

<b>EVENT</b>	<b>:</b>	<b>3Q 2019 PETRONAS CHEMICALS GROUP BERHAD EARNINGS CALL</b>
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**Operator:** Ladies and gentlemen, thank you for standing by, and welcome to the PETRONAS Chemical Group Analyst Briefing for 3Q 2019.

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

*Ms Zaida Alia Shaari, Head IR:*

Thank you, Rachel. Good afternoon, everyone. Thank you for joining us this afternoon. This is the briefing for our third quarter 2019 financial results. You should have by now accessed the presentation materials. As usual, we will have a brief by management, followed by Q&A before we close. We are pleased to have present today, our CEO, Datuk Sazali; our CFO, Madam Rashidah; Chief of Manufacturing, Mr. Mahadzir, Chief of Commercial, Mr. Shamsairi; and also present today, Mr. Akbar, our Head of Strategic Planning and Ventures. Over to Datuk Sazali.

*Datuk Sazali Bin Hamzah, CEO:*

Thank you, Alia. Ladies and gentlemen, global GDP continues to decelerate in the third quarter as trade talks between U.S. and China has yet to come to a solid landing. As such, we saw continued declines in international trade and manufacturing were further impacted by inventory correction in industrial economies.

Global PMI eased to breakeven point signaling deteriorating business conditions in major economies as many countries, including U.S., China, Germany and Japan are reporting decrease in new export business. The global economic slowdown is a bearish point for crude oil. The benchmark Brent recorded a lower price this year, averaging about USD65 per barrel compared to USD73 per barrel in the 9-month period of 2018.

Given the macroeconomic conditions that has slowed the manufacturing sector, the petrochemical industry has continued to be challenging. Average product prices remains soft from weak demand and the slowing of manufacturing sector.

Ladies and gentlemen, the weak macro economy has continued to put a damper on business sentiment. PCG, of course, is not shielded from this weak market, and we are feeling the impact if it to our bottom line. Nevertheless, our focus has always been to ensure that we manage elements that are within our control as best as we can. This includes ensuring that our facilities are managed well. Our maintenance plan are executed seamlessly, and the plants are operating at the optimum rate.

In the 9-month period this year, we have undertaken turnaround activity at 6 of our plants including our largest Urea plant, PC Fertilizer Sabah; our larger cracker in PC Olefins; and its integrated downstream facilities. Despite the weight of the turnaround activities undertaken during this period, group plant utilization rate for the period was 93%, an improvement from 91% recorded last year. This was achieved through lower downtime and higher feedstock received resulting in higher production volume. However, sales volume was marginally lower. Coupled with lower product price, group revenue for the period declined 16% year-on-year to MYR 12.1 billion. In the 9-month comparison EBITDA declined 30% to MYR 3.7 billion on lower revenue and thinner spreads, and profit after tax fell 36% to MYR 2.5 billion. Nonetheless, EBITDA margin remained healthy at 31%.

For further detail of financial performance, I would like to hand over to 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's performance on Slide 5 before moving on to the segmental performances.

Now, comparing third quarter 2019 against third quarter 2018. As indicated before, global GDP decelerated in the third quarter driven by slower growth in all major economies as trade conflict between U.S. and China intensified. Global PMI continued to weaken, falling to the contraction level of 49.5 due to the global economic slowdown. This put down the benchmark Brent price to USD62 per barrel in third quarter 2019, 18% lower than what was recorded in the third quarter of 2018. Consequently, average petrochemical product prices fell further dampened by softer market demand.

Similar to the third quarter of 2018, in the third quarter of this year, we undertook a number of statutory turnaround activities at several major facilities. However, group plant utilization for the quarter was recorded at 81%, an improvement from 79% in the corresponding quarter, mainly due to overall better plant performance. Correspondingly, production in sales volumes improved.

Despite the higher sales volume, revenue was lower by 24% mainly due to lower product prices. EBITDA decreased 44% to MYR 950 million due to lower spreads, partially offset by higher sales volume and positive foreign exchange impact. EBITDA margin for the quarter was 25% due to lower sales of ethane based products. Profit after tax also reduced by 54% at MYR 558 million following lower EBITDA and partially offset by lower tax expense.

