PETRONAS CHEMICALS GROUP BERHAD

3Q 2021 ANALYST BRIEFING

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Management attendees:

1. **Datuk Sazali Hamzah** Managing Director & Chief Executive Officer	5. **Yaacob Salim** Head Strategic Planning & Venture Management
2. **M Azli Ishak** Chief Financial Officer	6. **Akbar Md Thayoob** Head, Special Projects
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Operator:
Good day, and thank you for standing by. Welcome to the PETRONAS Chemicals Group Analyst Briefing for 3Q 2021. (Operator Instructions) Please be advised today's conference is being recorded. (Operator Instructions)

I would now like to hand the conference over to your speaker today, Ms. Alia, please go ahead.

Zaida Alia Shaari:
Thank you, Ajay. Hello, Assalamualaikum, ladies and gentlemen. Welcome to PETRONAS Chemicals Group Berhad's earnings briefing for financial results for the third quarter financial year 2021. I'm Alia, Head of Investor Relations. Thank you for joining our call this evening. We apologize for the late start. You should by now be able to access and download the financial results as well as presentation materials in our corporate website or in the links provided in the event invitation. As a health and safety precaution, today's briefing is conducted fully virtual, whereby we are all attending remotely from our workstations and 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 group's senior management present today. Our briefing will be led by our Chief Executive Officer, Datuk Sazali Hamzah. And as usual, our lineup of speakers for today, our Chief Financial Officer, Mr. Azli; our Chief Manufacturing Officer; Mr. Kabir; our Chief Commercial Officer, Mr. Shakeel. Also present today Mr. Yaacob, our Head of Strategy, Planning and Ventures; as well as Mr. Akbar, Head of Special Projects. I shall now hand you over to Datuk Sazali for PETRONAS Chemicals performance highlights.

Datuk Sazali Hamzah:
Okay. Thank you, Alia. Assalamualaikum. Good evening, ladies and gentlemen. Thank you for joining us today. And as you know that today, it has been a year since we started seeing

economic recovery after COVID-19, which led the recession experience last year. The growth momentum has sustained alongside positive business outlook as we continue to ease pandemic related restrictions. Over the 9-month period of this year, GDP has significantly improved compared to the recessionary numbers recorded in the same period last year. Similarly, PMI as you see expanded to 54.1 versus 52.3 last year as manufacturing sector remained robust. The benchmark crude oil averaged 66% higher this year at USD 68 per barrel as compared to USD 41 per barrel in the same period last year. This has resulted on the demand, which largely returned to pre-pandemic level amidst positive business development. Following the higher crude oil price and improved economy Petchem products price averaged higher year-on-year on healthy demand amidst supply tightness.

Over to the next slide please.

As we speak to shareholders, ladies and gentlemen, our recent interaction with various stakeholders have really shown how sustainability is a key concern at all fronts. And as we look at our sustainability agenda, we are evaluating the impact of our business on first, on the economy, environment as well as the society. And when we talk about society, we also look at the social as added clarity of what we want to do in sustainability development. And all this economic environment and society is covered by full governance that we have in our organization as well as in our processes. So let me talk about on economy first, yes.

Our focus will remain at operational excellence, commercial excellence as well as growth delivery excellence. Operational excellence as we mentioned before look at how well we run our plan. In quarter 3, 2021, PU was 94% lower than second quarter 2021 mainly because of there is maintenance work in various of our plants. Sales volume is comparable for all parameters in tandem with our production rates. Under growth delivery initiatives, we are looking to stepping up into low carbon portfolio in sustainable growth project and the new growth portfolio will ensure that we minimize our impact to the environment. These projects that are carbon neutral or does with less carbon footprint such as bio-based products, those utilizing carbon as well as recycled material.

Moving on, on environment. We will continue to monitor our impact to the environment in terms of our energy use, emission as well as waste. Again, both the corresponding -- the preceding quarter, our energy intensity was lower at 15.4 gigajoule per ton of production, mainly due to stable plant operation with lesser operational disruption. As long as we manage to get our plant stable, so our footprint also will be lower. Our GHG emission was 6% higher compared to second quarter 2021, mainly due to flaring activities during turnaround. This has happened before and after PC Fertiliser Kedah turnaround where we do some flaring and as a result, we have a slightly increase in our GHG emission. However, the GHG intensity was higher compared to the preceding quarter on lower production due to several maintenance activities but remained comparable again to the corresponding quarter. Recycling rate improved from 77% in quarter 2 2020 and 74% in second quarter 2021 to 80% in the third quarter with higher volume of recycled waste being sent to recycle or recovery post turnaround activity. This is one of the major efforts that we made to make sure that our waste is recyclable as much as possible.

On social front, we are maintaining our focus on community development and well-being through education and governance. During the quarter, we rolled out more than 10 programs by both physical and virtual engagement with participating totaling over 149,000 people, all stakeholders. The programs includes our COVID-19 community relief program in our various areas of operations. So each plant has its own program and impacts numbers of communities around us. And our plastic sustainability and education module under our NPE program for teachers and primary schools as well as secondary school students have also been continued. So this is our aspiration to cover as much as, many as students, such that the awareness on how to manage our waste as well as manage our plastic waste properly, and we do hope and aspire that the future generation has better awareness on waste management as well as plastic recycling.

