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**Operator:** Ladies and gentlemen, welcome to PETRONAS Chemicals Group Analyst Briefing for Third Quarter 2018. Ms. Alia, please begin.

*Ms Zaida Alia Shaari, Head IR:*

Thank you, Aaron. Hello, everyone. Thank you for joining us this Friday evening. We shall be giving a briefing on our third quarter 2018 financial results. You should by now have access the downloadable presentation slides through the link provided in the presentation. We are pleased to have here, our management headed by our CEO, Datuk Sazali; our CFO, Madam Rashidah; Head of Manufacturing, Mr. Mahadzir; and Head of Commercial, Mr. Shamsairi.

Over to you, Datuk.

*Datuk Sazali Bin Hamzah, CEO:*

Okay. Thank you, Alia. Good afternoon, everyone. Thank you for joining our analyst briefing today.

The first 9 months of the year has been filled with trade tensions and some unexpected market tumbles. However, the largest economic power, U.S., is still on track for growth and expansion. Thus, overall, we are still seeing GDP growth and PMI expansion year-on-year. However, with China slowing down to meet its 6.5% 2018 growth target and the U.K. continuing to be hit by domestic worries in relation to Brexit, trade tensions between the U.S. and China are all contributing to an uncertain global outlook. Global PMI continued to improve year-on-year, mainly driven by higher expansion in the U.S. boosted by a rise in new businesses. Crude oil price has risen 39% from USD 52 per barrel average for the 9 months in 2017 to about USD 72 per barrel average this year and this was driven by the continued production cut by OPEC and non-OPEC members as well as negative sentiment on the prospect of U.S. imposing the ban on Iranian crude supplies. Feedstock prices have risen in line with the higher crude oil price further supported by

robust demand from the petrochemical sector. Chemical product prices followed suit with more product registering higher prices in comparison to last year.

Looking at the past nine months and the continued market improvement that we have seen so far, I'm happy to present another quarter of strong and resilient performance both operationally and financially. We have just passed our major turnaround cycle for the year. We completed 4 major turnarounds in quarter 3 2018, bringing it to a total of 5 turnarounds completed in the nine months of the year.

Despite the heavy maintenance schedule, our planned utilization remains commendable at 91% supported by full operation of PC Fertiliser Sabah that is currently in its second year of operations.

Sales volume improved 5% year-on-year, driven by healthy demand across most products. The higher volume and improved product prices led to a 15% year-on-year increase in revenue to RM 14.5 billion. EBITDA improved to RM 5.3 billion on higher volumes and spreads, though partially impacted by the strengthening of the Malaysian ringgit. EBITDA margin remained high at 36%. Profit after tax increased 12% on year-on-year boosted by volume and product prices as well as lower tax expenses.

For the breakdown and detail of the financial performance, I'll hand the session over to Rashidah.

[Pn.Rashidah Binti Alias, CFO:](#)

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

We will start with the Group performance on Slide no.5 before we move on to the segmental performances. Comparing third quarter 2018 against the corresponding quarter of 2017, in the third quarter this year, global GDP growth decelerated to 3.1% from 3.5% due to slower growth in major economies, particularly China and the U.K. Subsequently, global PMI has declined to 53 from 52.5 with slower expansion in these countries as well as the Eurozone. Nonetheless, the benchmark Brent crude increased 44% against the corresponding quarter, pushing up product prices with higher petrochemical feedstock costs. The third quarter also saw us undertaking heavy statutory turnaround activities at our urea, methanol as well as ethylene plants. Consequently, we saw lower production and sales volume compared to the third quarter of 2017.

Now despite the lower volume, group revenue increased by 20% to MYR 4.8 billion boosted by higher product prices. EBITDA increased 14% from MYR 1.4 billion to MYR 1.6 billion with higher product spreads partially negated by higher maintenance costs and unfavorable foreign exchange. EBITDA margin declined slightly to 34%. Now profit after tax was higher by 32% at MYR 1.3 billion, in line with higher EBITDA and lower tax expenses.

