

EVENT	:	4Q 2019 PETRONAS CHEMICALS GROUP BERHAD EARNINGS CALL
DATE	:	27 FEBRUARY 2020, 1500HRS
PCG PARTICIPANTS	:	Datuk Sazali Hamzah, President/CEO Pn. Rashidah Alias, CFO En.Mahadzir Rani, Head of Manufacturing En. Shamsairi M Ibrahim, Head of Commercial Ms. Zaida Alia Shaari, Head of Investor Relations
CALL PARTICIPANTS	:	Alex Goh, AmlInvestment Bank Ajay Mirchandani, JP Morgan Anna Park, Macquarie Mayank Maheshwari, Morgan Stanley Piyanan Panichkul, UBS Oscar Yee, Citigroup

Operator: Ladies and gentlemen, thank you for standing by, and welcome to the PETRONAS Chemicals Group Analyst Briefing for Fourth Quarter 2019.

Please be advised that today's conference is being recorded. And I would now like to hand the conference over to your first speaker today, Alia. Thank you. Please go ahead.

Ms Zaida Alia Shaari, Head IR:

Thank you, Ishi. Good afternoon, ladies and gentlemen. This is Alia, Head of Investor Relations. Welcome to our first analyst briefing in 2020. We hope everyone has been in the best of health. As explained in our invitation, we were not able to schedule for this briefing to take place earlier or right after the release of the announcement yesterday, due to several unavoidable circumstances. We would like to apologize for any inconvenience this caused. Considering all factors, this is the best slot to ensure that you have access to all our senior management today. Thank you for your patience and understanding.

We are pleased to have with us today the senior management of PETRONAS Chemicals, led by our CEO, Datuk Sazali; our CFO, Madam Rashidah; Head of Strategy, Planning and Ventures, Mr. Akbar; Head of Manufacturing; Mr. Mahadzir; and Head of Commercial, Mr. Shamsairi. I shall now hand you over to Datuk Sazali.

Datuk Sazali Bin Hamzah, CEO:

Okay. Okay. Thank you, Alia. Good afternoon, ladies and gentlemen. Let me set with this 2019 years, ya. We are set against off a backdrop of unresolved trade war and economic headwinds, as you know. And our global economy is has been declining with the slowdown of international trade and the manufacturing sector.

Global GDP growth declined year-on-year from 3.2% in 2018 to 2.6% in 2019, on continued trade dispute between U.S. and China, while change in talk outcome between the 2 largest economy added volatility to the market.

Global PMI eased to the breakeven point of expansion and contraction of 50 down to 52.9 in 2018, indicating the deteriorating business conditions in major economy. As the manufacturing sector has been uninspiring, while production growth and new orders were marginal.

For crude oil, the economic slowdown has led to softened demand growth, which in turn has exerted downward pressure on prices. By the end of '19, the benchmark crude averaged at USD 64 per barrel compared to \$71 per barrel in 2018. Given the macroeconomic conditions, the slowdown in the manufacturing sector and overall economic decline, the petrochemical industry was a challenging one.

If you could recall in last end of the year or early of 2019, I did give some hints saying that 2019 is expected to be much tougher as compared to 2018, ya, And product prices also have declined at an average of 20% year-on-year on lower feedstock prices, surplus volume and dampened demand. Yes, let me turn to the next page here next slide.

Okay, ladies and gentlemen, the weak macro economy significantly weighed down business sentiment. Nevertheless, in maintaining our focus on our operations and element within our control, I'm proud to share with you our set of results for the year 2019.

This year, we saw the last of a series of major turnaround of our plants in 3 years. During the year, we undertook TA activities at 6 of our plants, including our largest Urea plant, PC Fertiliser Sabah; our largest cracker, PC Olefin and its integrated downstream facilities. And as responsible chemical producer, our safety has already been our priority.

So underpinning HSE in our operation, we managed to complete our turnaround and operation for the year with an improved safety record, recording lost time injury frequency of 0.8 compared to 0.13 in 2018.

This has been our best HSE performance so far. Despite the heavy turnaround schedule, we maintain our sales volume as per FY 2018 at 8.4 million tonnes for products sold. And our initiative of "looking through the customer's lens, saw us working with customers to co-create at least 13 high-impact solutions to address their individual needs. This in line with our vision to be a solution partner.

I'm also happy to record that on safety. Last year, we have recorded 0 fatality, including the man hours that we took across our transportation. We are handling thousands of logistic transportation. And last year, we have managed to avoid any fatality incident, and then it was the best record that we have achieved.

Further to that, we also continue to focus with our growth despite the challenging business environment. With the current cash position that we have, we manage to add another group of product to our portfolio with the acquisition of Da Vinci Group. With the added silicon and silicon-based product to offer, we expect that we will be able to better meet our customers' increasing complex needs as well as diversify our product portfolio, and that gives a more stable margin for our business as a whole.

Being said that as a chemical company involved in the manufacture of consumer goods materials such as detergents, synthetic fibres, plastic, dyes, perfumes and fertilizers, our performance is tied to the condition of the macroeconomic landscape and the GDP movement. Given the year that PCG that was PCG like our peers recorded lower earnings on a weaker overall market.

Revenue declined by 16% to MYR 16.4 billion on lower product prices, and our EBITDA was 36% lower at MYR 4.4 billion due to compressed margin and profit after tax, plus 43% to MYR 2.8 billion.

As part of Petrochemical business, it is a cyclic business, and we feel that we are now at the bottom of the cycle. And in order to go through this, our operational and commercial excellence play in a very critical contribution in ensuring that we capture our value.

So to elaborate further on financial performance, I would like now to hand over to Madam Rashidah.

Pn.Rashidah Binti Alias, CFO:

Thank you, Datuk Sazali. Ladies and gentlemen, a very good afternoon, and thank you for joining us. We will start with the group performance on Slide 5. Let's start with the comparison of the performance in fourth quarter 2019 against fourth quarter of 2018.

Now, the global GDP decelerated in the fourth quarter 2019 at 2.5% compared to 2.8% in the fourth quarter of 2018, due to slower growth in all major economies. The global PMI decelerated, falling to 50.1 compared to 51.8 in the same quarter last year, due to a slower global manufacturing sector. The benchmark Brent crude decreased to \$63 per barrel in fourth Q 2019, which is 9% lower than what was recorded in fourth Q of 2018.

Consequently, average petrochemical product prices fell, further dampened by softer market demand. During the quarter, PCG recorded lower plant utilization of 89% as compared to 94% in the corresponding quarter, mainly due to higher level of maintenance activities undertaken during the quarter. As a result, production volume was lower.

