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Operator: Hello, ladies and gentlemen, thank you for standing by, and welcome to Petronas Chemicals Group analyst briefing for Second Quarter 2020 Conference Call. Today's conference call is being recorded for replay purposes.

And I will now turn the call over to your first speaker for today, Zaida Alia. Please go ahead, Zaida.

Ms Zaida Alia Shaari, *Head IR:*

Thank you, Albert. Hello, ladies and gentlemen, Alia here. Welcome to our briefing on the second quarter financial year 2020. We thank you for joining us this evening.

As usual, in the next hour, we shall have the management presentation, followed by the Q&A session. You should by now have the published results as well as the presentation materials. Today's briefing will be led by our Managing Director and CEO, Datuk Sazali; followed by Madam Rashidah, Chief Financial Officer; Mr. Kabir, Chief Manufacturing Officer; Mr. Shakeel, Chief Commercial Officer; and Mr. Akbar, Head of Strategy Planning & Venture which also presence.

I shall now hand you over to Datuk Sazali.

Datuk Sazali Bin Hamzah, *CEO*:

Okay. Thank you, Alia. Good evening, ladies and gentlemen. Thank you for joining us today. Before I comment on our results, allow me to take a moment to introduce you to En. Shakeel Ahmad Khan. He is our new Chief Commercial Officer, who came on board on 1st of August and taking over from En.Shamsairi, who has been promoted to join the Petronas LNG upstream. Mr. Shakeel joined Petronas in 1994 as a chemist in Petronas Penapisan Melaka Sdn Bhd. Before moving on to the commercial business at the crude oil group, one of the key tasks undertaken during his tenure is in the crude oil group, was to set up Petronas Lubricants India Private Limited.

Following his return to Malaysia, he has had various roles across the group in marketing and trading, supply operation and also trading risk. Prior to his appointment, he was our head of sales and marketing for polymer products, where he led the initiative for the polymer business, together with the LDPE and polyethylene plant, including the job on route to market for Pengerang Integrated Complex.

With his vast commercial experience across the business, I'm confident under his leadership and guidance, the commercial team will continue to deliver long-term value to the company and its stakeholders.

Back to the matters at hand, 2020 saw a rough beginning as trade tension between U.S. and China continued to put a damper on the economic outlook. This was further aggravated by the outbreak of coronavirus that saw the world almost brought to a grinding halt.

Year-on-year, there has been a significant difference to the global economy brought on by the COVID-19 outbreak. That hit its peak in March and April this year and continue in quarter 2. Global GDP entered negative territory in the second quarter 2020, recording minus 5.8% at the end of first half of the year compared to 2.7% in the same period last year as the pandemic caused widespread disruption and restriction of business activities.

Global PMI contracted to 45.8 point compared to 50.3 in the first half of the year. The global manufacturing sector was almost at the standstill due to lockdown imposed to curb the spread of COVID-19. It's been particularly tough for the oil and gas industry as the price war between Saudi Arabia and Russia saw the benchmark brand crude oil price plunge to low of $22.76 per barrel in March this year. Then came the demand shock as a result of the COVID-19 outbreak, while supply continued to increase post the collapse of the OPEC-led supply pact, amid decreasing global oil storage facility.

Comparing the 6-month period this year against last year, the benchmark Brent crude oil fell as much as close to 40% to average at USD 40 per barrel. Petrochemical product price fell on lower crude and naphtha prices, coupled with softer overall demand.

Ladies and gentlemen, moving on to our own operation. Against such a challenging backdrop, I'm happy to report that PCG resilience is showing through as we are still reporting positive profit in the first half of the year. The movement control order that was issued in mid-March continued into most of the second quarter, much of the downstream manufacturing sector slowed except essential services.

During this period, our main aim is to mitigate and minimize the impact of the lockdown on our business and operation. By focusing on operational efficiency and capitalizing on our strong market presence within the region, as well as continued close collaboration with our customer, we were able to maximize our production plan, our sales and delivery with minimal disruption even during this tough time. We have continued our operation with health and safety in mind, addressing the needs of the business as well as the well-being of our people. We kept the minimum possible number of staff on-site where our manufacturing plants are concerned, keeping the shift team small and exposure low.

We implemented split team in the corporate office to ensure critical functions are not disrupted. And where we work can be done without the need to be in office, we are continuing to work from home arrangement for our staff until end of this year. And this arrangement has proven workable as our plant operation was smooth with no major disruption. As such, we were able to record a plant utilization rate of 97% for the first 6 month of this year, slightly lower than 99% achieved last year.

Our commercial team were relentless in their effort to ensure that we find home for our product. Keeping up with the customer to get to know their needs and concern as well as looking out for new market opportunities. Sales volume fell 3% year-on-year, in line with lower production. However, despite our best effort, product price was significantly lower this year due to the weak market demand.

Against the 6-month period last year, revenue fell 17%, mainly due to lower product prices and lower sales volume. EBITDA fell 48% to RM 1.5 billion on thinning spreads and EBITDA margin was recorded at 21%.

Profit after tax, PAT, despite the 65% decline remained positive at RM 678 million. For further detail of the financial performance, now I would like to invite our CFO, Madam Rashidah.

Pn.Rashidah Binti Alias, *CFO*:

Thank you, Datuk Sazali. Ladies and gentlemen, a very good afternoon, and thank you for joining us. We will start with the group performance on Slide 5 before moving on to the segmental performances. We begin with the comparison against the corresponding quarter, which is second quarter this year against second quarter 2019.

Now the COVID-19 pandemic has sent the global economy into recession, as GDP moved further into negative territory, recording minus 9.3% in second quarter this year compared to 2.6% last year. Global PMI fell to 43.3%, lowest since the financial crisis of 2008/ 2009, as industries were almost at a standstill due to lockdowns imposed to curb the spread of the virus.

The average Brent price was significantly lower in second quarter this year at $29 per barrel compared to $69 per barrel last year due to lower global demand caused by the COVID-19 pandemic. At the same time, supply increased after the collapse of the OPEC-led supply pact earlier in March this year.

Petrochemical prices followed suit recording lower prices amid softer demand. Market challenges notwithstanding, we have continued to ensure that we run our facilities well in order to optimize our cost of production. The group recorded a plant utilization rate of 99.7%, slightly lower than the 103% reported in second quarter of 2019.

