Quarter Ended 30 June 2012 PETRONAS Chemicals Group Bhd Earnings Presentation
Event Date: 29 August 2012, 5.00pm

Wan Asmah Che Din:
Good evening, everyone, I'm Wan Asmah here from Investor Relations. I would like to welcome everyone here who's joining us for the PETRONAS Chemicals Group financial highlights briefing for the quarter ended June 30, for the financial year 2012.

With us today is Dr. Abd Hapiz, the President & CEO; and Miss Wan Shamilah Saidi, CFO; and Mr. Muhammad Shah, Head of Fertilisers & Methanol segment.

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Before we start please read through the disclaimer statement in the briefing pack.

Over to you, Dr. Hapiz.

Abd Hapiz:
Thank you, Wan Asmah. And to all of you on the call, thank you very much for joining us today. It is certainly a great pleasure for us to share with all of your our results for quarter 2, for the period ending June 30, 2012.

Overall, we continued to record better results than last year. Year to date we've achieved a revenue of MYR8.3 billion, with an EBITDA of MYR3.0 billion. Let me start by sharing two key highlights for the quarter.

First one; it's been a challenging business environment. We saw demand softening, coupled with persistent worries on global economic events. Market spreads for most of the chemical products fell slightly; and markets for our F&M products, though, remain strong.

Second point; improved operational performance. PCG continues our good run from the first quarter, and plant performance was better year on year. We did, however, undertake maintenance activities in the second quarter.

Those are the two highlights that I'd like to cover for this quarter. And with that, we will get into more details; I'd like to hand this over to Shamilah, our Chief Financial Officer, to provide further details on our financial performance. Over to you, Shamilah.

Wan Shamilah Saidi:
Thank you Dr. Hapiz. Good afternoon everyone. Allow me first to present the financial highlights for the second quarter.

As you can see on the slide, all indicators compared favorably for the quarter, as well as cumulative year to date. This was mainly on the back of better plant performance compared to last year; but, when you compare against quarter 1, lower performance because we undertook maintenance activities during the quarter 2.

Moving on to more details, compared to corresponding quarter, we recorded an increase in all financial items, the only exception was the contribution from our associates.

Better financial results were on the back of improved operational performance. We did see slightly lower prices in the current quarter 2, so there was a declining trend between Q1 and Q2. Compared to preceding quarters, results were lower because of the maintenance activities. Particularly, we undertook maintenance work at our methanol facility which, as you know, contributes significantly to our overall capacity. And we also undertook catalyst change-out activities at our derivatives and glycol plants.

When you compare this against preceding quarter, the exception where you will actually see an increase is the contribution from our associates.

Overall for the Group in the current quarter 2, the better plant performance in the preceding quarter, has led to lower production and lower sales.

For our associates, year on year, we recorded lower contribution, due to market conditions. Quarter on quarter, it was better, due to better plant performance amidst a challenging market environment.

Let me give you a bit more perspective on the Group performance. Compared to corresponding quarter in the period, we recorded higher plant utilisation rates, with less maintenance activities. There was also less limitations in methane gas supply.

Compared to preceding quarter, the plant utilisation rate was lower due to, again, the maintenance work that we undertook. There was minimal in quarter 1. In quarter 2 we undertook maintenance work at three of our four fertilisers and methanol facilities, as well as aromatics plant and catalyst change-out at the derivatives and glycols plant. For Fertilizer and Methanol segment it was undertaken at the fertiliser plant in Bintulu, our ammonia plant and methanol plant 2.

Accordingly, revenue reflects or follows the same trend as our plant utilisation rate trend. EBITDA, overall, was maintained between 36% to 37%.

Moving on to segmental performance; for the O&D segment, which has a higher contribution to our overall results, plant performance was lower in the current quarter 2, due to the maintenance work at, again, aromatics plant and catalyst change-out activities.

In addition, we also reduced operating rates at certain facilities in response to market dynamics. This is to maximize the value that we can achieve given our integrated value chain. EBITDA margin was lower for quarter 2 at 32%, as a result of the challenging market condition.

For the Fertiliser and Methanol segment plant performance was lower due to maintenance work, but, notably, methane gas supply improved. Prices remained robust and when you look at the trend of average prices, it's been on an upward trend since quarter 1 last year.

EBITDA margin is strong at 40%, with improved spreads in line with higher prices. The decline between quarter 1 and quarter 2 is mainly due to the impact of the lower volumes with the maintenance activity.

For your info, during the current quarter 3, we will be undertaking maintenance work at our fertiliser plant in Kedah, as well as our vinyl facility. For your information as well, the maintenance work at our fertiliser plant in Bintulu was concluded in the current quarter 3.

Moving on to our cash position, it remains strong or robust standing at MYR10.3 billion. The Board has also approved a dividend of MYR0.08 per share, which will be paid on October 16, 2012. We will also, for your info, make full payment towards our remaining balance of the shareholders' loan of MYR1.9 billion by end of September.

With that I hand over back to Dr. Hapiz.

