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Operator: Ladies and gentlemen, thank you for standing by, and welcome to the PETRONAS Chemicals Group analyst briefing for 4Q 2020 conference call. Please be advised that today's conference is being recorded.

I would now like to hand the conference over to our speaker today, Ms. Zaida Alia. Please take over, ma'am.

Ms Zaida Alia Shaari, Head IR:

Thank you, Rohit. Hello, everyone. Welcome to PETRONAS Chemicals Group Berhad analyst briefing for the fourth quarter 2020 financial results. I'm Alia, Head of Investor Relations. Thank you again for joining our call this evening. You should by now be able to access and download the financial results as well as presentation materials.

We are pleased to have the group senior management present here today. The briefing will be led by Managing Director and CEO, Datuk Sazali Hamzah, who will give highlights of the group's performance; followed by a briefing on financial performance by our Chief Financial Officer, Mr. Azli, followed by an update on operational performance by Chief Manufacturing Officer, Mr. Kabir, and update on market and commercial performance by Chief Commercial Officer, Mr. Shakeel. Also present is Mr. Akbar, our Head of Strategy, Planning & Ventures.

I shall now hand you over to Datuk Sazali.

Datuk Sazali Bin Hamzah, CEO:

Thank you, Alia. Good evening, ladies and gentlemen. Thank you for joining us today. As you're aware, 2020 was an unprecedented year, a perfect storm that I call, started with U.S. and China trade war in the previous year, followed by OPEC+ and the recent COVID-19 pandemic, which forced global economy slowdown. Travel restriction were put in place and some remains today on the continuing fight against spread of the virus.

While the second half of the 2020 saw much improvement with the gradual opening of economy and resumption of manufacturing activities, year-on-year, however, has been an overall the weakest market environment in our history. The global GDP saw significant contracting, recording a recessionary negative 4% in 2020 compared to 2.6% in 2019. Our PMI for the year remains in contraction territory at 49.2% against 50% recorded in 2019.

Crude oil saw a high level of volatility in 2020. And the OPEC+ collapse saw crude oil prices fall to its lowest in April on a supply overshoot market demand. However, crude oil has seen marked improvement in the recent months on the recovering market and healthy demand, further supported by OPEC+ commitment to taper production in early 2021. When comparing 2020 against 2019, crude oil averaged 34% lower at USD 42 per barrel. Following the lower crude oil and the overall weak market, petrochemical was effectively lower year-on-year. The overall outcome of the industry, which is we feel that this is the lowest market environment, so it is experienced by all the petchem industry.

So, ladies and gentlemen, the COVID-19 pandemic has surfaced the importance and need to focus on long-term sustainability as well. During this pandemic, we'll see a blue sky that many have never or have forgotten this experience. So, this insists the importance of sustainability in our business. And PCG also have put a lot of effort in the previous year.

Now I would like to share with you some of the detailed efforts that we made in this area. So, we did measure our energy intensity as indicator of our operational excellence. Through energy optimization, we reduced the need to consume more energy for our operating facilities, lowering our costs and natural resources use.

Despite higher plant utilization this year as compared to previous year, we managed to sustain our EI, energy intensity, close to target. Our EI stood at 15.98%, 4% increase from the last year due to several plant interruption. This despite that we achieved highest record of production. So, the energy index efficiency is much better that this will limit our, it's in our overall energy index.

We also focus on our resource efficiency, including emission. We work on the premise that responsible emission management, will helps mitigate global climate change and improve our operational costs. In 2020, despite slight increase of GHG emission by 1%, if we look at the emission of GHG, it is 1%. However, our production is much more as compared to last year. And we have significantly reduced our GHG intensity by 3%.

And this helps reduce the overall GHG emission, indicating that better GHG management as a result of more efficient operation in our plant. We have also set a cumulative target for GHG reduction, committing to reduce our emission by 100,000 tonnes of CO2 equivalent by 2024. With more emission reduction projects identified through our Energy and Loss Management System, ELMS, we are currently halfway towards achieving our targets.

As a business that use natural capital, such as energy, water and other finite resources, resource efficiency and compliance to legal environmental standards is crucial to minimize our impact to the environment. Therefore, through PCG Waste Management blueprint, procedures and guidelines have been placed with the goal to minimize our waste as much as possible.

And most of the waste is recycled as fuel, solvent or lubricant. Precious metals are extracted from spent catalysts to reduce waste. Our target is to increase our 3R rate to 82%, equivalent to 2,400 metric tonnes of waste from our average rate of 80% by 2024. This year, we have exceeded our set target by achieving 3R rate of 85%, which is higher since our first reporting in 2014.

Our CSR community reach is through programs such as our education outreach, community wellbeing and development programs, such as COVID-19 relief program, and also environmental education, such as our mangrove rehabilitation program, our ecoCare signature program. In 2020, we have touched 70,000 lives, which resulted into cumulative reach of 90,000, nearing to our target of 100,000 community members reached by 2024. This includes some assistance during COVID-19 pandemic that concentrate on B40 that live near our assets throughout Peninsular and Sabah and Sarawak.