Next, we move on to the group financial performance against the preceding quarter, that is second quarter of 2019. Now, global GDP decelerated from 2.7% to 2.66% on continued global economy uncertainties. Global PMI declined quarter-on-quarter due to ongoing trade tensions coupled with

weak demand. Crude prices were pressured by weak macroeconomic outlook, dampening the outlook for oil demand. Consequently, Brent price fell from USD68 per barrel in second quarter 2019 to USD62 per barrel in the third quarter of this year. Despite the lower crude oil prices, average product prices were slightly higher compared to the preceding quarter, pushed up by higher prices for benzene, propylene and MTBE. The group recorded lower plant utilization at 81% compared to 100% in the preceding quarter, mainly due to statutory turnaround and higher level of maintenance activities undertaken during the quarter. Consequently, sales volume was lower, in line with lower production.

Now, quarter-on-quarter, revenue decreased 15% to MYR 3.7 billion, largely due to lower sales volume. EBITDA was lower by 40% at MYR 950 million, mainly due to lower revenue and higher maintenance costs due to the turnaround period. EBITDA margin was lower on lower sales of ethane based products. Profit after tax decreased 50% at MYR 558 million partially offset by lower tax expense.

Let's now look at the performance for the 9-month period of 2019. Year-on-year, GDP growth decelerated as the prolonged trade tension between the 2 majors has negatively impacted in global manufacturing sector as well as international trade. Global PMI declined to the breakeven point of 50 in 2019 signaling a deteriorating business conditions in major economies. Brent price decreased from USD73 per barrel in the 9-month period last year to USD65 per barrel as weak macroeconomic outlook triggers concerns about oil demand.

Subsequently, overall average product prices were lower than corresponding period in tandem with lower feedstock prices and softer demand. Despite the comparable turnaround and maintenance activities undertaken by the group, plant utilization was higher at 93% compared to 91% in the corresponding period. Nonetheless, production and sales volumes were comparable.

We recorded a lower revenue of MYR 12.1 billion, largely due to lower product prices. EBITDA was lower by 30% to MYR 3.7 billion mainly due to thinner spreads, lower sales volume and partially offset by positive FX impact. Profit after tax also decreased 36% to MYR 2.5 billion following lower EBITDA and net share of losses from JV and associates as compared to net share profit in the corresponding period. In addition, there is an impact of foreign exchange gain on the company's shareholder loans pursuant to the divestment of 50% equity interest in a statutory in the corresponding period.

Now the next 2 slides show a granular breakdown of the performance by segment. I will leave this for your consumption. So perhaps we can move on to an update on the balance sheet and cash flow on Slides 8 and 9.

Now let's look at our balance sheet and cash flows. First, the balance sheet on Slide 8. For the 9-month period ended 30 September 2019. Total assets was higher by MYR 1.5 billion to stand at MYR 38.8 billion, primarily due to 3 reasons: number one, increase in the capital investment related to our petrochemical project in Pengerang; number two, acquisition of Da Vinci in September 2019; and number three, higher deferred tax assets following recognition of investments tax allowance at a subsidiary during this quarter.

Let's now turn to our cash flow on Slide 9. Cash generated by operating activities was lower by 9%, primarily contributed by lower profit generated and partially offset by lower working capital requirements during the year. Net cash used in investing activities was higher at MYR 2.4 billion, mainly for the acquisition of Da Vinci Group in September compared to a consideration received from Aramco on divestment of 50% equity interest in PRPC Polymers in the corresponding period.

At the end of 9-month period, we have a strong cash balance of approximately MYR 12 billion to rigorously pursue our growth agenda.

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

*En. Mahadzir Rani, Chief of Manufacturing:*

Thank you, Rashidah. Good afternoon, everyone. Mahadzir here. Let me share the operational highlights for the quarter. Please refer to Slide no. 10. Our performance in quarter 3 2019 recorded lower plant utilization rate than the preceding quarter in view of heavy turnaround activities undertaken during the quarter. As guided previously, we expect that PU will be lowest in quarter 3 this year as we will undertake most of the plant turnaround and shutdown during the period.