However, sales volume was higher due to product drawdown from our inventory. Despite higher sales volume, revenue was lower by 16% at MYR 4.2 billion, mainly due to lower product prices and negative foreign exchange impact.

EBITDA decreased 56% to MYR 750 million due to lower debt, partially offset by higher sales volume. EBITDA margin was lower at 18%. Profit after tax also fell 70% to MYR 312 million with lower share of profit from our JV and associates and foreign exchange loss on the company's shareholders loans, which are provided by PCG through Pengerang Petrochemical Company.

Now moving on to the group's financial performance against the preceding quarter, which is third quarter of 2019. Now global GDP continues to decelerate in fourth Q 2019. Breakthrough in trade talks between China and the U.S. did little to stop the economic decline. Global PMI, however, expanded and surpassed the 50 level at 50.1 with some recovery in the global manufacturing sector, particularly the U.S. and China.

The Brent's crude price recorded a marginal increase from \$62 per barrel in third Q 2019 to \$63 per barrel in fourth Q 2019 on positive market developments as well as geopolitical tensions in the Middle East. Group plant utilization improved from 81% to 89%, mainly due to lower level of

statutory turnaround activity, when compared to the preceding quarter, as well as higher ethane supply. As a result, production and subsequently, sales volume, increased.

Quarter-on-quarter, revenue increased 15% to MYR 4.2 billion, largely due to higher sales volume. However, EBITDA was lower by 18% at MYR 750 million, mainly due to compressed margins. EBITDA margin fell from 25% to 18%. Profit after tax decreased 44% to MYR 312 million following lower EBITDA and foreign exchange loss on the company's shareholder loans, which I mentioned earlier, and this is partially offset by lower tax expenses. Let's now look at the performance for the 12 months period of 2019.

Ladies and gentlemen, you have heard from Datuk Sazali earlier how world GDP and PMI has declined year-on-year due to the slowdown of the manufacturing sector and overall deterioration in business conditions. Brent's price declined on a weaker macroeconomic environment. And subsequently, average chemical product prices fell in tandem.

For PCG, we achieved plant utilization at 92%, as we did in 2018. Both our production and sales volume was comparable at 10.4 million tonnes and 8.4 million tonnes, respectively. Despite maintaining our production and sales volume, we recorded lower revenue at MYR 16.4 billion compared to MYR 19.6 billion last year, largely due to lower product prices. EBITDA was lower by 36% to MYR 4.4 billion, mainly due to compressed margins stemming from lower product prices and consequently, EBITDA margin fell to 27%.

Profit after tax fell 43% to MYR 2.8 billion, following lower EBITDA and net share of losses from JV and associates, which is partially offset by lower tax expense. I'm going to skip the olefins, the segmental performance. We'll take any questions that you may have at the end of this presentation.

If I can then move on to the balance sheet and cash flow on Slide 8 and 9.

First, the balance sheet on Slide 8. For the 12-month period ended December 31, 2019, total assets was higher by MYR 1.5 billion to stand at MYR 38.9 billion, primarily due to 3 reasons. Number one, increase in the capital investments relating to our petrochemical project in the Pengerang Integrated Complex.

Number two, acquisition of Da Vinci Group in September 2019.

And number three, higher deferred tax assets following recognition of investment-type allowance, incentives at a subsidiaries, essentially this our Samur project.

Let's now turn to our cash flow on Slide 9. Net cash generated by operating activities was lower by 17%, primarily contributed by lower profits generated, partially offset by lower working capital requirements during the year. Net cash used in investing activities was higher at MYR 3 billion mainly due to acquisition of the Da Vinci Group in September 2019. Whereas in the previous year, we had consideration received from our JV partner, Aramco, on divestment of equity interest in the PRPC company.

At the end of 12 months period, we have a strong cash balance of approximately MYR 12 billion to continue pursuing our growth agenda.

During the year, we paid our first interim dividend of 11 sen in September. On behalf of the management in Board, we are pleased to announce a second interim dividend of 7 sen per ordinary share. This brings the total dividend payout for the year to MYR 1.44 billion. The effective payout of

51.2% approximates our policy of 50% payout, reflecting the group's commitment to create value via shareholder returns. That is all on the financial performance. Over to Mr. Mahadzir for the manufacturing highlights.

En.Mahadzir Rani, Head of Manufacturing:

Thank you, Puan Rashidah. Good afternoon, everyone. Mahadzir here. I'm going to cover for the operational highlights. Please refer to Page 10.

Our operation in quarter 4 was stable with the plant utilization of 89%, amid some of the maintenance activities in our Bintulu and Labuan units. This improved from the 81% we recorded in quarter 3 last year.

At the end of 2019, we again surpassed the world-class benchmark achieving a PU rate of 92%, as we did in 2018, is comparable. We have delivered comparable production volume at 10.4 million metric tons, despite having undergone another year of heavy turnaround.

I believe we delivered outstanding performance for the turnaround, completing most plant TA's safely, ahead of our planned schedule, as mentioned by Datuk Sazali just now. So we have completed 6 plant turnaround last year.

So we completed our first turnaround at our newest fertilizer plant in Sipitang with a smooth start up post TA, we were also able to achieve the highest urea production volume since 2017 last year.

Okay. So now I'm going to segmental performance highlights in Olefins & Derivatives. For Olefins & Derivatives, with the completion of turnaround activities at PC OGD and PCLDPE, the O&D segment achieved 98% PU in quarter 4 2019 compared to 78% in the third quarter.

With improved feedstock supply and improved sector performance post TE, we were able to record our highest quarter ethylene production at 248,000 metric tons compared to the average of 246,000 metric tons. And then smooth running of our plants downstream of ethylene, such as PCLDPE also supported the higher production of ethylene.

Now I'm going to segment the operational operation at Fertiliser and Methanol. For Fertiliser and Methanol segment, we achieved 83% plant utilization rate in fourth quarter. After a successful turnaround carry out in the first time in Sabah, as I mentioned just now, in quarter 3 2019, plant operations since then have been very smooth.

Further to that, PC Fertiliser Kedah has performed well since it's TA in 2018. PC Fertilisers Kedah has achieved 100% plant reliability last year. And then it's stable operation, coupled with PC Fertiliser Sabah performance has resulted in the highest annual urea productions.

As to methanol, we completed unplanned maintenance activity in the fourth quarter last year to manage some of the plant threats that we faced earlier. We were able to sustain methanol operation of above 2 million metric tons for the year, and it is comparable to 2018.