And this also helped the people around our asset to continue ease life by facing the pandemic situation. We also supplied equivalent to 300,000 PPE face shield holder from our polymer resin. And this were used during the first wave and second wave of pandemic. And we also provide food supply to our frontliners that have safeguard the interstate and inter-district movement. So, this is some of the examples that we have put to touch people's lives around where we operate.

Our NPE initiative to recycle plastic, New Plastic Economy, what we call is NPE, is to look at possibility to recycle our plastic waste to naphtha. And the project to look into this possibility is currently ongoing. And we also used this opportunity to spread the awareness on how important for us, especially Malaysians, to really segregate our waste plastic so that the waste plastic can be used to recycle back into reuse. Through this initiative, we aim to recover plastic with equivalent to our domestic sales volume and to redirect into a circular economy by 2030.

We also worked together with Ministry of Education to develop waste management module for school children, including teacher upskilling. And this has been done through webinar, where we really upskill the teachers that, starting this year, they will launch this module in school. This is part of the awareness program how can we manage our waste better.

So, ladies and gentlemen, our Sustainability Strategy take into consideration of our material matters and is designed to create value for our stakeholders and safeguard the environment, and at the same time, upholding strong governance practice intended to prioritize sustainable value creation for both stakeholders as well as business growth. This year, our focus will be to refine our Sustainability Strategy in order to have a more balanced approach to streamline our business priorities as well as material matters.

Now let me go straight into our business performance. It was an extremely tough year for the petrochemical industry, as I mentioned earlier, where the market volatility impacted us end-to-end. To recap, PCG stepped up during the lockdown to ensure close and continuous communication as well as collaboration with our stakeholders, customers, regulators, suppliers and to keep our plants in operation and also to ensure sale and deliveries are met in order to minimize the impact of lockdown as well as to ensure that our value chain continues to operate and generate value.

We enhanced our health and safety guidelines for all our employees as well as contractors, such as limiting the number of staff at plant sites and utilizing digital technologies, such as drones, to help us monitor our operation and turnaround activities by minimizing the people present at site. And this has been very effective as we are able to monitor the activities at our plant sites as well as during peak turnaround periods effectively.

And that translates into a good turnaround result. Last year, we have achieved the turnaround within the target, within the cost and lesser time. And this best practice will be continued to be applied this year. And this proved that effective as we recorded a full year plant utilization of 94% with the record production of 10.7 million tonnes, the highest record that PCG have achieved so far. And this also comes into timely when we really need to address the low business spread.

And our continued sale is a testament to the ability of our commercial team and the value of the commercial excellence initiatives, such as the continuous communication and collaboration with customer to find home for our products, have resulted that there is no single plants reduction in capacity or shutdown due to profitability issues. So, our plants continue to run at positive margin and our sales force managed to get our product outlet throughout this region despite the challenge from China move to India and also to Southeast Asia.

So, this has been managed quite well, and we believe we have put a strong resilience in our organization to face our future challenges. So as a result, our EBITDA stood at MYR 3.5 billion, which was announced this afternoon, and EBITDA margin recorded at 25%. Our profit after tax at MYR 1.6 billion despite very challenging period.

So, for further detail of financial performance, I would like to invite our new CFO, En.Azli, to go into it. Azli.

En.M Azli B Ishak, CFO:

Thank you, Datuk Sazali. Ladies and gentlemen, a very good evening, and thank you for joining us. We will start with the group performance that is on Slide 6, so comparing quarter 4 2020 against quarter 4 2019.

So, during the quarter, PCG recorded higher plant utilization of 94% compared to 89% on the corresponding quarter, mainly due to lower downtime during the quarter. So as a result, our production volume increased. Year-on-year, our revenue was lower by 9% at MYR 3.8 billion, mainly due to lower sales volume and lower product prices. EBITDA was higher at MYR 1.1 billion, mainly due to higher spread and lower fixed costs. EBITDA margin increased to 30%. Our PAT increased by 46% at MYR 456 million.

So next, we move to the group financial performance against the preceding quarter, that is third quarter 2020. So, our group plant utilization improved from 90% to 94%. As the preceding quarter, performance was impacted by the landslide incident along the Sabah-Sarawak Gas Pipeline. Consequently, the sales volume was higher, in line with the higher production. So, quarter-on-quarter, revenue increased 11% to MYR 3.8 billion, largely due to higher sales volume and higher product prices, in line with the market and price recovery. Our EBITDA was higher at 26% at MYR 1.1 billion, contributed by higher spread, volume and lower fixed costs. Correspondingly, EBITDA margin increased to 30%. Our profit after tax was comparable at MYR 456 million, impacted by the net share of loss from our JV and associates due to the one-off provisions arising from the decision to cease operations in butanediol complex in our JV in BASF PETRONAS Chemicals Sdn. Bhd.

So now let's look at the performance for the 12-month period 2020. So, the group's plant utilization was higher at 94% compared to the corresponding year. And consequently, our production volume was higher, so that's the highest-ever recorded by PCG so far. So, we recorded a lower revenue of MYR 14.4 billion, mainly due to lower average product prices, lower sales volume, partially offset by a weakening MYR to U.S. dollar. EBITDA was lower by 21% to MYR 3.5 billion, mainly due to product spread. Subsequently, EBITDA margin decreased from 27% to 25%. Our PAT also decreased by 43% to MYR 1.6 billion.

