Quarter Ended 31 March 2013 PETRONAS Chemicals Group Bhd Earnings Presentation
Event Date : 28 May 2013, 5.30pm

Wan Asmah Che Din (Head of IR):

Thank you. Good evening, everyone. I'm Wan Asmah from Investor Relations. Welcome to Petronas Chemicals Group quarterly briefing for the financial results ending March 31, 2013.

With us today we have Dr. Abdul Hapiz, the President and CEO; Miss Wan Shamilah Saidi, CFO; Mr. Yusa Hassan, who heads the Olefins & Derivatives business; and Mr. Muhammad Shah Ali, Head of the Fertilisers and Methanol business.

The presentation slides are available for download from the webcast window or from our corporate website at www.petronaschemicals.com. Please read through the disclaimer statement in the briefing pack. Thank you. Over to you, Dr. Hapiz.

Abdul Hapiz Abdullah (President/CEO):

Thank you, Wan Asmah, and thank you to everyone for joining us today. Basically, we wanted to share our results for the quarter ended 31 March, 2013.

I am pleased that we had a good start to the financial year. The market was favourable, with firmer product prices. We also achieved strong operational performance, which allowed us to leverage on the favourable market conditions. Therefore, the overall financial results were strong.

During the quarter, we had also ceased our domestic vinyl operations. The sale process of our assets in Vietnam is currently ongoing. And, recently, we had announced our intention to expand our existing Kuantan facilities with our partner BASF. This will be our foray into aroma chemicals.

At this juncture, I will hand over the session to Wan Shamilah, our CFO, to provide details of the PCG financial performance for the quarter ended March 31, 2013. Over to you, Shamilah.

Wan Shamilah Saidi (CFO):

Thank you, Dr. Hapiz. Good afternoon, everybody. I am pleased to present the details of our performance for quarter 1. If I can refer you to slide number 3, Group revenue compared to both comparative periods increased by 2%. That was supported by higher product prices.

EBITDA increased by 10% and 17% respectively, with improving spreads as we saw feedstock prices fell, while product prices increased.

Profit after tax rose in tandem with EBITDA against corresponding quarter. Against the preceding, our profit after tax increased by a higher percentage of 25%.

There were one-off items in quarter 4. We recognise once-off expenses relating to the cessation of the vinyl business and benefited from positive tax incentives impact at a subsidiary. Excluding the once-off items, profit after tax rose by 18%, in line with EBITDA trends.

Let me now take you through more details. When we compare results for quarter 1 against corresponding quarter, revenue increased by 2%, supported by higher prices; operating profit increased by 12%, with improving spreads. Contribution from our associates, on the other hand, was lower; mainly due to lower prices following weaker demand.

Profit before tax was higher by 13%, again driven by the improved product spread on the back of higher product prices and lower feedstock costs. And, as a result, profit attributable to shareholders increased by 8% to MYR1.1 billion.

Notably, our EBITDA and EBITDA margin for the Group was very strong, with better spreads recorded for both segments on the back of higher prices for O&D products and higher production volume from Fertilisers & Methanol.

Compared to the preceding quarter, similar trends are observed if you exclude the once-off items in quarter 4.

Excluding these once-off items, profit before tax would be higher by 26% and profit attributable to shareholders would be higher by 15%. EBITDA and EBITDA margin also strengthened with improving spreads.

Operationally, we recorded very strong results and let me take you to slide number 5. This summarises how our results were positively impacted by stronger plant performance.

For quarter 1, we achieved plant utilisation rates of 92.8% and that's a clear 4% improvement compared to preceding quarter. This was partly due to improving gas supply situation, mainly for our methanol facilities, and lower level of maintenance activities.

Let me now explain on segmental performance. Olefins & Derivatives, which is our largest EBITDA contributor, achieved strong operational performance of 99.3% plant utilisation rate. This would be the strongest plant utilisation rate recorded thus far by Olefins & Derivatives.

EBITDA was boosted by favourable spreads, with prices being higher by 7% against corresponding, and 3% against preceding. And strong EBITDA margin at 38% compared to corresponding quarter as well as preceding.

Fertilisers & Methanol also saw an improvement in utilisation rates, at 88% compared to 84% in preceding quarter. This is on the back of improving gas supply availability for our methanol facility.

Prices against corresponding quarter on average were higher by 10%, but it was comparable against preceding quarter.

EBITDA margin is strong at 45% because of the positive impact of higher production volume. For this segment we maintain sales volume through undertaking trading activities to serve our long-term customers. So when we are able to produce for the system you will see improving EBITDA margin because we produce the products rather than having to purchase as mitigation to production shortfall.

Cash flow; very strong. Our cash has now grown to MYR10.5 billion, and we effectively have very minimal gearing. And the strong cash position prepares us well for the growth plans that we are currently considering.