Production volume was lower and consequently, sales volume as well. Revenue declined 27% to MYR 3.2 billion, predominantly due to low product prices and to a lesser extent, sales volume.

EBITDA fell 54% to MYR 695 million due to compressed margins and lower sales volumes, partially offset by write-back of inventory values and positive foreign exchange impact. Correspondingly, EBITDA margin was lower at 22%.

Now profit after tax fell 83% from MYR 1.1 billion to MYR 185 million following lower EBITDA and partially offset by lower tax expense.

Well, 1 point I wish to highlight. I suppose, in terms of the group's effective tax rate for the quarter ended June 30, 2020 was higher at 36% then the corporate tax rate mainly for 3 reasons: number

1, lower proportion of profit generated by our marketing outfit in Labuan, obviously, following the lower average product prices and volume. Number 2, we had current year we had business losses in certain subsidiaries, as certain products, the drop in market prices for certain products is quite significant. Now this business losses are not recognized as deferred tax assets. And number 3, we do have some nondeductible expenses. For example, FX loss and gain on the valuation of shareholders' loans, et cetera.

Next, we move on to the group's financial performance against the preceding quarter that is first quarter 2020. Our global GDP declined sharply from 2.2% minus in first quarter 2020 to 9.3 minus in second Q 2020 as a result of the widespread restrictions on business activities due to the pandemic. Global PMI contracted further from 48.8 in the preceding quarter to 43.3 in the quarter under review due to severe disruptions in the global manufacturing sector. The average Brent price also declined 42% quarter-on-quarter to $29 per barrel due to excess supply and retail demand caused by the COVID-19 outbreak. Petrochemical product prices followed, registering lower quarter-on-quarter average. On the home front, as we have continued to run our facilities at optimum levels, despite the challenges brought on by the lockdowns, the group was able to record a higher plant utilization of 99.7% compared to 94% in the previous quarter. This is partly due to a reduction in maintenance activities and improved methane supply in the fertilizer and methanol segment. As such, we recorded higher production and sales volumes in the second quarter of 2020. However, revenue declined by 18% to MYR 3.2 billion, mainly due to lower product prices. EBITDA was lower by 9% at MYR 695 million due to lower spreads, but partially offset by higher sales volumes, write-back of inventory values, lower maintenance and manpower costs.

EBITDA margin, however, improved from 20% to 22%. Profit after tax decreased 63% to MYR 185 million, in line with lower EBITDA and foreign exchange loss on revaluation of shareholders' loans to a joint operation company.

Let's now look at the performance for the 6-month period for 2020. The COVID-19 outbreak caused significant contraction to the global GDP, as we've mentioned earlier, due to the sudden stop of economic activities. For the first half of 2020, GDP was recorded at minus 5.8% compared to 2.7% in 2019. Global PMI contracted from 50.3 in first half 2019 to 45.8 this year. The benchmark Brent crude oil declined to $40 per barrel from $66 per barrel last year as demand declined following the economic slowdown. Subsequently, the average petrochemical product prices were lower in line with market conditions. The group recorded slightly lower plant utilization of 97% compared to 99% in the corresponding period. As such, production volume was lower and consequently, sales volume as well.

Revenue declined 17% to MYR 7.1 billion, largely due to lower product prices and lower sales volume. EBITDA was 48% lower at MYR 1.5 billion, in line with lower spreads and lower sales volume, but partially offset by positive foreign exchange impact. Similarly, EBITDA margin was lower at 21% compared to 33% in the first half of 2019. Profit after tax also fell 65% to MYR 678 million following lower EBITDA and lower interest income generated from fund placements, but partially offset by lower tax expense.

Now the next 2 slides show the group performance by segment, which is Olefins and Derivatives as well as Fertilizer And methanol. I will not go through these 2 segments as most of the analysis overlaps with the overall numbers. I'll be more than happy to provide clarification if required at the end of this presentation.

So let's move to the update on balance sheet and cash flow on Slide 8 and 9. Now first, the balance sheet on Slide 8. For the 6-month period ended June 30, 2020, total assets increased by MYR 722 million to stand at MYR 39.6 billion strong. This is primarily due to: number 1, higher cash contributed mainly by profit generated during the period, but partially offset by dividend payment to shareholders, being the second interim dividend paid for 2019. And secondly, higher property, plant and equipment, mainly in relation to the capital investment related to our petrochemical projects in the Pengerang integrated complex and recognition of some additional right-of-use assets.

Let's now turn to our cash flow on Slide 9. Cash generated by operating activities was lower by 45%, in line with the lower profit generated. Net cash used in investing activities was lower at MYR 749 million, mainly due to lower capital expenditure for our Pengerang projects particularly at Pengerang petrochemical Company and PC Isononanol as the projects are nearing completion, of course. At this time, I'm pleased to inform that the Board has approved a dividend of 5 sen per ordinary share, equivalent to MYR 400 million, being the first interim dividend for 2020, which will be payable in the month of September.

And so that brings us to our cash balance, which at the end of the 6-month period remains strong at approximately MYR 12.8 billion, which we are earmarking to fund our growth investments. That is all on the financial performance for the second quarter of 2020.

I hand over to Mr. Kabir for the manufacturing highlights. Thank you.

En.M Kabir Noordin, Chief *Manufacturing Officer*:

Thank you, madam Rashidah. Good afternoon, everyone. Kabir here. I would talk on the operation highlights for the quarter. Group plant utilization for quarter 2 2020 was at 100%, higher than 94% achieved in the preceding quarter.

As many of you are aware, during the Movement Control Order, MCO, period that began mid-March 2020, non-essential business were closed, as such, reducing the demand for the sales gas. Through close collaboration with our supplier and government bodies, we were able to secure stable feedstock supply and thus maintain high utilization rate for our plant. Other than group plant reliability, that allowed us to push our utilization rate higher.

The deferment of turnaround at MTBE side following the MCO also contributed to the higher number. The turnaround for the MTBE has been rescheduled to quarter 4 2020. This resulted in higher production volume, against the preceding quarter, but was slightly lower than the same quarter last year due to maintenance activity undertaken at our Labuan facility this year.