So, ladies and gentlemen, in the interest of time, we will not go through the performance by segment as it is our practice. We will provide this slide of the group performance by segment at the end of the deck for your own consumption. So, should you require further clarification, I will gladly answer those at the end of this presentation. So, let's move on to balance sheet and cash flow on Slide 7 and 8.

So, moving on to balance sheet on Page 7. For the 12-month period ended 31 December 2020, our total assets increased by about MYR 1 billion to stand at approximately MYR 40 billion. This is primarily due to higher cash and cash equivalents by MYR 700 million, contributed by profit generated during the period but partially offset by the purchase of PPE for our CapEx as well as payment of dividend, second interim dividend for 2019, which was paid in March 2020, and the first interim dividend for financial year 2020, which was paid in September 2020. It also contributed by a higher property, plant and equipment at MYR 20.9 billion, mainly due to CapEx from our petrochemical complex in PIC as well as our turnaround in MTBE in quarter 4 2020.

So now let's look at our cash flow at Slide 8. Our cash generated from operation stood at MYR 3 billion, which was lower by 46%, primarily due to lower profit generated over the year. Net cash used in investing activities was lower at MYR 1.4 billion, mainly due to lower CapEx expenditure in our PIC Pengerang petrochemical complex, PC Isononanol and a project nearing completion. So that brings our cash balance, which is at the end of the 12-month period, remains strong at MYR 12.7 billion. So that is all for the financial performance for the fourth quarter 2020.

So, I will hand over the session to Mr. Kabir for the manufacturing highlights.

En.M Kabir Noordin, Chief Manufacturing Officer:

Thank you, Mr. Azli. Good evening, everyone, Kabir here. Let me share the operational highlights for the quarter.

Our operation in quarter 4 was stable, following improved feedstock supply to our methane and ethane chains. We recorded a quarter performance of 94% plant utilization for the group. Sustaining reliable feedstock and utility by being continuously and actively involved in supplier relationship, enhanced equipment reliability program through utilization of digital tools, mainly asset performance management and PIVOT and effective turnaround planning, and execution continue to be our focus in ensuring operational excellence.

We have achieved our KPI to sustain plant utilization of above 90% for 5 years in a row since 2016. The addition of the PC Fertiliser Sabah in May of 2017 has been significant contribution to PCG urea volume. Through continuous improvement over the years, I am pleased to report that we have delivered the highest annual production volume for the group of 10.7 million metric tonnes.

During this year, we successfully completed a turnaround activity at PC MTBE plant in Gebeng. This was a remarkable success as it was conducted during the pandemic with stringent SOP being implemented to keep the TA area and also workers safe from the COVID-19. With the addition of PC Fertiliser Sabah in 2017, its performance has greater than our expectation. This year, we recorded our highest urea production volume of 2.4 million tonnes.

Next, let me see on quarter 4 2020 segment operational performance. Olefins and Derivatives, plant utilization for quarter 4 decreased to 93% following turnaround activity at MTBE plant. Alhamdulillah, the turnaround was safely completed ahead of plan, ahead by 2 days, executed in compliance with standard operating procedure following movement control order, MCO.

Improvement in the ethane supply to our crackers has contributed to highest quarterly ethane production for 2020 after the supply was impacted by gas curtailment due to COVID-19 pandemic since March 2020. I believe ethane will remain well supplied through the next quarter, looking at the sustainable outlook of the gas supply and demand. With higher demand from power sector, as more operations able to continue running post MCO, higher sale of gas is expected, which improve the feedstock supply to ethane change.

Next, we go on fertilizer and also methanol. For Fertiliser and Methanol segment, quarter 4 recorded higher plant utilization at 94% as compared to preceding and also corresponding quarter. Urea plant in Sipitang has been running stable and at full capacity throughout quarter 4. Higher volume was recorded as compared to previous quarter and the same quarter last year. For methanol plant, improved feedstock supply reliability, deferment of turnaround and stable plant operation has been contributed to higher methanol volume than last quarter and the same period last year.

Next, for PIC and also PETCHEM for the project update. As of December 2020, PIC-PETCHEM achieved 100% project completion. As we run into unprecedented event of COVID-19 pandemic and the DHT fire incident in March 2020, the team remain focused to close project gaps and ensuring the integrity of the equipment, inculcating process safety culture and drawing towards operational excellence. Effective management of COVID-19 by stringent implementation of SOPs ensured no outbreak in PIC and keep project progress on track. With plant operation and maintenance activity in place, the team are preparing towards starting up.

Next operational highlights, conclusion. To conclude, we achieved higher production volume at 10.7 million metric tonnes and sustained the best-in-class plant utilization performance, above 90% for the 5 years in a row. As of December 2020, we managed to reach 100% completion of PIC-PETCHEM overall progress, gearing for starting up. In addition, with COVID-19 TA turnaround management in place, it has resulted in the success of turnaround completion of MTBE plant in Gebeng with zero HSE incident and zero rework.

