround activities that I have mentioned earlier, although group revenue jumped 29% to MYR 13.2 billion from MYR 10.3 billion last year.

With improved product spread, EBITDA improved 14% to MYR 4.4 billion against the same period last year, though EBITDA margin declined to 33% on lower sales on ethane-based product. PAT was higher at MYR 3.9 billion compared to MYR 3.3 billion last year.

So now let's move to balance sheet and cash flow. We first look at the balance sheet on Page 4. So year-to-date, our total asset increased from MYR 46.5 billion to MYR 50.3 billion, primarily due to higher cash and cash equivalents by MYR 2.5 billion due to cash contribution from higher CFFO. Also contributed by the higher total asset, higher property, plant and equipment mainly contributed by capital investment in our petchem project in Pengerang.

So now let's turn to our cash flow on Page 5. So cash generated from operating activities increased by MYR 1 billion at MYR 4.3 billion, mainly due to higher net cash generated from operation in line with higher EBITDA. During the period, net cash used in investing activities was higher by MYR 58 million at MYR 706 million, mainly due to higher purchase of property plant equipment for the turnaround that we are undertaking this year.

Net cash used in financing activities for the period was higher by MYR 1.1 billion at MYR 1.7 billion, mainly due to higher dividend payment to shareholders of the company. At the end of the period, our cash balance remains strong at about MYR 19 billion. That is all for the financial performance for the second quarter 2022.

I'm handing over the session to Kabir, for the manufacturing highlights.

Over to you, Kabir.

Mohammed Kabir Noordin:

Thank you, Mr. Azli. Good evening, everyone. Kabir here. Briefly on quarter 2 2022.

We recorded lower plant utilization in quarter 2 in view of heavy turnaround and planned maintenance activities. We have completed all turnaround and plant maintenance activity for 2022.

PU for quarter 2 2022 was recorded at 72%, lower than previous and corresponding quarter, following higher TA and shutdown activity at Fertilizer and Methanol segment. All others planned in Olefin and Derivatives segment remains stable, translate into higher ever quarterly ethylene production for the group since quarter 1, 2019. We will continue to enhance our reliability program, and we are expecting to continue optimum operation for the remaining 2 quarters of 2022, in view of no major shutdown activity until year-end.

Olefin and Derivatives segment. Quarter 2 plant utilization for Olefin and Derivatives segment were higher than previous quarter at 89%, following stable operation post turnaround and pitstop activity at PC Olefins and PC MTBE. Both of our ethylene crackers at PC Olefins and PC Ethylene had been running healthier during the quarter resulted to highest ever quarterly ethylene production since quarter 1 2019. We are expected to run our operation at optimum level with no major shutdown activity for O&D, for the remaining two quarters in 2022.

Fertilizer and Methanol segment. For the Fertilizer and Methanol segment, we achieved 62 plant utilization rate in quarter 2 2022. As mentioned during last quarter briefing, the reduction in utilization rates were mainly due to turnaround activity at Fertilizer and Methanol segment, namely PC Fertilizer Sabah and PC Methanol plant 2. We have completed our heavy turnaround cycle this year, and we will continue to optimum our plant capacity towards year-end.

Apart from that, we carry out maintenance activity at ABF PC Ammonia to immediately rectify reliability issue, which could be worsen if delay. We were also hit by water supply issue at PC

Fertilizer Kedah and were shut down to prioritize water supply to domestic consumer. All issues were rectify safely without major rework.

We are expected for Fertilizer and Methanol segment to continue running at optimum operation for the remaining two quarters post turnaround and shutdown activity. That sum up the operational review for the quarter.

So I hand over to Mr. Shakeel for the commercial update.

Shakeel Ahmad Khan:

Thank you, Kabir. Good evening, Shakeel here. Let's proceed with the market highlights.

In quarter 2, 2022, product prices were mostly higher compared to previous quarter mainly impacted by tight supply resulting from the Russian-Ukraine war. Demand was generally subdued, impacted by lower margins due to higher pre-stock costs and pro-longed China lockdowns as a result of the zero COVID-19 policy. However, F&M did see a more stable demand contributed by countries promoting food self-sufficiency.

Ethylene price is forecasted to be soft on the back of cracker outages and reduced operating rates amidst weak downstream demand due to higher feedstock costs and downstream plant turnarounds. Supply is expected to be short with some crackers outages and reduce operating rate in Northeast Asia. However, it is likely to be further balanced upon cracker restart in China.