Next we move on to the group financial performance against the preceding quarter, that is second quarter 2018. Now against the second quarter, global GDP declined to 3.1% from 3.3% due to economic slowdown in China, the U.K. as well as underperforming emerging markets. However, global PMI continued to expand in the third quarter albeit at a slower rate, driven by continued expansion in the U.S., offset by slower growth in other major economies mainly China, the U.K. and the Eurozone. Crude oil price saw marginal improvement against the preceding quarter, but petrochemical product prices were mixed as some olefin derivatives experienced weaker demand. Against the second quarter, we had a significantly heavier turnaround cycle in the third quarter as mentioned earlier, which resulted in lower plant utilization of 79%. Consequently, production and

sales volume were lower for the quarter. However, the group achieved a higher revenue of MYR 97 million or 2% with higher product prices supported by favorable foreign exchange impact.

Nonetheless, EBITDA decreased by MYR 183 million due to higher operating expenditure relating to maintenance activities undertaken during the statutory turnaround. EBITDA margin declined 4 percentage points to 34%. Profit after tax was also lower by MYR 108 million following lower EBITDA.

Let's now look at the performance for the cumulative 9-month period of 2018. Now during the period, average Brent crude price increased 39% to \$72 per barrel compared to \$52 per barrel in 2017. This led to an increase in petrochemical feedstock prices, which, coupled with healthy demand for petrochemicals products, led to the rise in product prices across-the-board. For the cumulative 9-month period, the group attained plant utilization of 91%, which was comparable to the corresponding period in 2017. Production and sales volumes were higher, largely contributed by urea production from PC Fertiliser Sabah, which commenced commercial operations in May last year.

Against this improved backdrop, Group revenue was higher than the corresponding period by 15% at MYR 14.5 billion, primarily driven by higher product prices as well as sales volume, though these are partially negated by the strengthening of the ringgit Malaysia against the U.S. dollar. Correspondingly, EBITDA increased by 8% to MYR 5.3 billion, contributed by higher volume and product spreads. EBITDA margin was lower at 36% primarily due to lower ethane-based product in the sales mix. Profit after tax increased 12% to MYR 3.8 billion in line with higher volumes and lower tax expenses.

Now the next 2 slides show a bit more granular breakdown of the group performance by segment, Olefins and Derivatives as well as Fertilizer and Methanol. Now I will leave these 2 slides. Most of the analysis overlap with the overall number. I'll be happy to provide clarification, if required, at the end of the presentation.

Therefore, we can move on to an update on the balance sheet and cash flows on Slides 8 and 9. First, the balance sheet on Slide 8. For the 9-month period ended 30th September 2018, total assets was higher by MYR 2.6 billion at MYR 35.9 billion primarily due to higher cash and cash equivalents, which now stood at MYR 11.4 billion. This is mainly due to the drawdown of term loan for reimbursement of project costs previously incurred as well as the consideration we see from our joint venture partner, Aramco, for the divestment of 50% equity interest in Pengerang Petrochemical Company.

Let's now turn to our cash flow on Slide 9. Cash generated by operating activities increased to MYR 5.1 billion and this is primarily contributed by higher profit generated plus the smaller changes in working capital during the period. Net cash used in investing activity was lower by MYR 1.5 billion due to net consideration from the 50% divestment in Pengerang Petrochemical as mentioned earlier. At the end of the 9-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 is all on the financial performance. Over to En.Mahadzir for the manufacturing highlights.

*En.Mahadzir Rani, Head of Manufacturing:*

Thank you, Rashidah. Good evening, everyone. Mahadzir here. Let me share the operational highlights for this quarter.

Please refer to Slide no.10. Alhamdulillah, our performance for quarter 3 2018 was stable despite the heavy maintenance cycle at 4 of our plants. Quarter 3 plant utilization dropped to 79%, mainly due to planned turnaround activities at 4 PCG manufacturing sites: ethylene plant in Kerteh from 1st July to 14th of August, polyethylene plant in Kerteh from 7th July to 5th August; our fertilizer plant in Gurun from 8th July to 22nd of August, and methanol plant 2 in Labuan from 13th August to 25th September. However, year-to-date 2018 plant utilization for the group remains high at 91%. In Shaa Allah, based on our plans, we should be able to deliver the production target at above 10 million tonnes for this year.

Now let's move on to Slide no.11, the operation for Olefin & Derivatives. Year-to-date plant utilization for the O&D segment was commendable at 95%. Statutory turnaround was conducted at PC Ethylene and its downstream plant PC Polyethylene with a commendable achievement in keeping within the planned duration and without any serious safety incident. High ethylene production was recorded despite 45 days TA at PC Ethylene as PC Olefin was operating well above and contributing to a significant amount to the Group's total production. I believe Olefins & Derivatives segment will continue to be the key to our operational success this year.

