

EVENT	:	2Q 2019 PETRONAS CHEMICALS GROUP BERHAD EARNINGS CALL
DATE	:	13 AUGUST 2019, 1800HRS
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Operator: Ladies and gentlemen, thank you for standing by, and welcome to the PETRONAS Chemical Group Analyst Briefing for 2Q 2019.

I would now like to hand the conference over to your first speaker today, Ms. Alia. Thank you. Please go ahead, ma'am.

Ms Zaida Alia Shaari, Head IR:

Thank you, Ajay. Good evening, ladies and gentlemen. Thank you very much for joining our briefing for the financial results for the second quarter 2019 today. You should have by now have accessed the presentation materials through the link provided in the invitation.

Once again, we are pleased to have with us today our senior management, led by Datuk Sazali, our Chief Executive Officer; Madam Rashidah, our Chief Financial Officer; Mr. Akbar, Head of Strategic Planning & Ventures; Mr. Mahadzir, Head of Manufacturing; and Mr. Shamsairi, Head of Commercial.

Without further ado, I shall now hand you over to Datuk Sazali.

Datuk Sazali Bin Hamzah, CEO:

Thank you, Alia. Ladies and gentlemen, as we are all acutely aware, global GDP decelerated in the first 6 months of this year compared to the same period last year. Industrial and manufacturing sectors are slowing down, as is international trade in reaction to the ongoing trade tension between U.S. and China. Global PMI eased to almost breakeven level amidst trade slowed down, as U.S. PMI and U.K. expanded at a lower rate, while China remained contracted, given the ongoing trade war. Year-on-year, the Brent crude declined by 7% to average of about USD 66 per barrel compared to USD 71 per barrel in the same period last year. The weaker macroeconomic environment brought on by prolonged U.S. and China conflict has been a bearish factor for oil demand. Further dampening sentiments, is the increase in supply, as U.S. oil production recorded another year of strong growth, offsetting impact of lower-lower production from OPEC's countries.

With the continued macroeconomic uncertainty and slowing manufacturing sector, the petrochemical industry continues to be under pressure. Average product prices have declined, with lower feedstock price, surplus volume and subdued demand from the slower manufacturing sector.

Ladies and gentlemen, as most of us expected, market condition has not been in favour so far this year. At PCG, we are focusing on our operation to manage our facilities well, run our plant at optimum level, of course, with safety as a priority and even more so during this tough times, in order to keep our cost competitive.

And in doing so, I'm happy to record a 99% group plant utilization rate for the first half of the year, a slight improvement from 98% that we recorded last year. This was achieved through lower downtime and higher ethylene feedstock received, which resulted in higher production volumes. However, sales volume was lower as we're building up some inventory in anticipating of the statutory turnaround activities in the third quarter, i.e., our second cracker. As a result of the lower sales volume, coupled with the lower product prices, revenue for the period declined 13% year-on-year to MYR 8.5 billion. EBITDA was lower at MYR 2.8 billion on thinner spreads and higher maintenance costs as part of heavy maintenance years. And profit after tax followed declined 23% to MYR 1.9 billion. Nonetheless, EBITDA margin remained commendable at 33%.

For further detail of the financial performance, I will hand over to Puan Rashidah to talk about it. Puan 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 no.5, and this is comparing second quarter 2019 against second quarter of 2018.

Now in the second quarter of 2019, global GDP continued to decelerate, as highlighted earlier, driven by slower growth mainly in China and the U.K. Global PMI continued to weaken, and entered contraction territory at 49.9 as all major economies are facing slowdown in their manufacturing sector and trade tension weakens demand. The benchmark Brent price averaged lower in second quarter this year compared to 2018. As a consequence, average product prices for the group decreased from the corresponding quarter with declining crude oil prices and softer market demand.

In second quarter 2019, PCG group recorded higher plant utilization of 100%, which is an improvement from 95% in the corresponding quarter mainly due to better plant performance as well as higher feedstock supply. Correspondingly, production and sales volume increased.

Revenue was lower by 8% at MYR 4.3 billion largely due to lower product prices, partially offset by higher sales volumes and positive foreign exchange impact. EBITDA decreased 16% to MYR 1.5 billion mainly due to lower spreads and relatively higher maintenance cost from the statutory turnaround activities. Profit after tax declined 23% to MYR 1.1 billion following lower EBITDA and higher tax expense.

Next, we move onto the group financial performance against the preceding quarter that is first quarter 2019. Now global GDP slid from 2.8% to 2.7% quarter-on-quarter, led by deceleration in international trade and manufacturing. Global PMI downshifted into a contraction due to ongoing trade tension coupled with weak demand. However, the Brent average edged up to \$69 per barrel, initially supported by the U.S. continued sanctions on Iran followed by continued OPEC production

cut, average supply disruption as well as geopolitical tension in the Middle East. Despite the higher crude oil prices, average product prices were lower due to oversupply in the market as well as weak demand. Plant utilization for us improved from 95% to 100%, primarily due to lower level of maintenance activities undertaken in the current quarter. Production and sales volumes increased with better plant utilization.