For 2021, we will start another cycle of heavy turnaround involving Gebeng, Kerteh, Labuan, Gurun and Bintulu facilities. Despite that, we will continue to remain focused in managing our assets and also reliability adhering of COVID-19 TA management SOP, which our commitments remain to deliver operational performance of above 90% plant utilization.

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

En.Shakeel Ahmad Khan, Chief Commercial Officer:

Thank you, Kabir. Good evening, Shakeel here. Let's proceed with the market highlights. In quarter 4 2020, product prices were higher compared to previous quarter due to improved energy market, plant outages and regional production cuts. This is further supported by healthy downstream demand as global economy slowly recovers.

Now let's move on to the market outlook for 3 months forecast February to April 2021. Ethylene prices are expected to be firm in the coming months amid short supply and downstream plant startups. Supply is expected to be short following several cracker turnarounds in Northeast Asia between March and mid-May with capacity losses totaling over 170 KMT.

Moving on to polymers 3 months' forecast. Polymer prices are projected to be firm in view of short supply while demand to gradually increase in March when players are back to the market. Overall polymer supply in the near term is expected to be short, especially for PP with the ongoing shutdowns mainly in Northeast Asia and export limitations due to high freight and container shortages.

Next, for MEG. MEG prices forecasted to be firm as supply reliability is expected to remain tight amidst plant shutdowns and MEG units running at reduced rates. Open arbitrage windows see Middle East redistributing cargoes into European regions, reducing the supply in Asia. Additionally, the upcoming LNG plant turnarounds in Middle East will continue boosting the tightened supply in Asia. Currently, around half of China energy imports are from Middle East.

As for paraxylene, PX price is forecasted to be stable due to challenges from weak rebound of the global economy, although still supported by firm crude and naphtha. PX supply is expected to be balanced as some Northeast Asia and Southeast Asia facilities will undergo maintenance while Chinese PX facility will possibly restart earlier than expected. In addition, plant turnarounds in Europe and Middle East will reduce supply of open origin cargoes into Asia.

Now let's proceed with the Fertiliser and Methanol segment, starting with urea. The urea price is anticipated to be firm on healthy demand, coupled with global tight supply and plant outages in Middle East. India new tender is expected to be delayed to end of February or early March for a minimum quantity of 500 KMT due to short supply globally. Additionally, a few plant turnarounds in Middle East will create more gap in supply for the next few months. Meanwhile, China remains out of the export market in Q1 to focus on its domestic market, adding further tightness to supply.

Moving on to ammonia. Ammonia price is forecasted to be firm on rising demand, coupled with limited availability of spot shipment and global tight supply. Supply is limited as plants in Middle East are undergoing turnaround on top of unplanned plant outages. Additionally, facility in Qatar is facing technical difficulties, which will further tighten supply in the market. Demand from India is rising as buyers are seeking spot volume to fulfill the requirement. The same trend can be seen in Japan following a plant outage as well.

Lastly, on methanol. Methanol price is expected to maintain at current level as supply will return to normal level as plants resume from TA while demand is stable. Supply is sufficient as most producers are running at optimal rate despite production hiccups in Middle East. Demand in China as well as Korea and Taiwan is anticipated to increase again gradually post the Lunar New Year holidays. Downstream demand in SEA is stable. However, resurgence of COVID-19 added pressure to the methanol market. That's all from me on commercial update. Thank you.

Datuk Sazali Bin Hamzah, CEO:

Okay. Thank you, Shakeel. So, ladies and gentlemen, it has been a roller-coaster year, so to speak, not only experiencing the sudden changes in the market but also in us having to adapt to the new ways of working, new norm practically overnight in the fight to curb the spread of virus. And I believe our strategy of resilience built upon our strong business fundamentals have supported us through the worst of it.

Maintaining our focus on operational and commercial excellence has ensured strong operation and continued sales and delivery despite the many challenge we face. This is a true testament of our resilient recovery and continuous growth. And I'm proud of what we have achieved this year, the resilient set of numbers, our ability to maintain positive margins throughout the year and the commitment of the people to make this thing happen.

And ladies and gentlemen, the COVID-19 pandemic sent the global economy into its worst recession. And to date, it is still uncertain as to when we will be able to see a full recovery. Progress on the vaccine has been positive on the economic outlook but concern remains on how fast it can be rolled out across developing economy as well as its efficacy against the rapidly mutating virus. Even now, we are still seeing renewed lockdown in bid to stave of resurgence in infection, which could potentially reverse the economy recovery we currently enjoy. The energy sector is currently seeing recovery alongside the economy moving in 2021. Nonetheless, the progress of the fight against the virus continue to take center stage to determine if this recovery is here to stay. As such, volatility and uncertainty remain as major factors in the market in 2021.

With that, it is crucial for us to maintain our resilience to navigate the coming years with the same determination and strategic direction as we had in 2020. Our fundamentals remain in ensuring solid performance through a strong HSE culture, where employees safety and health is priority while maintaining our safe operation. We continue to focus on operational excellence to ensure optimum plant operation and sustainable commercial excellence initiative to remain flexible and responsive to the constantly changing business environment. This is also being done while ensuring an unwavering strict financial discipline that we have to continue to apply.