Abd Hapiz:
Thank you, Shamilah. Ladies and gentlemen, that concludes the overview of our performance for the period. As explained, our results were better on the back of strong plant performance. This was in the midst of a challenging market conditions, especially for our Olefins and Derivatives segment.

Moving forward, we will still see challenges in the market. There are signs of stability, but it's too early to say if the market has recovered. For us, domestic demand in Malaysia continues to show resilience; as you know, the Malaysia GDP is forecasted to continue to grow at around 5% and our revenue contribution from domestic market continues to be around 40%.

Our diversified portfolio has been an advantage. The Fertiliser and Methanol segment continued to be robust and that helps us to somewhat weather the weak trends that we see in Olefins and Derivatives segment.

To that, thank you very much ladies and gentlemen, and we are now open for questions.

Question and Answer Session

Nitin Kumar, Nomura:
One thing which I've seen in the note is the other revenue line, and especially the other EBITDA line; there was a strong profit at the other EBITDA line, could you give a color on what exactly contributed to such a strong profit for the others category?

Wan Shamilah Saidi:
The others is mainly relating to our interest income.

Nitin Kumar, Nomura:
Coming on the Fertiliser and Methanol side, the utilisations are down almost 15 percentage point quarter on quarter, which means that the ASPs are up almost the same amount, is that the trend that we should expect continuing in second half?

Wan Shamilah Saidi:
Yes that's the kind of range of increase that we've seen. And, going forward, we still see it being sustained, supported by healthy demand for methanol as well as fertiliser.

Nitin Kumar, Nomura:
And the other related query on the methanol at the Labuan complex, any update on when we should expect the plant 1 to become operational again, post the accident?

Muhammad Shah Bin Ali:
This is Shah, Head of Fertilisers & Methanol Business. We expect plant 1 to be up and running very soon and it is already in the process of start-up.

Trevor Buchinski, Macquarie Research:
I noticed in the notes to your financial statements there was two separate mentions of methane gas supply. Do you expect any issues with methane gas supply in the second half of the year?

The second question relates to inventory gains; other petrochemical companies around the region actually suffered in the second quarter on the back of weakening oil prices. I know you didn't specifically disclose any sort of inventory loss in the second quarter, but I was wondering if they did exist.

And then my last question relates to foreign ownership. I'm just wondering if you have an idea of what the current foreign ownership levels are right now and how that compares to the historical average? That's it from me, thanks.

Wan Shamilah Saidi:
Methane gas supply has improved, and we see an improving trend and we think it will further improve in the remaining half of the year. Of course, this is the supply is coming from our parent, Petronas, but we see improving trend.

For Peninsular Malaysia as well last year we did see some limitations -- if you follow the news, there's not much news this year about methane gas supply limitations in Peninsular Malaysia.

Inventory gains, we have very minimal if any. We hold very little stock; so, no, we don't have that issue.

Foreign shareholders currently is around 7.5%. It has been somewhat on a very gradual declining trend. After we listed, it was around 15%, so it's now come down to about 7.5%.

Alex Goh, AmInvestment Bank:
What was the average price change for the Olefins and Derivatives division and also for the Fertiliser and Methanol division over the second quarter against the first quarter?

Wan Shamilah Saidi:
Second quarter against first quarter, for our Fertiliser and Methanol, it was up by around 10%; and for our Olefins and Derivatives it was down slightly by about 3%.

Alex Goh, AmInvestment Bank:
What about the actual sales volume that changed for the Olefins and Derivatives, as well as the Fertiliser and Methanol quarter on quarter?

Wan Shamilah Saidi:
We did see lower volume for both segments, because of the maintenance work that is undertaken at both segments. So volume for O&D was lower, approximately around 15%; and volume for Fertiliser and Methanol approximately was down about 10%.

Alex Goh, AmInvestment Bank:
I'm just trying to get some idea on the drop in terms of the actual gas volume; what was the actual natural gas consumption in the second quarter compared to the first quarter for PETRONAS Gas to supply PETRONAS Chemicals?

Wan Shamilah Saidi:
Ethane, propane and butane is fairly stable. Where we are having limitations is on the methane gas supply, so in terms of methane gas supply compared to last year, we see about 10% increase in intake of methane gas supply.

Alex Goh, AmInvestment Bank:
10% increase?

Wan Shamilah Saidi:
Overall; I'm talking about overall for the Group and not only for specific facility. This is also influenced by our running rate.

Alex Goh, AmInvestment Bank:
Do you have the figures in terms of mmscfd?

Wan Shamilah Saidi:
I can share with you MMBtu. Overall, for the Group for a full year consumption it's roughly in the region of about 100 million MMBtu.

Alex Goh, AmInvestment Bank:
That's for 2011 is it?

Wan Shamilah Saidi:
That is just a guide for a full year.

Alex Goh, AmInvestment Bank:
Using the MMBtu that you have given me earlier as a guide can I assume that the drop in terms of gas consumption was also around that range?

Wan Shamilah Saidi:
I've given you a guide in terms of total year consumption. It depends on the running rate of the facility and we undertook maintenance work. So when we undertake maintenance work of course we're not consuming any methane supply.