Quarter-on-quarter, revenue increased 5% to MYR 4.3 billion on the back of higher sales volume and the weakening of ringgit Malaysia against the U.S. dollar. EBITDA was higher by 21% at MYR 1.5 billion with higher sales volume, positive foreign exchange impact and partially negated by relatively higher operating expenditures.

Profit after tax increased 37% to MYR 1.1 billion contributed by unrealized foreign exchange gain arising from the shareholders' loans.

Let's now look at the performance for the 6-month period of 2019. Now year-on-year, the economic slowdown due to U.S.-China trade tension, which have contributed to a significantly weakened global expansion. Global PMI eased to the weakest level since 2012 amid an increasingly broad-based slowdown. Brent price decreased to \$66 per barrel from \$71 per barrel last year, impacted by a generally lower demand amid a weaker macroeconomic environment. Despite the market challenges, the group recorded higher plant utilization of 99% compared to 98% in the corresponding period.

Production volume increased following better plant performance. However, sales volume was lower mainly due to product drawdown from inventory in the corresponding period in 2018. Revenue was lower by 13% at MYR 8.5 billion, largely due to lower product prices and lower sales volume, partially offset by positive foreign exchange impact. EBITDA was low at 24% to MYR 2.8 billion, in line with low revenue and higher operating expenditure relating to maintenance activities.

Profit after tax also decreased 27% to MYR 1.9 billion following lower EBITDA, partially offset by lower tax expense. In addition, there was an impact of foreign exchange loss on the company's shareholder loan pursuant to the divestment of 50% equity interest in a subsidiary in the corresponding period.

Now the next section deals with the group performance by segment, will leave this for your consumption, let's move onto the update on balance sheet and cash flows on Slide 8 and 9.

A look at our balance sheet on Slide 8. For the 6 months period ended 30 at June 2019, total assets was higher by MYR 507 billion to stand at MYR 37.9 billion, primarily due to 2 reasons: number one, higher property plant equipment in relation to capital investment relating to our petrochemical project in Pengerang Integrated Complex in Johor; and number two, higher cash generated from operations and interest income received, which is roughly about MYR 6.9 million.

Let's now turn to our cash flow on Slide 9. Cash generated by operating activities was lower by 12%, which is primarily contributed by lower profit generated and changes in working capital during the period. Net cash used in investing activities was higher at MYR 954 million. In the corresponding period, you would recall that we received some consideration from our joint venture partner relating to divestment of 50% equity interest in Pengerang Petrochemical Company. Nonetheless, at the end of 6 months period, our cash balance increased to approximately MYR 12.8 billion. This puts us in a strong position to continue pursuing our current growth projects as well as future growth and diversification opportunities.

That is all on the financial performance. Over to Mahadzir for the manufacturing highlights.

En. Mahadzir Rani, Head of Manufacturing:

Thank you, Rashidah. Good afternoon, everyone. Mahadzir here. Please refer to Slide 10. Let me share the operational highlight for the quarter.

Our operation in quarter 2 was commendable, I think it's the highest or the best quarter recorded, following high utilization in both Olefins and Derivatives and Fertiliser and Methanol segments due to high production volume in line with good plant reliability. This has resulted in higher quarterly production of 2.9 million metric tonne for the group as compared to quarter 1 production of 2.6 million metric tonne. I'm also happy to report that we have managed to complete the turnaround and shutdown activities at PC Aromatics and PC MTBE on time and without any safety issues. As a result of the earlier mentioned factors and our commitment to operational excellent practices, we successfully achieved group plant utilization of above 100% for the quarter.

Now we move to a Slide no.11 for segmental operational performance. For Olefins and Derivatives, quarter 2 of 2019 plant utilization of the O&D segment was above 95% with minimum maintenance activities and stable supply of ethane feedstock. Our Aromatics and MTBE plant, as mentioned earlier, safely completed the TA and shutdown activities in April and May 2019, respectively, timely and without any incidences. Ethylene production for the quarter was stable at 270,000 metric tonnes comparable to quarter 1 2019 with both of our ethylene crackers were operating well. With strong focus through integrated planning, we were able to sustain good performance in O&D segment. We will continue to coordinate and plan better for stable feedstock supply in order to maximize the group production.

Now for segmental operational performance for Fertiliser and Methanol, Slide 12. For F&M, plant utilization performance was above 100%. We have seen sustainable performance in our methanol plant, which resulted in improved utilization following better plant and feedstock reliability. All urea manufacturing sites contributed an additional urea volume of 36,000 metric tonne for the quarter. There was no major shutdown activities for all urea plants during the quarter. Hence, the segment achieved the highest urea volume of 693,000 metric tonne for the quarter.