For the project updates, please refer to Page 13. For PIC petchem, as of year-to-date December 2019, overall progress of PIC petchem was at 99.8% completion. We achieved 100% start up completion for linear low-density for polyethylene, LLDPE; polypropylene, PP-SPH and ethylene oxide, ethylene glycol EOEG-MEG & DEG plants. Performance Test Run for all petrochemical plants in PIC is expected to complete by quarter 2 2020, prior to commercial operations.

And also, Isononanol (inaudible) plant is currently in commissioning stage and is expected already for start-up within this quarter.

As for the operational recap, to conclude 2019 performance, we were able to sustain above 10 million metric tonne volume produced for PCG, and then it is comparable the production volume is comparable to 2018. We have recorded highest urea production for the year, for last year, for the year, at least recorded at 2.4 million metric tonne and able to sustain above 2 million metric tonne methanol production for the year.

We have undergone heavy turnaround activities in 2019 and recorded a remarkable achievement by completing ahead of time, safely, without major safety incident. And for that we are grateful for that.

For 2020, we will be lower in turnaround days. We only have 2 statutory turnaround for this year. The other nonstatutory maintenance activities and recent basically as per plan.

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

En.Shamsairi Ibrahim, Head of Commercial:

Thank you, Mahadzir. Good evening, ladies and gentlemen. Let's proceed with the market highlights. As mentioned by Datuk earlier, we would like to believe that we have, we already at the bottom on the cycle. Beginning of the year, demand has been on the decline before Chinese New Year, as what we have forecasted. This was further exacerbated by the COVID-19 epidemic thereafter. However, the situation on the containment of COVID-19 in China has been gradually improving in the recent weeks. With this improvement coupled with China-U.S. trade signed deals last December. We anticipate the market will stabilize in the next 3 months.

Now let's move on the performance by product. Firstly, on ethylene. In quarter 4, ethylene prices continued to soften following increased capacity, mainly from China and U.S., year-end destocking and lower downstream demand. Moving forward, over the next 3 months, ethylene prices is anticipated to be stable. Several crackers in South East Asia, North East Asia and Middle East are scheduled to go for turnaround, which will reduce ethylene supply in the market.

Ethylene price will be further supported by stable crude oil outlook with some anticipation of increased demand post COVID-19 outbreak.

Moving on to polymers. Average prices in quarter 4 were lower compared to previous quarter, mainly due to ample supply amidst stock clearing activities. Continued market uncertainties has also prolonged the sluggish demand in the market. Polymer prices are anticipated to be stable in next 3 months. Supply will be tight in the region following planned shutdown and turnaround in South East Asia and Middle East. Demand in South East Asia is stable, while there is anticipation of increased demand in China post COVID-19 outbreak.

Next to MEG, monoethylene glycol. MEG price continued to soften in quarter 4 with additional capacity on stream in the market, coupled with the end of polyester season.

Moving forward for the next 3 months, MEG price is expected to be stable in the coming months, supported by high polyester consumption amidst falling inventory as well as anticipation of

increased demand post COVID-19. Polyester operating rate was low during Lunar New Year holiday, which is now prolonged as plants delayed their operation.

In addition to logistic limitation following the COVID-19 outbreak. MEG inventory in China main ports remain at low level. However, a few upcoming new capacity additions are expected to come on stream ahead of schedule, that will influence the market.

And for Paraxylene, Paraxylene price in quarter 4 was stable compared to the preceding quarter, mainly due to stable demand, supported by PTA start ups, balanced with sufficient supply. Moving forward, for the 3 months forecast, PX price is forecasted to be stable. Supply is expected to remain balanced in Asia, following lower operating rates and turnaround in quarter 1, offset by volume from new PX plants coming on stream since last December.

PX demand will be supported by China PTA units, with average operating rate average around 80%, in addition to the new PTA units coming onstream. Positive outcome from US-China trade talks, as mentioned earlier, expected to support PTA demand.

Now let's move to Fertiliser & Methanol segment, starting with urea. Urea price in quarter 4 was soft due to subdued demand in view of the year-end holidays on top of fulfilled India requirement. Supply is ample, as there were no major shutdown or turnarounds in the market while producers are unable to sell due to lack of interest.

Moving forward for the next 3 months forecast, Urea price will continue to be stable in view of limited supply on the back of slow demand. Supply is foreseen to be limited due to reduced China production due to the outbreak since many workers under pressure to remain at home.

Additionally, Middle East producers have limited spot availability and are now focusing on contract commitments. Slow demand is ongoing as South East Asia is off from planting season from January until mid-April. However, India demand is expected to issue a new tender in March will further support is stable supply stable price.

Moving on to ammonia. Prices for ammonia in quarter 4 were higher compared to the preceding quarter amidst limited supply due to turnaround in South Asia, Algeria and Trinidad, while demand was mainly fulfilled under term with less spot opportunity.

Moving for the next 3 months forecast, ammonia prices for the next few months are anticipated to be stable, mainly due to lower volume availability resulting from planned shutdown of major producers. However, this is negated by stable demand as most buyers focus on fulfilling term requirements. Supplies is short with disruption in Australia and Russia on top of Algerian export licensing issues.

Meanwhile, players are waiting to see the impact of COVID-19 outbreak 2 years. There are assumption that reduced DAP the export from China, could also be translated to a positive of phosphate production in other region, which could help increase the consumption of ammonia.

Lastly, on methanol. Methanol prices is firm in quarter 4, as there was healthy demand due to restocking on top of shortage supply and gas was prioritized for heating during winter.

Moving forward for forecast the next 3 months. Methanol prices are expected to be stable following limited supply, balanced by slow demand except for biodiesel application. There is significant

numbers of outage in Middle East as the government prioritize gas supply, to residential, heating needs and natural gas shortage issue.

In SEA, supply is limited due to unplanned shutdown since December faces by the regional payer. Inventory are expected to remain low in the region. Methanol demand in China is expected to recover post COVID-19 outbreak. However, South East Asia demand for Biodiesel remains healthy as Indonesia B30 is planned to be implemented in March 2020. Additionally, demand for formaldehyde, acetic acid, MMA and MTBE has remained stable.

With that, I thank you. I pass to Datuk Sazali. Thank you.

Datuk Sazali Bin Hamzah, CEO:

Yes. Thank you, Shamsairi. Ladies and gentlemen, we expected a tough 2019 as it has been exactly what we had mentioned just now.