Demand in Northeast Asia remains limited on weak margin with some producers likely to further lower the operating rates of underperforming downstream PE and MEG plants, further hampered by uncertainty of China lockdowns.

Moving on to polymers. LDPE price is forecasted to be softening amidst bearish demand and ample supply. Demand will still be limited by China's economy uncertainty due to the zero COVID-19 policy. However, market demand may potentially improve driven by restocking activities prior to China's Golden Week holiday in October.

Next, for MEG. Ethylene glycol price is forecasted to be soft on the back of sluggish demand due to high inventory and overall reduced buying due to recession fears. Supply is anticipated to be short as production cutbacks may continue in the coming months in response to low profitability. It may possibly drop further as more units in China are expected to shut down.

As for paraxylene, price is forecasted to be soft mainly due to lackluster demand from downstream purified terephthalic acid, PTA and polyester markets. Supply is to be short due to several turnarounds planned in Northeast Asia, persistent high freight costs may also limit from cargo supply into China.

Now let's proceed with the Fertilizer and Methanol segment, starting with urea. Urea price is forecasted to be soft due to slow demand in India market despite export restrictions of China cargoes. European markets has shown higher prices with the EUR against USD and high gas costs amid Russia gas supply cut. No planned turnaround or shutdowns for Middle East and SEA - plants in the outlook period.

Moving to ammonia. Ammonia price is forecasted to be soft amidst ample supply and steady demand. Supplies to be ample with additional volume expected from new Middle East plant starting from August. Demand is steady, although further improvements in market sentiment are hampered by squeezed margins for downstream products.

Lastly, on methanol. Price forecasted to be on correction mode as crude prices start to stabilize amidst improved supply and steady



demand. Higher supply in Northeast Asia as inventories at China ports are increasing with more volume from Russia and Iran. This may also encourage straight flows from other regions into SEA for better netback. However, demand is expected to be stagnant due to uncertainty in China as the world's biggest importer amidst zero COVID-19 policy. That's all from me.

Back to Mr. Yusri. Thank you.

Mohd Yusri Bin Mohamed Yusof:

Thanks, Shakeel. Moving on to our sustainability metrics. Page 11 on the deck.

Ladies and gentlemen, we are on pace of continuous improvement on our sustainable journey. Aside from planning projects towards sustainable growth, we're continuously monitoring our day-to-day operations and the impact on our sustainability pillars, starting with a review on the economic pillar, focusing on our business operations.

The operations -- on the operations and commercial plan, we have spoken of low utilization for the first half of the year due to the turnaround and maintenance activities which has resulted in lower production volume and subsequently lower sales volume. In a similar trend with last quarter, with lower production volume, our environment pillar where we measure and monitor our impact to the environment was negatively impacted, against both the corresponding and preceding quarter, our energy intensity was higher at 18.11 giga Joules per tonne of production as we recorded lower productions volume.

Similarly, at 3.47 million tonnes of CO₂ equivalent emitted, our first half of 2022 GHG emissions was a much higher against 2021. Subsequently, because of the lower volume, GHG intensity also increased in first half of 2022 as compared to the same period last year.

At 74% recycling rate, it is better than the first half 2021 with a higher amount of waste sent for recovery post the turnaround activities that we did. Our target for the year-end is to hit 80% recycling rate. We have put in extra efforts to increase our recycling rates in order to meet the target by the said timeline.

On our social reach programs, which we have recently commenced, and we will then have a better reach in our next - engagement in a better color.

On governance, social risk assessment target for 2022 is to close the gaps identified in the previous assessment. To date, we have closed 36% of those identified gaps. All that I have said are part of our net zero carbon emissions road map and key in our commitment towards creating positive, economic, environmental and social impact in lowering our carbon footprint.

Our immediate commitment for 20% of emission reduction by 2030 remains on track with continuous tracking and upgrade at our manufacturing units. There will be more to share on this in the near future. So bear with us, and we will continue to share our progress with you.

Ladies and gentlemen, before I end the presentation, a brief recap of our 2022 focus areas and our expectation for the rest of 2022. On growth delivery, the Pengerang Integrated Complex the commissioning activities have progressed very well since May and the start-up of petrochemical facilities have commenced in phases since July. All these have been progressing well and as planned.

