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Operator: Ladies and gentlemen, thank you for standing by, and welcome to PETRONAS Chemicals Group Analyst Briefing for Quarter 2 of 2018.

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

Zaida Alia Shaari, Head IR:

Thank you, Anna. Good afternoon, ladies and gentlemen. Welcome, and thank you for dialing in to PETRONAS Chemicals Group Berhad Analyst Briefing for the second quarter 2018 financial results. You should have by now, downloaded the presentation pack from the link provided in the invitation. As usual, we shall have a briefing followed by the Q&A.

We are pleased to have here today all the members of our senior management led by our Chief Executive Officer, Datuk Sazali; our Chief Financial Officer, Madam Rashidah; Head of Strategic, Planning and Ventures, Mr. Akbar; sitting in for our Head of Manufacturing while he's away is Mr. Iskandar, Head of the Project Directorate; and last but not least, Mr. Shamsairi, Head of Commercial.

Over to you, Datuk Sazali.

Sazali Bin Hamzah, CEO:

Thank you, Alia. Good afternoon, everyone. Thank you for joining our analyst briefing today. Year on year, we are seeing continued growth in the overall global market, driven by the U.S. despite slowdowns seen in China who is slowing down to meet its 6.5% 2018 growth target and the U.K. amidst Brexit-related uncertainties.

Global PMI continued to improve with expansion across most major economies on improved business optimization as well as strong domestic demand. Compared to the second quarter of 2017, crude oil prices has risen on continued geopolitical tension and production outages. During the quarter under review, we saw Brent crude oil price average at USD 74 per barrel compared to USD50 per barrel average recording during the same quarter last year.

Feedstock prices has risen in line with the higher crude oil price further supported by the robust demand from the petrochemical sector. Chemicals, product prices followed suite with most products registering higher price during the quarter compared to second quarter 2017.

With the improvement that we have seen in second quarter 2018, we are able to present another quarter of strong and resilient performance, both operationally and financially. With just one short statutory plant turnaround completed at our MTBE plant early in the quarter and steady operation during the rest of the quarter, Group plant utilization stood at 95%, further supported by the full impact of PC Fertiliser Sabah that came onboard in May last year.

Sales volume improved 10% year-on-year driven by healthy demand across most products. The higher volume, together with firmer price lead to 20% year-on-year increase in revenue to MYR4.7 billion. EBITDA also improved to MYR1.8 billion, on improved volume and spread, though partially impacted by the strengthening of Malaysian ringgit. Nonetheless, EBITDA margin remains strong at 38%. We saw a 35% jump in profit after tax (PAT) boosted by volume and product prices as well as lower tax expenses.

For more detail on the financials, I will now hand over to our CFO, Madam Rashidah.

Rashidah Binti Alias, CFO:

Thank you, Datuk Sazali. Ladies and gentlemen, a very good afternoon, and thank you for joining us. Now we will start with the group performance on Slide 5 comparing against the corresponding quarter that is second quarter 2018 against second quarter 2017. The group performed well during the quarter both operationally and commercially. The chemical market improved year-on-year with improving crude oil prices and healthy demand. Compared to second quarter of 2017, the average price of Brent crude rose 48% to \$74 per barrel in the second quarter of this year. This saw feedstock prices increase, which pushed up petrochemical product prices accordingly.

We recorded a commendable plant utilization of 95% during the quarter despite undertaking a turnaround shutdown at PC MTBE. Now with higher sales volume from the higher PU rate, coupled with the improved market conditions, we recorded a 20% year-on-year increase in revenue of MYR4.7 billion.

EBITDA increased 19% year-on-year to MYR1.8 billion, due to improved spreads, which was partially offset by unfavorable forex movement. EBITDA margin was maintained at 38%.

Profit after tax increased 35% year-on-year to MYR1.4 billion, in line with higher EBITDA, positive contribution by joint ventures and associates, as well as lower tax expense.

Next, on the group's financial performance against the preceding quarter, that is quarter 1 2018. Now against quarter 1, 2018, global GDP saw a marginal decline pulled down by China as it slowed down to reach its growth target for the year. Global PMI saw a slight deceleration although still in expansion mode. Export orders declined in China and rising crude oil prices increased input costs and lowered business confidence in other major economies. Despite the improving crude oil

price, petrochemical product performance was mixed on supply concerns mainly for ethylene and ammonia.

As mentioned by Datuk Sazali earlier, we commenced the year's turnaround activity in the second quarter, plant utilization rate was comparatively lower at 95% compared to 100% in the first quarter, leading to lower production and sales volumes, accordingly. As a result, the group recorded a 4% decline in revenue at MYR4.7 billion, compared to MYR5 billion in the previous quarter.