Plant utilization for quarter 3 2019 was recorded at 81% with turnaround and maintenance activity at 6 of our PCG sites, namely the Fertiliser plant in Sabah, Olefins plant in Kerteh, a Glycols plant in Kerteh, Derivatives plant in Kerteh, LDPE plant in Kerteh and also Ammonia plant in Kerteh.

At the end of quarter 3, we remain on track with our planned production volume this year, and I'm pleased to report that year-to-date 2019, September 2019 plant utilization remains high at 93% for the group. Based on our projection, we should be able to deliver the production of above 10 million tonnes for the year as guided before.

For Olefins and Derivatives, please refer to Slide 11. Quarter 3 plant utilization for Olefin and Derivatives segment dropped to 78% mainly due to the planned turnaround activities conducted at PC Olefins, Glycols and Derivatives and also PC LDPE. Alhamdulillah, the turnaround was safely completed in early October 2019 within 30 days without major incidents.

Ethylene production was recorded at 185,000 metric tons during the quarter. And Alhamdulillah, our cracker at PC Ethylene was running well to support the ethylene demand during the turnaround period.

For Fertiliser and Methanol, please refer to Slide no. 12. The F&M segment, quarter 3 plant utilization performance dropped to 83% mainly due to the planned turnaround in PC Fertilizer Sabah during the quarter. As to methanol, we have seen stable performance of our methanol plants following good plant performance and reliable feedstock supply.

And then next, I'll move to PIC-Petchem updates, project updates. Please refer to Slide 13. For project updates, as of year-to-date September 2019, overall progress for PIC-Petchem was at 99.4%. For your information, our LLDPE and polypropylene plant achieved 100% startup progress, while the other 2 products, namely polypropylene-spherizone and EOEG is expected to achieve product rundown in quarter 4 2019. HDPE is expected to proceed with ready for startup in quarter 4 2019. The same thing with PC INA. Performance test run for all PetChem plants will be executed in fourth quarter 2019.

Now for Aroma project, if you refer to Slide 13, for the updates on the aroma complex, the first testing round completed safely in May 2019. The menthol plant is progressing as planned in terms of production ramp-up after completed maintenance activities with isoprenol production stabilizing at 80% capacity.

As a conclusion, the quarter's performance, the group plant utilization for the quarter, basically is impacted in view of heavy turnaround activities undertaken during the quarter. The turnaround recorded remarkable achievement by completing, we have completed it ahead of time without major safety incident.

Moving forward, performance has run for PIC-Petchem will start in quarter 4 in view of successful start-up of 2 petrochemical product, namely LLDPE and polypropylene.

I think that's all that I have for the operational highlights, I would like to hand over to Shamsairi for the market performance and outlook. Over to you, Sham.

*En. Shamsairi Ibrahim, Chief of Commercial:*

Thank you, Mahadzir. Good evening, everybody. Shamsairi here reporting the market highlights, mostly on ethylene. Please refer to Slide no.15. In general, market remains soft as crude oil price is stable with the continued uncertainties surrounding the U.S. Chinese trade war.

In quarter 3, ethylene price continues to soften, following lower demand from downstream and soft crude oil price despite the drone attack in Saudi's facility back in September. Ethylene price for the next 3 months is anticipated to be stable despite scheduled cracker turnaround in quarter 4 as it's balanced by maintenance shutdown at downstream plants. Furthermore, softening of oil price, coupled with lower downstream demand, adversely impact Ethylene prices.

Several crackers in SEA and North East Asia are scheduled for turnaround which will reduce Ethylene supply in the market. However, the impact of short supply is negated by lower demand from downstream plants, following maintenance shutdown and uncertain market scenario. Ethylene price gain also is limited by the weak downstream product prices. This is also in line with crude oil outlook, which is expected to remain stable for the next 3 months.