On our extended value chain project, namely Nitrile Butadiene Latex plant in Pengerang and the Specialty Ethoxylates and Polyols plants in Kerteh, they are also progressing well ahead of schedule. On the proposed acquisition of Perstorp Holdings, we are currently sorting out the merger findings and expect to complete the transaction in early quarter 4.

Next, looking at the business environment, concerns are rising, seeing the slower economic growth and fears of recession amidst rising inflationary pressure. Uncertainty remains as there seems to be no resolutions as yet on the Russia and Ukraine war.

Crude, though is seeing some stability but the price may be weakened on slower economic growth and weaker global oil demand, combined with increasing supply from Libya and OPEC.

Given the weaker outlook, it is crucial that we continue to manage our operations, to minimize the risk under our control, optimize our manufacturing assets and continue to maximize the value of our sales. On the operation front, as we have stated before, we have completed all our plant turnaround in both O&D and F&M segments with no major HSE incidents. So we will continue driving the operations on all our plants.

We will continue with our strict HSE culture to continuously ensure the health and safety of our employees and contractors and to ensure that uninterrupted operations will continue while observing strict COVID-19 SOPs at all our premises and during all activities.

With regards to our net zero carbon aspirations, the team continues to monitor ways to cut back our impact to the environment, with new technologies and options that can be implemented at our facilities that will bring the best values.

That brings me to the end of our presentation. Let's open the floor for question and answer.

Zaida Alia Shaari:

Crystal, over to you to open the line for questions.

Operator:

Our first question comes from Piyanan Panichkul from UBS.

Piyanan Panichkul:

Thanks for the opportunity. Actually, I want to ask three questions, please. And most of them are the outlook questions.

On the PIC commercial operation, it's good to hear that you -- the start-up is coming along as target but when will you start commercial operation, meaning you would book revenue and depreciation of the project? When should we expect that?

Secondly, I want to ask about utility costs. What have you experienced in terms of utility price in 2022 so far? And do you see this change in the second half and in 2023 at all? What should we expect in terms of utility cost inflation?

Finally, in terms of Perstorp profitability, could you maybe elaborate a bit more about the sensitivity of Perstorp profit to European gas price?

Mohd Azli Bin Ishak:

This is Azli. Thank you for your three questions. So let me address your first question, Pang. In terms of depreciation for the Pengerang Integrated Complex, we anticipate -- we will start depreciating the complex as and when it reaches the commercial operation date. And right now, as we speak, we target it will be sometime in December this year, where we'll start to depreciate the complexes.

And as Mr. Yusri has mentioned, the start-up of the petchem unit has progressed since July. So already -- certain units of the project has already produced on-spec product, and we already started to sell some of those products. So this will be recorded as part of our progressing revenue moving forward. So I hope that answers your first question.

With regards to the second question on the impact of utilities. So we do realize and recognize that increase of utilities, two PCG plants, basically due to the increase in feed gas to produce such utilities more so on electricity and industrial gases. But however, in terms of net impact to PCG is manageable because this increase was also supported with higher product prices, which I mentioned earlier, to able for us to absorb any increase in utility prices from the higher product prices that we have realized.

So with regards to Perstorp, I think if -- I may need to be cautious here because we don't want to broadening gun jumping issue because we are yet to be a shareholder of Perstorp. So we can't really comment for and on behalf of Perstorp.

But if you look at their first quarter results, we see they have prepared and published in May recently. So they do provide some analysis what is the impact of the Russia-Ukraine war to their energy security, to the feedstock security to Perstorp's plants globally. So I think I'll leave it as that, Pang. So I hope you can look back at the Perstorp's report, where they do have thorough assessment on this.

Piyanan Panichkul:

Thanks, Azli. May I clarify your answer a bit more on the utility cost. Just please help me understand, is the government subsidizing utility in Malaysia in this year? And what should we expect for next year, please?

Mohd Azli Bin Ishak:

On utilities, Pang. We mainly procure utilities from our sister company, if you want to call it, PETRONAS Gas Berhad. So typically, all these utilities that we procure are not subsidized by the government. So it's all market pricing.

Mohd Yusri Bin Mohamed Yusof:

I think -- Yusri here. For Malaysia, the gas productivities are not subsidized. All the consumers pay market price. That market price floats with the global market price.

Operator:

Our next question comes from Ahmad Maghfur Usman from Nomura.

Ahmad Maghfur Usman:

Good evening, everyone. Just two questions on my side. First of all, currently, there was a ForEx translation loss on the JV side. I was just wondering for which JV would that be? That's the first one.