And the pandemic has not slowed our pursuit of growth. And the diversification strategy to play in the specialty chemical space is still in our card. We continue to push this, our growth strategy. And we are continuing that momentum into 2021. We would like to explore opportunities for growth that best fit our long-term aspiration to grow and diversify our portfolio to better serve our customers' needs.

The Pengerang Integrated Complex is key to our growth, and we are very much ready to see it start up hopefully by second half of this year despite the recent setback due to the movement control order, MCO 2.0. The startup of PIC remains our key focus. Our commitment to ESG to build a sustainable company that will bring value to our shareholders remain intact and is embedded in our growth plan as well as business operation in order to safeguard our promise for sustainable value creation.

This brings to the end of my presentation of our presentation. Let's open for Q&A. Alia.

Ms Zaida Alia Shaari, *Head IR*:

Thank you, Datuk. Rohit, we are ready to take questions.

Operator: We have a question coming from the line of Ajay Mirchandani from JPMorgan.

Ajay Mirchandani, JP Morgan

Three questions from me. The first one was specifically on RAPID. Given the level of safety review that you've obviously had to take, can you walk us through should we be wary of any kind of need to review any further delay on that asset or any specific outlook on earnings specifically, given the fact that we've actually seen a very nice improvement in downstream spreads? So, any comments there would be helpful.

Second question I had was, given that almost most of your CapEx has now been spent, should or could we expect PETRONAS Chemicals to be reviewing its dividend payout as we move into this year? And could we actually have a slight increase of that 50% that you've traditionally guided? And the third question I had was if you could also comment specifically on any progress of specialty chemical investment opportunities you've talked in the past and any acquisitions we could be looking at in that area, please?

Datuk Sazali Bin Hamzah, *CEO*:

Thank you, Ajay. So, your first question on PIC, yes, we put a lot of effort basically to relook back the asset integrity, the culture, the people readiness. And our partner, Saudi Aramco, also have assisted us in this area. So, they have sent at least 15 of their specialists to be with us to support the start-up process. In addition, we are also recruiting another about 150 of our people specialists to really beef up our team to start up readiness. Because, as you aware, that this complex is highly integrated and very, very huge. So, it demands for our really careful startup. As what we said, all the efforts being carried out, and we have biweekly actually progress update on our start-up readiness. We are gearing up to look at the second half of this year to start this plant. And as I mentioned, our aim for this year is basically to stabilize the plant and reach the design throughput.

So, in terms of contribution to the earnings, I would not expect much. And you are right, the margin now getting better, especially on the petchem side. So, the sooner we can start the unit, the better. So, we are doing the balancing. While we are trying to get the plant start up soon, we also have to ensure that everything in order. And as you're aware also, COVID-19 also have been an issue in Pengerang. But so far, we have been managing well. There is some slight delays and we managed to curb before it spread further. And so far, the situation is under control. So, we still put in an effort to target sometime second half to really start this plant and stabilize the unit. So, if you want to see the meaningful earnings, I would say, probably in 2022, that will be the best.

Then secondly is dividend payout. As you're aware, we have announced the dividend payout slightly I think, the highest that we have announced so far, about 59%. So, we continue to evaluate from time to time. But at the same time, we have to be disciplined enough to manage our cash because that will answer your third question with our progress in specialty chemicals. So, in addition to the existing project that's in our pipeline, so what are they that it is now work in progress, PC INA, Nutmeg is an NB latex plant and Ethoxylates plant in Kerteh. This, in addition to that, also, we also have expansion projects for DVG. So, we have the blending plant in Kuantan, lubricant, additive and chemical new train in Netherlands as well as our packaging in Germany is now under expansion. So that is our part of our growth in specialty.

In addition to that, we continue to evaluate opportunities. Recently also, we have close look into one of targets. So, this process will continue. And at this moment, we have a dedicated team, probably a number of about 20 of them is continue to look of our pipeline. And once we really find a good target, we are going to go move in. That's why we need this cash to be ready. So, this is an opportune time. We will see that this year and next year probably the opportune time because we see some target available for M&A. But we need to do it carefully and we have people to really focus on this subject. So, our growth on specialty to remain intact. I hope I answered all that three questions, Ajay.

Operator: We have our next question, this is coming from the line of Alex Goh from AmBank.

Alex Goh, AmBank

I have a couple of questions. Just a follow-up on Ajay's question on the Pengerang PIC. You've indicated you are starting the, they are looking to start the plant in the second half. I think you've moved the target quite a number of times. I'm just wondering, if you were to start it in the second half and I think earlier on, you were guiding that perhaps you may be EBITDA positive. But in terms of the actual bottom line, you will probably be a loss in terms of accounting profit. Could you give us some guidance? Do you think it will be more of a loss situation for the PIC you will start in the second half of this year?

Datuk Sazali Bin Hamzah, CEO:

Okay. To answer your question, that's why we put second half. We have never changed the second half from the beginning for petchem side. I'm talking about the petchem side. So, the progress, whether it is early first half or middle of first half is also subject to a few other factors. One is the closure of all the item that we have identified during the assessment. So, we must make sure 100% that this is closed because we don't want to repeat the same mistake that we have done in the past. That's one.