Moving on to polymers. Average prices in quarter 3 were lower compared to the previous quarter, following the uncertainty surrounding U.S. China trade war. Softer polymer prices are anticipated to continue in the next 3 months in view of the ongoing discussion of the trade war, further impacted by subdued demand towards year-end. Despite several plant turnarounds scheduled in South Asia, supply loss is mitigated by availability of import cargoes from the U.S., coupled with high inventory in China. Supplier may also be pressured to clear year-end inventories at lower price levels.

Demand for Asia remains bearish with limited buying interest coupled with concerns on the trade war. However, it is expected to slightly rebound in January in view of Chinese New Year festivities.

Moving to MEG. MEG price continued to soft in quarter 3 as inventory levels in China remain high. MEG price is projected to continue to soften in the next 3 months with the additional capacity in the market and end of polyester season despite China main port inventories reached lower this year. Concerns on additional supply from new capacity, such as U.S., China and also in Malaysia will put pressure on prices. Demand from downstream is also weakening as most of textile converters have already finishing up the order for the year-end holiday season.

As for paraxylene, paraxylene price in quarter 3 are stable compared to the preceding quarter mainly due to stable demand supported by PTA startups, balanced with sufficient supply. PX price is projected to be stable with balanced supply and demand. Supply will be short in Asia amid downstream plant turnaround, in addition to lower operating rates at major Japanese, Korean and

Chinese aromatics producers due to poor margin. PX demand is expected to remain soft following weakening demand for PET bottle chip and polyester.

Moving forward, please refer to Slide 16 for Fertiliser and Methanol. Prices are at similar level for both quarters in view of tender announced by Indian government in quarter 3 amounting to 1.7 million tonnes. Supplier for a tender mostly came from China. Urea prices are forecasted to remain stabilized for the next 3 months in view of a further India tender on 14 October, negated by lower demand in South East Asia and China cargo surplus.

India issued a tender to purchase 1.2 million tonnes in October, with most volume to be supplied from China and Middle East. India is also expected to offer another tender this month and estimated volume for another 1 million tonnes. Countries in South Asia are now facing monsoon season where some countries are flooded. And on top of that, there is high inventory in certain countries. This may negate the impact on India tenders. Chinese producers are actively exporting Urea as export price is better than domestic price. However, if export price drops lower than domestic price and Yuan is strengthening against the dollar, there will be less Chinese cargo in the market. Market in the coming months may be less active as buyers are holding out from buying in expectation of even lower price.

Moving on to ammonia. Prices of ammonia in quarter 3 were lower compared to the preceding quarter despite limited supply due to turnaround in South East Asia and Middle East, while demand is mainly fulfilled under terms with less spot opportunity. Ammonia prices for the next 3 months are expected to be stable mainly due to lower production resulting from plant shutdown from major producers. However, this is negated by stable demand as most buyers are focusing on fulfilling term requirements. Supply is short with supply disruption reported in Middle East and Trinidad and on top of limited natural gas supply as end consumer's usage for heating during winter. Demand is stable with less spot deals concluded as Asian players are focusing on term requirements except for new Indian tender.

Lastly on methanol, Methanol price is lower in quarter 3 due to high inventory throughout the region due to the lackluster downstream demand. Methanol prices to remain stable for the next 3 months on the back of balanced supply and demand. A few plants in Asia are commencing their mandatory quarter 4 shutdown. Demand for biodiesel will continue to rise with the increment of biodiesel blend from 20% to 30% in January 2020 and 50% by end 2020 in Indonesia. As for Malaysia, B10 has already kicked off in last September. This give this some hope for prices to sustain at current level.

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

**Datuk Sazali Bin Hamzah, CEO:**

Thank you, Shamsairi. Ladies and gentlemen, we seem to be in uncertain times. The global economy has been seeing to decline as the tension between China and U.S. continues to impact the manufacturing sector, trade movements as well as business sentiments.