So with the protracted trade war, world GDP and PMI declined, with that, the manufacturing sector slowed and demand for chemical product dampened. New plant have been starting up adding new product into slow-moving markets. The impact of lower demand and falling product price were felt by all chemical players throughout all the regions.

Before I wrap up, the IMF has also predicted that the world GDP will hit 3.3% in 2020. Optimistically, this is higher than 2019. However, it is still among the lowest rate since the 2008 financial crisis. While we have seen some resolution in U.S.-China's talk, there's yet any clarity as to the impact of the Phase I implementation and when the next phase will come.

Crude oil is expected to remain weak on dampens demand as long as the trade tension continue and supply concern on potential noncompliance to the production curtailment proposed by OPEC.

For Petrochemical, we are expecting more plant to come on stream this year, added the surplus in the market. This surplus will take time to be absorbed as well. However, for any petrochemical player, location and access to low-cost feedstock is key.

In the sustainability and success of the company, where both of which PCG has always been and advantageous, in advantageous position. PCG being in a key growth area and our continued focus in this Asia Pacific region has served us well as the market continues to be fundamentally strong even during tough period.

For 2020, we will continue to prioritise our HSE in our efforts to sustain our operations in order to ensure that we deliver our growth strategy and project for continuous value creation. We will also put a lot of attention in our sustainability development program.

On that note, I'm happy to say that we are well on track to commercialize our Pengerang Integrated Complex in the second half of this year, and all our plant have been smoothly undergoing commissioning in stages at this moment.

On the same note of growth, we will be fully integrating the Da Vinci group into our operation this year and we look forward on the exciting prospect of expanding our product offering with silicon and silicon-based specialty product. It also includes some of the growth plans for the DVG Group.

So despite continuous uncertainty and volatilities in the market, we at PCG are still looking forward to another exciting year.

Before I wrap up, I'd like to take a moment to reflect on the fact that it is already been 10 years since PCG listing on the Bursa Malaysia. Looking back, we had some rough start coming together as a group after being so fiercely independent before.

We took time to streamline our plant production and turn around to optimize the group resources and capabilities. We focus on our sales plan to maximize return and planned a clear path for growth. We have gone through 2 cycle of economic downturn, and we have done well so far.

Since our listing, I believe PCG has grown from strength to strength and has continued to create value and generate returns for our stakeholders. Our strength in running our assets and our strong presence in core market area will enable us to ride through this low petrochemical cycle margin.

Within this low cycle period, it also provides us a numbers of opportunity to realize and align with our growth plan. As a result, moving forward, we will continue to implement our growth plan to strengthen our position, taking advantage of the current situation. We will continue to pursue our strengthening our core, which is the existing asset, and further downstream derivative, and we also continue to find opportunities to grow in specialty chemical.

And that wrap up for me today, and let's us move to question and answers. Thank you.

Ms Zaida Alia Shaari, Head IR:

Thank you. Datuk. Ishi, we can now take questions from participants.

Operator: The first question we have is from the line of Ajay Mirchandani from JPMorgan.

Ajay Mirchandani, JP Morgan

Yes. I have 4 questions to actually ask the management team. So if I could go through those questions one by one.

The first question I had was, specifically on the Olefins division. Given I understand there's not been any one-offs or any nonoperating issue. Can management just help us better understand specifically around the situation why we saw such a steep margin drop? And how should we be thinking about the margins into 2020, especially given the fact that utilization of the ethylene cracker was actually higher Q-on-Q. So that's my first question, please?

Datuk Sazali Bin Hamzah, CEO:

Okay. Ajay, it's good for you to ask all the 4 questions, and we'll try to answer one by one.

Ajay Mirchandani, JP Morgan

Okay. Okay. So that's my first question, just given the EBITDA margin dropping down all the way to 11%. So that was my first question.

The second question I had was specifically on 2020. How should we be thinking about volume growth for PCHEM? And if you could also give us some color, given it's been a couple of months already, how has there been any material volume impact out of China, given what we're seeing with COVID-19?

The third question I had was on SG&A expenses. It seems to be higher on a Q-on-Q basis. Is this simply a year-end adjustment? Or is there anything that explains that increase on a Q-on-Q basis?

The fourth and last question I had was, I just wanted to double confirm if there was any expenses related to Rapid that was booked in the fourth quarter? And as an extension to that, how is management thinking about both Rapid, the Isononanol as well as Da Vinci contribution potentially for a full year basis on 2020?

Datuk Sazali Bin Hamzah, CEO:

Okay, hold on. I'll just put my note here. Your first question, is with regard to this, why this olefin EBITDA margin simply go down to 11% as compared to the previous experience.

Ajay Mirchandani, JP Morgan

Especially given the fact that utilization for the cracker was actually improved Q-on-Q. So I think we all know that prices dropped. But I think the surprise was more given the fact that the utilization was actually picking up, that was where the slight negative surprise. So if you could just help us better understand that aspect, please?

Datuk Sazali Bin Hamzah, CEO:

Okay. First is the first factor, if you look at the price, the price of the product, especially on the derivatives. We see a great reduction in the price of derivative products. So roughly, it's about 40% down.

And as you know, as a gas player, our feedstock is actually not really related to the crude price. So it is almost stable. So we will impact directly to any cost any price reduction.

So this 40% of reduction in prices resulted in if you look at over the revenue, it looks like this because it is a total knock out impact. However, the business is still a profitable business and is still a major contributor to our share.

Another factor also, there's also some additional cost carryover as a result of our turnaround in quarter 3. So that also has some bearing in terms of our EBITDA in ['20]...

Ajay Mirchandani, JP Morgan

How much was that?

Datuk Sazali Bin Hamzah, CEO:

In total, it's roughly close to MYR 300 million. But for quarter 4, it's much lesser because we are paying in the phase, in phases. So we spent from the early of the year. And slowly, it accumulates to the quarter 4. Yes.

Ajay Mirchandani, JP Morgan

So just to clarify, in Q4, how much did you book, the cost related to the turnover?

Pn.Rashidah Binti Alias, CFO:

It is roughly about 10% of that COGS in Q4. So the way to think about it, right, it is because as Datuk mentioned, because we had turnaround in quarter 3. So obviously, turnaround at the manufacturing overhead, this is part and parcel of production costs. So that has enough push impact in terms of our inventory cost. So some of the inventory that gets carried over into fourth

quarter would carry this element of high cost. So while cost is relatively higher because of this turnaround impact, and then coupled with that, as Datuk mentioned just now the product prices also came down. So that's the reason why you've seen that compression in terms of the EBITDA margin.