And the second one, I think I have decided not to ask because it relates to Perstorp. So I'll just leave it at that one question.



Mohd Azli Bin Ishak:

Thank you very much, Ahmad. Thank you for understanding. I mean in terms of the JVs, I think that the impact of the ForEx loss is pretty minimal because most of our JVs are already debt free. But if you realize in overall PCG Group, we are actually recording a ForEx gain because of the revaluation of -- because most of our proceeds are in USD. So as MYR weakened, so we record higher gains from translation.

So I hope that, that covers that, Ahmad.

Ahmad Maghfur Usman:

I'm sorry, which JV co is this, by the way?

Mohd Azli Bin Ishak:

Can I get back to you on this Ahmad? For I want to check with my team.

Operator:

Our next question comes from Jianyuan Tan from Affin Hwang.

Jianyuan Tan:

Just one question from my end. Can I get an update on how the product demand been generally when your business team committed with your customer globally. Do you see demand softening or probably customer actually be holding back purchase now the ESG especially on downward trend? Of course, we heard the noise around a potential recession as well as a slowdown.

Just a follow-up. I know it's probably not an apple-to-apple comparison, but could you share back in '08, '09 during the crisis, how much did the sales volume actually declined in general?

Mohd Azli Bin Ishak:

Hello?

Operator:

Yes, speakers, we can hear you, and we still have the caller up.

Jianyuan Tan:

Can you hear me?

Mohd Azli Bin Ishak:

Yes, yes, yes. Sorry. We lost the line just now.

Jianyuan Tan:

Okay. So I'll probably just repeat my question. Just one question from my end. Can you give an update on how the product demand been generally, whether you see demand softening or probably customers actually been holding back purchase now that ESG has been on the downward trend? Of course, this is with the noise of a potential recession as well as a slowdown globally.

And could you probably share back in '08, '09 during the crisis, how much did your sales volume actually decline in general?

Shakeel Ahmad Khan:

Okay. Mr. Tan. Shakeel here. I think you are seeing product demand softening. Moving forward, the demand very much depends on recovery in China market. I think which we have highlighted earlier with the zero COVID policy that has impacted the market. From what we hear, the likelihood of market recovery could be in the quarter 4 of this year. Very much look forward for that. Apart from that, you were saying '08, '09?

Mohd Yusri Bin Mohamed Yusof:

I think we don't expect the impact will be as much as '08, '09 is a softening of market rather than a disruption of demand than -- so it just depends on how the price moves currently, and we do expect markets to recover, hopefully by quarter 4.

Operator:

Our next question comes from Kong Ho Meng from UOB Kay Hian Holdings.

Ho Meng Kong:

Can you hear me? Please...

Mohd Azli Bin Ishak:

Yes.

Ho Meng Kong:

I have very three quick questions. First question is you mentioned there are some unplanned maintenances of issues in your various

plants. May we know what is if you able to quantify the volume impact or EBITDA impact from the unplanned issues back in the second quarter? That's the first question.

Second question is in terms of your plant utilization guidance going forward, what would be your worst-case scenario? I mean, do you still see -- I mean, despite the fact that we are in the recession reason so forth, are you looking what the worst case for the second half of this year at least?

And also my third question is more related to the -- in relation to the Sabah sales tax, I think recently, the Sabah -- they reiterated what they are going to implement this in August for ammonia and urea. I'm just wondering, my initial thinking is that maybe this is a small impact to you, but hopefully, you can give some assessment and guidance related to the Sabah sales tax as well as whether your labuan operations are also affected in that?

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%.

Mohd Azli Bin Ishak:

Okay. Kong, Just to clarify, can you repeat the second question again?

Ho Meng Kong:

Second question. Your worst-case plant utilization guidance of rate for the half year.

Mohd Azli Bin Ishak:

Okay. So I think let's address your first question with regards to unplanned shutdown. These are mainly in Asean Bintulu Fertilizer -- Bintulu. As you know, they've undertook scheduled plant turnaround quarter 4 last year. So there are some timing issues that reoccur following that turnaround. Unfortunately, I can give you the exact opportunity loss on EBITDA as well as volume because that's basically our policy on that. But I will -- I can say that those particular issue has been resolved, and we take advantage -- taking the maintenance work to address the bad actors in the plant.