Quarter 2 2020 segmental operational performance. Olefin and Derivatives segment operated at plant utilization of 98% in quarter 2 2020, slightly lower than the 100% achieved in quarter 1 2020. We saw slightly lower ethane supply to our crackers during the quarter due to the lower sales gas demand following MCO impact.

However, with continuous collaboration with gas supplier, we were able to ensure reliable feedstock supply and subsequently sustained reliable cracker's operation during the period. We were also supported by smooth operation of our downstream facility.

For Fertilizer and Methanol segment, we achieved higher plant utilization rate in quarter 2 2020 at 101% as compared to the 90% achieved in previous quarters. Both urea and methanol production volumes were above our quarterly average. We saw high urea production at PC Fertilizer Sabah. It was operating well and contributed a significant volume to the group total production.

As for methanol, improved plant reliability and stable feedstock supply resulted in higher methanol volume for the quarter as compared to the quarter 1 2020.

PIC-Petchem. For project update, as June 2020, overall progress for PIC-Petchem is at 99.9%. As many of you are aware, our petrochemical plant are completed. We have undergone testing as individual unit. They are now maintained under preservation mode and ready to be in operation once they kick off the integrated start up. At this time, the various are team preparing towards starting up in early 2021.

In conclusion, the second quarter of 2020 was operationally good for PCG. We were able to achieve higher production volume and utilization rate against quarter 1 2020, with reliable operation for our facilities. We will continue to sustain plan operation at optimum rate. And at the same time, ensuring stable feedstock supply from our upstream supplier. We will remain focused in safeguarding our safety and in managing our asset as well as ensuring our plants reliability. That's all I have for the operational highlights.

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

En.Shakeel Ahmad Khan, *Chief Commercial Officer*:

Thank you, Kabir. Good evening. Shakeel here. Let's proceed with the market highlights. Crude oil prices are projected to be supported for the next few months as OPEC had revised the global demand for 2021. Global economies began to recover, supported by stimulus package approved by government.

Q2 2020 versus Q1, ethylene prices softened due to the impact of the worst crude oil price crash in the last 29 years. 3 months forecast, August to October, ethylene price is anticipated to be stable in view of improved demand for PE and other derivatives. Supply is projected to be balanced with substantial inflow of U.S. cargoes and completion of major cracker turnarounds in Japan.

Moving on to polymers. Q2 versus Q1 2020 in tandem with ethylene, polymer prices have seen a drop due to oil price slump and weakening demand resulting from the lockdown imposed in most ASEAN countries.

3 months forecast polymer prices are anticipated to be stable in the next few months in view of adequate supply amidst growing concerns on the second wave of COVID-19 lockdowns. Supply in SEA will remain adequate with no scheduled turnaround in the region.

Next, for MEG. Q2 versus Q1 2020, MEG price continued to soften in quarter 2 as a result of high inventory levels in China, coupled with weak polyester demand. For the 3 months forecast, MEG prices are expected to be stable in the next few months, with multiple shutdown and turnaround in the region and demand recovery is still sluggish post-COVID-19.

Polyester demand expected to remain weak with production cut in China region as U.S. and Europe consumption has yet to recover. As for paraxylene, Q2 against Q1 2020, paraxylene price in quarter 2 was lower, primarily due to slower downstream demand amidst bearish crude oil price and COVID-19 pandemic. 3 months forecast, PX price is forecasted to be stable, supported by sufficient supply in the region as most of major turnarounds completed after July. Support for demand is expected from new purified terephthalic acid of PTA plants slated to come online in the late Q3 to Q4, with 3 main ones in Dalian, 2,500 ktpa In China, Xinfengming, 2,200 ktpa and Fujian Baihong 2,500.

Okay. Moving on to Fertilizer and Methanol segment, starting with urea. Q2 versus Q1 2020, urea price in Q2 was lower in view of limited buying in the market amidst uncertainty over global COVID-19 pandemic. 3 months forecast, urea price is anticipated to firm in the next few months due to healthy demand in India tender, supported by sufficient supply.

India is in short of urea and needs to buy around 1 million tonnes per month until the end of the year, and this will keep international supply tight. Urea is still short from the previous 2 tenders awarded, and there is a new regulation for a tender participants to register with the authority for the countries that shares their border with India, which limit the cargo tender.

Moving on to ammonia. Q2 against Q1 2020, price for ammonia in Q2 was lower due to slow demand from downstream markets following lockdowns in most countries. The 3 months forecast, ammonia price is expected to improve as demand continues to improve for downstream, such as caprolactam. Maintenance at plants SAFCO, 500 ktpa and Kaltim 660 ktpa will also support prices.

For Middle East, there is less opportunity as demand are fulfilled for regular contract shipment.

Lastly, on methanol. Q2 2020 against Q1, price for methanol in Q2 was lower due to government lockdowns, resulted in weak downstream demand. 3-months forecast, methanol price is expected to stable as most countries resume operations post-COVID-19. Ample supply of volumes from Iran and the Middle East expected to enter China, putting pressure on coastal inventories and prices. Steady downstream demand into MTBE sector, given the demand for gasoline as most countries are recovering post-COVID-19.

That's all from me. I'll pass it back to Datuk Sazali.

Datuk Sazali Bin Hamzah, *CEO*:

Okay. Thank you, Shakeel. So ladies and gentlemen, it was a rough half year, and the rest of the year is still uncertain. Our fight against the pandemic is showing positive results as the spread of new cases are slowing down, and we are in a better adjusted to the new normal.

Economies have begun to open up, and we are feeling some optimism that recovery through slowly though slowly but is sure will follow.

However, crude oil continues to look weak on multiple factors such as weakened demand, stemming from the sluggish economy. The sudden demand drop due to the pandemic and continuing surplus after the collapse of OPEC-led supply pact. The combined weak demand against continued oil production is expected to continue to pressure crude oil prices. Furthermore, despite the positive we have seen, volatility remains a large factor for the market as such resilience is key in ensuring that we will be able to ride out this challenging period. We will continue to ensure that our operations remain strong by sustaining our HSE culture, prioritizing the safety and health of our employees while maintaining safe operations. We will also continue to focus on operational excellence to ensure continuous optimum plant operation.