EBITDA was a slight 2% lower at MYR1.8 billion, due to lower spreads and sales volume, partially offset by favourable forex movements. However, EBITDA margin improved from 37% to 38% on the back of cost optimization efforts.

PAT increased 25% quarter-to-quarter to MYR1.4 billion on lower tax expense. Now quarter 1 2018, was also impacted by the one-off adjustment relating to under-accrual of manpower expenses and the foreign exchange loss on shareholders loans pursuant to the divestment of 50% equity interest in the subsidiary, which we have discussed in the previous quarter.

Let's now look at the performance for the cumulative six month period of 2018. During the period, average Brent crude price increased 37% to \$71 per barrel. This pushed up the cost of feedstock and coupled with healthy demand for petrochemical products led to the increase in product prices across the board. Against this improved backdrop, the group's revenue grew by 12% year-on-year to MYR9.7 billion, further supported by higher sales volumes.

EBITDA rose 5% to MYR3.7 billion on higher sales volume as well as improved spreads, but partially offset by unfavorable forex movement. Profit after tax improved 3% to MYR 3.5 billion, in line with higher EBITDA and lower tax expense but partially offset by the impact of foreign exchange loss on shareholders loans this is pursuant to the divestment as mentioned earlier as well as the one-off adjustment relating to under accrual of manpower expenses.

Now the next 2 slides show a bit more granular breakdown of the group performance by segment, Olefins and Derivatives as well as Fertiliser and Methanol. I am going to leave these 2 slides for your consumption 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.

Now let's look at the balance sheet and cash flows on Slides 8 and 9. First, balance sheet on Slide 9, pardon me, on Slide 8. For the 6 month period ended 30 June, 2018, total assets was higher by MYR 2.1 billion, mainly attributable to, number one, higher receivables; number two, cash and cash equivalents from the drawdown of bridge financing undertaken by our joint operation that is Pengerang Petrochemicals Company, this was earlier known to you by PRPC Polymers, the name has changed to Pengerang Petrochemicals Company; number three, consideration received from Aramco for the divestment of 50% equity interest in Pengerang Petrochemicals; and finally, assets increase due to obviously profits generated during the quarter.

Let's now turn to our cash flow on Slide 9, my final slide. Cash generated by operating activities increased from MYR 2.9 billion to MYR 3.3 billion, primarily contributed by higher cash generated from operations combined with higher interest income as well as lower tax expenses. Net cash used in investing activities was lower by MYR 942 million, due to net consideration received on the 50% divestment of stake in Pengerang Petrochemicals.

At the end of the 6-month period, our cash balance increased to MYR 11.4 billion. With this balance, we're in a good position to continue pursuing our current growth projects as well as future opportunities.

That's all I have on the financial performance. Over to Mr. Iskandar for the manufacturing highlights.

Mohamad Iskandar Bakeri, Head of Project Directorate:

Thank you, Pn Rashidah. Good evening, everyone, Iskandar here. Let me share the operational highlight for this quarter. Alhamdulillah our performance for the first half of 2018 was good. Year-to-date 2018 plant utilization for the group remained high at 98%.

Quarter 2 plant utilization dropped to 95%, following maintenance activities during the quarter. In April, we had our first statutory turnaround this year at PDH plant in Gebeng. Alhamdulillah activities were completed within the planned time with no HSE incidences.

Besides the PDH plant, PC Olefins was also due for some maintenance work in May. Our fertilizer and methanol facilities were steady, delivering volume as planned with no major reliability issue. Inshaa Allah our performance is very much in line with our plan, we should be able to deliver the production target of above 10,000 metric tons for the year.

As for Olefins and Derivatives segment, year-to-date plant utilization for O&D segment was at 95%, which was lower compared to the preceding quarter. This is mainly due to several activities conducted at our facilities during the quarter such as statutory TA at PC MTBE PDH plant, which started since April, early April, the turnaround at PC MTBE PDH plant was conducted safely with commendable achievement and shorter execution days. There is no serious safety incidents recorded.

Next was the maintenance activity at PC Olefins. In quarter 2, lower ethylene production recorded, as we had maintenance work at PC Olefins in May. The activities was conducted successfully, and we hope through effective approach, we can sustain our performance this year.