Now let's move on to Fertiliser and Methanol. Please refer to Slide no.12. For F&M, year-to-date planned utilization performance was at 91% despite the heavy maintenance activities undertaken for the segment during the quarter. Firstly, there were 2 major statutory turnaround conducted at PC Fertiliser Kedah and PC Methanol Plant 2. Secondly, PC Fertiliser Sabah was down due to maintenance work at upstream, our feedstock supplier, resulting in no gas supply to the plant for about 12 days. As a result, we recorded lower volumes of both urea and methanol for the segment for this quarter. We are currently undergoing a statutory turnaround at our urea plant in Bintulu and the last TA for PCG this year. This cycle of maintenance work is expected to be completed by early December.

Now let's move to project updates. Please refer to Slide no.13. Number one is on Aroma complex. In quarter 3, the Aroma project focus was in the L-menthol plant start-up while stabilizing the front-end facilities. We're glad to note that isoprenol, citral, citronellol plants have recorded stable operation. The L-menthol plant has achieved on-spec production on 1st of October 2018 and the operation is ramping up and expected to stabilize at 50% capacity by end of the year.

Next is the highly-reactive polyisobutene, HR-PIB, project. Product validation and qualification by key customers are still ongoing. The first product lifting commenced in quarter 3. I think we had mentioned earlier this plant will produce 50,000 metric tonnes per annum of highly-reactive polyisobutene, which is used as intermediate product for high-performance fuels and lubricants.

For PIC-PETCHEM, the RAPID project in Pengerang had celebrated significant milestone on 31st October 2018 when the first crude into the Refinery Crude Distillation Unit achieved. As for the petrochemical complex in Pengerang, Johor, mechanical completion activities are progressing well, hitting just above 89% completed at the end of quarter 3. At the same time, the pre-commissioning activities are progressing well at 65% of completion.

On the matter of operation and maintenance readiness, the site deployment activities are ongoing and manpower are being mobilized to support these activities.

Lastly, in terms of management system, the focus remains on the Smooth Start-Up Program, Digital Application, Operation and Physical Asset Management System.

In conclusion, for manufacturing, please refer to Slide 14. PCG quarter 3 group plant utilization was stable in view of heavy turnaround activities. We recorded good volumes from Olefins & Derivatives business segment. We have turnarounds completed at 4 sites, i.e., ethylene and polyethylene plants in Kerteh, fertilizer plant in Guron and methanol plant in Labuan with no major incident. Currently, we are undergoing the final planned turnaround for the year at our urea plant in Bintulu as we expect to complete this last TA safely and within the planned time. We shall remain focused in safeguarding safety and managing our asset and reliability. And we will continue to focus in operational excellence in executing our plans in order to sustain a year-end PU of above 90% and production level of above 10 million tones.

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

*En.Shamsairi Ibrahim, Head of Commercial:*

Thank you, Mahadzir. Good evening, everybody. Shamsairi here. Let's proceed with the market highlights, first on ethylene products.

In quarter 3, prices were lower compared to previous quarter as supply was ample after most crackers finished their planned turnaround. In addition to softening demand, the availability of several deep sea cargo further dampened the market sentiment. Ethylene price is expected to continue softening in the next quarter in view of ample supply largely due to reduction in downstream consumption and most crackers have resumed operation after respective turnarounds. Supply from Saudi Arabia will remain long until end of the year given that several downstream plants are down for maintenance. This is among the main factor that will push ethylene price further down in November. The inflow of Saudi product will create more supply in South Asia and Far East Asia where ethylene production is on the rise as several crackers have resumed operation as mentioned earlier. Overall, downstream demand is still weak, heading towards year-end lull season.

Moving on to polymers. Average prices in quarter 3 were lower due to bearish market sentiment for both LDPE and LLDPE on the back of competitively priced U.S. and India cargoes in addition to long supply in the region. Polymer prices are anticipated to soften in tandem with the softening feedstock price surplus supply and quite seasonal demand. China market might see more offer from Mexico and Brazil as PE cargoes are diverted into North and South America market due to U.S.-China tariff trade war. Demand forecast to be lower as year-end is approaching and players are in the midst of negotiating for 2019 contract. Also, converters remain on the sidelines, wary of committing to deals and tend to buy on a hand-to-mouth basis as to minimize their inventories.