We put a strong focus on cost reduction and optimization without jeopardizing safety and asset integrity. Maintain our commercial excellence initiative to remain flexible and responsive to the constantly changing business environment and also to maintain our financial prudence. We are also steadily making our way into the specialty chemical space, both in pursuing our long-term growth agenda and our sustainability agenda. In the case of Pengerang Integrated Complex, we are gearing for start-up in the first quarter of 2021. We have FID, 2 specialty projects, including signing of the shareholder agreement. One is a butadiene derivative plant to be located at Pengerang Integrated Complex and another one Specialty Chemical Plant in Kertih Integrated Petrochemical Complex.

Both projects are currently undergoing the engineering, procurement, construction and commissioning stage at both locations. And we have also reached the final investment decision to build a silicone blending plant in Gebeng as part of our growth plan for the Da Vinci Group, a subsidiary we acquired last year. And this will allow us to capture the rising demand for silicon based product within this region. Also as part of our sustainability agenda, exploring alternative feedstock for chemical, we are building a pilot plant to convert second-generation palm biomass into chemical in 1 of our research centers. All this being part and parcel of our future-proofing strategy to strengthen the core business and grow the specialty chemicals segment.

We believe this track will continue to build our resilience to be able to toughen out volatility and uncertainty in the market, which, in turn, we will be value-added to our stakeholders.

That's all for our first half 2020 performance, and I would like to open for Q&A.

Ms Zaida Alia Shaari, *Head IR:*

That's the end of presentation. Albert, over to you for the Q&A.

Operator: And our first question comes from Raymond Yap from CGS-CIMB.

Raymond Yap, CGS-CIMB

The first question is concerning the dividend policy. Will you maintain your dividend policy given that times are very tough, and you have a lot of specialty chemical projects on hand?

Second question is regarding all the specialty chemical projects that you have listed on Slide 17, could you give us a sense of how much all of them cost? And whether you can give us an update on the CapEx spending for 2020, given that some of these specialty chemical projects, I believe, should be kicking off soon.

And the third question is the landslide in Labuan, which was reported by some of the press that apparently or rather, I'd like to confirm whether it has impacted your methanol production? And what kind of impact that will have on your third quarter results?

Datuk Sazali Bin Hamzah, *CEO*:

Okay. Raymond, thank you very much for the question. So on the dividend policy, we will maintain our dividend policy, i.e., close to around 50% PATANCI, given this time, I think we released slightly more than 50%.

As you rightly said that we continue to preserve our cash as a preparation for our pipeline of growth projects in specialty chemical. You asked then about the rough figure of CAPEX investment, I would say that probably the one that we have approved probably close to between $200 million in total, USD 200 million, USD 250 million around that figure.

And for capital to be spent in FY2020 is around.. Rashidah, if you can give that number?

Pn.Rashidah Binti Alias, *CFO*:

It will be very minimal. For 2020, it's very minimal. So that will be incurred over the next 2 to 3 years, starting next year. And you can see that the CAPEX incurrence profile is roughly about that. I think it's about 30, 40 sorry, 40, 40, 20 something like that in terms of the CAPEX incurrence profile.

Datuk Sazali Bin Hamzah, *CEO*:

So we are also trying to expedite a bit of our project because we believe in 2021, 2022, probably market is good for our construction. There's and in addition to that, there is 1 question about land slide just now in Labuan. Yes, this has impacted 2 plants. One is our methanol plant 2, as well as our SAMUR urea and ammonia plant in Sipitang. However, those issues have been resolved, and the both plant is now already run at full capacity.

In terms of impact to the business, of course, in terms of volume, there will be some impact. And at the end of the day, it also will impact some our profitability. But we are now catching up our production. And hopefully, we get close to what our target is.

Raymond Yap, CGS-CIMB
Okay. Just to clarify, so there were 2 separate landslides is it? One in Sipitang and one in Labuan.

Datuk Sazali Bin Hamzah, *CEO*:

It actually is one landslide. But it affected the common line, not the sharing part. The network that gas line from Kimanis, go to Sipitang, Labuan and also straight go to Sarawak LNG plant. So this is the line that exposed to landslide, especially during rainy season. So only one location, but affected a common line that's where we have to shut down the line to repair. Actually, the line is okay. There is no damage to the pipe. But we took precaution, safety precaution to reinforce the land across the near the pipe.

Raymond Yap, CGS-CIMB
Okay. Just to clarify on the specialty chemicals. You mentioned that the ones that you have FID totaled USD 250 million. So that would be the butadiene and the specialty chemicals plant in Kertih right? Just these 2?

Datuk Sazali Bin Hamzah, *CEO*:

Yes. Plus the blending plant in Gebeng, silicon blending plant in Gebeng.

Raymond Yap, CGS-CIMB
Okay. So 3 plants altogether, USD 250 million in total...

Datuk Sazali Bin Hamzah, *CEO*:

It is $200 million, $250 million, yes.

Raymond Yap, CGS-CIMB
Okay. That's very small. I think it's nowhere near the Pengerang expenditure. So it's quite small. It seems each of them are quite small.

Datuk Sazali Bin Hamzah, *CEO*:

Yes. That is the game of specialty. They are not a heavy investment, but there are many. So depending on which because in our pipeline, also, we have some the 1 that big. And this big plant is not specialty. It's like what we call it probably commodity towards derivative midstream and many of them are specialty. So the game are a bit different, like commodities. But at the end of the day, our cash is preserved for that.

Raymond Yap, CGS-CIMB
Okay. Just one more thing. I think last quarter, during the conference call, you mentioned that you were looking to put in about $2 billion to $2.5 billion to upgrade the propylene or the C3 C4 at Pengerang. Can you give us some idea whether this project is taking off?

Datuk Sazali Bin Hamzah, *CEO*:

Yes, it is in the evaluation stage. So we have to follow through our project stage gate. So we are still active pursuing that. This is the one that I said that's a big size. It's a midstream chemical.

Operator: And our next question comes from the line of Alex Goh from AmBank Malaysia.

Alex Goh, AmBank
I have three questions. The first is regarding your reclassification of $88 million from your F&M to the Olefins division. Could you explain a bit on what happened there? And how did that affect your margins. That's my first question. The second one, you mentioned one of the reasons your effective tax rate run-up was because your, some of your subsidiaries were making losses. Could you shed a bit of color on what were those subsidiaries involved in? And my third question is regarding to your deferral of our Gebeng turnaround plans, when is that going to take place? And could you give us a bit of sense on what are the planned maintenance activities for the rest of this year and for next year?