For project updates, refer to Slide 13. For PIC-Petchem, as for further updates on PIC-Petchem, year-to-date, June 2019, overall progress of PIC-Petchem was at 98.8%. 19.5 million safe man-hours were clocked up for the Petchem since project commissioning. PIC launched its first delivery of polymer product for the domestic market, which follows after PIC first international product shipment of heavy glycols and propylene on 10 of April 2019. Our key focus during the next quarter is to deliver our plan safely. In many events, we have concluded the activities as planned, and we shall remain focused in current safety and managing our assets and its reliability.

For aroma, update on the aroma Complex. First, statutory turnaround completed safely in May 2019. Menthol plant progressing as planned after completing maintenance activity with isoprenol production stabilizing at 80% capacity.

Now I'm moving to conclude the quarter's performance. We sustained best-in-class plant utilization performance at above 100%. We have maintained stable operation in Olefin and Derivatives segment and of all our Fertiliser and Methanol facilities. We successfully and safely completed maintenance activity at Aromatics and MTBE plant. PIC-Petchem recorded another successful milestone for first quarter delivery via a shipment, and this is set to support the delivery of PIC's projected production of petrochemical products once the contract is fully operational.

Moving forward, third quarter of 2019 will be heavy with statutory turnaround and shutdown activities for the group. Our commitments remain to deliver the shutdown activities safely.

That's all that I have for the operational highlights. I would like to hand over to Mr. Shamsairi for the market performance and outlook.

En. Shamsairi Ibrahim, Head of Commercial:

Thank you, Mahadzir. We are on Page 15 now. Good evening. And let's proceed on the Olefins and Derivatives. We touch on the ethylene first. Before that, in general, market remains soft as crude oil price stable and uncertainties of U.S.-China trade war.

In quarter 2, ethylene prices were lower than quarter 1, following lower demand from downstream plants due to maintenance. As per our forecast, ethylene price for the next 3 months is anticipated to be stable due to heavy turnaround from August to September, supported by stable crude oil outlook. Ethylene supply is expected to be tight in August, especially in SEA and North Asia due to crackers turnaround. While in Taiwan, there will be higher utilization at integrated downstream plant. The crude oil prices, as anticipated, as mentioned just now, to be stable at the current level.

Moving onto polymers. Average prices in quarter 2 were higher, mainly contributed by increase in demand during the festive season. Polymer prices are expected to be soft in the next 3 months as supply is sufficient, while demand is weak due to U.S.-China trade tension. Several plant turnarounds are scheduled in SEA. However, supply loss is mitigated by import cargoes from Middle East and U.S. Demand is weak following the recent development. The U.S. has announced an extra 10% tariff on all Chinese imports starting September 2019, further pressuring the market.

Next, for MEG. MEG prices continue to soften in quarter 2 due to significantly high inventory level in China. Market sentiment was also affected by the possible scale down of economic stimulus by Chinese government, which might further reduce production rate. MEG price is to stabilize in the next 3 months supported by decreased supply and stable polyester operating rates. Limited MEG supply is expected in August due to scheduled turnaround in North East Asia and Southeast Asia. China polyester operating rates are expected to maintain at 80% level. MEG prices are expected to be supported by stable feedstock price. However, price gains will be limited following an announcement by the U.S. on additional tariff.

On paraxylene, paraxylene prices in quarter 2 are stable compared to the preceding quarter mainly due to stable demand from PTA and PET. U.S. Gas price is forecasted to be stable with balanced supply and demand. Supply is expected to be stable with new production coming on-stream in SEA and China with potential excess of 2.5 million tonne per annum, while several PX plant are scheduled for turnaround in quarter 3. Demand is supported by PTA plant restarts and a new capacity.

Moving forward on Fertiliser and Methanol. Starting with urea. Quarter 2 prices were higher in view of 700,000 tender announced by Metals and Minerals Trading Corporation of India. Supply for the tender mostly came from Middle East, causing Middle East to have less volume with less supply in the market. Urea prices are expected to be stable for the next 3 months in view of the recent tender by the same company on the 2nd July awarding 1.6 million tonne for August and September loading with the possibility of shipments to be delayed. Major supply for the tender will be coming from China. However, it's reported that China is currently having inventory issues and the volume is expected to not be delivered within the deadline.

This forced traders to search and procure from other sources at loss to cover the tender. However, in the other markets, there's lack of demand, especially in Thailand due to insufficient rainfall reported recently.

Moving to ammonia. Prices for ammonia in quarter 2 were soft amidst surplus supply and weak demand. All plants were running well, including the new SEA plant. Ammonia prices for the next 3 months are expected to be stable as supply and demand is mostly balanced in most major market. The new plants in Middle East and South Asia are undergoing turnaround maintenance, which will affect supply in Asia. However, there is less spot opportunity as most of the demand, especially in Asia Pacific, are fulfilled under the term contracts. There is low demand for other applications such as caprolactam and acrylonitrile.