With that I'd like to pass to Mr. Yusa, our Head of Olefins & Derivatives.

Yusa Hassan (Head of Olefins & Derivatives Business):

Good evening. Yusa here. I'm the Head of Olefins & Derivatives (O&D). What I will do is actually just give a quick O&D market overview of the first quarter, followed with O&D market look ahead for quarter 2.

For quarter 1, overall, O&D business segment saw an uptrend as compared to previous quarter, especially for ethylene, some of that ethylene derivatives and paraxylene. Within quarter 1 itself, the prices is somewhat softening in March due to weak demand.

Ethylene price hit a 4 and a half year high towards end February due to supplies shortage. However, weak derivative demand eventually pulled down the price. This is also true for polymer business, which gained some momentum from restocking activities post-Chinese New Year, but this could not be sustained, hence thinning spread continued for polymer.

For MEG, prices were mostly on the downward trend throughout quarter 1, attributed by ample supply availability and weak downstream demand.

The aromatics business, however, saw highest price in February due to start up of new PTA plants in China, but this has moderated from February onwards, resulting from prevailing weak downstream demand from PTA and polyester sectors.

Moving into quarter 2, market is expected to be somewhat moderate, with slight improvement in demand from downstream sectors, and stable feedstock prices. Ethylene prices are anticipated to sustain, supported by the upcoming planned turnarounds of several crackers in late May around this region.

However, polymer business will continue to face challenges due to the cost push factor and more supply with upcoming startups of new plants, again around this region.

Similarly, MEG performance is expected to remain slow as the demand is not strong enough to push the price higher due to ample supply, as well as high inventory in some of the countries.

Meanwhile, the aromatics business is expected to stabilise. It won't be as high as during the first quarter as supply-demand fundamentals are more balanced for paraxylene especially.

The outlook for this year is still somewhat challenging for O&D markets. Despite soft recovery, businesses are still unwilling to take up bigger risk, taking into consideration the slower pace from key markets, and depth of eurozone recession.

Let me now then pass the session to Muhammad Shah, Head of Fertilisers & Methanol.

Muhammad Shah Bin Ali (Head of Fertiliser & Methanol Business):

Thank you, Yusa. Hi, everyone. I'm Shah, and I'm the Head of Fertilisers and Methanol (F&M). What I'd like to do is give you a quick overview of the market situation that's behind us as well as probably give you a brief overview on the outlook for methanol, urea and ammonia.

Let's start with methanol. Basically, curtailment of natural gas in Trinidad and plants around Venezuela during the first quarter affected methanol supplies to North America and Europe, which has caused the prices in these regions to hike.

We then saw Middle East suppliers moving their cargoes to the US and Europe, and, given the higher pricing situation in the US, which in turn created a shortfall in the Far East, edging the Southeast Asian methanol prices up.

However, also in the Far East we saw China's prices softening, and this is in line with the weak downstream demand and falling domestic prices. At the same time, planned and unplanned shutdowns in Southeast Asia have also kept supply tight, causing the prices to also edge up.

Our outlook for the remaining fiscal year is stable, based on our view that there would be no major supply interruptions and demand remains to be robust.

For urea, prices have been softening since February. We saw that the delayed demand by the US, which is caused by weather, has led to a relatively bearish market.

In addition, in anticipation of a new capacity by FERTIL, which is about 1.2 million tons per annum, is expected to cost some additional surplus of 100,000 tons per month beginning July 2013 to an already saturated market.

At the same time, the offerings from China is foreseen to increase towards the end of June, and this is really due to the reduction of their export tax in July, which will reduce from 77% to 2%, and we are seeing already that the Chinese exporters have really piled up surplus urea following slow domestic demand.

Our outlook for the whole year - we think prices still will be range bound, between $330 to $380 per ton because of the plentiful amount of supply in market.

Let's move to ammonia. The market has been stable to bearish from January to May. This is the result of a few reasons; slow demand from Indian DAP producers as well as Far East ACN and caprolactam producers.

At the same time, supply from Middle East has been tight as some Middle East plants have just ended their turnaround and slowdown in April. Yuzhny has decided to slow down its urea production lines following urea sharp decline in prices and increase in ammonia export supply.

We see that the delay of the Sorfert plant from quarter 2 to quarter 3 will somehow cushion the price drop of ammonia, and we expect that the price decline is not expected to be as drastic as urea.

So our outlook for ammonia; we think it's waiting for a rebound, waiting for the refill demand from the US spring application season which is likely to start, and also the expansion of DAP and NPK plant in India. Thank you very much.

Wan Asmah Che Din (Head of IR):

Thank you, Shah. We shall now move to the question-and-answer session.