So ladies and gentlemen, when we started our journey, we have been taking our sustainability metric very seriously. And in order to do that, we benchmarked ourself in the 2 areas. One is through FTSE4Good Bursa Malaysia Index as well as the Dow Jones Sustainability Index. And for FTSE4Good Bursa Malaysia Index was launched at the end of 2014, and we made sure we addressed the queries in order to secure a spot as the constituent of the index. From that, actually, we got ourselves how for us to improve in terms of sustainability. Year-on-year, we have ensured that we remain within the index by improving our disclosure and reporting as the required continue to become more and more stringent. I'm happy to say that now we are already moving into a 4-star rating of FTSE4Gooda highest rating been given by this benchmark index, and we are among the top 10 in this rating.

In Dow Jones sustainability index, we actually have participate in this benchmarking exercise in 2018. And during that time, the first assessment that being made by PCG we are among number 81 among the ranking of companies, more than 2,000 over companies globally. And we use this DJSI to make sure that whatever we do is aligned with others as well as we benchmark ourself with other players in the industry in terms of sustainability development. I will have to admit, it was a rough start, but it gave us an idea of what more we needed to do and how much more we should be sharing on our sustainability efforts.

And we have continued to benchmark our disclosure with the industry best striving to improve with each assessment. And I'm proud to say that we recently received our DJSI assessment. And in fact, today, we are a constituent of the Dow Jones Sustainability Index and a member of the DJSI World and DJSI Emerging Markets. We are rated as top 10 best companies globally. And this is a new milestone in our sustainability journey that we have managed to achieve ahead of our planned time line. And I'm proud of the effort from everyone who has made this possible. And by embarking or participating in this benchmarking exercise, we hope that we are fully guided and put our self as part of the company that really serious to deliver our sustainability development results. And our sustainability framework towards our aim for net zero carbon emissions 2050 is currently ongoing. We are now really assessing which are the handles that we can do in short and medium term, and also what can we do in the longer term in order to reduce our emissions and align with our aspiration to reach net zero coverage emissions by 2050 as announced by PETRONAS recently. So this will be part of also contribution that we will do while we run our business. All of this, when we pursue our agenda in environment, in economy and also on social, we are fully supported by full governance that we have, system that we have through audit, through work process as well as verification by a third-party subject matter expert to ensure that we are all on track in terms of sustainability development.

We move on to the next slide. So ladies and gentlemen, moving on to our business performance highlights. Market wise we have been sitting so far, it has been trending positively this year. To date, we have completed the bulk of our turnaround this year, namely the PDH unit at PC MTBE, PC Methanol Plant 1 and PC Fertiliser Kedah. And we execute this effectively, safely despite the COVID-19 threat throughout the period. And we have one more taking place currently, which is in urea facility in Bintulu and they are currently under mechanical turnaround duration.

And we have ensured that all TA and maintenance works and are being conducted while observing strict HSE and COVID-19 SOPs on site. And (foreign language), we have done quite well so far in the 3 turnaround that we have done earlier on the year. So year-on-year, our year-to-date plant utilization was comparable at 94% utilization rate for the 9-month period this year, against, 95% last year. Production volumes dipped slightly lower, 2% on year at 7.9 million tonnes compared to 8 million tonnes last year. Nonetheless, sales volume was unchanged at 6 million tonnes. The remaining quarter of the year, we are going to ramp up our volume, and we believe that we are going to exceed our target that we have planned for this year.

And I'm pleased to share that our revenue for the period rose 53% from MYR 10 billion to MYR 16 billion, driven by higher product prices. EBITDA and PAT both surged to MYR 6 billion and MYR 5.3 billion, respectively. This is review of expanded product margin as well as higher share of profit from JV and associates. EBITDA margin strengthened to 37%. So in order to see the further detailed breakdown of our performance, I would like now to hand over to Mr. Azli for further sharing. Mr. Azli, please?

Mohd Azli Ishak:
Thank you, Datuk. So ladies and gentlemen -- so let's start with the group performance on Slide #6, beginning with the comparison of the quarter 3, 2021 against quarter 3 last year. So as mentioned by Datuk Sazali earlier, our third quarter was strong as we continued to see positive movement in the global demand. Global GDP was recorded at 4.7% in quarter 3 against negative 1.4% last year. The benchmark Brent crude oil climbed to an average of $73 per barrel for the quarter against $43 per barrel on positive demand, keeping petrochemical product prices up.

Our plant utilization was higher for the quarter at 94% with turnaround at PC Fertiliser Kedah completed. As a result, our production volume was higher by 4% at 2.7 million tonnes although our sales volume was comparable due to the inventory buildup following the plant turnaround activities. Our group revenue grew 67% from MYR 5.3 billion in third quarter last year, to MYR 5.8 billion this year, mainly due to higher product prices. EBITDA has more than doubled to MYR 2.1 billion against MYR 940 million last year, contributed by higher spreads. EBITDA margin also increased to 37% compared to 26% for the same quarter last year. Our PAT jumped from MYR 452 million to MYR 2 billion, supported by higher share of profit from our JVs and associated companies.