Lastly, on methanol. Prices strengthened in quarter 2 on the back of stable supply, further supported by stable demand coming mainly from biodiesel and formaldehyde. Methanol prices are forecasted to be lower in the next 3 months. Sufficient supply with most SEA and Middle East producers running at optimum level while others are at lower rate post turnaround in quarter 2. However, demand is expected to be lackluster except for Biodiesel industry in Indonesia, Malaysia and Thailand. In China, high coastal inventory is still persistent due to ample supply from Iranian producers.

This is my update for the market. I will hand over the session to Datuk. Thank you.

Datuk Sazali Bin Hamzah, CEO:

Okay. Thank you, Mr. Shamsairi. Ladies and gentlemen, you have heard from Mr. Shamsairi just now that market is expected to stabilize in quarter 2. The prolonged U.S.-China trade tension is taking a toll on the global economy and subsequently worst uncertainty on the market.

In the immediate horizon, the economic environment continues to be challenging. What this mean for PCG is that it is now even more important that we uphold our focus for 2019 with health and safety environment, HSE matters, as the foundation of our operation. We will continue to optimize production, manage our costs and ensure timely project delivery of our petrochemical project in Pengerang, which, as Mahadzir mentioned just now, almost complete by end of July. And the commercial excellence strategy will continue to drive our team towards achieving the best value for our product to ensure a sustainable return. Even during this uncertainty time, our home market, South Asia, is still a stable region and should still see growth within this year. We see pockets of opportunity during this period as well.

That's all that I have now, and let us proceed with Q&A.

Operator: The first question comes from the line of Alex from AmBank.

Alex Goh, AmBank

I have a few questions. The first, I was wondering, could you give us the average product price drop from first quarter to second quarter, for the Olefin as well as Fertiliser and Methanol division, quarter-on-quarter? And it would be great if you could give us even on a year-over-year with 1 year industry impact on the overall revenue. The second question..

Datuk Sazali Bin Hamzah, CEO:

Yes. Olefin products?

Alex Goh, AmBank

Yes. You've mentioned in the slide that the sales volume was down 5%, but your plant utilization were not over 100%. So that would mean your production volume was higher than the first quarter, but yet I'm looking at your balance sheet, your inventories and your debt, actually went down instead. So there's a bit of disconnect here. I'm just wondering what happened. Was it because of the price change even though your volume was still higher? So that's my second question.

And my third question is regarding your turnaround activity. What would be your expected plant utilization in the third quarter and your fourth quarter? And could you give us a bit of run to again what are plants that are going to go through the maintenance activities during these 2 quarters, upcoming 2 quarters, sir? And I would like to know, you've managed to register over 100% utilization at your O&D has reached 107% plant utilization. I'm just wondering how long can you sustain this kind of levels that are above 100%? Is it one month possibly or before you revert back to normal? And how is it possible you can go above this 100%?

My fourth question here is, I'm just looking at your second quarter against your first quarter revenue. Your first quarter revenue actually increased by MYR 207 million. But I'm looking at your EBITDA and your pretax, both EBITDA and pretax went up by MYR 313 million on absolute level. So that's actually your profit actually went up higher in terms of absolute value than your revenue. I'm just wondering how is that possible? Was there some cost allocation within the second quarter that's been deferred to the upcoming quarter?

And my final question is regarding the trade war impact. There are some diversions of volumes going either from Vietnam or going up to China. Could you give us a bit of color, how is that impacting your markets that PETRONAS Chemicals supply directly to?

Datuk Sazali Bin Hamzah, CEO:

Okay. Thank you, Alex. I answer first few question while my team is preparing. I go to question no 2 first, which is sales of, when you say that despite of our production is higher, I will say it's lower. That is our inventory seemed so low. Inventory, yes, it is about the price impact. But in terms of why sales is low, basically, we also keep some of the inventory in our tank to prepare for our second cracker shutdown. So this is the ethylene price is quite volatile, that's why in inventory it looks low. I think that's the reason.

And then the question no 3, turnaround activities. So you are asking what our look-forward utilization is. We are expected that we should be able to maintain above 90% utilization for overall year by end of this year. So our volume will be about comparatively the same as last year, if you would like to compare.

And then the next one is what plant that we're going to shutdown in quarter 3 and quarter 4. Mainly it's our second cracker, which involve our olefin plant, our derivative plant, our LDPE plant and our ammonia plant. And that also include our joint venture with BPPA. During the time, they also shutdown. So this is the last part that we are going through it, I think mid of this month. For your information, our SAMUR plant, we have finished the mechanical turnaround. We are now in starting mode. We have produced our ammonia and our urea now is in the process of starting up. We are as per what our plant for turnaround in SAMUR. So we hope for olefin also we would be able to meet the same target.