Pn.Rashidah Binti Alias, *CFO*:

Okay. Alex, so I will take the first question. The first two questions. So that reclassification of MYR 88 million, that was relating to our Thailand outfit. In quarter 1, what happens is that there is a product cost that was supposedly relating to the fertilizer and methanol segment, but that was inadvertently recorded under the O&D segment.

So the P&L, the balance sheet, the main numbers are all correct, nothing wrong there. But when we split the two numbers between O&D and F&M. So inadvertently, we have included F&M costs, product cost in the O&D segment. So in this quarter, we reclassed those 88 million numbers back into the correct segment. It doesn't affect product margin No, nothing. Because in the end, when we make our operational decision on a day-to-day basis, we were looking at the numbers correctly. But this was when we reported for our Bursa announcement. So there was a reclassification error that gets corrected this quarter. And that's why you see the notes over there.

Now for the second question, for the effective tax rate, the subsidiary that's making that losses. This is relating to paraxylene Benzene product, MTBE. So you saw just now Mr. Shakeel's presentation, you can also see that these 3 products, the drop in market price and market spread is rather pronounced. So we had, we made that losses at subsidiary level.

Datuk Sazali Bin Hamzah, *CEO*:

But these two asset, basically, despite that is making losses, but there are still EBITDA positive.

Pn.Rashidah Binti Alias, *CFO*:

Yes.

Datuk Sazali Bin Hamzah, *CEO*:

So therefore, we're still running full because it helps in terms of reducing the gaps.

Pn.Rashidah Binti Alias, *CFO*:

Yes. In terms of defraying all the fixed cost. So it's a business division that we take for as long as they are positive contribution margin EBITDA. We do run it. As I said, it helps to defray our fixed cost as well. So question three..

Datuk Sazali Bin Hamzah, *CEO*:

And other thing also, this business is that related to fuel. So very small number of our business that related back to fuel. So until that the fuel demand have picking up, I think this is still under pressure. But we are quite optimistic that we will recover soon. Okay. The third question, basically on the Gebeng, turnaround. So we are planning in quarter 4 for Gebeng turnaround, and we have only 1 turnaround this year, mainly because of we managed to push some of the turnaround later due to COVID-19. So for 2021, this is we will have a slightly heavier turnaround, but not as heavier, but what we say is probably considerably is about how many plants, four plants?

En.M Kabir Noordin, Chief *Manufacturing Officer*:

Four plants.

Datuk Sazali Bin Hamzah, *CEO*:

Four plant plan turnaround in 2021.

Alex Goh, AmBank
Could you give us your sort of guidance on what would be the plant utilization rate, maybe if you go into the second half of this year? I mean the first half, you're heavy hitting well over 90%. Could I simply say that with this fourth quarter, Gebeng turnaround, your utilization would drop towards the lower 90% level. And how should we look at, 2021 as well.

Datuk Sazali Bin Hamzah, *CEO*:

We anticipate that we're still maintaining above 90% utilization for the full year of 2020. I would say between slightly below mid-90s. So I think about that target. And for 2021 also, despite that we plan for plant turnaround, we're also targeting, maintaining above 90%. Because moving forward, at any years, we always want to keep above 90 because that is the optimum running rate for our plant.

Alex Goh, AmBank
I see. But which are the 4 plants that you're planning turnaround mix here?

Datuk Sazali Bin Hamzah, *CEO*:

Kabir, can you share, I forgot already.

En.M Kabir Noordin, Chief *Manufacturing Officer*:

Of course, we have a PDH , Gebeng. And second, we have ABF, the 3rd one is a methanol plant, plant one, and the last, the 4th one is PFK. Gurun.

Alex Goh, AmBank
Sorry, the first one, what was that?

Datuk Sazali Bin Hamzah, *CEO*:

The first one is the PDH Gebeng.

Alex Goh, AmBank
I see. None of your cracker will be going through any utilization. I mean plant turnaround next year?

En.M Kabir Noordin, Chief *Manufacturing Officer*:

We don't plan for that because 2018, we already have major shutdown for the cracker. We may have pit-stop a low shutdown to repair a certain thing, but not a major turnaround.

Alex Goh, AmBank
Yes. I see. So these are not major turnaround events for next year, in other words?

Datuk Sazali Bin Hamzah, *CEO*:

Yes, yes, yes, yes. But bear in mind, this is a planning, thing may change subject to situation of the plant.

Alex Goh, AmBank
I see. One last question. Following Raymond Yap question on the Labuan landslide. How many days was the production affected? I mean, how should we see the utilization to your F&M division in the third quarter?

Datuk Sazali Bin Hamzah, *CEO*:

But almost about 28 days, the total. But 1 thing that what we are very lucky that because we moved the methanol plant shutdown is about 66 days. So I think that is the volume that we can recover. So we have a discussion with the DOSH. We do the risk assessment, and we're confident that methanol plant still safe and reliable to run. So I think that is something that we have the mitigation plan in order to sustain our performance and also the volume.

Alex Goh, AmBank
I see. So in other words, you can backtrack or you can move your utilization above 100% in order to offset the lower utilization earlier on. Am I right?

En.M Kabir Noordin, Chief *Manufacturing Officer*:

Yes, that is our plan, and we need to ensure that quarter 3 and quarter 4, our plant is reliable.

Operator: Our next question then comes from the line of Ahmad Maghfur Usman from Nomura.

Ahmad Maghfur Usman, Nomura
So I want to get some visibility in terms of this growth strategy. So you have the silicon, butadiene as well as the specialty chemicals and the bio base. What is the primary driver to focus on these specific segments generally? I just want your thought process on this growth strategy?

Datuk Sazali Bin Hamzah, *CEO*:

Okay. Our growth strategy, how we explore is those that plan or products that related to 8 mega trends. We have done a proper mega trends study, and also scenario planning study. And based on that, any product that within these 8 segments is become a priority. Then we move on to the market. We study a lot on the market of this product. And from that, also, we evaluate rank by their profit margin, yes

At the same time, we also look at the overall project, IRR, investment rate of return. And from there, we prioritize which are the project that we are proceeding or prioritizing. So I think that kind of step that we do. And if we believe that as we go into this segment, a segment that, for example, like, related to food, related to personal care, related to chemical, electronic chemicals, this is where we believe that our success rate is higher. So there's a tedious process that we do that.