Ajay Mirchandani, JP Morgan

So just to confirm, it's 10% of COGS in the quarter which would be associated specifically of COGS for Olefins which would be related to the turnaround. Is that understanding I have correct?

Pn.Rashidah Binti Alias, CFO:

Yes. Yes. That's the impact on Q4, yes. 9% to 10%, yes.

Ajay Mirchandani, JP Morgan

Of Olefins for the quarter. Okay.

Pn.Rashidah Binti Alias, CFO:

Yes. Yes.

Datuk Sazali Bin Hamzah, CEO:

All right. Your next question, you talk about 2020, what is our volume growth plan. As we have indicated earlier, the last 3 years is the heavy turnaround. For this year, we don't plan for any major turnaround, so we expect higher volume, target PU, probably close to mid-90. So as of now, we are still monitoring it to reach that target. We expect we will have more volume than 2019. That's one. So we shouldn't have...

Ajay Mirchandani, JP Morgan

And so far, is there any impact because of China's has there been any volume slowdown impact on that?

Datuk Sazali Bin Hamzah, CEO:

Yes. Ajay, your next question on is still within this question #2. As of now, we have not seen any cancellation of our product requirement from China or even in Asia Pacific. However, we also have do the stress test assuming that if it's impacted us by 100% China, we'd still be able to reroute our product to other country because in terms of our balanced portfolio, we still have a lot of room. So this COVID-19, we're still not sure how might actually the impact at the end of the day. We continuously monitor. So as of now, we don't see any reduction of the volume committed by our customers. In fact, we still short our volumes that they have requested today.

Ajay Mirchandani, JP Morgan

That's clear.

En.Shamsairi Ibrahim, Head of Commercial:

If I'm can add, Ajay, this next week, 3rd March, we have 10,000 MEG supply into China. It's scheduled to be loaded that.

Datuk Sazali Bin Hamzah, *CEO*:

So Shamsairi just now spoken about we have another cargo that's ready by end of February.

En.Shamsairi Ibrahim, *Head of Commercial*:

3rd March.

Datuk Sazali Bin Hamzah, *CEO*:

3rd March. And it's already as per plan, so there is no change as per plan. And I see also this COVID-19 also may provide some opportunity. If suddenly there is a pocket of requirement, especially at the those internal supplier from the middle of Mainland because affected by the coronavirus, that provides us opportunity also to supply from here.

Okay. Question 3, Rashidah, yes?

Pn.Rashidah Binti Alias, *CFO*:

Yes. For the selling and distribution, Ajay, I mean the way to look at quarter 4 also is not to forget that this is the first quarter that we're consolidating Da Vinci Group. So line by line, you would see some figures appearing for Da Vinci. So, in actual fact, the increase in the selling and distribution is primarily because we are now consolidating Da Vinci. So if we were to exclude in actual fact exercise, to exclude that impact, our S&D is within range. Sales volume increased. There's a small increase in S&D basis in range. .

Datuk Sazali Bin Hamzah, *CEO*:

And your last question is with regards to INA and BRB or DVG silicon business. At this moment, we expect probably, if we run full capacity, it may contribute about 5% of our EBITDA. But bear in mind, INA is now in the commissioning stage. We expect that quarter 2 will be the time that INA will be in operation. And the route to market for this product has been completed. Now we have logged in where we are going to route the product as of now and just waiting for the plant to be onstream.

On BRB...

Ajay Mirchandani, JP Morgan

We're talking about isononanol, yes, when you say INA? Okay.

Datuk Sazali Bin Hamzah, *CEO*:

Isononanol, yes. INA is isononanol. Sorry. So as far as commissioning plan, it is on track. So, but this year, it will not be a full contribution because we expect we only run for starting for quarter 2 mid or end. So we only have probably 6, 7 months full running that kind of a contribution. And for BRB, it's a small contribution, actually. And at this moment, what we are concentrating actually to build few facilities to expand their capacity. So our target to really have some visible contribution in 2021 when some of the facility will be ready. So we built this facility in Malaysia as well as in Germany.

Ajay Mirchandani, JP Morgan

Sorry, Datuk, just to confirm, we're talking about Da Vinci project, right?

Datuk Sazali Bin Hamzah, CEO:

Yes, yes.

Ajay Mirchandani, JP Morgan

Okay. So you are expecting it to be just a small contribution this year. It will be more into 2021. But you don't expect it to be a big loss for 2020.

Datuk Sazali Bin Hamzah, CEO:

No, no, no.

Pn.Rashidah Binti Alias, CFO:

No, no, no, it's not.

Datuk Sazali Bin Hamzah, CEO:

For DVG is positive contribution.

Pn.Rashidah Binti Alias, CFO:

Yes.

Ajay Mirchandani, JP Morgan

Okay. And finally on RAPID, do you expect what type of contribution in 2020 and '21?

Datuk Sazali Bin Hamzah, CEO:

Okay. For 2021, because of -- or 2020 -- we are talking 2020 or 2021?

Ajay Mirchandani, JP Morgan

Both years.

Datuk Sazali Bin Hamzah, CEO:

It's very difficult to look at 2021. Let me say 2020 first. Our aim is to get EBITDA positive for this year because, as you know, that the full commercial operation probably start in the middle of the year or we will run about 7 again, 7 to 6 months. So and then with the current situation of margin, low margin, so we expect, we target to reach breakeven EBITDA. I think that's the first phase that we are targeting.

Operator: The next question we have is from the line of Alex Go from AmBank.

Alex Goh, AmBank

I just want to go back to Ajay's first question on the O&D. You mentioned there was a big drop in terms of our derivatives prices of 40%. But I'm looking at your O&D on your Page 6, where your actual revenue actually went up instead. And if I look at Page 3, you're showing us your general pricing of Brent, which is actually, if you compare third quarter to fourth quarter, actually, Brent was flattish or even slightly higher. And looking at the product prices, actually, it's kind of flattish. So I'm just wondering, how is it that if your revenue is going up, prices were kind of flattish? And

how is the impact to the bottom line of the O&D segment? And I'm seeing the same also for the Fertiliser and Methanol.

Pn.Rashidah Binti Alias, CFO:

Yes. Alex, yes, when you compare against third quarter, revenue, of course, improves up because we have turnaround in quarter 3. So olefins, glycol or OGD, olefins, glycol and LDPE.

Datuk Sazali Bin Hamzah, CEO:

LDPE. All the plant is shutting down in quarter 3.