Secondly, also, COVID-19 has some bearing impact somewhere in September and October, we have that cases, where the work had to be stopped because of sudden increase in COVID-19. But now we have introduced what we call targeted green bubble concept, where we put all the contractors in the same location and we have a better control, don't meet the contractor. So, by doing that, so far, it works. And we have not seen the cases being increased anymore. But this continue to be a threat. That is where actually it's difficult for us to pinpoint certain date because of the challenge of the current situation.

So, going into whether it is EBITDA loss, I would expect during the startup, depending how fast the stable, if the plant is really reached at a stabilized operation, it can reach EBITDA positive. But it depends on how much the ability for us to stabilize the plant. Bear in mind that this is starting on the crude cracker and also petchem. So, it is a very highly integrated plant. So, we still aim for that. But the success, it depends how quick we stable this plant. So, my own experience also, this kind of complex, depends, it can take sometime 6 months. It can take some time only 1 month, so depending how, bear in mind also, this plant has been not running for some time. So, we expect when we start again the plant, there will be some treating issues along the way. So, we are planning for that as well.

Alex Goh, AmBank

Yes. But yes, even if you're EBITDA positive, but what about on the bottom line, on a net profit level, do you think that you are able to be positive on that level? Or do you think it will be a loss for the Pengerang?

Datuk Sazali Bin Hamzah, CEO:

I think we have indicated last time, EBITDA side can be positive. But profitability, I don't think it will be positive because we had to pay some of the expenses already, especially borrowing. So, in that part, I think we still remain negative in term of profitability, so until the plant is really stabilized in 2022. So that's why we have given the indication earlier.

Alex Goh, AmBank

I see. Okay. But for you to remain EBITDA positive, what level of plant utilization do you need to achieve? Is it what, 70%?

Datuk Sazali Bin Hamzah, CEO:

I would say probably 80%, with the current margin environment, 80%. And the petchem, especially the value maker, need to reach that level. So, the cracker and petchem is the one that the value driver. So that unit needs to be stabilized. And the sequence of startup, of course, crude will start first and then cracker, then finally the chemical side. On chemical side, I think our people are ready. They have been retrained and retrained and be ready, the Unit once the feedstock is available.

Alex Goh, AmBank

Okay. You mentioned that these coming 3 years, you are going to have very high turnaround and maintenance level. So, could you guide us through into what kind of CapEx that we need to be aware of over the next 3 years, this year and the next 2 years?

En.M Azli B Ishak, CFO:

Probably I can answer that, Alex. I mean for CapEx for at least for this year, 2021, is ranging between MYR 2.5 billion to MYR 2.6 billion. So, in term of split, we can pretty much split it equally between 4 key levers. One is the maintenance and then the other one is the Pengerang Integrated Complex. The third category is other growth projects that we are pursuing. And fourth is basically for our turnaround and operational growth.

So, all these 4 categories are, in terms of CapEx spending for 2021, almost equal to one another. And like what we mentioned to the analysts' briefing previously, we expect to invest in excess of MYR 6 billion for our growth projects over the next 5 to 7 years, especially towards this specialty chemicals industry in line with what Datuk Sazali mentioned just now. So, I hope that can provide some color for you to use or guide you in terms of your valuation model.

Alex Goh, AmBank

Okay. So, for 2021 alone, you are looking at MYR 2.5 billion to MYR 2.6 billion. Could you be just be a bit more specific in terms of what which one is actually turnaround and maintenance? So that you can strip out which are the other growth drivers from the CapEx?

En.M Azli B Ishak, CFO:

No. Basically, I mentioned just now that there's 4 items: maintenance is about MYR 600 million; Pengerang Complex is about another MYR 650 million also; other gross projects, MYR 600 million again; and then turnaround and operational growth, close to MYR 700 million.

Alex Goh, AmBank

Okay. That's wonderful. Can I assume that for those turnaround and maintenance numbers that you've given just now, would this be recurring over the next after 2021?

Datuk Sazali Bin Hamzah, CEO:

It is recurring, but it is not at the same magnitude. So, for example, this year, we are planning about 5 major turnaround, probably slightly higher from MYR 300 million to probably close to MYR 800 million. But if we go to 3 turnarounds, probably it can go as low as MYR 400 million or MYR 500 million.

En.M Azli B Ishak, CFO:

Yes.

Datuk Sazali Bin Hamzah, CEO:

This depending on how many turnaround that we have. But this year and next year, it's quite heavy turnaround. We target about 5 and 5. Then after that, it slows down again.

Alex Goh, AmBank

Okay. All right. Great. Could you..

Datuk Sazali Bin Hamzah, CEO:

Yes. I think it's also important for you also to know that we are now also applying SSI. We have yet to get that. So, once we're entitled to have SSI, we are able to spread our turnaround. So, our aim is to have for the average of 3 turnarounds a year. So, if we can do that, then later on in the year, it's much more stabilized. So, turnaround become one of the main focus on our cost lever.

Alex Goh, AmBank

Okay. I'm sorry. Could you just clarify a bit? What do you mean by the SSI?