So now let's move to the group financial performance against preceding quarter, that is quarter 2 this year in the middle column of Slide #6. So despite the slight slowdown, the Brent crude price averaged 6% higher for the quarter at $73 per barrel compared to $69 per barrel on strong demand. So petrochemical product prices were mixed during the quarter. Though as a group, we saw improved prices supported by the strong fertilizer and methanol segment. On the manufacturing front, we carried out maintenance work at PC Fertiliser Kedah and various other facilities resulting in lower plant utilization of 94% compared to 97% last quarter. As a result, both production and sales volume declined slightly by quarter-on-quarter. Nevertheless, the group revenue improved 3% to MYR 5.8 billion from the previous MYR 5.6 billion in line with higher product prices, mainly from urea, ammonia and methanol. Our EBITDA was comparable on narrowed spread partially negated by a positive ForEx impact. Our EBITDA margin slipped from 38% to 37%. Though PAT improved by 6% from MYR 1.9 billion to MYR 2 billion, which is followed by a higher share of profit from JV and associates.

So now let's look at the group's performance for the cumulative 9 months this year. As Datuk had mentioned earlier, it's been quite a robust year so far with the world economics coming back from the COVID-19 recession. Operationally, we recorded similar plant turnaround at 94% for the 9 months period this year against 95% last year. Production volume was slightly 2% lower at 7.9 million tonnes versus 8 million tonnes last year, though sales volume was comparable at 6 million tonnes. Nonetheless, with the improvement in product prices year-on-year, group revenue for the period rose to -- rose by 53% from MYR 10.5 billion to MYR 16 billion. EBITDA surged from MYR 2.4 billion to MYR 6 billion on expanded spread, and EBITDA margin was recorded at 37% against 23% in the same period last year. PAT has more than for quadrupled MYR 1.1 billion to MYR 5.3 billion.

Now ladies and gentlemen as always the segmental performance slides are provided at the end of this deck for your consumption. Should you have any queries with regards to their performance in each segment, I'll be happy to address them during the Q&A. And as you are aware, ladies and gentlemen, PCG has also announced a special dividend of MYR 0.10 per share amounting to MYR 800 million after deliberation and approval from our Board this morning. So this special dividend is to commemorate our 10th anniversary of our listing which we celebrated last year in 2020. This is also a way of PCG to record our appreciation to our shareholders, especially for those who have been with us since our IPO in 2010.

So let's move to balance sheet and cash flow on Slide 7 and 8, respectively. So first, we look at the balance sheet on Slide 7. So quarter-on-quarter, our total asset increased from MYR 44.2 billion to MYR 44.8 billion, primarily due to higher other noncurrent assets mainly from investment in associates, arising from higher share of profit, especially from JV with BASF. Also contributed to this is due to higher other noncurrent assets, mainly from trade inventories in line with higher inventory costs driven by higher feedstock prices.

Now let's look at our cash flow at Slide 8. Cash generated from operations, CFFO increased by MYR 411 million to MYR 2.3 billion, mainly due to higher profit generated during the period. During the period, the net cash used in investing activities was higher by MYR 200 million to MYR 490 million due to purchase of property, plant equipment and payment of deferred [consideration]. And cash used for financing activities for the period was also higher by MYR 1.8 billion, mainly due to the dividend that we paid to the shareholders on 30th September this year. At the end of the period, our cash value remained strong at or about MYR 15 billion.

This is all on the financial performance for the third quarter of 2021. I would like to hand over the session to Mr. Kabir to cover the manufacturing highlights. Over to you, Mr. Kabir.

Mohammed Kabir Noordin:
Thank you, Azli. Good afternoon, everyone, Kabir here. I will share the operational highlights for quarter 3. Alhamdulillah, our operation in quarter 3 was stable with reliable feedstock supply to our facilities. We recorded group plant utilization at 94% for the quarter having undertaken 1 plant maintenance activity at PC Ethylene and also PC Polyethylene in Kerteh and completed turnaround in PC Fertiliser Kedah. Like before, we had ensured that all turnaround and maintenance activities were carried out with strict COVID-19 SOP in place.

For fertilizer and methanol segment, we recorded highest quarterly volume of methanol product since end of 2019, following collaboration effort between PCG and upstream on the deferment of our supplier facilities, especially Sabah Oil and also Gas Terminal, SOGT, planned shutdown to 2022. This resulted in continuous gas supply that supported the continuous running of our urea and methanol plant in Sabah and Labuan. Our operation at Olefins and Derivatives segment in quarter 3 was stable, sustaining high plant utilization despite planned maintenance activity at PC Ethylene and also PC Polyethylene.

Next, for olefin and derivatives. For Olefins and Derivatives segment, our utilization for quarter was able to sustain at 98% despite planned maintenance activity at PC Ethylene and Polyethylene supported by reliable ethane supply. (foreign language) successfully completed of shutdown activity ahead of schedule, contributed of higher olefin and derivative volume as compared to previous quarter. Looking at current improved and reliability plant performance, we are confident that we were able to deliver targeted volume for O&D segment for this year.

Next, Fertiliser and Methanol segment. Plant utilization for the quarter was 92% lower compared to preceding quarter but higher than corresponding quarter. For F&M, volume was supported by high methanol production, which were above the quarter average and the highest so far since end of 2019, supported by collaboration effort between PCG and upstream to defer Sabah Oil and Gas Terminal shut down to 2022. For Fertiliser Kedah underwent turnaround activity started in June until end of July 21, 2021 successfully.