While on Fertiliser and Methanol segment, for F&M year-to-date plant utilization performance was high at 99%, as there were no major shutdown or turnaround activities during the quarter. High urea production was recorded at PC Fertiliser Sabah, which is operating well and contributing a significant volume to the group's total production. PC Methanol Labuan also saw good feedstock supply reliability, resulting in commendable methanol volume for the quarter.

Next, some quick update on our growth projects on aroma complex. In quarter 2, the AROMA projects, the focus was on L-menthol plant start-up, while stabilising the front end facilities. We were glad to see that the Isoprenol and citral plant were at 80% capacity during this stabilization phase, while citronellol plant recorded stable operation at 85% utilization.

We are expecting a smooth start-up for menthol plant, and we should have it come on stream this year as planned.

Next, the highly reactive polyisobutene or HR-PIB project. The plant came onstream in January this year. At the moment, the product validation and qualification by key customers are ongoing. Product lifting is expected in August 2018. A quick recall, this plant will producing 50,000 metric tons per annum of highly reactive polyisobutene, which is used as intermediate product for high performance fuel and lubricant.

For Pengerang Integrated complex Petchem as for petrochemical complex in Pengerang, Johor, mechanical construction activities are progressing well above 83.5% in quarter 2. At the same time, the pre-commissioning activities is progressing ahead of plan.

Operational and maintenance readiness are ongoing and manpower are currently being mobilized and deployed to site to support these activities.

Lastly, in term of management system, the focus remain in ensuring a smooth start-up program, digital application, operation and physical asset management.

In conclusion, rounding up the operational highlights for the second quarter of 2018, we saw a smooth operational quarter, which enabled us to record good volumes from Fertiliser and Methanol business segment. We had our first turnaround activities in PDH plant in Gebeng in April completed within schedule and safely. As we speak, we are currently undergoing TA activities that have been planned for quarter 3, and we are preparing ourselves for quarter 4 activities as well.

We shall remain focused in safeguarding safety and managing our assets and its reliability. And we will continue to focus on operational excellence in executing our plans in order to sustain a year end PU of above 90%, and production level above 10,000 metric tons.

That's all I have for operational highlight. I would like to hand over to Shamsairi for market performance and outlook.

Shamsairi Ibrahim, Head of Commercial:

Thank you En Iskandar. Good evening, everybody. Shamsairi here. Let's focus on olefins and derivatives. In quarter 2 2018, the prices were lower compared to previous quarter as supply was ample coupled with softening demand. And presence of several deep-sea cargoes further dampened the price sentiment.

Moving to quarter 3, we anticipate the ethylene price to be slightly lower than quarter 2 despite stable crude oil outlook. There will be supply recovery as 2 major Japanese crackers are going to increase their operating rate to achieve higher output after solving their internal issues. It is also reported that an Ethylene Vinyl Acetate plant in Taiwan is considering to shut down as a result of low demands. Demand in SEA specifically in Indonesia remains bearish due to slow demand as most are planning for maintenance shutdown as well as increasing of ME term supply. Indonesian buyers are considering lowering their vinyl product monomers, VCM, operating rate in view of weak margins.

Moving on to polymers. Average prices in quarter 2 were lower due to bearish market sentiment for both LDPE and LLDPE. A slowdown in demand was mainly caused by higher inventory. In quarter 3, we anticipate the prices to improve. Short supply is anticipated in SEA region as several plants will undergo turnaround. The same is expected for key producers in Iran, which likely will motivate the price to move upwards.

In view of demand scenario, the restocking activities shall place in near term as converters will plan to manufacture and deliver their goods prior to the National Day holiday in China first week of October.

Moving to MEG. Monoethylene glycol prices decreased in quarter 2, mainly caused by higher inventory in East China, which outpaced demand growth.

Moving forward into quarter 3, prices are projected to be softer as there will be an increase rise in the supply, especially from Southeast Asia and Middle East as most of the major facilities in the region have resumed production.

On demand front, it is projected to remain stable with an uptick in polyester filament yarn application negated by softer demand for both polyester staple fibre and polyester bottle grades. In addition to this, the continuous depreciation in Chinese Yuan China might dampen buying interest of MEG imports into China.

Moving to Aromatics, stable Aromatics prices in quarter 2 compared to quarter 1, mainly attributed by tight supply of PX and weaker demand of benzene in China due to heavy turnaround in their downstream units.

Moving into quarter 3, Aromatics prices are projected to be firm. The prices will increase in view of several unscheduled maintenance in North Asia, which will lead to tight supply. The Indian domestic PTA market will remain steady with the increase in PET fiber fills, which will induce polyester operating rates to be around 85%. While demand from both PTA and PET segment will continue to be healthy as a result from the ongoing bottling season. Meanwhile, on benzene, a new Phenol/Acetone plant in India is expected to start up in August, which could possibly push the price to improve the coming quarter.