Next, for MEG. Prices decreased in quarter 3 2018 compared to quarter 2 2018 amidst increasing in supply especially from North Asia and Middle East as most of the major facilities in the region have resumed production. MEG price is expected to soften in Q4 due to softening of ethylene price following high supply availabilities resulting from reduction in downstream consumption and crackers in South Asia and Far East Asia return from their turnarounds.

In Aromatics. If you notice on the slide Page 15, we projected it to be strong. Nevertheless, the recent development that's been announced by U.S. allowing Iran to supply to 8 countries that

have influenced the market. Coming back to PX prices, it strengthened in quarter 3 2018 as compared to quarter 2 2018 due to supply tightness following plant turnarounds amidst high downstream demand. Nevertheless, PX price is forecast to be softer in the next quarter, as I mentioned just now, and also mainly due to low crude price, hence, low naphtha price. Additionally, supply in quarter 4 2018 will recover after plants return from turnaround.

Next on to Page 16, on Fertiliser and Methanol, starting with urea. Quarter 3 prices were supported by strong demand mainly from India returning to the market on positive development of monsoon season. Low stock and reduced domestic production, especially in China, on top of robust demand from U.S. market for its winter wheat season. For quarter 4, average urea prices are forecasted to be firmer as compared to quarter 3 with the anticipation of demand from India as they still require approximately 1 million tonnes of urea. India is expected to issue tender by this month as stock remains low. Tight supply outlook for urea with Middle East producer having limited spot cargoes, which are said to be keeping cargoes to support the coming Indian tender. In South East Asia, one major plant will undergo turnaround for 4 to 6 weeks and are expected to be out for the rest of the year while Malaysia as mentioned by my colleague. We have our own limited cargo due to our turnaround plant in Bintulu.

Moving to ammonia. Ammonia price was higher amidst supply curtailments and better gas price in Europe and higher downstream values resulting from the multiple production outages around the world. Elevated feedstock prices and downstream fertilizers and industrial product price are all on upward momentum. Prices for ammonia in quarter 4 2018 is predicted to remain firm compared to quarter 3 2018. Supply will be limited in anticipation of lower operating rates in Trinidad and Tobago and in view of gas curtailment and also Europe with the higher gas price. In addition, major producer in Indonesia will carry out its maintenance works. Caprolactam and ACN demand remain strong as a result of low caprolactam output from China due to the strict environmental policy control as well as the U.S. trade war affecting import of ACN into China.

Lastly, on methanol. Prices is up on tighter supply due to several supply disruption throughout the quarter. Looking at quarter 4 2018 against quarter 3 2018, methanol prices are projected to continue to firm. This is in view of tight supply outlook continued within Southeast Asia in November and January period as major units are under unstable operation and turnaround. Weakening demand in MTO due to few producers in China decided to shut operation or lower down operating rate in view of poor economics. Furthermore, more gas will be directed to heating and boiler fuels for coming winter for heating purposes.

These are all update that I have on the market. I'll pass the session back to Datuk Sazali. Thank you.

[Datuk Sazali Bin Hamzah, CEO:](#)

Okay. Thank you, Shamsairi. Ladies and gentlemen, while we saw overall improvement in third quarter 2018, we also saw mixed performance in some of our key products. Urea and methanol have shown steady improvement with firm crude oil prices, while some of our olefin derivatives like polymers have been weak on slow sluggish downstream demand. We are currently seeing some downward movement in most of product prices, some due to seasonal factors where others are tied to the crude oil price, which have been wavering on rising U.S. supply and worries of an economic downturn that is expected to affect demand. In fact, we have seen some significant decline in quarter 3 GDP numbers for some emerging market currencies affected by the financial press of weak currency, example Turkey, Argentina and South Africa.

Despite seeing some weakness in the economy, we are expecting a stable commodities market in these remaining months of 2018. For PCG, we expect methanol and urea to show good demand in support of softer olefin derivatives products. Market notwithstanding, PCG will continue to concentrate on our key focus areas to ensure we meet our year-end target of Group plant utilization above 90% underpinned by a strong HSE culture. This safety-first mindset is a key to how we have successfully completed our heaviest TA cycle for the year with no major incidences. We have 1 more major shutdown in this fourth quarter and we expect another safe and uneventful turnaround for the Group.