And then you also asked question No 4, basically utilization, why on the olefin can go above 100% and whether it is sustainable. Capacity-wise, plant will be able to run a little above 110%, but it is limited by the feedstock. The feedstock is coming from the offshore. It's depending on ethane content. So what we do is, as much as possible during this period also, we try to optimize our ethane content further upstream when we extract our gas. So by doing that, we will be able to get additional ethane. And because of that, we will be able to run olefin plant, first cracker and second cracker, total about 100%. However, whether it is sustainable or not sustainable, it's difficult to say because it is all back to our upstream ability to optimize the component. As part of budget, we target, of course, about 100%. But when we see opportunity to stream it up more, then we will push more. That's how we work. Then you also, item 5. Okay, are you for item no 1?

Pn.Rashidah Binti Alias, CFO:

Yes. Item 1. I'll go back to your first question. You're asking about the average product prices from quarter 1 to quarter 2 this year. So for Olefins Derivatives, and I'm talking about overall. Yes, Olefins Derivatives. Quarter 2 prices on average is about 5% lower compared to quarter 1. That's for O&D. But for the year-to-date, that is about 18% lower for year-to-date. That's on the average price. And for Fertilizers Methanol, actually the price is around about the same, quarter 1 to quarter 2, slightly higher, less than 1% on the average basis. For the 6 months, that's lower by about 8%. So that's the average product prices.

Datuk Sazali Bin Hamzah, CEO:

You want to take this one. First quarter, second quarter revenue and EBITDA.

Pn.Rashidah Binti Alias, CFO:

Okay. So for quarter 1 to quarter 2. In quarter 1, we have some expenses. I think we have also included in our announcement before. So we have some manpower-related expenses typically in quarter 1. So we don't have that in quarter 2. For example like performance bonuses and things that's usually paid in quarter 1. So that's why the increase in EBITDA.

Datuk Sazali Bin Hamzah, CEO:

Yes, EBITDA. More than the revenue.

Pn.Rashidah Binti Alias, CFO:

Yes, it's more than the revenue increase. Typically, we will have that in quarter 1. Yes.

Alex Goh, AmBank

Can you quantify how much that is?

Pn.Rashidah Binti Alias, CFO:

Okay. I will need to pull up quarter 1 so that we're not inconsistent in terms of answer. Give me a few minutes, then I'll come back to you. I'll just pull up the quarter 1 announcement.

En.Shamsairi Ibrahim, Head of Commercial:

While you're looking for that, just like response to you on trade war, Alex. Trade war somehow, to us, is creating a business opportunity. As you're aware that year in, year out, we have about 50% of our volumes landed in China. With this, we are moving a bit more to China, with better price.

Alex Goh, AmBank

This means you see the trade war as more of a positive impact to PETRONAS Chemicals sales volumes? Am I right?

En.Shamsairi Ibrahim, Head of Commercial:

In terms of volume, yes, but not on the price. The whole market is suffering.

Datuk Sazali Bin Hamzah, CEO:

Put it this way. Overall, it's still depressed because the trade war because the volume, you can see that China pick up a bit. Actually, the industry's end-user is slowing down, so we see the impact on the price. But in term of volume, we still can push the volume, but the price is not on us. However, there is still some pocket of opportunity where we can sell our products better margin as compared before the trade war. But if you look at the overall, it is more negative than positive. I think I put it generally like that. On your question which is, how many percent in terms of comparing the first quarter, second quarter revenue and EBITDA. I think we'll come back to you later, Alex, when we are ready. So let's allow for the second question to be pulled. We'll come back to you. The second question?

Operator: The next question comes from the line of Ahmad from Nomura.

Ahmad Maghfur, Nomura

Just 2 questions. On your inventory build-up, right, how much do you think you can cover ahead of the plant turnaround? That's one. And then on the second question with regards to Aramco's recent deal with Reliance, how should we look at it from a PETRONAS Chemical perspective? Those 2 are just my questions.

Datuk Sazali Bin Hamzah, CEO:

Let me answer question no 2 first, because question no 1, I think, we need to check the number to make it consistent. With this, on Aramco's recent deal with Reliance, we actually know in this some time ago, and finally they start the deal. If you see India, Reliance market mainly concentrate in India market. So as far as Petchem business, we don't see much impact because India is self-sufficient. And most of the chemical product that's produced by Reliance is served to local market. And our market in Southeast Asia and Asian countries, we don't see much impact to us. I think that's what we believe this latest development.

Pn.Rashidah Binti Alias, CFO:

I think before Mahadzir speak through that one, just in general, when it comes to inventory buildup for turnaround purposes, obviously, these are things that we can take into account to minimize the impact of turnaround. So we have both storage capacity at both sites which is the feedstock, to a certain extent, and also the finished product.

En.Mahadzir Rani, Head of Manufacturing:

I think, normally, the storage capacity can only last for 0.5 month to 1 month. That's the general.

Ahmad Maghfur, Nomura

That's assuming all the storage are fully utilized, is it?

Datuk Sazali Bin Hamzah, CEO:

Yes.

Ahmad Maghfur, Nomura

Okay. Sorry, was that 1.5 month or 1 month?

Datuk Sazali Bin Hamzah, CEO:

Depending on capacity, I think if we run 100%, it will be 0.5 month. But if we run 50%, 50%, it can last for 1 month.