Moving to fertilizer segment, we start off with urea. Urea prices was lower in quarter 2 compared to quarter 1 due to poor demand of the end of bottling season , particularly for U.S. and Europe. For quarter 3, urea prices are forecasted to be firm. Supply is anticipated to be tight as one of the plants in the Middle East was shut down permanently starting last June. This will lead to surge of price at the early quarter. However, global urea supply will be ample starting mid quarter 3 onwards post turnaround of several plants.

Healthy demand continue in quarter 3, for preparation of planting season in quarter 4 for South East Asia. This will encourage buyers to restock accordingly.

On ammonia, ammonia prices were lower in quarter 2, mainly due to anticipation of additional capacity from our newest plant in South East Asia. Prices of ammonia in quarter 3 is predicted to be firm or from firm to be stable compared to quarter 2. Demand is projected to be stable following India tender as we achieved higher price offer. This opportunity could support ammonia market to strengthen.

Meanwhile, in U.S. region, there are 2 new urea plants that will be on stream which will consequently lead to a higher ammonia demand in the region.

Moving on to methanol. Prices were firm mainly due to tight supply in SEA and strong domestic demand for traditional base application in Northeast Asia. Looking at quarter 3, methanol prices are projected to continue to be firm. This is in view of short supply position within South Asia and Iran following their plant turnaround. Demand for MTO player in China would improve if an operating rate will increase to about 70% and above. Methanol downstream demand in South Asia is projected to remain stable, particularly for formaldehyde MTBE and acetic acid. That sums up the market highlights for quarter 3.

Back to you, Datuk.

Sazali Bin Hamzah, CEO:

Okay. Thank you, Shamsairi. Ladies and gentlemen, while we saw improvement in quarter 2, 2018, we also saw mixed-performance in some of our key products. We saw some easing in supply for a product like ethylene, polyethylene as well as LDPE. Like other Asian chemical players, PCG is also facing and will continue to face some pressure with the new capacities that have and are still coming onstream. However, we are expecting a stable market in the second half of the year, supported by strong demand in the Asia Pacific region, particularly Asia and China. Despite the strong demand in the region, we expect supply to be ample as such, we remain cautious on how the market will play out.

Despite the market challenges, PCG will continue to sustain our operational performance and try to reach our year-end plant utilization of above 90% as well as we remain focused on our HSE. Despite we are currently in the midst of our heaviest turnaround of the year. This year is among one of the heaviest turnaround years.

It is imperative for PCG during this challenging time to ensure that we have a smooth and uneventful turnaround as well as to ensure that we are not only managing our cost, but also optimization opportunities via operational and commercial excellence. We will also continue to work on our future growth projects as well as focus on improving customer experience through our commercial and innovative excellence initiatives to grow and expand our presence in our key markets here in Southeast Asia, especially.

With that, I will have to end my presentation today, and let's move on to question-and-answer.

Zaida Alia Shaari, Head IR:

Anna, we can proceed to Q&A.

Operator: Your first question comes from Ajay from JPMorgan.

Ajay Mirchandani, J.P. Morgan

Three questions from me. I do apologize, I was in and out on the call. If I could first clarify for third quarter, the maintenance of the 400,000 ethylene cracker, can I confirm how many days that would need to go off-line? And as a result, what is the likely production impact of the ethylene production in 3Q? And have you built up any production. I'm sorry, inventory on that? Question number two, I had was the SAMUR utilization that we've seen in both the second quarter and first half of 2018. And thirdly, and lastly, if you could give us any color in terms of the likely contribution on earnings or EBITDA from rapid start-up into 2019, any color on that will be appreciated.

Sazali Bin Hamzah, CEO:

Okay. For your question number one, just to, again, to confirm your question, basically you are asking the quarter 3 turnaround this year or next year?

Ajay Mirchandani, J.P. Morgan

Talking about third quarter turnaround this year. If I'm not wrong, you were planning the 400,000 cracker, ethylene cracker maintenance in third quarter this year?

Sazali Bin Hamzah, CEO:

Yes. The turnaround has completed, actually. We have re-commissioned back the plant 3 days ago.

Ajay Mirchandani, J.P. Morgan

When did it get re-commissioned back?

Sazali Bin Hamzah, CEO:

On the 14th of August. So the plant is now back, full onstream both ethylene and polyethylene.