The next. Moving on to the progress of our project. With regard to PIC-PETCHEM, to date PIC-PETCHEM have achieved excellent HSE performance with no loss time injury and fatality recorded (foreign language). With completion of PIC vaccination program, PIC-PETCHEM is now strengthening the pre-startup activities in preparation for startup, which were commenced in January 2022 onwards, will observe strict COVID-19-related SOP.

To summarize quarter performance, we sustained high group plant utilization of 94% for the quarter. We successfully delivered our average quarterly methanol volume following improved plant operation and strong collaboration with our feedstock supply on deferment of shutdown activity at SOGT to 2022. At this time, we are in the midst of carrying out the turnaround at our fertilizer plant in Bintulu. We started in October 2021. That's all I have for the operational highlights. I would like to hand over to Shakeel for the market performance and outlook. Over to you, Shakeel.

Shakeel Ahmad Khan:
Thank you, En Kabir. Good evening, Shakeel here. Let's proceed with the market highlights. Olefins and Derivatives in quarter 3, 2021, total prices were generally higher compared to previous quarter amidst strong crude and naphtha markets, tight supply and prolonged logistic issues. Downstream demand, however, was generally mixed with some markets supported by a start-up of new capacities, while others were limited by the resurgence of COVID-19, particularly in SEA markets.

Now let's move on to the market outlook. Ethylene price is forecasted to be stable amidst balanced supply and market in the short term will be supported by strong crude oil price, which has reached above $80 per barrel. Supply balance will improve with the recent -- with the restart of South Asia cracker and start-up of key producers in Northeast Asia. However, prolonged tightness from vessel space and power cut operations may affect production rates throughout Q4. Demand in Northeast Asia is expected to be boosted by downstream capacity growth in Q4. However, subject to feedstock costs and recovery of derivative operations.

Moving on to polymers. Polymer prices are expected to be soft as buyers are not keen to build high stocks in the year-end approaching. Supply is still largely affected by the persistent global logistic issues such as higher freight, port congestion and container shortage. However, this will be balanced by additional supply from upcoming new capacity in China in the next quarter.

Next, for MEG. MEG price is expected to be soft despite reduced supply as you may see a decline in downstream demand especially in polyester operations. With no solid support from the demand side, ethylene glycol price is seeing a drop following the feedstock coal market plants. Tight supply situation is anticipated to improve as China moves to cut coal price and ease the shortage in the domestic market. As for paraxylene, Px price is forecasted to be stable mainly supported by crude and naphtha prices amid reduced operating rates. Supply will be balanced with planned turnaround in Q4, coupled with rising production costs. Downstream demand will be uncertain as China customers navigate through the dual control policy with potentially reduced appetite to purchase and restock.

Now let's proceed with Fertiliser and Methanol segment, starting with urea. Urea price is forecasted to be firm in the next quarter on persistent tight global supply and reduced China export volume. In the SEA region, urea producers will be on planned maintenance, further adding to the supply tightness. India's Rabi season from November to March will require major volume from exporters as the country is still short on urea. Demand will also be strong in Southeast Asia with Thailand and Myanmar stocking up for their main planting season starting in October.

Moving on to ammonia. Ammonia price is forecasted to be stable on sufficient supply as Saudi Arabia producer, (inaudible) resumes operation at end of September while a SEA producer is undergoing turnaround. Downstream demand will be supported by a steady industrial consumption of caprolactam and acrylonitrile.

Lastly, on methanol. Methanol price is anticipated to be stable on the back of tight global supply, further supported by strong China market which was impacted by the new energy efficiency policy and persistent high coal prices. India demand also continues to be strong as high gas price becomes uneconomical to manufacture their own. Tight supply situation is anticipated to improve as China moves to curb coal prices and ease the shortage in the domestic market. Thats the end of market outlook from me. Over to you.

Sazali Bin Hamzah^ Okay. Thank you, Shakeel. Ladies and gentlemen, so the economic recovery we have seen so far has been well above our expectations. And in fact, looking back in the third quarter of last year, it has been a whole year of robust recovery and outlook is positive. Even so as we continue to see economic growth in the most countries, we are also seeing the resurgence of COVID-19 infection in various economies, which is continuously keeping us on our toes. So this thing has yet to be stabilized. As such, we will continue to leverage on our solid business fundamentals moving forward, especially in operational and commercial excellence. Our operational and commercial excellence initiatives have proven to be our strong suite till the business through the world after pandemic and continuously generating value for the business. Manufacturing business like ours will always need to ensure strong HSE culture to ensure they health end safety for our employees and uninterrupted operations. In fact, earlier this month, we have begun returning to work in the office after more than a year of working from our home. To minimize the potential spread of COVID-19 and to ensure safe distancing measures are adhere to, we are keeping the capacity at 50%, rotating our staff on weekly basis with many of our interaction remaining online or virtual

On our growth commitment, I am happy to share that start up progress at the Pengerang integrated complex is on schedule. And we expect the refinery and cracker to be up before the end of the year, and our petrochemicals will follow accordingly. So our growth projects such as the silicone blending plant facility is in Gebeng. The lubricant facility is in Netherlands. The NBL Latex plant in Pengerang as well as the oxyalkylates plant in Kerteh are all progressing as per plan. As a matter of fact, the silicone blending facility in Gebeng has been completed and currently undergoing performance test run and on track for our first commercial operation in December. So moving forward, we will continue to evaluate our business opportunities to expand our specialty chemical portfolio, including green and eco-friendly chemical in line with our sustainability commitments. So this brings to the end of our presentation today. Thank you very much, and let's open for question and answer. Alia, back to you.