Ahmad Maghfur Usman, Nomura
Okay. And how do you compare against the competitors within the Southeast Asia region? Are there any competitors in this particular segment? Quite, I think the one that I find interesting is like silicon, I believe that you guys would have a cost advantage as well. And likewise for butadiene, given the customer profile here in Malaysia as well. So would you be the only plant that has these exposures in Southeast Asia in general?

Datuk Sazali Bin Hamzah, *CEO*:

I give example like the three plants that we have selected, we are importing this product a lot in Malaysia. So we're going to be replacement of imported materials to Malaysia. Similarly, in Southeast Asia, only few players that have this kind of capability. So our game in marketing is much stronger. And in fact, actually, a lot of specialty players want to move in this region because of potential market in the future.

And another advantage that we have also, some of the component, key component to produce the product, we have it here in Malaysia. I think with that close to the market, and also positioning ourself with the feedstock, plus readily available market locally, is bring us a lot of advantage.

Ahmad Maghfur Usman, Nomura
Okay. And then in terms of feedstock, which particular feedstock is the one that is more advantageous to you with this product pipeline?

Datuk Sazali Bin Hamzah, *CEO*:

Like the butadiene and also the specialty chemical in Kertih. So we readily have available feedstock.

But silicon, it's a mix. We have a strong market here, but the feedstock is readily available. We have probably about 80 supplier of our feedstock. So it is not really a risk for the feedstock side, but the most important the market is secure.

Ahmad Maghfur Usman, Nomura
Okay. And you reckon upon commencement, what would be the utilization rate in the first year itself?

Datuk Sazali Bin Hamzah, *CEO*:

Normally, this kind of plant, I would say that probably between 60%, 70%, depending how complex they are. If we are lucky, we can even push to 80%. Then the second year, normally, we will hit above 80%. And come into third year, we will be full capacity.

So the full capacity, if we are lucky second year, we'll be able to achieve like. SAMUR, for example, the second year, we already ramp-up to more than 100% capacity.

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

Mayank Maheshwari, Morgan Stanley
A few questions from my side. First and foremost, you have done FIDs of these 3 plants in the midst of a pandemic. So can you kind of help us understand when you're going through this process of FID, what kind of hurdle rates and what were the things that you were kind of looking through in this FID process?

Datuk Sazali Bin Hamzah, *CEO*:

Okay. Of course, during this pandemic, there's a lot of challenges, but good thing that we are able to communicate to our potential partner technologies as well as our customer as well through online. But they also, we have a face-to-face meeting in certain instances. So when evaluating this project, we have our own hurdle rate. Of course, I can't share with you, but the hurdle rate for specialty chemical is much higher than commodities hurdle rate. And we will rank, despite that they are really good. Some of them good, but we will rank it to give the priority which project needs to be exercised first.

I think that's the process that we are in. And the validation of this hurdle rate also includes the market lock-in position. Basically, all this project, we have done some sort of route to market where we know where to sell, where customers to buy. And what price range that we can put as assumption and we are not depending 100% to the consultant numbers. I think that's how we manage our projects.

Mayank Maheshwari, Morgan Stanley
Okay. And sir, on the second part was related to Pengerang. Now that Pengerang is starting in 1Q '21, how should we think about the ramp-up of Pengerang now going ahead?

Datuk Sazali Bin Hamzah, *CEO*:

I would say the overall year probably around 60%, 70% because this is quite complex. They still uncertainty. But good thing is most of the uncertainty have been resolved. I would say, probably 80% or 85% of uncertainty is being resolved. So when we start-up this unit, let's see how smooth we are. But based on my experience, typically, we should target about 70%, 60% for the first year.

Mayank Maheshwari, Morgan Stanley
Okay. And when do you reach 100%?

Datuk Sazali Bin Hamzah, *CEO*:

The reached 100% will be the second year. The second year normally, we will target above 80%. And if we can push to 100%, we'll do it. And I'm sure, because it have many units, some of the units definitely already push to 100%. I'll give example like the cracker itself. We have proven that we run more than 100%. The crude unit, we have proven that we can run 100%. But what we have not test is chemical. But I also feel that some of the unit during the opportunity start-up at the early stage before the fire incidents. There is a few units that we are quite confident that it can reach also quite smooth start-up.

Mayank Maheshwari, Morgan Stanley
Okay. And sir, the other question was on the financials itself. Two things, I think, for ma'am. One was more related to the inventory gains that you had. Or how was the inventory movement for the current quarter because of the price movements on both O&D side as well as on the fertilizer side? And the second thing was, if you look at, I think, your overall inventory levels are still reasonably high, if I look at the balance sheet. Is there some inventory buildup because of your high utilization rates that you had this quarter, which is now getting cleaned up?

Pn.Rashidah Binti Alias, *CFO*:

Yes. So in terms of inventory to your first question. In terms of our inventory turnover, that remains around about the 15, 16, in general, on average, that I mean reduce at that level 15, 16 days, no change. Of course, within the product category itself, it differed. But on overall inventory are 15, 16 days.

On the second part, correct. In terms of balance, that has gone up slightly. The primary reason is, of course, we're also building up in preparation toward the turnaround. And there are also material for the turnaround itself, that has come in. So that comes under that as well, which will be utilized for the turnaround. So mainly, it's the turnaround portion.

Mayank Maheshwari, Morgan Stanley
Okay. Anything on the inventory gains numbers that you have?

Pn.Rashidah Binti Alias, *CFO*:

Oh, I see. That one is because in quarter 1, we had a higher write-down in terms of the inventory valuation at quarter end. But for quarter 2, that's a lower write-down that I think about MYR 20-odd million. Whereas in quarter 1, that's roughly about MYR 90-odd million. That's primarily a function of price, Mayank. Because in March, the price drop was more severe compared to by the end of June. Yes. Of course, the average for quarter 2 is lower. But by end of June, prices started to recover. So our write-down of inventory was relatively lower in quarter 2 compared to quarter 1. That's the right fact, I think that you're seeing in the financials.