The petrochemical commodities, which track GDP, has been weakening, further impacted by supply increase as new capacity come onstream. However, the Asia Pacific region, which has always been our focused market, continued to show the strongest growth despite overall weaknesses. This continues to stress the importance of our 2019 focus areas as well as 2020 later on, not only to ensure that we sustain our operation but also to ensure that we deliver on our growth strategy and projects for continued value creation for future years.

Speaking of value creation, we are all at the tail end of bringing up our plant in Pengerang, as mentioned by Mahadzir earlier. This is our final push as we continue to commission plant in stages and hope we will stabilize operation by end of the year.

And that brings us to the end of our update for this quarter, and let's move on to question and answer. Thank you.

**Operator:** Your first question comes from the line of Vinit Joshi from Goldman Sachs.

***Vinit Joshi, Goldman Sachs***

It relates to the PIC Petchem project. As for the PPT, you are looking for performance test run until second quarter of 2020. I have 3 questions. First, what will be the average utilization rate for all the units in 2020? Second, when can you reach full utilization rate for all this together? And third, does this mean there could be no major profit contribution for the full year as initially there could be impact from depreciation?

**Datuk Sazali Bin Hamzah, CEO:**

Okay. Thank you, Vinit. Your first question is you're asking that 2020, what is the average utilization that we are looking at. So I'm looking at probably around between 60%-80% utilization because this is the first year operation. Off course we will push as high as possible. But normally, it is around that ranges.

For the second question, on when the unit will be fully up, for chemicals, I would say that probably by the first quarter, we should be able to reach a full ramp up rate, it's according to the plant, but it's solely subject to the refinery and cracker. And then the third one, contribution in 2019 may not be any contribution in term of financial, because we just ramped it up, we will see some contribution in 2020. That's what we believe.

***Vinit Joshi, Goldman Sachs***

So there's no official guidance in terms of what could be the contribution for 2020?

**Datuk Sazali Bin Hamzah, CEO:**

At the moment, it's a little bit difficult. Let's wait until probably half of the year, then you have a better clearer picture. But as I mentioned, the stabilization may only reach within the first half, which is third quarter next year, and from there, we would be able to have a better guidance again.

**Operator:** Your next question comes from the line of Alex Goh from AmBank.

***Alex Goh, AmBank***

I have 4 questions. To start off that first question, if you refer to Page 10, you've indicated the turnaround activities for 6 plants. Could you tell us how long was the turnaround activities? And when were those activities completed? That's the first question. And my second question is in the fourth and first quarter next year, fourth quarter this year and first quarter next year, are there any turnaround activities on major maintenance activities? And my third question is, if I look on your JV line, there are still some losses in your joint ventures and associates. What was the reason for those losses? Is that a continuation from the second quarter? And do you see any reversal in the fourth quarter? And my fourth question is that following on the first question earlier about the guidance on PIC, you've indicated earlier that the potential impact could be quite negligible because of the ramp up. Can I just confirm whether that is still the case?

Datuk Sazali Bin Hamzah, CEO:

Can you repeat question 4?

**Alex Goh, AmBank**

The impact on the PIC on the overall group's earnings. I believe that you indicated, it may not be that significant in 2020 for you to ramp up the production?

En.Mahadzir Rani, Chief of Manufacturing:

Hi Alex. This is Mahadzir. I will take up your first 2 questions. The turnaround activities specifically took place in our fertilizer plant in Sabah. This is completed on the 1st of July until 13 of August. It's about 43 days. Olefin plant and Glycol plant and Derivatives plant basically in Kerteh started from 18 of August for about 43 days all together. And then basically, the activity that we have conducted at LLDPE as well started on 22 August and completed on the 2nd of October, and it's about 41 days. And also the same thing with Ammonia plant happened concurrently in the 15 till 21st of September. So all in all, we have basically delivered the turnaround activities. I think this is the best ever that we achieved in terms of duration and then also HSE as well.

And then for the question no.2, in the fourth quarter 2019, there is no planned activities on the TA. For the first quarter 2020, there is one planned activity in our methanol plant.

**Alex Goh, AmBank**

Sorry, how long will the first quarter, the turnaround activity for the methanol plant, how long would that be in the potential?