Ahmad Maghfur, Nomura

Okay. All right. Okay. So you reckon that with the inventory buildup, you can probably mitigate half of the days lost, I mean, half of the days losses for the plant turnaround? Is that suffice to say or less than that?

En.Mahadzir Rani, Head of Manufacturing:

Depending on the turnaround duration. Some plant have a specific turnaround duration, so it varies from plant to plant.

Ahmad Maghfur, Nomura

Okay. Which plant, particular plant, has the highest turnaround duration at the moment for the third quarter?

En.Mahadzir Rani, Head of Manufacturing:

I think we mentioned, I think the longest duration is basically for our second cracker.

Datuk Sazali Bin Hamzah, CEO:

The olefin plant, yes, the gas cracker plant is the longest of both.

En.Mahadzir Rani, Head of Manufacturing:

About 50.

Pn.Rashidah Binti Alias, CFO:

So before the next question, we can just revert back on Alex's question just now. In terms of that additional expenses that we incurred in quarter 1, that's less than MYR 100 million.

Operator: Our next question comes from the line of Oscar from Citigroup.

Oscar Yee, Citigroup

First question is could you provide us some details about what is the current utilization or the progress for the naphtha cracker? And also, has your refinery, did you already restarted despite after

the fire in the ARDS unit? And also if not, could I also check when do you expect your naphtha cracker or due to reach a high utilization so to provide enough feedstock to run your downstream, PP and MEG plant? Third question is, could I ask you, in the second quarter, and obviously your F&M division was very, very strong. You mentioned your ASP was quite flat. Obviously, the volume contributed, but could I also ask has your gas costs come down quite materially in the second quarter versus 1Q's?

Datuk Sazali Bin Hamzah, CEO:

Okay. First, I would like to answer for progress of naphtha crackers in Pengerang. So basically, we are still in the process of commissioning this naphtha cracker and it will take some time for us to stabilize this unit. Bear in mind that this is the first liquid cracker that we are operating. But the rest of the downstream unit is actually ready, we have stated. And as soon as we've got the feedstock, we should be able to commission the downstream plant.

On refinery side, you talk about ARDS. ARDS, we have to make the rectification. The first train will be completed at least by mid of next year and third quarter by the second train. However, without the ARDS, we still can run the refinery. The plan is to bypass this ARDS and restart the reformer unit, the crude distillation unit plus the RCC and naphtha cracker, and we have target to start commercial operation for Petchem unit by end of this year. So there is the second question.

The third question, as you're aware, our gas price is not back to the market. We have a special rate that's being agreed by PETRONAS. And is if reviewed yearly in terms of incremental, and it will not be affected by the change in the price of LNG or crude.

Pn.Rashidah Binti Alias, CFO:

On that note, Oscar, you noticed that the volume goes up. So although the sales price is pretty flat, as I mentioned earlier on, that the volume goes up so that contributes to F&M being able to register a good performance. So no change. And as Sazali mentioned, no change to the feedstock structure. But the volume that, methanol, in this case, you've seen the slide, methanol goes up volume, yes.

Oscar Yee, Citigroup

Okay. Could I have a follow-up question. So does it mean that you already have restarted your CDU currently? Or if not, when do you expect? And do you plan to use a sweet crude initially before your ARDS train will be ready mid of next year?

Datuk Sazali Bin Hamzah, CEO:

Yes. Yes, that's the plan. And as we said just now, actually good distillation unit is on the commissioning stage and some of the petroleum product have been on track. So...

Oscar Yee, Citigroup

You use a straight-run naphtha and then just feed the naphtha cracker. So the feedstock for the naphtha cracker, it shouldn't be a problem?

Datuk Sazali Bin Hamzah, CEO:

Yes. Yes. But we use the sweet crude. This is not really sweet. It's the sweetest crude blend, blend for sale. So because of that, we can bypass it, yes.

Oscar Yee, Citigroup

Okay. I see. But you basically run all other refining unit like FCC or the reformer basically?

Datuk Sazali Bin Hamzah, CEO:

Yes. That's the plan.

Operator: The next question comes from the line of Ahmad from Nomura again .

Ahmad Maghfur, Nomura

So just to follow up on that Q-on-Q change in the F&M side. So if I look at the revenues, the revenues are up like 44%. And when I look at the volumes, it doesn't really go up much. So I'm just trying to understand. And then the prices also didn't really move up. That's my double digits, right, if I can recall correctly?

Pn.Rashidah Binti Alias, CFO:

Hold on. Yes. Volume actually goes up by about 40%. Hold on, just give me a second. Fertilizer and Methanol, yes, that's about 40% increase in volume. If you're referring to the slide, yes, if you're referring to the slide, because we break down the volume between urea and methanol. Urea not so much increase, but the methanol one is quite a huge jump. So 40% increase in volume.

Operator: And we move on to the next question. The next question comes from the line of Mohshin from Maybank.