Mayank Maheshwari, Morgan Stanley
So just to understand, you had first quarter a MYR 90 million write-down. And then in 2Q, was there a reversal of MYR 70 million or there was a further MYR 20 million write down?

Pn.Rashidah Binti Alias, *CFO*:

There was write-down of a MYR 20 million. So how the system works. Of course, it met, it shows a reversal then. Net-net.

Mayank Maheshwari, Morgan Stanley
Okay, okay. Net? Okay.

Pn.Rashidah Binti Alias, *CFO*:

Yes, yes. You see in the disclosure.

Operator: Our next question comes from the line of Raymond Yap from CGS-CIMB.

Raymond Yap, CGS-CIMB
Just going back to Pengerang, the diesel hydrotreater caught fire exploded. And I think that Datuk Sazali mentioned that pipe might be built to bypass that. Is that the modus operandi once Pengerang comes online? Or is the diesel hydrotreater and the atmospheric residue desulphurization unit completely fixed and will be functional come first quarter next year?

Datuk Sazali Bin Hamzah, *CEO*:

Yes. The ARDS should be completed. The first one already completed, and I think we have started pressure tested. The second one will completed sometime in September/ October.

Then by January, those ARDS will be ready for start-up is part of the loop. The only is DHT. DHT will take longer because on the lonely item. So we are targeting sometime in quarter 4 to complete the, not on the quarter, quarter 3 to complete the DHT, but we start the unit with bypassing the DHT.

Raymond Yap, CGS-CIMB
Right. Okay. Okay. And in terms of the 4 turnarounds, sir, I missed the 2, I got PDH Gebeng and methanol plan one. Which are the other three that are turning around next year?

Datuk Sazali Bin Hamzah, *CEO*:

PCFK and ABF, ASEAN Bintulu Fertilizer.

Raymond Yap, CGS-CIMB
Okay. All right, sure. Okay. So ASEAN Bintulu Fertilizer and Kedah fertilizer. Okay. And the last question I have is, sorry, I may not have caught what you, what was mentioned just now by, I believe it's Akbar. Akbar, I think that in the presentation slides on urea, it was mentioned there were some new regulations imposed in India and some stricter payment terms. Could you explain what that is? And did it affect PCG? Do you participate in the Indian tenders?

En.Shakeel Ahmad Khan, *Chief Commercial Officer*:

Okay. Shakeel here. I was referring to the recent conflicts, if you notice in the last 1 month between China and India. So they imposed stricter control on registration of buyers. So because of that, the pool of buyers for the tenders were lesser. So they couldn't get prices as expected. So that was what I was referring to in regards to tender, for the Indian tender.

Raymond Yap, CGS-CIMB
So I think in the end, they did allow the Chinese to tender into the market. Is that right?

En.Shakeel Ahmad Khan, *Chief Commercial Officer*:

I think the last round, yes, but the earlier 2 rounds, it was affected.

Raymond Yap, CGS-CIMB
Okay. Do you do urea exports to India?

En.Shakeel Ahmad Khan, *Chief Commercial Officer*:

We participate in the tender.

Datuk Sazali Bin Hamzah, *CEO*:

It is actually on opportunity dependent. We participate in tender. If it's met, we will sell. Time to time, we do have. But I would say it is not regular.

Operator: Our next question comes from the line of Anna Park from Macquarie.

Anna Park, Macquarie
I'm very sorry, but could you repeat what was your inventory gain or loss in 1Q and 2Q each, respectively? Was it MYR 19 million loss in 1Q and another MYR 20 million loss. Is it the case?

Pn.Rashidah Binti Alias, *CFO*:

You are right. You're spot on. As I've mentioned earlier, quarter 1, the inventory write-down was MYR 90-odd million. Quarter 2, the write-down was MYR 20-odd million. So why it's reflected as inventory written back. I suppose the confusion there is because how the system was, I mean, my apologies, I did not intend to go into granular details, but how it works from a recording standpoint. After each reporting period, we would then immediately reverse the write back. Therefore, the MRY 90-odd million write-back gets reversed, and then we were charged, that we will do the, sorry, evaluation the, mark-to-market evaluation and in that reporting period and change it accordingly.

So in terms of how we report the numbers, it will be the reversal, plus whatever write-down that we have for that quarter. So in exercise, if you're looking at it, that's a write-down of MYR 90-odd million in quarter 1. There is another write-down of MYR 20-odd million in quarter 2. Is that clear?

Anna Park, Macquarie
Yes, it's clear.

Operator: Our next question comes from the line of Azmin Ibrahim. Azmin Ibrahim from PNB.

Azmin Ibrahim, PNB
I'd just like to ask this question regarding the Sarawak sales tax ordinance. So basically, 1 of the increased materials was urea, and I believe you have a plant in Bintulu. I mean, would you have an effect on your, on the segment's profitability? And or has it already been imputed in for 2020?

Pn.Rashidah Binti Alias, *CFO*:

So yes, we will be tax under the Sarawak sales tax. If you follow how the how did the news evolve. We have Petronas group as a whole, including PCG. We have reached an agreement with the Sarawak state and we will pay the sales tax. And this has been accrued accordingly in the accounts. So we are now in the process of registration as a taxable entity under the sales tax. So payment wise, I suppose, it will come at some point within this year, but we have properly accrued everything.

Azmin Ibrahim, PNB
I see. And this will only affect your operation in Bintulu only. Is that right?

Pn.Rashidah Binti Alias, *CFO*:

Yes, that's right. It is the ABF urea.

Operator: Our next question comes from the Galvin Wong from Aberdeen Standard.

Galvin Wong, Aberdeen Standard

Galvin here. Just very quickly, I have two questions. Firstly is on I think last quarterly briefing, you mentioned Pengerang start will be second half. But now it's early 2021. I'm not sure if I missed anything between them, but what has changed? That's my first question. And secondly, I also think you mentioned that at current prices and spreads, this was a first quarter briefing. Pengerang wouldn't be profitable on EBITDA level given that price and spreads recovered somewhat to current levels, would it be EBITDA breakeven?