Zaida Alia Shaari:
Thank you, Datuk. Ajay, we are now ready for the Q&A.

Operator:
(Operator Instructions)

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

Khir Peng Goh:
I have a number of questions. First is, could you guide us in terms of -- is there any further turnaround in the fourth quarter? And how long would that be? And in -- can you give us a bit of guidance on next year as well, any plant maintenance and the -- and what would be the plant utilization targets that you're looking at? My second question is on PIC. It was supposed to start in the fourth quarter. Just wondering what level of production did you manage to achieve so far? Or have you even -- or is there even something that you can actually put a number to? And yes, just a bit of an update on the actual progress there. And my third question is regarding looking at the -- we have crossed October, and we are already in the middle of November now. That means 1.5 -- that means half of the quarter is already gone. Would you say that your fourth quarter would be as strong as your third quarter?

Datuk Sazali Hamzah:
Okay. Thank you very much for the question. There is 4 questions. Let me try to answer and if necessary En. Kabir will help me. First is on TA in quarter 4. What we have is the ABF, which is currently ongoing, which should be completed in 40 days. And that's the only turnaround left for 2022 in quarter 4. That's question number one. Going question 2 is the target of PU in 2022. As I mentioned, we always put our numbers above 90%. So we are targeting 2022 PU around more than 90%. And there will be -- how many numbers turnaround, let me see 1, 2, 3, 4. 4 turnarounds planned for next year, which is PC Aromatics, PC Derivatives, methanol plant 2 as well as PC Fertilizer Sabah in that plant. Correct me if I am wrong En. Kabir

Mohammed Kabir Noordin:
True, true.

Datuk Sazali Hamzah:
Thanks, En. Kabir. And then number three, your question is, I see what level of production has been achieved so far? What is the progress in PIC? This is a very complex unit, as I mentioned earlier that we have gone through a very thorough evaluation to ensure that our plant is safe to be recommissioned back, and this is highly integrated. And where we are now, we are actually already completed all the necessary checking, and we are in the preparation of gas in, gas in means to say to bring the hydrocarbon in, and this process will start step by step. So it will take about at least 1.5 months before the PETCHEM is ready to be commissioned. So we are in that current state -- we start with the front unit first, which is the CDU and associated facilities utility. So this is currently in progress. So to talk about production, there's still none. So the production will be expected in next year. So last question, what was the earnings? This is a very good question and very difficult to tell. What we believe, the market is still strong, but what we observe it may not be as strong as quarter 3, but it's still considerably a strong quarter. That's what I can say. So we are actually looking forward to have a good year-end performance. Okay. I hope I answered that, Alex.

Khir Peng Goh, Alex:

That's wonderful. Just to squeeze in, just following on your -- as mentioned on the phone, turnaround plans for next year, would your repair and maintenance would it be higher than this year? Could you give us a number for us to be looking at?

Datuk Sazali Hamzah:
This year, we have 4 plants, so about the same I'd would say.

Khir Peng Goh, Alex:
So the cost -- maintenance cost would be about the same, is it? Next year and this year?

Datuk Sazali Hamzah:
I believe it's not much different in terms of the cost. Azli, if you can correct me.

Mohd Azli Ishak:
Yes, it should be comparable with this year, Datuk.

Khir Peng Goh, Alex:
Okay. And to talk a bit more on your green agendas. I understand PETRONAS is looking at hydrogen prospects using natural gas as well as -- well, including some through petrochemical processes as well. Are you -- would PETRONAS Chemicals be involved in this? And what -- could you give us a bit of -- a bit more color on that?

Datuk Sazali Hamzah:
Okay. For the green agenda is actually for the hydrogen, when you talk about hydrogen, it's mainly driven by our midstream business, which is GNE, gas and new energy. However, those initiatives actually also links with us when we are also working closely to support that initiative. So one of the area that where we're also looking at that in Kerteh facility, we have hydrogen production plant that can be categorized as blue hydrogen. So as a transition from gray hydrogen to blue hydrogen, we may have some volume, and we can work whether it can be economically justified to work based on that initiative. The green hydrogen or green energy is still far ahead, but the process of developing is currently ongoing by our midstream business, which is GNE, gas and new energy. I hope I answered that question.

Khir Peng Goh, Alex:
Okay. I know the GNE is probably under PETRONAS directly. But for your blue hydrogen, what are the chance of commercializing that? And would it lead to a new income stream? Or really be taking away from other parts of your business?

Datuk Sazali Hamzah:
If actually -- if you go back to business, it will be unplanned. If it -- there is a value behind it. We'll put the value. However, at this moment, it is very difficult to determine the value -- what is the right value because even the carbon tax has not been declared by any government yet. But as far as what our focus is to make it technically feasible and in terms of cost structure it is work well. So the price will go back to the market and definitely will be unplanned negotiation between us and other sister company as well.