Pn.Rashidah Binti Alias, CFO:

That's right. Max C2 chain or the O&D segment. So from a volume perspective, quarter 4 is higher. But the price on this volume that we sold in quarter 4, that's very much depressed compared to quarter 3. Yes. And that price depression was the one that will cause margin compression to us.

Alex Goh, AmBank

Okay. I understand that. That means your average selling price for your product has come off. But...

Pn.Rashidah Binti Alias, CFO:

Yes.

Alex Goh, AmBank

Yes. But you indicated that because of the carryforward impact from your earlier turnaround, your additional turnaround cost was carried forward into the fourth quarter from your inventory slowdown. Is this also the same impact for your F&M segment?

Pn.Rashidah Binti Alias, CFO:

For F&M you mean?

Datuk Sazali Bin Hamzah, CEO:

F&M.

Alex Goh, AmBank

Yes, F&M.

Pn.Rashidah Binti Alias, CFO:

No, no. F&M, because we had only we...

Datuk Sazali Bin Hamzah, CEO:

One turnaround in Fertiliser Sabah.

Pn.Rashidah Binti Alias, CFO:

Yes, one turnaround. Yes, sorry. There would be inventory impact, but it's not as pronounced because it is only one turnaround.

Datuk Sazali Bin Hamzah, CEO:

Yes.

Pn.Rashidah Binti Alias, CFO:

Whereas for the O&D, the impact is a lot more pronounced because there are 3 plants that...

Datuk Sazali Bin Hamzah, CEO:

Shutting down.

Pn.Rashidah Binti Alias, CFO:

Yes, or turnaround.

Datuk Sazali Bin Hamzah, CEO:

Yes. Equivalent about more than 50% of O&D volume.

Pn.Rashidah Binti Alias, CFO:

Yes.

Alex Goh, AmBank

So for the F&M segment, it is largely because of the drop in average selling price that is causing the margin compression, am I right?

Datuk Sazali Bin Hamzah, CEO:

Yes, yes, yes.

Pn.Rashidah Binti Alias, CFO:

Yes, yes, yes. That one is primarily more on methanol price.

Datuk Sazali Bin Hamzah, CEO:

Yes.

Alex Goh, AmBank

I see. Okay. You've indicated that this year, you don't see any big turnaround activity. So would you say that you will be able to achieve a 95% plant utilization this year?

Datuk Sazali Bin Hamzah, CEO:

You are right. We still have turnaround. We have 2 plants that are scheduled for turnaround. You are right that close to 95% is our target, but let's see. As long as we can run above 90%, benchmark number, we can be very optimized. But logically, that we should be higher than between 91.7% or 92% to 95%, I think within that range.

Alex Goh, AmBank

Okay. And my third question is on your JV side. In this full year, you've registered a loss of MYR 54 million. Just wondering, could you give us a bit more color on the direction of the JV and associates going into this year?

Datuk Sazali Bin Hamzah, CEO:

Yes. Actually, as I mentioned, the petrochemical business has been affected, not only us but all the players in the region globally, yes. So our partner, let me talk about BPC, yes. So BPC is our partnership with BASF. Similarly, if you look at acrylic acid derivatives have been also impacted so much in the pricing. However, the plant is running quite well, so that has dampened a bit the impact. There is another challenge that our aroma plant, yes, the margin still remains strong, but the plant is not yet stable because this aroma is the largest aroma plant that we've built, BASF have built so far. So it's a restabilization. So for BPC, this year, if you look at the EBITDA, yes, positive EBITDA actually. Only under PAT, we are negative because of they have to pay the loan, the capital that we have put in the past.

So moving forward, we expect if we could get back the plan at certain utilization rate for aroma, for example, if we can run the full year around 75% and above, I think we are going to get cash positive. So that's the effort that's being carried out by the team in Kuantan.

Another partner that also have similar impact on the low pet chem market is our BP our acetic acid. So if you look at in the market trend also, the price also, acetic acid price has also been down quite significant. However, BP still run positive but at a low positive. This is also a cyclic business. We believe it will not be long. And when we compare with our competition in this region, we still believe that we have in the upper hand in term of our competitiveness in that route. The rest is has small contribution too to the JV.

Alex Goh, AmBank

So on that JV also, do you expect it to be positive this year?

Datuk Sazali Bin Hamzah, CEO:

If the, it's subject again to the price. If the price is as it is now and we can run the overall utilization, as I mentioned just now, in BPC above 75%, we will be healthy. So the effort on getting the utilization above that is now ongoing, and I hope the price is maintaining or even better. But with this COVID and trade war, it's still a question mark.

Alex Goh, AmBank

I see. Okay. Currently, you've indicated in your outlook that you are Gebeng and Labuan facilities (inaudible) will be going will have going through some turnaround is it?. How many days would that be?

Datuk Sazali Bin Hamzah, CEO:

Depending on the unit days, I think one unit, they shut down about 30 to 40 days, yes. But there is a quite major turnaround is statutory] turnaround. They have, I think, about 5 units. So only 1 unit, the one that they shut down. The rest is only planned for Pit stop. Pit stop means to say probably there's a short shutdown for the 30 days, 35 days to clean up their equipment.

And for a specialty chemicals in BASF facility example, it is quite common. Actually, their utilization rate is much lower than normal commodity. But it is expected every year they will do some pit stop for either change catalyst or clean the equipment.

Alex Goh, AmBank

Okay. Just my final one, final question, could you give us a kind of percentage of how much does China account for your overall revenue?

Datuk Sazali Bin Hamzah, CEO:

In terms of volume, it's about 18.

Pn.Rashidah Binti Alias, CFO:

Yes.

Datuk Sazali Bin Hamzah, CEO:

In terms of revenue, it's about 15%.

Pn.Rashidah Binti Alias, CFO:

Roughly, yes.

Datuk Sazali Bin Hamzah, CEO:

Roughly, it's about 15%. Yes, China is our swing market. It is not our core.

Operator: The next question we have is from the line of Mayank Maheshwari from Morgan Stanley.

Mayank Maheshwari, Morgan Stanley

A couple of questions from my side. First was more related to the overall one time items that you're kind of seeing for fourth quarter specifically. Can you just talk about like how much was the impact in terms of earnings from the consolidation that you did because of Da Vinci and the inventory impact and the FX impact that you would have seen in this quarter, which are onetime items?