And lastly, we will also continue to work 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.

And that's all that we have for now. Let me open for question-and-answers.

**Operator:** Our first question, Ajay from JP Morgan.

**Ajay Mirchandani, J.P. Morgan**

Two questions from me. First, just to better understand, the Olefins division has had a very strong Q-on-Q increase in revenue. This is in spite of the fact that outside of PX, on a Q-on-Q basis, we've not seen a material increase in prices in most olefin products. If you could just help us better understand. And given your volume was also flat Q-on-Q, any specific reason for the strong revenue growth? The second question I had was we've seen, as you rightly pointed out on the call, a very sharp drop in ethylene prices since September. Just wanted to better understand how we should think about the impact of that sharp drop on ethylene prices on the 4Q results for potentially PETRONAS Chemicals?

**Datuk Sazali Bin Hamzah, CEO:**

First question, I don't really...

**Pn.Rashidah Binti Alias, CFO:**

Okay, Ajay, Rashidah here. If you don't mind, can you please repeat the first one? We can't quite hear the first question just now. You're talking about strong performance Q-on-Q on some products?

**Datuk Sazali Bin Hamzah, CEO:**

PX.

**Pn.Rashidah Binti Alias, CFO:**

PX?

**Ajay Mirchandani, J.P. Morgan**

No. Specifically, I was asking if I look at the Olefins & Derivatives division, on a Q-on-Q basis, there is a pretty chunky increase in absolute revenues. It's around, what, 15% to 20%. But if I'm looking at most of the individual product prices in the region, except for PX, most of the prices have been kind of flattish. So I just wanted to better understand what explains this very sharp increase in revenues for the Olefins division. Is there any specific product you saw a lot of strength? That's

basically the first question. The second one was basically on ethylene and the drop in prices in September and implications for 4Q results.

**Pn.Rashidah Binti Alias, CFO:**

Okay, okay. I understand. So for the Olefins & Derivatives. Yes, so you're right. I mean, if you look at the trend, right, for revenue for O&D, first quarter was about MYR 3.16 billion; second quarter, MYR 2.7 billion; and third quarter, MYR 3.2 billion. The second quarter to third quarter is actually quite a fair bit of jump, about MYR 400 million increase in revenue. I mean, from here, the key driver is still prices, Ajay, because for the second quarter we were looking at an average ethylene price of \$1,145, roughly about \$1,100 on average. For the third quarter, the average price is about \$1,300. So that's actually \$200 per tonne increase in price. So that's roughly about, what, 20%, slightly less than 20% increase in price. And on top of that, another factor I suppose is also that favorable forex rate to us because dollar strengthened. So in second quarter, we had something like MYR 3.95; and in the third quarter, we had something like MYR 4.10. So yes, so those 2 factors are rather favorable to us. And of course, on top of that volume is also higher. Second quarter is roughly about 690,000 tonnes sales and third quarter is roughly about 750,000. So all of the key drivers were actually favorable to us third quarter compared to the second quarter. And first quarter was roughly about there.

**Datuk Sazali Bin Hamzah, CEO:**

Okay. To answer your question, number two, you said that C2 price had drastically reduced going down, downward in September, yes, we can observe that, October, November. Now it's hovering about \$800. But we believe that is going at the bottom now, yes, and remained steady at that level. So when you asked about the impact to us, if you recall, quarter 3, we have a shutdown in our olefin plant. So our first cracker and our polymer plant is shutting down. But for quarter 4, both plants are supposed to be run. So volume will compensate for this kind of balance of price. So we believe that we still remain steady in quarter 4.

**Operator:** Our next question, Alex Goh from AmBank.

**Alex Goh, AmBank**

I have a few questions. The first is that you mentioned that there was a lower gas supply for the Sabah plant, urea plant. I'm just wondering, has that conditioned has been alleviated? Or is it going to continue in the fourth quarter or perhaps early part of next year? I just want to understand how the impact this will have upon your utilization for your Fertiliser and Methanol division? That's the first question. My second question is on your tax rate, which I noticed keeps coming down effective, the effective tax rate. I mean, for the 9 months usually around 10% and the third quarter is only 5%. I'm just wondering, should we be looking towards a 5% reach next year? That's my second question. And my third question is you mentioned the progress for the RAPID project is now at 89%, I just want to double check whether that number is correct. And my fourth question is on the tariffs in China, which are imposed recently. I'm just wondering, are there any opportunities you see that given the fact that those are mostly towards the U.S. whether there's potential for China imports from Malaysia to increase or not?