Mohshin Aziz, Maybank

This question will be specific to Puan Rashidah. I just wanted to get a sense with regards to what should we pin down for start-up losses stemming from start-up of RAPID project? Because it would take time for your utilization rate to spool up, so I'm just trying to estimate, would it be 6-month story or 12-month story? Just some rough guidance will do.

Pn.Rashidah Binti Alias, CFO:

Sure. So on PIC, I think a few things here. We have also guided in the past that for 2019, so the impact or rather the financial contribution would be minimal and to the point that this can be ignored for 2019. So for 2020, we're looking at a ramp-up plan for the complex of over 3 years. We're looking at starting the operation at around about 60%.

Yes. So 60%. And eventually ramping up to full potential within 3 years. So obviously, we have to see ethanol plant, how this is going to move up to full capacity, but what we can guide the market safely is 60%, starting with 60% ramping up to full capacity by within 3 years' time.

Now in the first year, as to how that will pan out in terms of contribution or rather the impact to financials, well, this ramp-up plan will need to be taken into consideration and how well we're progressing will also have an impact on that contribution in 2020. We are probably projecting a breakeven point. But again, I must stress that it depends on how well we execute our or rather how in terms of schedule, the ramp-up plan.

Datuk Sazali Bin Hamzah, CEO:

I will say if you want to get a better feeling only after quarter 2 2020, then we can actually forecast what the number that we will get for that particular year. So we start at 60% and with this year, we should get more than 90%. So the maximum capacity. So whether we achieve 80%, 70% is subject

to the progress of start-up. Let me remind that this is a very complex unit. One is interconnect to each other. So it will be premature for us to tell you the exact figure. So that's the best guidance that we can give at the moment.

Pn.Rashidah Binti Alias, CFO:

Bear in mind, we would have the benefit of the full year or close full year official full year to close the full year operation. Therefore, that also would that's a benefit in itself. Because if, let's say what I meant is that if, let's say, we started like half of the year. So maybe it's a lot more challenging for us to actually reach a breakeven point within the year. But in this case, we would have 2020 the benefit of a full year operation to try and give a good financial impact next year.

Mohshin Aziz, Maybank

Well, I understand that. No 2 plants are alike globally, but the rule of thumb is normally you need to achieve 60% to 70% utilization rate in order to have positive or neutral cash operating cost. So if you're saying 60% and you can breakeven, I will allude to that you've got a very good price for your raw material. So can I get a sense exactly how is your product or your raw material charged by PRefChem with regards to your ethylene? What benchmark should we look at? The propylene and all the pyrolysis gas that you're going to get from them? What benchmark should we look and say that, that is more or less the price that PCHEM is getting? Because right now, I struggle. I don't even know how to get your raw material price.

Datuk Sazali Bin Hamzah, CEO:

Yes. I think I'm afraid that we cannot disclose how the price is being formulated. The only thing that I can share with you, when we built this whole facility, it's based on integrated [betting]. So how it works is to make sure the whole complex works economically. So how exactly that we split between the refinery and petchem, I'm afraid that we cannot disclose in this conversation, Mohshin. You may be able to predict later once we share our financial numbers in the coming years.

Mohshin Aziz, Maybank

Well, that's a sad point. I mean we're going through each I mean we know it's good. I mean, we've seen the whole plant with our eyes. We're very excited. We know it's going to be great. But until we get some financial numbers, we're going to dark ages. We have no idea to guess, to estimate.

Datuk Sazali Bin Hamzah, CEO:

Probably. And as a guide then that we can put you is that the EBIT margin will be about single digit. As initial assumption, you can use that. And then even and also the EBITDA contribution will be about single-digit number. So probably that first guidance.

Mohshin Aziz, Maybank

That's a good start.

Datuk Sazali Bin Hamzah, CEO:

Very sorry, Mohshin.

Mohshin Aziz, Maybank

I'll take whatever I can get. This is still better than where we were yesterday.

Operator: The next question comes from the line of from CIMB.

Raymond Yap, CIMB

This is Raymond here for CGS-CIMB. Okay. So the question I wanted to ask was in relation to the Pengerang Petrochemical Complex. I think last quarter, the guidance was 70% to 80% utilization for the first year. And Puan Rashidah, you appeared to have lowered it to 60%, so I just wanted to get some sense of why that is the case. And also on Slide 15, we talked about the polymer prices in quarter 2 versus quarter 1. You mentioned that in quarter 2, the prices rose in relation to quarter 1. So I wanted to ask whether this is referring to your realized selling prices, meaning that this is the combination of what you sell on contract prices versus and what you sell on the spot prices and it is the weighted average of the two? Because if I'm looking at some of the prices that are being disclosed on Bloomberg on, let's say, polyethylene, the second quarter prices were slightly lower compared to the first quarter. So I'm just trying to reconcile that fact versus the disclosure that you're making here that the quarter 2, your quarter 2 prices are higher than in quarter 1.