Question and Answer Session

Alex Goh - AmInvestment Bank – Analyst

I have two questions. One is the plant utilisation rate, which was very strong for Olefins & Derivatives. You've hit 99.3% in this quarter. Is this kind of utilisation rate sustainable for the rest of the year?

And the next question would be, what plant maintenance can we expect in the second half of this year? Is there going to be any significant ones that would affect the plant utilisation rates for both the Olefins, as well as the Fertilisers & Methanol divisions? Thank you.

Yusa Hassan:

For Olefins & Derivatives, the first quarter utilisation was actually very high. This was actually because of less interruption, be it internally as well as from our feedstock supplier.

But moving forward, quarter 2 and quarter 3 especially, there is actually heavier maintenance work during quarter 2, and especially quarter 3. And perhaps in quarter 4, it should be at least at the current level of utilisation, if everything goes well. Does that answer the question?

Alex Goh:

Yes. How about for the Fertilisers & Methanol division? Is there also going to be any significant maintenance work?

Muhammad Shah Ali:

Thank you for the question. Well, as you recall, most of our issues on utilisation has been the feedstock, basically. And I think going into quarter 2 we have got improvement in our feedstock situation. I would say that there are some planned works at one of our plants. I suspect the outlook is that there will be a lower utilisation for second quarter as compared to quarter 1.

Wan Shamilah Saidi:

Alex, can I try to recap for you? So for O&D, the main maintenance activity will be in quarter 3, because that's when we undertake the shutdown of one of our cracker, our biggest cracker, as you're aware. For Fertilisers & Methanol, the major maintenance work was undertaken last year. Comparatively, compared to last year, it will be at a lower level of maintenance activity, as well as improving gas supply situation.

Alex Goh:

Okay. Can I just have a follow-up question on this? If in the third quarter one of your biggest cracker you mentioned is going to go for some maintenance, which of the crackers will it be involved? And what would your utilisation drop to from 99.3%?

Wan Shamilah Saidi:

We don't give forecast plant utilisation rate by quarter. What we can share is we aim 90% at a Group level, including taking into account the planned activities that we are planning ahead of us. The cracker that we are undertaking work will be the PC Olefins cracker that has a capacity of 60% of our total cracker capacity.

Mohshin Aziz - Maybank - Analyst

Two questions. The cracker that's going to go for some maintenance in third quarter, is it a catalyst change or just a normal routine annual checkup?

And then second question relates to urea. There's a mention that the market is quite saturated right now. What are your thoughts going forward next year when SAMUR project actually kicks in and an additional 1.2 million tons per annum hits in the market? What would your viewpoint be with regards to the supply demand would be for 2014? Those are the only two questions.

Yusa Hassan:

For the olefin cracker, the major turnaround activity is actually related to the periodic statutory shutdown activities together and normally, typically, whatever the catalyst needs changing will also be done at the same time.

Wan Shamilah Saidi:

But this is not the catalyst change out that we do; this is actually a bigger activity.

Yusa Hassan:

This actually is statutory and all other activities coinciding with this shutdown will also be undertaken.

Muhammad Shah Ali:

The question on SAMUR project. First of all, SAMUR project will come on stream in August 2015. So basically --

Mohsin Aziz:

Oh, yes, sorry. Okay, never mind. So 2015 is still two years out --

Wan Shamilah Saidi:

- - There’s expected growth in demand.

Muhammad Shah Ali:

We've still got a lead time. But basically fundamentals of the SAMUR project, the issue is there's a big shortfall of urea within this region. And the SAMUR project is entirely focused to resolve that. Now the current market situation that we've seen, I think urea is a commodity that's pretty robust, we expect that basically prices are still going to be there when SAMUR project comes up.

Wan Shamilah Saidi:

And, as you know, our SAMUR project, the products from there will be mainly for export market.

Yong Liang Por - BNP Paribas - Analyst

I have two questions. The first question is could you tell us why the decision on RAPID was delayed until first quarter next year? Is there any possibility that, given the worsening industry fundamentals, that the project could be changed or downsized?

Second question, could you give us guidance on the potential revenue from the new aroma project? Thank you.

Wan Shamilah Saidi:

On project RAPID what Petronas has shared recently is that the FID is targeted to be scheduled, or to be reached by first quarter 2014. It is a massive undertaking. So the size of the project, as far as we are aware, is still unchanged, but it is still at early stage of the project.

On aroma project it is at early stage of assessment. What we have announced with BASF is our intention to jointly develop and expand our Kuantan facilities going into producing aroma-type products. It's still too early for us to give you indication of revenue at this stage, but in terms of CAPEX, estimated at around $500 million.

In due course, as it progresses, we will be able to share you a bit more color. But at this moment we only shared that we have a plan to study this further and decisions should be reached by end of 2013.