Datuk Sazali Bin Hamzah, CEO:

It's a safe regulation that we are now working with DOSH. So, we have to meet a certain criteria. So, once we meet that criteria, so the date of turnaround will be decided by the plant itself, not by the regulator. Now it's time based by the regulator. So sometime, we feel that the plant is not yet they can run more. They can run longer. But because of the time bounds, we have to shut down at certain particular time. That resulted that sometime you have too many shutdowns. So, having this regulation compliance, so we are able to spread our turnaround. And we can even extend the plant, instead of every 3 years, can be 4 years, subject to certain catalysts need to be changed. That will improve our cost.

Alex Goh, AmBank

Yes. Could you comment earlier, there were some rumors that Saudi Aramco was looking to divest from Pengerang. Could you perhaps give us a bit of your views on that area?

Datuk Sazali Bin Hamzah, CEO:

I can't comment a rumor. But the way that we see it that they are very serious. That, as I mentioned, they are sending about 15 people, their specialists, embedded in PrefChem or PIC organization to support us to start up the specialists. And at this moment also, they're already at site, some of them. So, they will continue to provide that. In addition also, they continue to support in our start-up

plants. So, on this rumor, I could not comment anything. So far, they are our partner. And they are very serious on it, yes.

Alex Goh, AmBank

Okay. Great. And I think my final question here would be on you're 40% owner for the BASF, where you did that impairment. Could you let us know exactly how much was actually impact in your fourth quarter? Was it a full MYR 232 million? And is that a net tax effect? Or I'm just trying to figure out what is the actual run rate in your fourth quarter. If I were to reverse out the number, what would your actual fourth quarter net profit be?

En.M Azli B Ishak, CFO:

Okay. I think with regards to the JV, BASF PETRONAS, I think both BASF and PCG, when we look at the outlook and the business, we look at the alignment on the BPC product portfolio and focus on our long-term growth. And then we also look at the competitive landscape of the BDO plant due to the oversupply. So, I think you probably catch the last quarter announcement about the impairment. So that's basically, the impairment is our 40% portion of that amount. So currently, the amount, some of it have not been incurred yet. So based on guidance, so the entire you can, on a conservative basis, use the estimate of MYR 232 million as per our announced quarter result in quarter 3 as a basis for the full impact of the closure to our bottom line.

Alex Goh, AmBank

Okay. So in that case, for your associate loss, I should add back MYR 232 million to figure out to work out what was the actual run rate. Am I right in that?

En.M Azli B Ishak, CFO:

You can. You can use that as a guidance.

Datuk Sazali Bin Hamzah, CEO:

Yes.

Alex Goh, AmBank

Okay. Will there be any further losses coming from this plant going forward? And the chemicals, will you be using the chemicals for later on?

En.M Azli B Ishak, CFO:

Okay. I think the 2 other big complex in BPC, the one is acrylic acid and oxo. If those 2 complexes, if we look at the performance quarter-on-quarter, they are performing better. So, setting that aside, so we do not foresee any decision or long term to for any closure of any plant.

Datuk Sazali Bin Hamzah, CEO:

I think if you look at the BPC performance, excluding the BDO, they are actually in the improving trend. And even, they have record positive EBITDA for that. And not only for the 2, oxo and acrylic acid plants, the aroma also have contributed a lot. So, we are seeing very positive on BPC moving forward.

Operator: We have the next question, which is coming from Oscar Yee from Citigroup.

Oscar Yee, Citigroup

My first question is regarding the follow-up on BPC. Because the margin for acrylic acid and oxo alcohol actually has already been rebounding in the fourth quarter. But why was your associate performance turning from profit in 3Q into a loss in 4Q, even stripping out that MYR 230 million sort of like one-off cost for the BDO? May I know what has been driving the sort of Q-on-Q swing? And is it also some other one-offs?

Second question is regarding your comment earlier about the ramp-up. Could you give us a more detailed timeline about when do you expect to introduce the crude into the CDU? Because I actually heard that, from some other consultants, that actually this is something that could happen very soon, maybe in like March or February. Or could you give us some guidance? Obviously, we know there will be some lag time for your naphtha cracker and downstream to start. So I want to know roughly the timeline for the CDU crude feed-in.

And finally, on your comment about MYR 6 billion sort of like investment in the next 5 to 7 years, could I check? Is this the your equity portion? Or is it the total investment? Because most of your specialty is actually under the JV format, right? So, you actually do not have to take in the debt, right, on your balance sheet. So, I just want to clarify the number for that MYR 6 billion.

En.M Azli B Ishak, CFO:

Okay. Oscar, Azli here. So, I'll take your first question. With regards to BPC, you're right, acrylic acid and oxo alcohol is performing better. But on top of that BDO plant closure of MYR 232 million, there's also some amount that BPC has recorded in terms of impairment of plant for the HR-PIB plant, which is a small plant. So, it's more of one-off accounting entry on impairment, and it does not impact the other plants in BPC. So, there is more of accounting adjustment because both BASF and PCG, we took a very conservative view with regards to the product coming out from that plant. And there is no other impairment assessment on other BPC plants.