So for the month of July, our plant utilization has climbed up to 88% and bear in mind that during the early part of July, plant 2 methanol are still ramping up. So moving forward, as the guidance for August onwards, so we were ramping up on our plant utilization, and we still aim for our full year plant utilization to be above 90%, right?

So with regards to your second question, we don't normally assume for worst case. We prepare for the worst case, but we don't guide our metrics based on a worst case scenario. So we're all working on a very best case at the moment.

Your third question with regards to Sabah sales tax. You're right. We have received that directive from Sabah Ministry of Finance to levy a 5% urea and ammonia sales tax. So we are assessing this together with our PETRONAS Group tax as well as discussion with the -- sorry, the Sabah Ministry of Finance, we do have some analysis in terms of the tax exposure to PCG Group.

It does not -- it will not adversely affect our tax as a group. But it will have an impact in terms of our sales tax for PC Fertilizer Sabah as well as PC Methanol Labuan, PCML because this involve for any transaction with regards to selling or distributing urea and ammonia in Sabah.

Ho Meng Kong:

So meaning to say, just to double confirm for both of those plants, the Sabah Fertilizer and the Labuan Methanol, any of those sales are -- they are all for export, right, not for domestic usage, right?

Mohd Azli Bin Ishak:

I need to correct you. I need to correct you, Kong. The plant in Labuan are not exposed to Sabah because it's Labuan -- so it's not Sabah. So they covers under a separate tax jurisdiction. Only applicable to the Sabah sales tax are the PC Fertilizers Sabah in Sipitang only.

Ho Meng Kong:

And for the Fertilizer Sabah, is it correct to say that 100% of the revenue from that is for export markets? Or is there any domestic market that potentially you could be excluded from the sales tax?

Mohd Azli Bin Ishak:

From what I understand, Kong -- it's slightly different -- slightly different from the Sarawak sales tax. Sarawak sales tax only levied on export. On Sabah is pretty much 100%. So what we are discussing with Sabah Ministry of Finance is basically to see any net off of the sales tax because you will see that in PCML, our marketing arm will buy the urea ammonia from PCFS. So there should not be any double tax on those entities. So it will be a net effect. So that is basically the mechanics that we are discussing with our PETRONAS Group tax as well as the Ministry of Finance of Sabah.

Ho Meng Kong:

So one more quick question, just to double check on the earlier follow-up on PIC, the recognition pattern you mentioned that the depreciation targeted for December, right? Is that also the same guidance for all your cost, let's say, OpEx and everything will -- are you looking at the same target recognition from December?

Mohd Azli Bin Ishak:

Yes. But as you know, most of the cost CapEx has already been booked under our project in progress. So once the chief commercial operation date, those will be reclassified into property plant equipment into a fixed asset and start depreciate. As a follow-up from Ahmad's question earlier, we do not see any JV registering ForEx loss for this quarter. So if, Ahmad, you can call back and to probably provide us where do you get this information, that will be very appreciated.

Operator:

Our next question comes from Mayank Maheshwari from Morgan Stanley.

Mayank Maheshwari:

Sir, firstly, a big picture question around decarbonization first. I think yesterday -- last week, actually, Tenaga announced some plans around usage of PETRONAS in the Terengganu region on hydrogen with PETRONAS. Is there something that you guys are basically looking at as well from your perspective around decarbonizing your plants using hydrogen? Can you just comment on that before I kind of ask a few questions around the quarter.

Mohd Yusri Bin Mohamed Yusof:

Yes, Mayank. Yusri, here. I think we are always on the lookout of reducing our carbon footprint in term of decarbonizing. So currently, as you know, most of our power comes from cogent or power that we got from the grid. Any options that we see that is viable moving forward, to address our efforts to decarbonize, we will be looking towards that also.



Mohd Azli Bin Ishak:

Mayank, I could add on that, I think that particular initiative was driven entirely by PETRONAS. As you know, Mayank, there's a specific hydrogen unit in PETRONAS for pursuing this initiative. But of course, being part of a larger PETRONAS family, we can take advantage of this initiative as and when it suits us. As you know, we do produce hydrogen from various of our plants, and we can take advantage of these initiatives.

Mayank Maheshwari:

Okay. So sir, this is exactly where I was a bit -- it would be interesting to get your comments was because they have given a time line of 2029 on the electricity production from their plants, correct? So -- and obviously, we have lesser details around where is the hydrogen coming from, et cetera. So that's where I was kind of coming through of how -- at the PETRONAS Chemicals level, you guys are basically helping out both from offtake perspective as well as from a hydrogen supply perspective?