Ajay Mirchandani, J.P. Morgan

And when did it start, if I can clarify?

Sazali Bin Hamzah, CEO:

14th of August.

Ajay Mirchandani, J.P. Morgan

When did it start? When did the maintenance start?

Sazali Bin Hamzah, CEO:

Oh, start. 1st July, roughly about 1st July. Yes. So they have product to product. So this is within our target is, so far we are in a good hand. Second one is your question is on SAMUR utilization.

For quarter 2, the question is the utilization. I have to pick up the number. Can you wait for a while? The utilization for SAMUR for quarter 2 is above 95%, actually. So it was run quite well. So the third question, contribution of EBITDA from RAPID for 2019, I must say for this one we will not be able to disclose at this moment, probably later that you have to wait a bit.

Ajay Mirchandani, J.P. Morgan

If I could just understand. I know maybe I'm being a bit rushed. But if I can just clarify, so given the fact that the maintenance started only on the 1st of July and the cracker's back online, why did we see lower production last quarter in the ethylene cracker? I would have thought given 1st July would have been third quarter, any reason there was lower utilization in 2Q?

Sazali Bin Hamzah, CEO:

When you say, it is quarter 2 or quarter 3?

Ajay Mirchandani, J.P. Morgan

So the point I'm making is because the maintenance started on 1st of July and the plant has restarted on the 14th of August, but if I look at the second quarter results that you've announced, the olefins division had only 88% utilization. And if I look at the ethylene production, it was down a little.

Sazali Bin Hamzah, CEO:

I understand that. Basically, we have some pit stop during that quarter 2, actually, for the olefin plant, but that plant will come back onstream. So we have some minor maintenance to do during this period. That's why you see the olefin volume are slightly lower here.

Operator: Your next question comes from Alex from AmBank.

Alex Goh, AmlInvestment Bank

I remember, in the first quarter briefing, you mentioned that the full year,--you're looking at the plant utilization, which is similar to 2017 last year, that is also 91%. Do you still hold to that view, or have you revised that in any way?

Sazali Bin Hamzah, CEO:

Yes. We are still holding that target.

Alex Goh, AmlInvestment Bank

Okay. Since you've already achieved 95% in the first half. For you to hit 91%, that would mean the second half plant utilization would have to drop to about 85%, would that be right?

Sazali Bin Hamzah, CEO:

Yes. Yes. Because we are planning another 2 plant turnaround, which is the mega-methanol plant 2, which is now already shutting down. So another plant that will be down also for statutory turnaround in October, which will happen in October. So these 2 plants will bring down the overall PU close to the target that you had mentioned just now. As of now, we are still on track on keeping that target.

Alex Goh, AmlInvestment Bank

Could you also give us some guidance on your CAPEX for this year and for next year because of that huge turnaround?

Rashidah Binti Alias, CFO:

It's about, last year, Alex, similarly to the guidance that we gave in the past quarter, that has not changed, in actual fact, our utilization is rather spot on. So overall CAPEX will be roughly about 2017.

Alex Goh, AmlInvestment Bank

I see. And my final question is regarding your guidance for effective tax rate. I noticed your effective tax rate in this first half alone is already 12%, effective tax rate, but your second quarter, it is some also only 8%. I'm just wondering whether that effective tax rate is going to drop even further to below 10%?

Rashidah Binti Alias, CFO:

Okay. No, we don't expect it to drop below 10%. Second quarter for the 3 months, was a bit of an exception quarter I had talked about that. If you recall, the guidance, I believe the guidance that we gave in the past is around about ranging between 12% and 15%, depending on the market, ya. So for the 6 months period, the market is quite good so our effective tax rate is right about 12%, and you are also aware because for our entire production, we are operating in 2 tax legislation on the corporate income tax as well as the Labuan GIFT. So that overall, that brings our effective tax rate to about 12% to 15%. However, during the quarter, itself, we do have some deferred tax liability, particularly at the SAMUR plant that we did not recognize because on top of the deferred tax liability, which is arising from the recognition of the capitalization of the PIC, we also have some tax benefit coming from the incentive. So we are then allowed not to recognize the DTL, which then dips the heavy impact of dipping the effective tax rate to roundabout 8.8%, if I'm not mistaken, roughly about 9%. Yes, 8% or 9%, something like that. But that, more or less, I suppose

that is only for quarter 2. But it's safe to say, if you're looking at a stable state effective tax rate, you should be looking at roundabout 12% to 15%. All things considered, I mean, all things equal or rather all things the same, so it's 12% or 15%, yes?