Pn.Rashidah Binti Alias, CFO:

Okay. Sure. Hi Mayank, for the quarter, yes, as I've mentioned, number one, we this is the first time that we are consolidating Da Vinci, so we are looking at the financial inclusion of the financials line by line. And on top of that financial results of Da Vinci, there is also that, for example, if you look at the G&A expenses line, right, so we've also captured the transaction costs associated with the acquisition during the quarter. As you're aware, we completed the acquisition around 12 September, toward the end of quarter 3, so a lot of the cost for the transaction itself has been captured in Q4. You can see that in our cash flow, we disclosed that cost to be roughly around about MYR 30 million. So that's number one.

Number two, you're mentioning about the inventory impact just now. So inventory impact, as I've mentioned earlier on, that contribute to roughly about 9% to 10% of the cost of revenue for quarter 4 itself. And this is from the higher manufacturing overhead associated with the turnaround costs that we incurred in the third quarter.

The next item on the ForEx, yes, because we have this shareholders' loan that I mentioned during my presentation, this is the shareholders' loan that PCG gave to Pengerang Petrochemical Company, which is denominated in dollars. So obviously, at every reporting period, we have to mark-to-market the loan amount. So for the quarter, given the strengthening of ringgit Malaysia, we recorded a translation loss of around about MYR 55 million. So that's also included in quarter 4 results.

DVG, inventory, FX. And the other item that is also included in quarter 4 is actually this inventory write-down. Given the drop in product side, so again, we have to mark-to-market our inventory or rather perform the best on inventory. So there is a bit of a write-down on the inventory amounting to about MYR 31 million during the quarter.

So those are yes, so those are the items that I would say in terms of one-off occurrence in quarter 4, these are probably the few items.

Mayank Maheshwari, Morgan Stanley

Okay. And so just to be exactly clear, yes, so you're effectively saying because of FX as well as the acquisition on Da Vinci, plus obviously the 9%, 10% impact because of the turnaround, overall, fourth quarter EBITDA has been lower by close to about MYR 450 million or so, all together.

Pn.Rashidah Binti Alias, CFO:

Should be about, yes, roughly about MYR 390 million plus...

Datuk Sazali Bin Hamzah, CEO:

From MYR 700 million to MYR 400 million.

Pn.Rashidah Binti Alias, CFO:

Yes, roughly, around about, yes, round about that figure. Exactly.

Mayank Maheshwari, Morgan Stanley

Okay. So all this should normalize from quarter 1 now?

Pn.Rashidah Binti Alias, CFO:

All these were normalized. DVG results will be, we're seeing; not the acquisition cost, obviously, yes; the FX, yes, FX it depends.

Datuk Sazali Bin Hamzah, CEO:

It depends. If ringgit weak, then...

Pn.Rashidah Binti Alias, CFO:

Yes. And inventory write-down, I mean I think we've heard Mr. Shamsairi, the outlook that we're looking at is stabilizing. Price should stabilize in the coming months. So hopefully, there's no further inventory write-down.

Mayank Maheshwari, Morgan Stanley

Got it. So that's very clear, ma'am. Actually, quite helpful considering the drop in EBITDA this quarter, it's quite helpful. And the second thing, ma'am, was more related to the tax in terms of your

total tax rate for 2020. Now that RAPID would be starting up by mid of this year, what are you kind of thinking through from a tax rate perspective?

Pn.Rashidah Binti Alias, CFO:

Okay. The tax rate in terms of this year, 2020, to me, to us, it's probably going to see at the level that you're seeing today, which is at 11%, 12% simply because you also heard Datuk Sazali just now because we commissioning the plant, ramping up the plant during the year. It's going to start up most likely late second half, sorry, late first half or early second half. So we'll be having, what, about 6 months' worth of results.

Datuk Sazali Bin Hamzah, CEO:

Yes.

Pn.Rashidah Binti Alias, CFO:

So that's not going to be material, not going to be significant contribution. And therefore, if there is any tax advantage or tax benefit because we do have tax incentives on this project. Yes, it's not going to put a lot of impact for this year, we foresee. So for next year, I think as we progress during this ramp-up or commissioning stage, we would be able to perhaps give a better guidance once we have once we have started the commissioning of the plant. But this year shouldn't, the tax rate structure shouldn't shift so much for us.

Mayank Maheshwari, Morgan Stanley

Okay. I mean the last question was more related to RAPID itself. When you're kind of thinking about ramping up from the mid of this year, what is the kind of a target you're kind of looking utilization rates by November, December or maybe into 2021?

Datuk Sazali Bin Hamzah, CEO:

I think in 2020, we are talking about 6 months running, we read that 6 months will be between 70% to 80%, within that range of utilization. And then moving forward, next year is also probably in the high 70% or low 80%. I think that's the target that we are putting.

Mayank Maheshwari, Morgan Stanley

And sir, when do we kind of get to that 95% -- 90%, 95% level? Which year would you be able to get to that?

Datuk Sazali Bin Hamzah, CEO:

I would say probably as early as probably 2022 because also depending on how much stable that we achieve in 2021. So in the planning, we should be able to put that in 2022. But we will revisit back later on sometime end of this year or early of next year.

Ahmad Maghfur, Nomura

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

Operator: The next question we have is from the line of Piyanan Panichkul from UBS.

Piyanan Panichkul, UBS

I have a few questions. The first question is regarding the depreciation cost. I just would like to confirm that the increases related to Da Vinci does not yet include PIC in there.

Pn.Rashidah Binti Alias, CFO:

Yes, Piyanan, there's no inclusion of depreciation yet for PIC, so the increase is a combination of our normal CapEx addition. Some of it will be the turnaround cost.

Datuk Sazali Bin Hamzah, CEO:

Turnaround CapEx.

Pn.Rashidah Binti Alias, CFO:

Turnaround CapEx and, yes...

Datuk Sazali Bin Hamzah, CEO:

DVG as well.

Pn.Rashidah Binti Alias, CFO:

And to extent, DVG as well.

Piyanan Panichkul, UBS

So, but in the third quarter next year, how much more per quarter should we expect it to increase because of PIC?

Pn.Rashidah Binti Alias, CFO:

In the third quarter of next year.

Datuk Sazali Bin Hamzah, CEO:

Next year.

Piyanan Panichkul, UBS

Once you start the RAPID project.

Pn.Rashidah Binti Alias, CFO:

Yes. We will need to come back. But I think we have also spoken about this cost for this project in the past. We mentioned...

Datuk Sazali Bin Hamzah, CEO:

\$3.2 billion.

Pn.Rashidah Binti Alias, CFO:

USD 3.2 billion roughly. So of course, we do apply component depreciation method, so it will vary, but it will vary around about 20, 25 years. So I mean you can perhaps roughly calculate from there. I mean, we will be able to see more, but that should be around about that figure.