**Datuk Sazali Bin Hamzah, CEO:**

Right. Let me answer the first question. You worry about the gas shortage in PML 1 from Kikeh. Yes, we have a hiccup, but this is not so worrying because you remember that we have a bypass line from the second feeder. So the only thing that it can effect is a reduced throughput. So this will not have really impact to the methanol in overall. And if you look at urea and ammonia side, the gas from the first feeder actually is feeding through SSGP line so it will not impact on SAMUR,



as well as ABF. And ABF has totally different feeding line. So as far as ammonia and urea, not affected at all. So that's question number one. Question number two, I think I will let Rashidah to explain.

**Pn.Rashidah Binti Alias, CFO:**

Sure. Yes. Alex, on the effective tax rate for the quarter itself, yes, that's roughly about 5.5% or 5.6%. But that quarter, we have some one-off adjustment pertaining to overprovision of prior year tax because, remember, we also finalized our tax computation for the submission to the IRB during the quarter. So there were some one-off adjustments. I think if you're looking at tax rate, we had guided in the past that given our business model, our effective tax rate should be hovering roughly at the lower teens. We're looking at 10% to 12%. And therefore, if you look at the year-to-date effective tax rate, that is probably a bit more representative of our tax rate. So that's more of a normalized basis for us. But again, of course at the end of the day, we will need to assess any impact, if any, pertaining to the recent budget announcement. So that is something that we will need to look at. So if you talk about a day-to-day or rather a stable-state effective tax rate, you won't be looking at 5%. So our guidance remains at the low teens.

**Datuk Sazali Bin Hamzah, CEO:**

Okay. For question number three, I believe that's the confusion between 91% and 89%. 89% is for the PETCHEM side, I think. 91% one is the overall PIC progress. So that's the confusion. Because if you see, for the refinery side, refinery and cracker is more about 90 over or 94% and above. So if you balance, the overall is about 91%. But for PETCHEM, we said it's only 89% because PETCHEM will become a bit later. I think that's where the confusion on RAPID. So the last question, which is additional tariff by China, I would like Shamsairi to answer.

**En.Shamsairi Ibrahim, Head of Commercial:**

For China, we have the ADD on our product to China will remain the same. As you probably might read in the report, we are among the lowest ADD being imposed to us, hence, we remain competitive in China. We will maintain our volume as what we are doing today. Thank you.

**Alex Goh, AmBank**

Just a follow-up. I mean, doesn't the fact that your tariffs are lower, you have an opportunity to increase your share in China? Or is there a strategic decision not to export enough to this market?

**En.Shamsairi Ibrahim, Head of Commercial:**

For that particular product, at the moment, we are producing the same capacity. The region in ASEAN is giving us a better netback. We are maintaining our marketing strategy.

**Operator:** Our next question, Abhishek from Nomura.

**Abhishek Nigam, Nomura**

Just one question from me. Will you be able to provide some color on 2019 plant utilization numbers? Because from what I understand, there is 1 ethylene cracker maintenance that is scheduled, but besides that, if you were able to give any color?

**Datuk Sazali Bin Hamzah, CEO:**

Thank you, Abhishek. So basically, 2019 we will have also another, the last heaviest turnaround year. It's slightly less heavy as compared 2018, but still considered heavy. So our utilization target still remains above 90% for 2019.

Operator: Our next question Oscar Yee from Citigroup.

**Oscar Yee, Citigroup**

First question is for your RAPID refinery since you already started the crude feed in. Do you roughly know when should we expect that first oil product sales into the market? And given an earlier-than-expected start-up, do you also see that your petrochemical part like the cracker and the downstream will be able to start up a bit earlier? And what sort of guidance should we be expecting? And second question is I saw this news about PETRONAS overall will be giving all this special dividend. For your company, PETRONAS Chemical, do you also plan to do the same, I think for your year-end dividend? And thirdly, should we still be expecting the warranty shut down for the SAMUR urea project? And if so, what sort of time frame is it? And how long it will take?