Khir Peng Goh, Alex:
Okay. Great. Sorry to hold you up. Coming back to PIC, would you say that given your fantastic performance now, I mean, it's a record, right? I would say, achieved this kind of numbers, would you say that next year when -- supposing everything all runs on as schedule that you will be able to breakeven?

Datuk Sazali Hamzah:
I think it's very -- too early to say that, Alex, because my worry is that if this plant is very complex. As I mentioned, in the past experience, we require certain stabilization. And as you're aware, also, this plant has been stay idle for more than a year. So we are not sure what kind of challenges that we are facing. Definitely, we prepare for that, but sometimes, there will be a lot of thing that beyond our control, probably that we have a better picture some time in quarter 2 or end of quarter 1 in terms of prospects.

Operator:
Your next question comes from the line of Bennett Lee from Citigroup.

Chun Ho Lee:
So 2 questions from me. So on Page 3 of the slide it showed the F&M average spread is declining steadily from July to September. Why is that the case given the global urea price is strengthening? Is that -- is this spread indicative of P Chem's actual profitability into fourth quarter? Second question is what tax rate should we assume for fourth quarter and next year given the one-off impact from the prosperity tax?

Datuk Sazali Hamzah:
Azli, I think if you want to take up that question.

Mohd Azli Ishak:
Okay. I think I will answer the 2 questions. The first question, I think those on Slide #3 is basically the market spread and is declining, especially on fertilizer and methanol average spread declined mainly because of the higher natural gas as you can witness in the Europe. So that does not reflect our own spread. So we have, as you know, as part of our own investment, or IPO, to say that we have a slightly more attractive arrangement with PETRONAS. So in a way, our feedstock arrangement with PETRONAS is quite competitive against our peers. So that particular slide does not reflect our PCG spread. As you can witness in our performance, especially in our fertilizer and methanol EBITDA as well as contribution.

So your second question with regards to the prosperity tax. Yes. I think it will be too early for us to assess the impact because the -- it will be based on a scheduled income for 2022. And this will be based on the product price and spread in 2022. But as a guidance for analysts and a few others in the call, if you were to simulate the impact of this cukai Makmur or prosperity tax on our actual performance in 2020. So if you recall, our tax expense in 2020 was around MYR 271 million. If it was to stimulate the cukai makmur in 2020, our tax expense increased by around 4% to 5%, tax expense, mainly because there's not many of our company are subjected to this cukai makmur. So I guess for 2022, it will be very premature for us to assume what tax rate there will be. But it will be not a great impact for us tax-wise, if you were to compare like what I just simulate for 2020. I hope that also provide you some guidance for 2022 moving forward.

Operator:
Your next question comes from the line of Ho Meng Kong

Ho Meng Kong:
I just have a couple of questions. It's already related to the (inaudible), related to inflation cost and things like that. Yes, I know that you are really well guided on your feedstock costs with PETRONAS and things like that. But just want to check with you, how about the other cost components that may affect your business, for example, manpower cost and especially logistic costs in view that container rates, I mean I read from a consultant report where container rates this time versus 1 year ago because it's very high now, that translates

to about $500 per metric ton for polymers, for those that involving and transporting petrochemical product. So just want to know what's the comment? And if you see any material risk in any of these cost components, are you able to pass them down through the end users?

Datuk Sazali Hamzah:
Okay. Thank you, Ho Meng Kong. So I'll probably talk about the logistic and manpower cost. The manpower cost, I think, relatively comparable and even I think what we have seeing in 2021, relative higher is only due to bonus in terms of this cost, maybe it is even slightly lower when compared to last year because we are now also distributing our people post OER2 exercise. On logistic costs, yes, we have increased cost in our logistics. However, in total per tonne basis, I think Azli can chip in here. I believe there have been not much different. There is a slightly higher, if there is.Azli if you want to talk about more on it?

Mohd Azli Ishak:
Yes, you're right. In terms of logistic costs, although we see some increase in the supply and distribution cost, but in terms of proportionate to our total cost is quite minimal. And most of our products and most of our markets are not affected. I don't know, unlike you see in the ports of the U.S. So we didn't supply to those markets. So most of our product distribution, majority does not impacted from this higher logistic costs, even if it is impacted, it will not be materially impact to our bottom line.

Ho Meng Kong:
Are you going to quantify of how much is compared to (inaudible) in your overall component arising from this kind of logistic costs? I mean, you mentioned a very small, but what's the range like?

Mohd Azli Ishak:
Yes. So in terms of our production costs, our total product cost to serve, it will be less than 5%.

Ho Meng Kong:
I see. Okay. That's great. Second question is -- I mean, it's also my last question. It's just a follow-up question from what Alex asked earlier. In terms of the hydrogen, right, can I just double check technicallity-wise from your old assets, you are already producing blue hydrogen as a byproduct, is that correct?

Datuk Sazali Hamzah:
-- technically. So technically, yes, our plant in Kerteh, portion of our hydrogen, it can be considered blue. However, for us to qualify this blue hydrogen, we definitely have to go through the certification body. But at the same time, we're also having these that we identified, we're also looking at options to utilize this for future green energy requirement or green option even in chemical upgrading. So I think that's all on the table for us to capitalize in the future.