Datuk Sazali Bin Hamzah, CEO:

Okay. On the timeline for the crude, at this moment, we're still aiming for the first half, yes? But again, this depends on the issues or challenges that I've mentioned just now. So, if you talk about March, probably it is not much but later part of first half. But let's see how we progress. So that is our current best target. Because it's a still moving target until we really can nail down the COVID-19 pandemic issues as well as the closure of the item.

And the third one, MYR 6 billion in the next 5 years, it actually can be JV, can be equity-wise. This MYR 6 billion is not the total investment. We may go up for borrowing, if necessary, depending on the size that we are looking at. So that opportunity is there is a small and big size. So, if big size, we may also go for borrowing. That's why I think that's why we don't really put the dividend in because we need to conserve our cash for this kind of purpose.

Operator: We have our next question coming from the line of Maheshwari Mayank from Morgan Stanley.

Mayank Maheshwari, Morgan Stanley

Good to see the ESG slide in your presentation, quite heartening to see that. My question was more related to, firstly, on the fourth quarter petrochemicals EBITDA. You had seen a decline quarter-on-quarter in terms of your EBITDA for that division on a per unit basis. And margins have actually

come down for olefins. Any specific reason for that? Because the prices have actually been moving higher in the fourth quarter versus third quarter of '20. So, is there any additional cost or something that's gone in?

En.M Azli B Ishak, CFO:

Mayank, you're referring to the segment report, right?

Mayank Maheshwari, Morgan Stanley

That's right.

En.M Azli B Ishak, CFO:

For olefins, right?

Mayank Maheshwari, Morgan Stanley

Correct.

En.M Azli B Ishak, CFO:

Yes. I think if you look at the quarter-to-quarter, yes, as you are already familiar with our cost structure, our olefins and derivatives are very sensitive to price movement. So, every dollar increase or decrease into the price or spread goes through the same dollar effect into our EBITDA. The story is a bit different for our Fertiliser and Methanol, where we have some buffer in terms of product and naturally hedge against our feedstock costs. So other than what has been disclosed, there are no other changes in the or abnormal situation with regards to our EBITDA for the Olefines and Derivatives.

Mayank Maheshwari, Morgan Stanley

Okay. Because when you look at it, it's kind of come down quarter-on-quarter. So, I just thought, is there any one-off items that we need to be aware of?

En.M Azli B Ishak, CFO:

No.

Mayank Maheshwari, Morgan Stanley

No inventory gain or loss and nothing of those kind of things as well, correct?

En.M Azli B Ishak, CFO:

No. I think for the quarter 4 2020, there's not much of inventory write-down. Because in quarter 4, as Shakeel has mentioned, our price and spread has improved. In general, I think both Fertiliser and Methanol and Olefins and Derivatives in terms of inventory, there's not much inventory write-down.

Mayank Maheshwari, Morgan Stanley

Okay. And the second question was more related to, I think, the tax rate itself. Obviously, this year, the tax rate has been reasonably low. So, any guidance that you can give for 2021 on the tax rate?

En.M Azli B Ishak, CFO:

So, for 2021, our effective tax rate, we believe we did a range of 10% to 15%. So again, as you are familiar, our tax rate is a plan between the Labuan tax and the corporate tax regime. So, it's all

depending on the market condition, Mayank. So, income generated at Labuan will be will impact the effective tax rate accordingly. So, under the current scenario, where the product prices are low and the income generated at Labuan reduced, so the effective tax rate will subsequently rise because more profit at the corporate tax as opposed to the Labuan tax.

Mayank Maheshwari, Morgan Stanley

Sure. Got it. And the last thing was related to Da Vinci. Anything that you can kind of talk about in terms of financials for that acquisition now? How has it performed, et cetera?

Datuk Sazali Bin Hamzah, CEO:

Okay. For Da Vinci, what we can share with you that they have upbeat the 2020 target. So, despite the COVID-19, the target that we have set, we are upbeat. And we are very bullish on that because we also see, for example, the LAC business, the lubricant, additive and chemicals, is the business better than what we expect even before COVID. However, silicone is impacted, especially on the upstream silicone. Downstream silicone is still good. And Da Vinci is so flexible to actually swing their product between upstream and downstream. And because of that, they protect their margin versus volume.

So, at the end of the day, they managed to weather the situation. And overall, they actually hit the target. So, we are quite happy with the performance. And 2021, they have even have a aggressive target. So, we are seeing that the post-merger integration have worked because we have a dedicated team to ensure that DVG immersed with PCG work culture while maintaining their strength. And that actually worked very well. So, we have a good company that bring into the organization, I believe.

Operator: We have our next question. This is coming from Raymond Yap from CGS.

Raymond Yap, CGS-CIMB

My question has been asked.

Operator: You do not have any further questions at this moment. I would like to hand the conference back to you. Please take over.

Datuk Sazali Bin Hamzah, CEO:

Okay. All right.

Ms Zaida Alia Shaari, Head IR:

Okay. So, thank you, everyone, for joining us today. Please share with us your reports once published. If you have any more questions, please feel free to e-mail us. Thank you.

Datuk Sazali Bin Hamzah, CEO:

Okay. Thank you all.

En.M Azli B Ishak, CFO:

Thank you all.

Datuk Sazali Bin Hamzah, *CEO*:

Stay safe.

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