Mohd Yusri Bin Mohamed Yusof:

Currently, there on the supply perspective, this is pure what I call this collaboration between our PETRONAS entire unit in terms of producing, it will be green hydrogen, which we have no capacity to produce at PCG but an offtake perspective, as I said, should that make sense in decarbonizing our operation, we would definitely look at it.

Mayank Maheshwari:

Sir, coming to the quarter now in terms of -- few questions. One, in terms of, I think, extraordinary on inventory gains, et cetera, if you can just help us understand how that's impacted the overall profits for this quarter?

Mohd Azli Bin Ishak:

Can you repeat that again, Mayank. Extraordinary...

Mayank Maheshwari:

The inventory-related gains in terms of net profit that you would have booked this quarter because prices had gone up for olefins as well as partly even fertilizers. So any inventory-related gains that you have booked this quarter for the quarter?

Mohd Azli Bin Ishak:

Okay. So I think in terms of inventory, in terms of number one, volume-wise, it's pretty much minimal. So we don't -- although because of the higher product prices, we do not see much of inventory gains since we are running very optimum on inventory volume. So we currently quantify the inventory gain and it will not be as material as we thought.

So also minimal in terms of ride-down because there are a few ride-down mainly because of the turnaround that we undertook in Fertilizer and Methanol plants.

Mayank Maheshwari:

Okay. And the second question, sir, was more related to the -- because your interest cost right now for rapid is not yet reflected on your balance sheet. So how much -- how that has been capitalized for the first half of this year?

Mohd Azli Bin Ishak:

Okay. If I'm not mistaken, Mayank, it's around USD 150 million per year. But I can revert to you after this.

Operator:

Our next question comes from Sumedh Samant from JPMorgan.

Sumedh Samant

I have two questions. Firstly, on the O&D utilization in second quarter. Can I please check why it was below 90% when you had a full quarter usage in this quarter? And also want to check on the F&M division utilization, just to make sure the 62% was a result of unplanned shut down and nothing else? So that was my first question.

And on second question, basically, can you please give us guidance again on your Perstorp completion? And if there are going to be any changes in the acquisition price because of the changes in circumstances, if at all?

Mohd Azli Bin Ishak:

I think in terms of plant utilization, specific on the Fertilizer and Methanol segment, as Mr. Yusri has mentioned earlier and is also supported with Kabir. Those low plant utilization for Fertilizer and Methanol are mainly due to the scheduled plant turnaround. So when you see in our both plant, plant 2 methanol in Labuan at 1.7 million tonnes per annum capacity, coupled with our urea plant in Sabah with 1.2 million tons of capacity down for a period of 40 or 45 days. So that is basically the reason the impact of low plant utilization for Fertilizer and Methanol segment.

So with regards to updates on Perstorp acquisition, what Mr. Yusri has mentioned earlier, we are currently finalizing the merger filing, and we have gotten majority of the jurisdiction that we required for the purpose of merger filing. So once that final merger approval has been obtained, and we will convene our extraordinary general meeting. And a few days after that, we will pursue with deal completion, and we anticipate this will happen in early October this year.

Sumedh Samant

And can I check if there are going to be any changes in pricing at all because of the changing circumstances?

Mohd Azli Bin Ishak:

Can you elaborate on the change of circumstances?

Sumedh Samant

I don't know. I mean geopolitical risk or, let's say, your assumption of profit is higher than what it is today? I mean for whatever reason, are there any circumstances in which you can see a change in prices, in the M&A prices?

Mohd Azli Bin Ishak:

Thank you, Sumedh, for further clarification. We do not foresee any change of circumstances, and we don't also see any change of the purchase price as well as the enterprise value that we have announced when we executed the deal in May.

Operator:

Thank you. And I am showing no further questions from our phone lines. I'd now like to pass the call back to management for any closing remarks.

Zaida Alia Shaari:

Ladies and gentlemen, thank you again for joining us this evening. Do share with us your reports once published. If you need to clarify any other matters, please reach out to the IR team via e-mail or phone. Thank you again.

Good evening..

Mohd Yusri Bin Mohamed Yusof:

Thank you.

Operator:

Thank you. This concludes today's conference call. Thank you for your participation. You may now disconnect. Everyone, have a wonderful day.

END