En.Mahadzir Rani, Chief of Manufacturing:

Roughly around 30 days.

Datuk Sazali Bin Hamzah, CEO:

Okay. I think I will answer question 3, which you are asking why the JV still indicate losses. If you look at the overall, it's actually the JV contribution, we are positive EBITDA. And the contribution this year to date is better than last year. Why? Because mainly two reasons. PPC is the one that caused losses mainly because of we have aroma major turnaround for statutory that caused a long duration of turnaround. That's one. Secondly also, we have a BDO pit stop that caused also loss in productivity. But as far as EBITDA, we said we are positive, and we also have started to pay the loan that we fund for aroma project. So we are seeing that we are in the right track now. So hopefully, next year will be a better path.

So going back to question 4, impact on PIC in 2020. As you mentioned, as of now, I would say also that there will be not-so-material impact on financial contribution that based on the current situation, I would say that maybe if there is also, it's very minimal.

**Alex Goh, AmBank**

Just to go back on my third question, do you see a turnaround on overall net profit, profit after tax for the JV side in the fourth quarter? Do you see it going to the black in the fourth quarter or first quarter?

Datuk Sazali Bin Hamzah, CEO:

That was our aspiration, if everything is in plan, it's supposed to be like that. But again, aroma is not an easy plant to operate. So we are now in the right track. Actually, we compared our reliability as



compared to last year, it's a lot better. And I guess our operation team was now getting handle of the plan better. So hopefully that is the black.

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

**Mayank Maheshwari, Morgan Stanley**

Yes. A couple of questions from my side. First was regarding PIC. Can you give us a bit of a detail about when would ethylene and the refining plant get commissioned? And until then, what's your plan in terms of ramping up on the PE side? The second question was more related to contribution, if you can give us some absolute numbers since EBITDA has turned positive for Aroma plant and how's the profit contribution for the same as well? And the last question was more related to costs. Because of this turnaround, can you give us an idea how much has been the impact on cost because of the turnarounds last quarter?

**Datuk Sazali Bin Hamzah, CEO:**

Okay. First, let me answer the PIC plan. So at this moment, our refinery cracker is reaching stabilization already. And we are now in the process of stabilizing the all the Polymer plant. It's one unit that will be done by end of the year and another unit, specialty INA, so we'll do it by the end of the year. The rest is already commissioned and will reach stabilization. So you asked about refinery and cracker as far as and also RFCC, they are in the already flat and reached stabilization. And the ramp up will be done step by step because we are also changing the diet as a result of the ARDS fire incident early of the year. So all the plan is in according to our ramp-up at the moment.

The second thing, the absolute number of EBITDA for Aroma plant, I think I can't disclosed this, but I would say that it is positive, many positive but we'll still not be able to pay our loan, but I think that's where we are at where we are now. And the average utilization also still low if we look at 2019. But it is a great at where we are now, it's already about 80%. So we are comfortable with that. And moving forward, if we will be able to maintain and it will be a good sign for us.

And the third one, the TA impact on from TA in 3 quarters, actually, it is still within our budget. As far as every year, we budget. I think the turnaround team has done a very good job. They execute all this turnaround within time, not within actually earlier than the target time as far as the costs. I think that's what I can share with you.

**Mayank Maheshwari, Morgan Stanley**

Okay, okay. And sir, if you can kind of just on this last point that you mentioned regarding cost and certain budget. Can you just highlight how is the budget looking like for this year and next year?

**Datuk Sazali Bin Hamzah, CEO:**

Our operational OpEx is about RM800 million, that includes the turnaround as well as the normal operating CapEx. So if you look at the trend year-to-year, that is about our level.

**Mayank Maheshwari, Morgan Stanley**

Next year, we should expect similar or...

**Datuk Sazali Bin Hamzah, CEO:**

Not slightly, not a lot but much lower because we expect next year turnaround will be much lower than 2019 because as far as I mentioned in the past, 2017, '18 and '19 is heavy turnaround. So 2020, 2021 is a lean turnaround year.

**Mayank Maheshwari, Morgan Stanley**

Okay. So we can expect that 100% utilization rate kind of levels for the plant...