Operator: Your next question comes from Mayank from Morgan Stanley.

Mayank Maheshwari, Morgan Stanley

So first, I think this is an extension of the previous question on tax rate. Can you also kind of give us a bit of guidance in terms of when you look at RAPID coming on stream. How do you think this tax rate could kind of move around because I'm thinking that could also have some tax holidays. So that's the first question.

Rashidah Binti Alias, CFO:

Okay. So once RAPID coming onboard. First and foremost, we are also still running and finalizing the numbers, so we will know better as we inch closer to the operationalization date. But in terms of what we see or in terms of expectation, and we ran the numbers, we don't see that that's a huge impact on the tax. Obviously, there are some tax holidays, but also Pengerang is liquid base stream. So in terms of profit contribution, relatively speaking, that will be lower than the gas base and therefore, the impact on the tax holiday. There will be some impact, but it wouldn't bring it down to below 10%, for example, we still expect it to range roughly between 12% to 15%.

Mayank Maheshwari, Morgan Stanley

Okay. So, including RAPID tax rate, it will still be about 12% to 15%? So it kind of similar tax rate as you're getting right now?

Rashidah Binti Alias, CFO:

Yes, yes. We'll give more color if that changes, we'll definitely give a bit more guidance as we progress. But as the analysis stands today, that's the range that we're looking at.

Mayank Maheshwari, Morgan Stanley

Okay. Okay. And in terms of, like, on the olefins side, specifically, if you look at the mix between different PEs, how do you-how should we kind of think about overall mix between LDPE, HDPE and LLDPE?

Rashidah Binti Alias, CFO:

Mix between LD, HD currently.

Sazali Bin Hamzah, CEO:

LDPE,HDPE is about 50-50, roughly.

Mayank Maheshwari, Morgan Stanley

Okay. Okay. And then the final question was related to the growth projects, both on like you talked about in terms of any of kind of thinking about commissioning and the AROMA plant. And then kind of raising the utilization rate. Should we kind of think about any profitability from this segment coming through across in the second half of this year, or it's mostly a 2019 kind of an event?

Sazali Bin Hamzah, CEO:

I will say that for me, 2019 will be stabilized because the specialty stage so 2 factors. One is the plant itself. For AROMA, for example, it takes quite a long time to establish one product to the other product. Secondly, also it requires certification by our customers. So we assumed that 2019 will be much more stable and much more representative in terms of value created by this project.

Operator: Your next question comes from [Khairul] from KWAP.

Khairul Hakimi, KWAP

My first question is on the effective tax rate as well. Do you see your guidance on 12% to 15% can be extended to 2019? And my second question is on your plant utilization rate for 2019. As we understand that this year is the year where there's a lot of heavy turnaround, how about next year?

Rashidah Binti Alias, CFO:

So on the effective tax rates, yes, we do foresee that even in 2019, that's the range of effective tax rate that we should be looking at, 12% to 15%, that depending on market, it will range between that.

Sazali Bin Hamzah, CEO:

For utilization, for 2019, we are still preparing for our budget, but we expect basically, about the same of 2018 because 2019 will be our last heavy turnaround period. As mentioned, the past 3 years that heavy turnaround, 2017, 2018 and '19. So we expect the same utilization that we target for 2019. Roughly, yes.

Operator: Your next question comes from Oscar from Citigroup.

Oscar Yee, Citigroup

I just had one question. Could do you provide any update in terms of your RAPID progress in terms of the exact timing for the mechanical completion for your PE, MEG and PP plant? and also, roughly, how long it will take to reach the commercial operating stage?

Sazali Bin Hamzah, CEO:

Okay. For RAPID, as of now, I have the latest that is as of July, it's about 85% complete, ya. We are still maintaining our commercial operation for refinery and cracker in the first half of 2019, and for petrochemical will be on the second half of 2019. So that is our current target, despite that we have some opportunity to start earlier. The mechanical condition maybe will be completed by end of this year, actually.

Oscar Yee, Citigroup

All right. Could I just double check, in terms of the number of years of depreciation, have you decided how many years you plan to use for the, for your expansion?

Rashidah Binti Alias, CFO:

Yes. For, obviously, we use that for our various economic runs and everything. So that will be a typical plant depreciation rate that will range between 20 to 25, depending on the component, roughly about that.

Operator: Your next question comes from Abhishek from Nomura.

Abhishek Nigam, Nomura Securities

Yes. I have 2 questions. One, if I look at your minority interest in the profit loss that seems to have gone down slightly in this quarter. Used to be around 4%, it's only about 1% this time. And second I see you are dividend pay out for the first half, it's up slightly on a YoY basis. So just trying to understand what is your thinking on that.