**Datuk Sazali Bin Hamzah, CEO:**

Okay. Question number one, the first oil to our CD unit, yes, we have introduced to the column. We have started up the flare, but bear in mind, the first procedure is basically to fill in and do a lot of circulation to clean all the line. So that will take some time. So this process will be done stage by stage because it's highly complex. And subsequently also cracker will come in. So we believe that sometime in January that the real operation will be starting up. Whether the first oil will come earlier, what the exact date, I think I would reserve that for this moment because we just started filling up the unit. But we believe that within quarter 1 definitely we are going to produce the petroleum product. And you're also right, some of the chemical plants, for example, polymer, may be start early because once we start the CDU, the propylene will start being produced then we may start 1 trail of the polymer. But that depends how the progress of this start-up of RAPID. Probably the next analyst briefing, we'll share with you on further update of this. Okay, that's number two. Number three, on the special dividend, as you read in the news, PETRONAS gave a special dividend to government, yes. But for PCG side, our business remains intact. We will continue to do our business as usual. And if we give the dividend also will be based on our normal dividend that line. So normally, our base is about 50% of PATANCI. So I think we will continue. So it will not affect our business actually. Because we have our own business plan for PCG. And the fourth one, warranty shutdown, yes, one of the urea plants, the SAMUR plant, we plan to shut down in next year that will be after close to 3 years running. And this will be the first warranty shutdown. If you recall, we managed to get authority approval to run without shutting down the first year. Normally, we shut down after first year operation, but this plant have continued to run for the second year. So hopefully, we reach about close to 3 years next year before we plan to shut down sometime mid of the year. The duration is roughly about 1 month roughly, yes. I think that's all.

Operator: Our next question, Yong Por from BNP Paribas.

**Yong-Liang Por, BNP Paribas**

I just have 2 quick questions. Can you give us guidance on transfer pricing for the RAPID project? And the second question is can you give us guidance for CAPEX next year?

**Datuk Sazali Bin Hamzah, CEO:**

For transfer pricing, I'm afraid I could not disclose this because this is highly confidential because our system is highly integrated to effect each other's business, so I'm afraid I can't share that information. On CAPEX 2019, Rashidah, you can share.

Pn.Rashidah Binti Alias, CFO:

CAPEX 2019. Now for CAPEX spending, 2 components. One is what we call our operational CAPEX, the one that we incur for the day-to-day running of the business; and the other one is growth. For the operational CAPEX spend, that is roughly about the same every year and we maintain at that level. We manage within that level. It's roughly thereabout MYR 750 million to MYR 850 million. And for the growth CAPEX, these are the remnants for RAPID mainly. It will taper down next year. So roughly, yes, it's tapering down. So this year, we are about MYR 4-odd billion total CAPEX. So next year should be coming down to about 3 plus or close to about MYR 3 billion for 2019.

**Yong-Liang Por, BNP Paribas**

So total CAPEX is about MYR 3 billion?

Pn.Rashidah Binti Alias, CFO:

Yes.

Datuk Sazali Bin Hamzah, CEO:

Yes.

**Yong-Liang Por, BNP Paribas**

Okay. So just going back to the first question, Datuk. So if we were to model the new project, should we just use the market prices? Would that work?

Datuk Sazali Bin Hamzah, CEO:

Because this is a naphtha-based configuration, so the model is a bit different if you have construct our existing model, yes? So, I would suggest that later on, when we have started the operation, you will be able to start modeling. I'm very sorry because I could not really share you the transfer pricing in terms of naphtha. The reason because it has also affected our partner as well. So this is arrangement that we made as an integrated complex.

Pn.Rashidah Binti Alias, CFO:

Yong, sorry. I think as Datuk Sazali mentioned, currently we are also discussing as to how best we can give some guidance to all of you considering the constraint that we also face in terms of disclosing certain information given our JV with Aramco. So I think also in the past, we have said give us a bit of time, maybe like early part of next year, quarter 1 or early of quarter 2, we'll give some guidance in terms of how you can look at this project.

Datuk Sazali Bin Hamzah, CEO:

I will say practically, Yong, for next year, 2019 is the commissioning state. So as much as possible, I think whatever the figure that we have is still not really reflecting the business itself. If you really want to construct a good model, 2020 would be the best because during that time the plant is already stable, then you can predict better. So even quarter 1 or quarter 2 is too early the way that I see it because starting up this kind of complex will require a lot of up and down because of the virtue of the highly integrated of their nature. I hope you understand.