**Datuk Sazali Bin Hamzah, CEO:**

I wish, pray for us, but as I mentioned, as long as we can run about 90%, that will be good.

**Operator:** Your next question comes from the line of Piyanan Panichkul of UBS.

**Piyanan Panichkul, UBS**

My first question is regarding inventory write-down that you mentioned in your page 4 of the presentation. How much would that be? And what business is this related to? The second and third question is also regarding the startup of PIC. How much was the utilization of the upstream cracker? What is the utilization rate right now that you mentioned that they already achieved a stable run rate? And I just wonder, with specifically with your PP plant have that been started? And when do you expect that to kind of achieve a stable run rate?

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

Hi, Piyanan. For the inventory write down as disclosed in our quarterly report to Bursa, so for the quarter, that's about MYR 63 million, and cumulatively, we have written down MYR 106 million. You can find this information on our Bursa report Page 17, and this is mainly relating to some of the performance chemicals product. This is the ethylene, the ethane-related products, downstream products. That is biggest hit when it comes to the drop in prices.

**Datuk Sazali Bin Hamzah, CEO:**

Okay. Your second question is a startup utilization of refining and cracker. Okay, for this unit, we have tested at both units, they're 100%, no issue. But at this moment, because we are doing the debugging our downstream system for chemical EOEG, and also ramping up of ethylene and PP plant, so the average, I think, now it's about probably between 60%, 70%. And it's gradually increase up based on the chemical unit. Yes? Okay. That's question no.2.

Question no.3, when will the PP achieve stable rate? Okay. At this moment, the first train has reached stabilization. So we are going to test the second train, and hopefully, by the end of the year, we'll be able to achieve that stable rate of both trains.

**Operator:** Your next question comes from the line of Galvin Wong from Aberdeen Standard.

**Galvin, Aberdeen Standard**

Just wanted to check with you. So you mentioned for RAPID, the contribution will probably be minimal in 2020. But in the ramp-up stage, especially for Q4 this year and Q1 next year, will you actually be on the loss-making on the PET level?

**Datuk Sazali Bin Hamzah, CEO:**

For RAPID's contribution, what I say is minimum. Whether it is making money or lose profit or not making money is still a big question for us because at this moment, it depends on how fast that can stabilized unit, that's one. Secondly, at least, our target is to get EBITDA positive. So yes, our aim for at least the first half or 3/4 of the year.

**Galvin, Aberdeen Standard**

So the aim is to get EBITDA positive for the first half of the year?

Datuk Sazali Bin Hamzah, CEO:

Correct, correct.

**Operator:** Your next question comes from the line of Alex Goh from AmBank.

**Alex Goh, AmBank**

Just one question to follow-up from my earlier question. In terms of your plant utilization for fourth quarter, you have no turnaround activities at all. Do you think it can reach 100% in this fourth quarter?

En.Mahadzir Rani, Chief of Manufacturing:

We are trying very hard and we wish we can achieve that.

Datuk Sazali Bin Hamzah, CEO:

But we expect, hopefully, it's higher than definitely quarter 2, quarter 3. I think that's a target. Whether it can be 100%, I think, too early to say, but we still have 1.5 months. So anything can happen. Hopefully.

**Operator:** Your next question comes from the line of Anshool Singhi from JPMorgan.

**Anshool Singhi, JP Morgan**

I had a quick couple of questions. Are there any maintenance costs related to the TA in 3Q '19 which have to be recognized in 4Q '19? Or everything has been recognized in the third quarter?

Pn.Rashidah Binti Alias, CFO:

No. I'm sure everything has been recognized in quarter 3. Nothing that was still over into quarter 4.

**Anshool Singhi, JP Morgan**

Okay, thank you. And our other question was about the refinery commission. Can you provide an idea of when that will be, what is going on for the PIC refinery, the refinery segment?

Datuk Sazali Bin Hamzah, CEO:

Can you repeat your question, Anshool? You said that RC commissioning? Was it the question?