Ho Meng Kong:
So is it correct to say that to qualify a clean blue hydrogen product, you may have to most likely consider installing carbon capture kind of CapEx for that?

Datuk Sazali Hamzah:
No, because the existing unit that -- not all the hydrogen that we produce is green. Only a portion of it. The facility itself is already able to produce at very low carbon footprint.

Operator:
Your next question comes from the line of Mayank Maheshwari from Morgan Stanley.

Mayank Maheshwari:
A few questions from my end. First was in terms of your sales mix for -- on the petrochemical side, I think you have seen a lot of your peers report much higher exports because of the lockdowns in Southeast Asia last quarter. Can you just give us a sense of how has been your export volumes versus the normalized levels in the third quarter?

Datuk Sazali Hamzah:
Okay. Shakeel, you may. Shakeel, do you have that data to share? I believe that, yes, we are able to shift our volume to optimize the return for us. On O&D Shakeel, you have that data. I don't have with me.

Shakeel Ahmad Khan:
Yes. I would say about 70%, Datuk, in the SEA region?

Datuk Sazali Hamzah:
Yes. So 30% locally and 70% is in the region, yes?

Shakeel Ahmad Khan:
70% domestic plus SEA, 30% is outside SEA market, Datuk.

Datuk Sazali Hamzah:
I think, okay.

Mayank Maheshwari:
And that's like the normal range you always do or your normal range is different?

Shakeel Ahmad Khan:
Yes. Typically, 65% to 70% is our SEA market.

Mayank Maheshwari:
Got it. Okay. And sir, the second question was more related to associates. Acetic acid prices have been extremely strong. So I just wanted to get a sense of what's happening on BASF PETRONAS? And also if you can just help us in terms of contribution with the other associates that have been ramping up?

Datuk Sazali Hamzah:
As you pointed that rightly, these ventures have been in difficult times in 2019. And when China has short production, we will see a rebound of price. And at the same time, there is not much additional facilities in the past few years. And as a result, there is a short of this kind of product. And we can see that a good margin happened this year. In terms of quantum, Azli probably you can share with Mayank?

Mohd Azli Ishak:
Yes, Mayank. I think when you mentioned about acetic acid that's our JV with Ineos where we own 30%. So that acetic acid in terms of product prices also benchmark with the increase in methanol. So that's why in terms of outlook, we also foresee the prices, we will move in tandem with the methanol prices. With regards to the JV with BASF, Petronas Chemicals. I think the group performance that they recorded so far mainly due to the highest spread that they've got -- they have generated from the acrylic acid as well as oxo alcohol products. Those are the 2 main segments that are driving the super performance of BASF. And we believe this will continue to be in the next quarter.

Mayank Maheshwari:
And just one point, sir, if you can just help me understand on the flavor and the fragrances side, anything in terms of EBITDA contribution you've got or earnings contribution on that front yet?

Mohd Azli Ishak:
In terms of aroma and fragrance, our JV with BASF you mean?

Mayank Maheshwari:
Yes, that's correct.

Mohd Azli Ishak:
I think in terms of percentage total of the JV, it will contribute less than 10% of the JV's profitability. Most of it was still driven by the acrylic acid and oxo alcohol product.

Mayank Maheshwari:
But it's fair to say it's at least positive contribution, correct?

Mohd Azli Ishak:
As of year-to-date, 9 months year-to-date, they have few complexes. Most -- I think I would say 100% of the complexes, each of the units are registering positive EBITDA.

Operator:
Your next question comes from the line of Raymond Yap from CIMB.

Kok Hoe Yap:
My questions have been answered. Thank you.

Operator:
Your next question comes from the line of Mr. Arvind Jayaratnam from Maybank.

Arvind Jayaratnam:
Okay. So my question is actually regarding the fertilizer and methanol market. I noticed the spike on Friday in urea spot prices in the Indonesian market. It was a very significant spike. So I believe for 2 to 3 months prior, it was trading around $500 per metric ton. Whereas on Friday, it hit $900. And if we look at ammonia, the prices have gone up about 50% in the past 1 month as well. So can I just get the average price -- average selling price of both these 2 products so far in the quarter to date? And is there any indication that these elevated prices could stay for a lengthy period of time?

Datuk Sazali Hamzah:
Well, Shakeel if you can share your information on this.

Shakeel Ahmad Khan:
Yes. Okay. Mr. Anand, I think you're right. We have been seeing prices in the last 2 weeks for the SEA region hovering around 900, crossing 900 market. And we know the energy crisis in Europe and also China has moved to ban the export of fertilizers are among the main factors pushing the prices high. I think the fact that there's also a strong demand for the Indian planting season and also towards the end of the year, improved demand for planting season in Southeast Asia, Thailand, Myanmar. So the likelihood of the price to stay strong for the next month or 2 if you're still there. But the quantum we will not be able to say because it also depends on the overall oil price scenario. Does it help?

Arvind Jayaratnam:
Yes, it does actually. I just wanted to confirm if what I'm seeing from other sources corroborates with what P Chem is also seeing. I also have a second question regarding the F&M market. During the presentation, you mentioned that there was a postponement with 1 of your feedstock suppliers in this -- I can't remember if it was this quarter or this financial year. Can I know what will the impact of this be in the coming financial year? Like how many -- the impact in terms of your production for the F&M segment, if you can provide some color on that?