Rashidah Binti Alias, CFO:

Abhishek, so in terms of the minority on noncontrolling interest for the quarter, we spoke about the acquisition of the remaining shares in 2 of our entities, which is PC olefins and also PC derivatives. LDPE, sorry, PC LDPE. So we've acquired and we've completed that in quarter 1, you saw that impact in cash flows and in the financial. So that brings down the NCI for this quarter, for quarter 2 onwards. On your second question just now, I'm so sorry, could you please repeat, Abhishek?

Abhishek Nigam, Nomura Securities

Yes. So basically, what I was saying was there is the slight increase in your payout ratio, if I look at this year, it's around 47% of profits and last year was, I think, 43%. So how do we think in terms of the final dividend then, just what is the thinking on that?

Rashidah Binti Alias, CFO:

Okay. We always I mean, we for final, we'll the adjustment up to the 50% payout ratio. Now for interim, we always also try to balance it, knowing that second quarter or rather, second half of the year, we will have some heavy turnaround, so we don't declare normally, we don't declare up to 50%. But we still try and inch closer to that 50%, but the problem is that the \$0.01 difference can swing between that 44% to 47%. So it is really a debate between \$0.13 and \$0.14, but we thought \$0.14 should be fairly comfortable, close enough to the 50% payout so that the adjustment at the final year end is not too huge an adjustment. It is still guided essentially, I suppose long and short of it, it is still guided by our 50% payout ratio.

Abhishek Nigam, Nomura Securities

And just to be clear, so the noncontrolling interest going forward, we should assume as 1% odds?

Rashidah Binti Alias, CFO:

Yes. Should be around about this level.

Operator: Your next question comes from Azim Faris from BIMB.

Azam Faris, BIMB Securities

I have one question. Could you explain how the increasing protectionism and Trade War threat, could affect demand for your products, please?

Shamsairi Ibrahim, Head of Commercial:

Definitely, there will be some impact to the business. Of course, we know very well, that China is the biggest importer to U.S. Nevertheless, if you look at our portfolio of customers, we are heavy in South Asia, almost 70% of products landed in South Asia. So in term of impact, still a variable.

Sazali Bin Hamzah, CEO:

I think, in short, we have not seen any impact yet, but we still continue to monitor. Yes, there is some threat, but we have not seen yet whether there's any if there is maybe later on, we will share with you.

Operator: Your next question comes from Yong Por from BNP Paribas.

Yong Liang Por, BNP Paribas

Two quick questions. First thing is just follow up on the trade war. We understand that China will probably be buying less PE from the U.S. going forward, so it seems likely they will have to buy more from the Asia region. So I just want to ask you whether you have seen any more order pickup from China from this? And the second question is with most of your major CAPEX finishing soon, can you give us guidance on CapEx in 2019 and 2020?

Sazali Bin Hamzah, CEO:

Okay. So question number one. Basically, yes, there is opportunity, you're right that with less buying from U.S. it may turn up to our region, but the impact is we have not seen yet but we are ready when this opportunity is available. Because as you know, we have 2 marketing office in Guangzhou and Shanghai, and we are really have a pulse in the ground. So every opportunity that we have we will detail it. Hopefully, it happened, which is good for us.

Rashidah Binti Alias, CFO:

Yes. In terms of the CAPEX for 2019, what we budgeted, obviously, are the Sanctions CAPEX. So 2019 will be lesser, roughly about 50% to 60% of 2018 because our PIC project, the polymers, Glycol project in Johor will be tapering down, and we would also have the isononanol project. So that's the 2 sanctioned project that we will continue to need to fund in 2019. 2020 is even lower. So those are the sanctioned budget. If and when we have other growth projects that we are ready to announce, then we will update our CAPEX guidance accordingly.

Yong Liang Por, BNP Paribas

So really, just a very quick follow-up question on that, and I think you guys probably have the biggest net cash balance sheet in Malaysia and CAPEX is coming to an end, and you will be reaping even more earnings going forward. So you know I'm going to ask and the country, the situation is the country probably wouldn't mind having a bit more money as well so it stands to reason could be yes?

Sazali Bin Hamzah, CEO:

I think that Pn Rashidah had said that actually, at this moment, when we have initiated our growth strategy. As you read back 2 years ago, actually, we are now evaluating further downstream growth strategy because bear in mind the cash that we have, we are anticipating further challenge and move forward. So we are now selecting the best venture that we want to come in. So we will announce as soon as we have finalized our option and we have to reserve this cash because if we look at that our appetite will be more than what, the cash that we have. So there is part of the business strategy and for us, to make sure that our cash is really healthy, to find our growth project so that we can sustain our business for the next 15 to 20 years.