Samuel Lee, JPMorgan:
I notice in the cumulative quarter ended June 30 the selling and distributing expenses is about MYR346 million, that's up 65% year on year. What's the reason for this? And is that run rate likely to continue in the second half of the year?

Wan Shamilah Saidi:
Year on year you do see increase in selling and distribution, but that's very much in line with our higher volume.

It's very much driven by volume. For your info, as a Group, one of the activities that we're undertaking is to ensure that all the plants facility are having consistent reporting. So one change that we did implement this year is to make sure that all our facilities report consistently. So there was some reclassification in selling and distribution as well and that actually contributes a bigger amount compared to increase attributed due to higher volume. So if you strip that out, you can strip about MYR70 million.

Samuel Lee, JPMorgan:
How long was the methanol number 1 plant shut down for during this quarter?

Muhammad Shah Bin Ali:
It's about 35 days.

Wan Shamilah Saidi:
It was shut down on the day of the incident, which was on July 26. And we took precautions to bring it down for safety, because it was located very close to the jetty where the incident happened.

Suwat Sinsadok, CIMB Securities:
Could you explain more about which plant that you reduced utilisation in the second quarter? You mentioned previously that you rationalized some plants to optimize your production.

Wan Shamilah Saidi:
On the optimization of our facility, in response to market dynamics, it's basically our downstream facility. So our option is to sell ethylene or deliver more to our associate company, so those are the options that we have available. So the facility where we optimize the running rate would be the downstream facility.

Suwat Sinsadok, CIMB Securities:
Would you still expect about 90% average utilisation for this year, given that lower utilisation in the first half of the year?

Wan Shamilah Saidi:
We have minimal activities for the remaining two quarters. It's only at the fertiliser facility in Kedah as well as our vinyl facility, and the conclusion of the maintenance work at our fertiliser plant in Bintulu. So, yes, our target remains at 90%.

Nitin Kumar, Nomura:
Just wanted an update on project RAPID. When should we start seeing a meaningful CAPEX update for project RAPID? Would it be starting in the second half this year, or would it be more next year loaded?

Abd Hapiz:
RAPID is still being worked on specifically under the jurisdiction of our parent company, PETRONAS. We will take on RAPID once this work is done, sometime in the mid of next year; FID is targeted for June or July 2013.

After then, only we will decide on the necessary actions on our side in terms of financing or whatever. There have been a few announcements on the potential partners that we have and that has been widely made known to the media, specifically on the C2/C3 as well as C4 streams.

So I think for now, like I've said, it's still on track and, therefore, we will consider doing the necessary come the FID stage, which is middle of next year.

Nitin Kumar, Nomura:
I remember in last quarter, you mentioned that the BASF PETRONAS Chemicals plant was having some tax issue. Is that something which is resolved now, or are we going to see more on that?

Wan Shamilah Saidi:
No, it's not a tax issue. It's just that they've finished utilisation of their tax incentives, so that was fully utilized and accounted for by quarter 1 of 2011. When I say quarter 1 here, it's April 2011.

Nitin Kumar, Nomura:
You mentioned that we had a fairly decent jump on the income on associates going from MYR70 million to MYR79 million. Was that because of higher revenue base from your

associates, or, because the spreads have come down across, so I'm trying to adjust my model as to where that gain is coming from?

Wan Shamilah Saidi:
No, they also have recorded improved plant performance quarter on quarter, quarter 1 against quarter 2. So it's improved plant performance in quarter 2.

As for the results, it is because of the challenging market conditions. So, in terms of different products, quarter 2 prices within quarter 1 were fairly okay in terms of movements, but they were supported by volume.

Nitin Kumar, Nomura:
So given that the spreads have come down again in 3Q, is there outlook or guidance in terms of utilisations or margins that you can give?

Wan Shamilah Saidi:
Utilization rate -- as I indicated earlier. We have minimal planned activities going forward. Of course, the current quarter 3 is affected a bit by the unfortunate fire incident on the vessel that affected plant 1, but the capacity there is smaller, relatively. So going forward -- minimal, only 2 maintenance work that we are undertaking.

Mayank Maheshwari, Morgan Stanley:
Regarding the update on the operations or the development on the fertiliser side; how the project is going on for the new fertiliser plant.

Regarding gas pricing; is there any development regarding gas pricing or from the parent PETRONAS or on either of the two divisions, Olefins or Fertilisers?

Wan Shamilah Saidi:
The fertiliser project that we're doing, otherwise called SAMUR project. It's progressing on track. In terms of gas pricing, we have contracts in place.

Mayank Maheshwari, Morgan Stanley:
You had your peers doing some changes, so from your side; you are not seeing anything of that sort?

Wan Shamilah Saidi:
As you know, our contract for the ethane is valid until 2016 and the other one until 2023, so no, we have not commenced any discussion on the ethane supply contracts.

Trevor Buchinski, Macquarie:
I noticed the tax rates were slightly higher in the June quarter. I'm just wondering if you have any guidance for what we can expect for the year end.

Wan Shamilah Saidi:
Our tax rate is around 24%, and that should remain around that number for the full year.

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