Yong Liang Por:

Okay. I guess, just going back to the first question about RAPID, obviously demand growth doesn't look so great any more, and many other competitors are also talking about big new plants in Asia and then, of course, we have US shale. So I'm just wondering whether any of this changes the view of Petronas on the whole project.

Wan Shamilah Saidi:

I cannot speak on behalf of Petronas, but when Petronas undertakes such projects, it is always for a long-term strategy and all those factors will be duly taken into account. It fits strategically for many angles of Petronas business. So I am not able to comment beyond that because, as you are aware, it is a Petronas project at the moment.

Mayank Maheshwari - Morgan Stanley - Analyst

I have two questions. Firstly, regarding your CAPEX, which has been a bit slower than expected. You have spent almost about only about $80 million this quarter. You did say that August 2015 is still your target for SAMUR. When can we expect the pickup in activity on this front?

And second question was regarding the cash you have on your balance sheet. So if you can give us a bit more details about what you plan to do and what is your targeted net debt to equity. Anything in the longer term?

Wan Shamilah Saidi:

On CAPEX, it's usual; beginning of the year the pickup is a bit slower. But with the heavy maintenance work that we're doing in quarter 3, because it involves bigger facility, for this year, our normal CAPEX would be higher than normal, because we also take the opportunity to undertake any rectification work that is necessary.

So for maintenance work, it will be around MYR900 million and for SAMUR, it will be around MYR2 billion this year by the end of the year. The pace should pick up as we progress in the year.

Cash; today, our cash stands at MYR10.5 billion. We are primed, as you can see, to tap the market when we need to raise further funding. We are gearing up for that. What we're doing today, we clearly have the capacity to do it fully funded internally, but we're also gearing up to be a key player in project RAPID.

So until we can provide further details on our level of participation, I'm not able to give you more color on how we're going to utilise the cash and what level of gearing, but it is gearing up for RAPID as well as other smaller projects that we have announced today.

Mayank Maheshwari:

Anything on M&A or any other project in ASEAN that you are looking at today?

Wan Shamilah Saidi:

M&A is opportunistic as and when suitable targets become available and that have a good strategic fit in terms of products, integration to our existing facilities, as well as complementary to the current markets that we have.

So it is opportunistic in nature, but certainly the balance sheet that we have today allows us to close up any deal quickly if we do find suitable targets.

At the moment, there is no such plan, but we are always on the lookout and always exploring if there are suitable targets to consider.

Nitin Kumar – Nomura - Analyst

Hi, very good set of results. I think again, touching back on project RAPID, I think what decisions or what criteria needs to be met before Petronas would actually either go ahead with the project or take a step back and say that maybe this project doesn't make sense? What needs to probably happen for that?

Wan Shamilah Saidi:

This is the normal process reaching to final investment decision, so there will be financial targets, there will be strategic targets as well and RAPID is being developed in collaboration with partners.

We are not able to share with you specific targets, but those will be the usual areas that need to be fulfilled and duly considered before we reach final investment decision of any project.

Nitin Kumar:

I understand. And secondly, on the project SAMUR again, I think because it's a much larger facility and probably a better cost structure, would we see, or is it likely, that Petronas Chemicals could shut down some of the older facilities?

Wan Shamilah Saidi:

Well, today, in terms of urea, we have a capacity of 1.4 million tons per annum and with SAMUR, we'll have a total of 2.6 million tons. And there is demand growth in this region that we do not see the need to scale down or shut down any existing facility.

Nitin Kumar:

And your input costs would be, the methane cost, would be benchmarked against what kind of prices?

Wan Shamilah Saidi:

As we have shared with the market, for Fertilisers & Methanol, the feedstock that we purchase are linked to market references. So for urea, specifically, it is linked to global urea prices. And we have similar structure that we have negotiated for project SAMUR.

Nitin Kumar:

Do you mean the feedstock prices are actually linked to the end market prices for a fixed margin or a fixed formula?

Wan Shamilah Saidi:

No, we didn't say it's a fixed margin. It is linked to market references and it serves both supplier as well as us, because in periods where prices are going up, we do pay more, but, at the same time, we do make higher margin as well. When prices are going down, we also pay less; so it is a robust structure that serves both seller of gas as well as the group.

Nitin Kumar:

And the Sabah-Sarawak gas pipeline, is that on track for end of this year production? Is there something that you could share on that?

Wan Shamilah Saidi:

I'm not able to comment on that because we don't have direct control over that project. But, in terms of project SAMUR, we are on track to commence it in 2015.

Wan Asmah Che Din:

Okay. If there are no more questions, then we will end the briefing for today. Thank you all, for joining us. So we will have a playback of this briefing posted on our website. Thank you all, for participating and we'll talk again at the next event. Good evening, everyone.

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