Datuk Sazali Bin Hamzah, CEO:

Okay. Raymond, for your first question is about utilization. As what Puan Rashidah has mentioned that we start at 60%, then slowly we will ramp up this unit. And bear in mind that this is whole integrated unit. We have to do step by step, and the target is we need 3 years to reach around about 90% to 97%, which is the maximum potential of the unit, the whole integrated. So in the first year you can, at this moment, as a guess, 70%, 80% can be a number. But we will confirm it by quarter 2 next year. It's achievable 70%, 80% if everything is smooth. But as I mentioned, this is very complex. One of the unit hiccup will affect the other unit. So let us understand the behaviour first, until we reach the stabilization.

Pn.Rashidah Binti Alias, CFO:

On the second question, Raymond, you are referring to Page 15 just now. So on Page 15, these are by-product. So ethylene shows a reduction, polymers increase, so on and so forth. But I suppose you're comparing to what I mentioned in response to the earlier query. So the one that I responded was actually overall blended price. I didn't go by individual price. So although in this case polymer in quarter 2 is relatively higher compared to Q1, but ethylene is down, EG is down, paraxylene is sideways. So on a blended basis, it shows a reduction of roughly about 5%.

Raymond Yap, CIMB

Okay. What I meant was if I look at some of the spot prices that are being published on Bloomberg, let's say, for polyethylene, the prices, the spot prices being published for the second quarter was actually lower than for the first quarter. So I'm specifically looking at your polymer column here, which says that the second quarter prices are more than the first quarter. So I just wanted to understand whether this has something to do with your forward contracting rather than specifically referring to only the spot price, per se. So I'm just trying to reconcile the Bloomberg numbers, which are presumably spot versus what you disclosed over here that your quarter 2 polymer prices are more than your first quarter 2019 prices.

En.Shamsairi Ibrahim, Head of Commercial:

Yes. I think if you look at the detail of the publication, there are LDPE, HDPE, PP and so on. So what we have with those is the LDPE is higher in quarter 2 compared to quarter 1. HDPE, the other way around, quarter 2 lower than quarter 1. PP we are yet to produce.

Pn.Rashidah Binti Alias, CFO:

Again, it's a mixed bag, Raymond. Within PEs itself, they are up and they are down within the grade. So I'm not so sure which one you're referring to on Bloomberg. But ours is blended to our portfolio, right, blended to our portfolio of LLDPE, LDPE and HDPE.

Operator: The next question comes from the line of Mohshin from Maybank again.

Mohshin Aziz, Maybank

On a better note, I just want to talk about your cash. Since this will be the last year for huge expansion CAPEX and then presumably we only have guidance figures to maintain its CAPEX. So my thinking is there will be more activities from an M&A perspective, your Da Vinci Group and all that stuff. I just wanted to ask if the strategy to try to acquire more specialty chemicals is proving to be harder than initially thought. Is there an option whereby PETRONAS Chemicals just buy a stake in the naphtha cracker from PRefChem, let's just say going forward? Because rather than keep your cash sitting idle, might as well get equity in a chemical plant that you're directly influenced with. I just wanted to ask whether that option is possible or whether PETRONAS perhaps will fully decide on these things. That's all.

Datuk Sazali Bin Hamzah, CEO:

Thank you, Mohshin, for your question. Yes, whatever amount of money that we have, we always look at, and we think that can improve our business. That includes the consideration to buy over naphtha sites. Bear in mind that the cracker site also coupled with refinery. To be fair to PETRONAS, even though they are a majority shareholder, but we also have invested a lot. So if we have to consider, that should include refinery portion as well. So that will be part of the consideration as well moving forward on top of other priority portfolio. So we are not dismissing only one M&A, as I mentioned. Da Vinci is only a start. The idea is, this is the first upstream that we are anchored in. We have a bigger plan beyond that, actually to bolt-on a piece asset as well. So part of our strategy to grow our business, so we look at all these possibilities.

Mohshin Aziz, Maybank

Okay. I understand that. I mean would that strategy, let's just say would that strategy will also open the door for M&A or for publicly listed company per se, somewhere, let's just say, Japan and Germany, France, they're the ones who actually have specialty chemicals trading at relatively cheap valuation. Or would it still be a Da Vinci kind of acquisition, whereby it's unlisted and fairly medium in size? Just curious about your parameters.

Datuk Sazali Bin Hamzah, CEO:

Yes. Actually, the parameter is open, not necessarily owned by private equity. We also look at public listed and the option is actually is open as long as it fits with our operability.

Operator: As there are no further questions, I would like to hand the conference back to our presenters for today.

Ms Zaida Alia Shaari, Head IR:

Okay. That concludes our analyst briefing for today. Thank you all for participating. Please share with us our report as we publish them. Thank you and good evening.

Datuk Sazali Bin Hamzah, *CEO*:

Thank you.

Pn.Rashidah Binti Alias, *CFO*:

Thank you.

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