**Yong-Liang Por, BNP Paribas**

I understand. So we should expect any contribution at the earliest in the second half of next year, right?

Datuk Sazali Bin Hamzah, CEO:

The second half of next year, probably, yes, depending on the progress of the start-up. That's what our target is. But again, if you remember when we started SAMUR, the first few months is still, I can say arbitrary numbers. It is not really a number that you can use for model. So you need to wait until the plant is really stable at more than 70% or 80% then you can have better feeling.

**Yong-Liang Por, BNP Paribas**  
Understood.

Pn.Rashidah Binti Alias, CFO:

Yes, sorry, Yong, just a bit of a correction to the earlier one that I mentioned on CAPEX. So this year, it's roughly about MYR 4.5 billion to MYR 5 billion. So next year, it's roughly about half of that. It is now, I think, the figure I mentioned to you was 100% on Pengerang whereas Pengerang now we are 50% co-owned with Saudi. So roughly, you'll be looking at about MYR 2.3 billion to MYR 2.5 billion.

Datuk Sazali Bin Hamzah, CEO:

MYR 2.5 billion.

Pn.Rashidah Binti Alias, CFO:

Yes, roughly. This is just now I quoted 3, I think. About half the size of this year.

**Operator:** Our next question, Azim Faris from BIMB Securities.

**Azim Faris Bin Ab Rahim, BIMB Securities**

I just have one question. Would you be able to share with us in more specific about your maintenance plan for next year? Which plants in which quarter?

Datuk Sazali Bin Hamzah, CEO:

Okay. The heaviest is at second quarter or third quarter?

En.Mahadzir Rani, *Head of Manufacturing*:

Second.

Datuk Sazali Bin Hamzah, CEO:

Second half. So basically, mainly in the second quarter and third quarter, that involves our second cracker, our SAMUR plant.

En.Mahadzir Rani, *Head of Manufacturing*:

Yes, that's the main.

Datuk Sazali Bin Hamzah, CEO:

Yes, that's the main.

En.Mahadzir Rani, *Head of Manufacturing*:

Ammonia LDPE.

Datuk Sazali Bin Hamzah, *CEO*:

Ammonia and LDPE because when we shut that cracker down, the whole complex is down. I think that is where our mix as good as this year despite the volume probably better. But in terms of mix, it's not good because our second cracker was down during that period.

**Azim Faris Bin Ab Rahim, BIMB Securities**

May I confirm again? Is it in the second half mainly?

Datuk Sazali Bin Hamzah, *CEO*:

Yes, second half. Yes.

**Operator:** Our next question, Oscar Yee from Citigroup.

**Oscar Yee, Citigroup**

Sorry, I just actually had a follow-up question, if you don't mind. Could you give us a bit of a sense about the cracker feedstocks slate for your RAPID cracker? For example, in terms of percentage of how much is roughly naphtha and how much is LPG? And how flexible is your cracker? And also, will your cracker be using off gas from your refinery as well given you do have some FCC unit? And if so, how much would the percentage be?

Datuk Sazali Bin Hamzah, *CEO*:

I'm afraid that at this moment I don't have that number. It is a typical cracker at a capacity of 1.4 million, if I'm not mistaken, let's see the number. But yes, we are going to use the gas that's produced from the refinery itself, supplement by a grid for further the additional gas that we require. I think that's how it works. First, of course, the priority will be the gas produced from the plant, then will be supplemented by gas from the feed. But for other slate I think, at this moment, I don't have the information. Probably later, we can share with you roughly.

**Operator:** There are currently no questions in queue. As there are no further questions, I will now hand the session back to Ms. Alia. Please go ahead.

Ms Zaida Alia Shaari, *Head IR*:

Thank you, Oscar. Thank you, everyone, for participating today. Please e-mail us any follow-up questions and send us your published report. Thank you. Good night.

Pn.Rashidah Binti Alias, *CFO*:

Thank you very much.

Datuk Sazali Bin Hamzah, *CEO*:

Thank you.

Pn.Rashidah Binti Alias, *CFO*:

Have a good weekend.

En.Mahadzir Rani, *Head of Manufacturing*:

Thank you.

**Operator:** Thank you. Ladies and gentlemen, this concludes today's conference call. Thank you for your participation. You may now disconnect.