Piyanan Panichkul, UBS

Sure, sure. Second question is regarding the PIC project. If you look at the PE price and the gap to ethylene price, it brings around \$100 per tonne. Just wonder if this level we can achieve perhaps EBITDA positive EBITDA for the PE plant. Or do you think we need more than that to break even, let's say, at 60% utilization for the first year?

Datuk Sazali Bin Hamzah, CEO:

Yes, you are right. I think with the current situation of market, it is very tight. But based on our cost element, we still have a chance to make it breakeven in terms of EBITDA.

Piyanan Panichkul, UBS

Okay. Okay. My last question would be on the dividend. Given that there's a lot of one-off expense in this year and this quarter, would it be possible to consider to raise the payout ratio for next round?

Datuk Sazali Bin Hamzah, CEO:

Yes. At this moment, we still stick with our guideline of 50% PATANCI. The reason why we don't want to be far from that because, as you know, RAPID is coming in. And with the current market downturn, we need to preserve our cash as much as possible to make sure that our growth projects will not be affected.

So for your information, we have FID 2 projects, 1 in Pengerang and 1 in Kertih. And next year, it will we are targeting another 3 FID projects. So we need to preserve this cash for our growth project. I think that is more important for our long-term sustainability, business sustainability.

Operator: The next question we have is from the line of Ethan Liu from Goldman Sachs.

Ethan Liu, Goldman Sachs

Okay. Thank you so much for your time. I think the questions that we had were previously already answered. So yes, thank you.

Operator: The next one we have is from the line of Oscar Yee from Citigroup.

Oscar Yee, Citigroup

I just had a follow-up question. You talked about FID 2 projects already done. What exactly is this project? Is it under the company level, or is it under your sort of JVs? And what sort of CapEx should we expect for these 2 projects?

And you also mentioned there potentially could be 3 more FID next year. So are we what's our project scope again are we talking about? Is it sort of more sort of downstream to use some of the feedstock from the cracker?

Datuk Sazali Bin Hamzah, CEO:

The FID projects that we are planning this year and next year is correlated to specialty chemicals. And the size is not that big, similar like BRB. So we are talking about probably in the range of probably 2 projects, that we sanctioned this year roughly probably about close to USD 150 million to USD 200 million, yes. And next year also, probably close to that number also, between USD 200 million to USD 300 million.

But the 2 the one that all these 3 is basically utilizing the excess molecule that we have in Pengerang as our interface. So what we do is we upgrade some of the molecule. Instead of we sell in merchant, we will upgrade into higher value. So I think that's what is in our plan.

Oscar Yee, Citigroup

Okay. Could you be a bit more specific about what products you plan to go into?

Datuk Sazali Bin Hamzah, CEO:

Okay. The first one probably related to a glove, rubber gloves and another one related to personal care. So the detailed product I could not disclose now until we complete the project FA.

Oscar Yee, Citigroup

Okay. Understood. So when you talk about rubber gloves, are you referring to the nitrile latex business?

Datuk Sazali Bin Hamzah, CEO:

Yes. Yes. Within that family. Because Malaysia is a big producer of rubber gloves, so we are going to stay in this business as well.

Oscar Yee, Citigroup

As I understand this business, there is actually some sort of certification required obviously because of the sort of high entry to barrier. Are you working with a partner?

Datuk Sazali Bin Hamzah, CEO:

We don't play with, yes, we don't play with the end product, we play in the intermediate. So the intermediate part don't require any certification. As long as our chemical meeting certain[, product quality based on the technology that we select, they should be able to do that.

And the market is not only in Malaysia, also in Southeast Asia.

Oscar Yee, Citigroup

All right. And your comment earlier about dividend payout, obviously, you talked about the sort of growth projects. But in terms of the size, right, generally, they are quite small relative to your operating cash flow, which is like MYR 4 billion, MYR 5 billion, that sort of magnitude. So is there still any chance for a potential consideration for the increase in payout down the road given the major CapEx of RAPID is now finished?

Datuk Sazali Bin Hamzah, CEO:

At the same time, at this moment, it is also, if you look at the acquisition market, this actually is a good time. We are also actually scanning through. If there is any good opportunity in specialty, we may have some investment in this area. But to date, we have not really seriously looked into a target, but we continue to do scanning. So we just prepare, in case that will be material, then definitely, we are going to evaluate it seriously. That's in the short term. In longer term, we're also looking at further downstream facilities in Pengerang. Example, that with C3 chain, we plan to upgrade it further into another product, and that requires also quite a big investment. We're talking about probably between USD 2 billion to USD 2.5 billion. And that probably require another 3 years to start using the cash, but we need to preserve that cash. I think that's where the plan is.

And depending on the opportunity, it may come early or it may come a bit later. So that's why we are still keeping the cash on our stove because that becomes our advantage. When there is opportunity, we'll be able to respond fast.

Operator: The last question on the line is from Anna Park from Macquarie.

Anna Park, Macquarie

I have 2 quick questions. First, you mentioned inventory carryover related one-off expense incurred in 4Q should be 9% to 10% of the COGS. Sorry, but the COGS refers to your total COGS or only O&D dividend COGS? Sorry, I couldn't hear you because the line was unstable.

And my second question is, if I understood it correctly, your 2019 production volume of 10.4 million tonnes exceeded sales volume of 8.4 million tonnes. Would it be fair to say you own 2 million tonne of inventories? If so, is it normal?

Pn.Rashidah Binti Alias, CFO:

Thank you. So Anna, so the first question is on the overall COGS, not just the, not only O&D. So you can look at the overall cost of revenue and take the 9%, 10% from that number.

So to your second question, yes, to your second question, the differential is not inventory, per say. Those are what we call volume that is produced in order to produce the end products. For example, we have ammonia and urea plant. So ammonia is being used to produce urea. So the 10.4 million that you quoted there, that is ammonia plus urea, for example. But for the sales volume, that's only urea, yes, the merchantable volume. So roughly, yes, roughly, our merchantable volume is around about 80-odd percent of our production volumes, yes.

Datuk Sazali Bin Hamzah, CEO:

80%.

Operator: Thank you. I will now hand the conference back to today's presenters. Please continue.

Datuk Sazali Bin Hamzah, CEO:

Yes. All right. I think we end our conversation today. And thank you very much for your time with us, and hope to see you in the next quarter. Thank you.

Pn.Rashidah Binti Alias, CFO:

Thank you very much.

Ms Zaida Alia Shaari, Head IR:

Thank you, everyone, for your participation.

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