Datuk Sazali Hamzah:
En Kabir, if I am not mistaken, it was related to the gas supply in the Borneo Island, yes, Sabah, Sarawak. So because of that postponement when we managed to continue. And then we have shifted also our turnaround to next year for Methanol 2. So it will be in tandem during that period, if I am not mistaken. En Kabir can you confirm that, please?

Mohammed Kabir Noordin:
Yes. I think that is the collaboration between the upstream. So we go and see the regulation, government body to make sure that we align together. Instead of this year, so we postponed everything for the next year. So by having that, we already get the approvals and also both party agreed. So that's why this year, we have a very supply (inaudible).

Datuk Sazali Hamzah:
I think to continue with what En Kabir has said that basically, if you look at next year plan, Methanol 2 and also Fertilizers Sabah will happen about the same time. This is when upstream gas supply also will do the maintenance. So by doing that, actually, we are capturing the best market price during this time. Imagine that if we shut down now, that we'll be very -- we are going to lose a lot of opportunity. So we grab that opportunity, then we bring it forward to next year. And by doing that, basically, we require a lot of -- not lobby basically, to convince the authority DOSH to agree with us that the plant is okay to run for another 6 months. So that's where it's really happening. I hope that answers, Arvind.

Arvind Jayaratnam:
Yes. It does answer. Can I just get some idea on how many days this turnaround will be for? Is it a major turnaround?

Mohammed Kabir Noordin:
Yes. It's a major turnaround. It's about 60 days.

Arvind Jayaratnam:
60 days, yes.

Operator:(Operator Instructions)
Your next question comes from the line of Anshool Singhi from JPMorgan.

Anshool Singhi:
Yes. So I had a couple of questions. Firstly, about the plant utilization and O&D. You mentioned you had some pit-stop activities. What exactly are these? And were these unplanned or related to something else?

Datuk Sazali Hamzah:
Anshool, for the derivatives plant, it is not unplanned, it is planned. It mainly because of the catalyst is reaching its end of life. So we need to change every 2 to 3 years. In any particular plant also, we have pushed to the limit basically to the end of the catalyst's life. That's why we plan early of the next year to change this especially.

Anshool Singhi:
So this pit-stop activity, how long are these for?

Datuk Sazali Hamzah:
I think roughly it's about -- Kabir, can you share the duration, please?

Mohammed Kabir Noordin:
Okay. For this derivative it's about 55 days because we need to unload the catalyst and then put the new catalyst.

Anshool Singhi:
Okay. So the PC Polyethylene and Kerteh it was shutdown for 55 days.

Mohammed Kabir Noordin:
Yes.

Anshool Singhi:
Okay. And the PC Ethylene?

Mohammed Kabir Noordin:
Almost the same.

Anshool Singhi:
Okay. Almost the same for both of them. My next question is -- as we discussed, there's high urea prices in Southeast Asia. So are you able to translate those high spot prices in the performance for the quarter? Or is there a mismatch? Like those high spot prices in further quarterly performance, fourth quarter?

Datuk Sazali Hamzah:
I believe so. While this good price product that's available will sell at that kind of price level. So in return, it translates into our profit. So as much as possible, that's why we will try to optimize our shipping volume. We are also working at our [batch] target to work at most optimum levels so that we can capitalize or utilize this volume that we have at high market.

Anshool Singhi:
Okay. My last question is you mentioned next year, there are 4 turnarounds. Could you mention the number of days? And which quarter are these in, PC Aromatics, Derivatives, Methanol 2 and Fertilizer Sabah?

Mohammed Kabir Noordin:
Okay, for Derivatives is at quarter 1, PC methanol and PC FS is quarter 2, PC Aromatics also is about quarter 2.

Anshool Singhi:
And how many days?

Mohammed Kabir Noordin:
Okay, PC Methanol is about 60 days. PC FS is about 42 days. PC Derivatives is above 55 days. Aromatics is about 52 days.

Anshool Singhi:
Just -- I'm sorry, I missed it. Aromatics is in which quarter? Is in second quarter?

Mohammed Kabir Noordin:
Yes.

Anshool Singhi:
Second quarter for 52 days.

Mohammed Kabir Noordin:
Yes. 52 days.

Datuk Sazali Hamzah:
Anshool, for Aromatics, we are also looking whether it is in third quarter or second quarter, but we have not yet finalized at this moment, probably second quarter, but see how it goes.

Operator:
Thank you. There are no further questions at this point in time. I would like to hand the call back to Alia for any closing remarks. Thank you.

Zaida Alia Shaari^ Thank you, Ajay. Sorry, I was offline for a moment there. So we have reached the end of the briefing for today. Thank you, everyone, for your participation and for your questions and answers. We look forward to the report that you will publish -- that you will be publishing and we look forward to them, please send as soon as they're ready. If you have further questions, please reach out to us. Thank you very much. Have a good evening.

Datuk Sazali Hamzah:
Thank you, all.

Mohammed Kabir Noordin:
Thank you, all.

Shakeel Ahmad Khan:
Thank you, all.

Mohd Azli Ishak:
Thank you, everyone. Thank you.

Operator:
Thank you. This concludes today's conference call. Thank you for your participation. You may all

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