Datuk Sazali Bin Hamzah, *CEO*:

First question, you are right that in the last, I put it, second half, we are not sure whether are we, is there any further finding because after the fire incident, what we do, we have a very comprehensive exercise to look into 3 area: one is the competency and also adequacy of competent people to run certain complex units. That we have done, and we also do another design and integrity check for the whole unit, not only at refinery and cracker, including Petchem. So that is a very tedious exercise to look into, is there anything that we miss. That, number 3 also, we also look at what is the requirement for us to restart the unit, for example, the by pass of the DHT and where the crude that we want to process to make that kind of arrangement.

So this item that we do have impact on the start-up readiness. So we want to make sure that this time when we start the unit, it is really, really ready, not only for the people, but also the asset itself. So that make it differ a bit from the target in second half of this year to early of 2021, which is in quarter 1. So that is the reason why we have differed a bit in the most start starting up.

The second question that you are asking is the whether the first operation is it EBITDA positive? At this moment, it is very difficult for me to tell because the price is still volatile, especially on the refining and cracker side. So I would say, we would can have a better picture towards the end of this year before we start the unit, whether how the prospect of RAPID economic when we run in 2021. So I hope you can be a bit wait for this because we need to really look at what is the market trend in this coming third quarter and also fourth quarter of this year.

Operator: Our next question comes from the line of Azim from Alliance DBS.

Azim, Alliance DBS

I have one question. Regarding on your Olefins and Derivatives, you mentioned the outlook is for the next 3 month is stable. So just want to check, when you mentioned stable, do you compare it with first quarter? How should I look at it? That's my question.

Datuk Sazali Bin Hamzah, *CEO*:

I will say the Olefins and Derivatives, when we say stable is, if you look at the price, correct if I'm wrong, Mr. Shakeel, because you're the subject matter expert on this, and before the COVID happened, I put like ethylene price. So they are hovering around probably about 900 to 800. And then during COVID, it go down to 400 level. And now June is start picking up around 700, 720.

We look at this, probably 720, 730 will be stable, remain stable for quarter 3, quarter 4. So in that perspective, that we said stable. But we don't believe that it will come back into the position before COVID-19. And if that, it will take a bit longer time depending how people respond on this pandemic. Shakeel, do you want to…

En.Shakeel Ahmad Khan, *Chief Commercial Officer*:

As you rightly said, the other factor is also on the oil price. The impact of oil price will be seen on ethylene as well. So we are seeing some recovery in oil price, that's also supportive.

Operator: Our last question comes from the line of Raymond Yap from CGS-CIMB.

Raymond Yap, CGS-CIMB
Sorry to come in the third time, but Rashidah, could you give us guidance on the effective tax rate for the full year, given that PX benzene prices have continued to remain low and potentially remain low for the rest of the year. Could we perhaps look at an effective tax rate that is perhaps much higher than what we saw last year?

Pn.Rashidah Binti Alias, *CFO*:

Yes. Raymond, so yes, we've seen all along, our effective tax was hovering 10%, 12%. As I've mentioned earlier on the first point, you also know that in terms of our effective tax rate, there's a blend between Labuan mainly. I mean, the Labuan regime and also the corporate income tax regime. So we've always landed around about 10%, 12% in any good year when the market is good. And it will sit around that level. When the market is down and proportionately, the income that's generated at the Labuan side is not as much than I think some years back, I've also guided that the rate will be around about mid-teens to high teens. So we were looking at 15% to 20%.

I think this was easily about 2 years back when I came in. So that was also the guidance that we have given to the market. It should be round about that Raymond depending on how the market plans out the second half of the year. So I do not think that we'll be looking at a similar rate last year, obviously, because the market is very different. But we are probably lending at around about high teens then.

Operator: Our last question comes from the line of Piyanan Panichkul from UBS.

Piyanan Panichkul, UBS
I just have a quick question on the project cost of Pengerang. I was wondering if the change in the start-up date impact your project cost at all?

Datuk Sazali Bin Hamzah, *CEO*:

If I can repeat your question is the start-up cost, whether it can impact the overall project cost of the for Pengerang, right? That is your question?

Piyanan Panichkul, UBS
Actually, the start-up date of Pengerang have moved a few times. And I wonder what happened to project cost? Has it been increased at all? And what should we expect for the depreciation for next year?

Datuk Sazali Bin Hamzah, *CEO*:

Okay. In terms of project cost, what I can share with you that we are still working within our TIC approval cost. So TIC is total installed costs approved by the Board. So we are still working within that number.

Pn.Rashidah Binti Alias, *CFO*:

Yes. If I may just add Piyanan, there are some cost savings in certain aspects of the project. And there would be some costs which we incur during this period. So that kind offset each other. As Datuk pointed out, we are still working within the approach TIC. We do, yes...

Piyanan Panichkul, UBS
Could you share how much has it been increased? The project cost?

Pn.Rashidah Binti Alias, *CFO*:

We still, no, no, we still, we are still will be the...

Piyanan Panichkul, UBS
Additional cost for the project

Datuk Sazali Bin Hamzah, *CEO*:

There is no additional cost. It's still within the approved budget cost. We have announced last time, it's USD 24 billion for the overall complex. We are still working within that.

Pn.Rashidah Binti Alias, *CFO*:

Our portion, I think is spoken about USD 3.2 billion.

Datuk Sazali Bin Hamzah, *CEO*:

For, for, that is the overall TIC for, PCG portion is about USD 3.2 billion. We're still working within that number.

Pn.Rashidah Binti Alias, *CFO*:

And to your next question on depreciation. As we have also guided in the past, you can look at that cost, that USD 3.2 billion, and of course, we apply component depreciation, so each component will differ slightly, but it's quite safe for you to take about 20 to 22 years depreciation range for the project. It will commence next year then.

Operator: All right. There's no very further questions at this time. I will hand it over to Zaida. Please go ahead, Zaida.

Ms Zaida Alia Shaari, *Head IR:*

Thank you, Albert. We have come to the end of the briefing. Thank you, everyone, for your participation. Do email us, of course, if you have further questions. To all our Muslim participants, Salam Maal Hijrah. Good evening, everyone.

Datuk Sazali Bin Hamzah, *CEO*:

Thank you.

Pn.Rashidah Binti Alias, *CFO*:
Thank you. Thank you, everyone.

Operator: Thank you so much, ladies and gentlemen. This does conclude our conference call for today. Thank you for participating. You may now disconnect.