**Anshool Singhi, JP Morgan**

Yes. So the refinery, what is the current progress for the refinery of the PIC, if any segment of the PIC is testing the plant? My main question is around the feedstock for your cracker, where is it coming from right now?

Datuk Sazali Bin Hamzah, CEO:

I see. Okay. It's coming from the refinery side. Okay. So I think there is no issue on the feedstock side from the refinery itself, but we have not considered to bring import naphtha, mainly because at this moment, it is better to run a straight run rather than import naphtha or even import ethylene or propylene to fit our Petchem due to optimization.

**Anshool Singhi, JP Morgan**

This is the same thing you're going to do for the in 1H '20 as well.

Datuk Sazali Bin Hamzah, CEO:

Yes. Yes. Of course. Yes. We have all the LP program, then we will run based on the best feedstock mixed.

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

**Anna Park, Macquarie**

Just want to confirm your previous answer. I'm sorry, but could you repeat your 2019 maintenance budget?

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

Hi, Anna. It's roughly about MYR 800 million and that includes everything, turnaround, the normal maintenance activities day-to-day CapEx.

**Anna Park, Macquarie**

If possible, could you share more details on the maintenance expense, particularly for Q3?

**Datuk Sazali Bin Hamzah, CEO:**

Anna, I'm not sure what the question is. But what I would say that for maintenance cost, it actually depends on the turnaround. Mainly if the high turnaround year, which is like '17, '18 and '19, we expect the maintenance cost for turnaround is much higher and overall maintenance also much higher. But next year, we expect it's a bit lower because the cost for turnaround will be much less. That's the indicative we can give. But if you ask for the detailed maintenance cost, I'm afraid that we would not be able to share.

**Operator:** Your next question comes from the line of Vinit Joshi from Goldman Sachs

**Vinit Joshi, Goldman Sachs**

I have 2 more questions. One, you mentioned that the refinery is looking to change its diet because of the accident. Can you just provide more color on that? Are you moving more towards sweeter crude grade? And is that challenging because premiums for sweet crudes have risen? And second question is what would be the depreciation impact? I think I wanted to ask this initially as well, what would be the depreciation impact of the PIC project in 2020?

**Datuk Sazali Bin Hamzah, CEO:**

Okay. Yes. We are looking for the alternative diet, and we have gotten it, and we have tested. In terms of margins, I don't think it is much impacted because we have a lot of choices, yes. And you are right, it is much light, not light, it's sweeter crude mix because we are bypassing 100% ARDS. So system-wise, we don't see any limitation at the moment. As I mentioned, it is probably it is too early to say until we have gradually ramped up until finish of quarter 1 and we would say that it is achievable or not. And then whether it is impact in...

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

In depreciation, depreciation impact.

**Datuk Sazali Bin Hamzah, CEO:**

So I don't think any impact on depreciation in 2020 again.

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

We will start recognizing some depreciation. It will start to be recognized progressively as and when respective plans come on stream or start commercial operations. I mean I'm quite sure you're able to calculate again, our CapEx is very consistent. We'll be depreciating it anywhere between 20, 25 years, our normal depreciation rate from the costs that we have also disclosed in the past. But exact depreciation for 2020 will be within that range but of course a bit lesser because it depends on the startup of respective plants as Datuk mentioned.

**Vinit Joshi, Goldman Sachs**

Okay. So you'll do more like a plant by plant is commissioned, you will just replicate that plant rather than when everything is fully commissioned, then you do for the entire investment one together.

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

Yes. Yes. Yes. It's a componentized depreciation method, still in compliance with the standard. So we'll do it as and when, yes, each component is ready for use.

**Operator:** There are no further questions at this time. I would now like to hand the conference back to today's presenters. Please continue.

**Ms Zaida Alia Shaari, Head IR:**

Okay. If there are no questions, we shall close the session. If you have any follow-up questions, you can e-mail us directly. Thank you, everyone.

**Datuk Sazali Bin Hamzah, CEO:**

Thank you.

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

Thank you.

**En.Mahadzir Rani, Chief of Manufacturing:**

Thank you.

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