Operator: The next question comes from Viyati from UBS.

Viyati, UBS

Unfortunately, I will take it back to the effective tax rate. I see the following quarter, the decline in tax is one of the biggest component, which has contributed to the income, which income being a lot. I heard that you mentioned you have taken advantage of some tax benefits and there was some mention of tax eferred tax liability, also.

Rashidah Binti Alias, CFO:

I'm so sorry Viyati, we can't quite hear you. Could you like perhaps speak a bit louder or come closer to that mic, we really can't hear you.

Viyati, UBS

Yes, apologies.

Sazali Bin Hamzah, CEO:

Okay, better, better.

Rashidah Binti Alias, CFO:

I'm sorry, you have to repeat the question, please?

Viyati, UBS

No problem. So basically, this is taking back to the effective tax rate, which is the bigger component quarter-on-quarter to generate, to contribute to net income. I heard you mentioned that you have taken advantages of tax benefits, and you also mentioned something about the deferred tax liability. I just wanted to understand, how will these tax benefits for the] identification of tax liability, whilst different from Q1 so why was it so low in Q2 compared to Q1 effective tax rate, were there any new benefits available in Q2?

Rashidah Binti Alias, CFO:

Oh, okay. No new benefits, but it depends on the tax recognition for the quarter. In quarter 1 as quarter 2. It's just that the impact is a bit more pronounced in quarter 2. This is still relating back to SAMUR. Yes, as I explained earlier, we do have differed tax liability component within SAMUR that's arising from capitalization of the project but at the same time, we also have tax benefit coming from the incentive. I understand where you're coming from because quarter 1, we have also started operationalization of SAMUR, it's just that the quantum was a bit different between the 2 quarters and therefore, the impact was a bit more pronounced.

Viyati, UBS

Okay. So I believe for the full year basis, you have mentioned a target of some 12% to 15%, right, for 2018 and '19?

Rashidah Binti Alias, CFO:

I beg your pardon, come again?

Viyati, UBS

For the effective tax rate guidance for 2019 is 12% to 15%, I believe, is that correct?

Rashidah Binti Alias, CFO:

Yes. Yes. Yes. It's quite safe to be looking at that number. Based on our analysis, that's also the one that we are looking at. 12% to 15%, yes.

Operator: Your next question is a follow-up question from Alex from AmBank.

Alex Goh, AmInvestment Bank

I just want to ask regarding the RAPID project, the Pengerang petrochemical. Because the project that you've sold 50% stake to Aramco, but I'm looking at your balance sheet, the joint ventures and associates, the number didn't jump up as of 30th of June. I would expect that, that the number would have gone up. I'm just wondering, how would you recognize the accounting entry for this sale as well as when the profit start to come in from RAPID, is it going to be recognized as Associate? Or would it be accounted as part of your on a consolidated basis?

Rashidah Binti Alias, CFO:

Right. Yes, thank you for the question. So for PPC or rather for that divestment we are accounting it as joint operation, which means that we are consolidating line-by-line, 50% line-by-line. So that's why it's not recognized as JV and Associates, investment in JV and Associates, but it reflects in each line and that is also why you would notice that let's say, property plant equipment, right? That one1 dropped because then, we derecognise 50% of the PIP in turnaround petrochemical. And likewise, for the P&L, we'll be recognizing revenue cost so on and so forth on a 50-50 basis. So we'll consolidate the 50%, line-by-line. It's not in equity, it wouldn't be equity accounted, it's a line-by-line proportionate consolidation.

Alex Goh, AmInvestment Bank

So that it means on the revenue side, you recognize 50% when {the operation start up?

Rashidah Binti Alias, CFO:

Yes.

Operator: There are currently no more questions in queue. As there are no further questions. I'm sorry about that, as there are no more questions, I will hand the call back to our speakers today. Please go ahead.

Zaida Alia Shaari, Head IR:

Okay. Thank you, Anna. Thank you, everyone, for joining the call. If you have any more follow-up questions, please just email us. Thank you, and good evening.

Rashidah Binti Alias, CFO:

Thank you very much.

Sazali Bin Hamzah, CEO:

Thank you.

Operator: Thank you. Ladies and gentlemen, that does conclude our conference for today. Thank you, all, for your participation. You may, all, now disconnect.