Quarter Ended 30 June 2013 PETRONAS Chemicals Group Bhd Earnings Presentation
Event Date: 23 August 2013, 5.00pm

Nor Shahda Zakaria (Head of IR):

Hello, good afternoon, everyone. I'm Shahda from Investor Relations. Welcome to Petronas Chemicals Berhad quarterly briefing for the financial result ended June 30, 2013.

We have with us today Dr. Abdul Hapiz, President and CEO; Wan Shamilah, CFO, who will be taking us through the key highlights and financial performance. Joining us, we also have Shah, Head of the Fertiliser & Methanol business segment; and Herman Schrijver, Head of Operational Excellence, and Health, Safety and Environment.

We will begin the session with a presentation of the slides, followed by the Q&A session afterwards. You can download the presentation slides from the webcast window, or directly from PCG website, www.petronaschemicals.com.

Before we start, please take a moment to read through the disclaimer statement.

Thank you. Without further ado, I will now pass the session to Dr. Hapiz. Over to you, Doc.

Abdul Hapiz Abdullah (President/CEO):

Thank you, Shahda. Ladies and gentlemen, good afternoon, or good morning, wherever you are, and thank you for joining us.

Let me begin. The market conditions were challenging for the quarter. Against last quarter, we saw softening demand for products amidst weaker economic data, particularly in the key markets of US, China, and Europe. Prices and spreads were adversely affected.

In contrast, market conditions were relatively more favorable compared to last year. This was on the back of tight supply availability, supported by cost-push factors and firmer end-product prices. Consequently, product spreads improved. The exception was fertiliser, with bad weather curtailing plant activities in the region. These market dynamics impacted petrochemical producers, PCG is included.

In addition to external factors, we were also faced with operational limitations at some of our plants during the quarter. Despite these challenges, the PCG Group still delivered resilient financial performance.

At this juncture, I will hand over the session to Wan Shamilah, our CFO, to provide details on PCG financial performance for the quarter; over to you, Shamilah.

Wan Shamilah Saidi (CFO):

Thank you, Dr. Hapiz. Good afternoon, everybody. Allow me to take you slide number 4.

When you compare against corresponding quarter, our results were better, underpinned by improved spreads, with lower feedstock costs. In terms of prices, it was lower; we did see prices for F&M down by about 9% on average, but Olefins & Derivatives was, instead, up by 3%. We achieved higher volume. So overall, against corresponding quarter, our performance was better.

Against preceding quarter, our performance declined with both lower sales, as well as product prices. Prices, overall, were lower by 6% and both F&M and O&D were both lower by 7% respectively.

Overall, when you compare the six months period, we did better. This was, in particular, supported by our very strong performance in quarter 1 this year.

Let us now move on to the next slide for a bit more color. Let's start first against corresponding quarter. Revenue declined slightly, by 1%, with lower prices, despite higher sales volume, but both movements are actually marginal. In contrast, our operating profit overall was higher by 16%, as we saw improved spreads, mainly driven by lower feedstock costs.

As you can see, the contribution from our associate company is the lowest thus far, at only RM12 million, and this is due to two reasons. Firstly, the market condition for their products, in particular for our associate company, which is the biggest contributor, BASF Petronas Chemicals. It was also, in turn, affected by the shutdown that we undertook at the feedstock plant upstream within our Group.

Overall, at the Group level, profit before tax increased by 12% and we saw improved spreads for both Olefins & Derivatives, as well as Fertiliser & Methanol. EBITDA margin for the Group remained steady at 40%.

When you look at preceding quarter, all indicators are lower. Sales volume was lower by 7% and product prices was lower by 6%.

EBITDA margin at 40%, despite the lower prices and volume and this is partly attributable to, we undertook less purchases of product to mitigate the system shortfall, so that boosted our EBITDA margin.

Let us now go to the next page where we highlight the plant utilisation rates. Overall for the Group, we achieved 83%, and this is below our target of 90%, with lower performance as well compared to preceding quarter. We had activities undertaken this year, and as you are aware, two of which is our PC MTBE plant and also PC Glycols. And with regards to our PC Glycols plant, it also affected PC Derivatives as it is an integrated value chain.

Market condition was challenging and despite higher volumes, revenue therefore was slightly lower against corresponding quarter, with lower prices. But overall, as you can see, our EBITDA is 40%.

Moving on to segmental performance, you will see the same pattern. In terms of plant utilisation rates for our two segments, Olefins & Derivatives being our largest contributor, saw a decline in utilisation rates and the two plants I mentioned earlier is within the Olefins & Derivatives segment; EBITDA margin for Olefins & Derivatives was at 36%.

For the Fertiliser & Methanol, there are also limitations, particularly at our methanol facility. Therefore, it is registering or recording utilisation rates of 80%.

EBITDA margin; though you see an improving trend for Fertiliser & Methanol business segment, again as I’ve shared earlier, is due to the lower purchases of products.

Moving on to our balance sheet, our cash flow is strong, comprising a large percentage of our balance sheet at RM10.5 billion as of end of June. The Board has approved an interim dividend of RM0.08 a share which will be paid on September 25. And as we have shared previously, the cash balance that we are building, is to position PCG towards undertaking growth projects.

With that I end my presentation, and I'll hand over back to Dr. Hapiz.

Abdul Hapiz Abdullah (President/CEO):

Let me share with you the O&D highlights. In general, all prices for most of the products in O&D softened in quarter 2, mainly due to weak market sentiment, amid the lack luster global economic environment.

Starting with ethylene, prices were initially showing a down trend in quarter 2. Nevertheless, prices regained momentum from May onwards as the demand from downstream derivatives, especially the polyethylene industry, started to improve.

Meanwhile, ethylene prices are expected to soften in quarter 3, amid weakening demand from the shutdown at the regional derivative plants in the region, along with the increase in supply from upcoming new capacity, especially from Northeast Asia.

When we look at it by product segments, for Polymer business, the prices were moving in tandem with ethylene prices in quarter 2, on the back of supply shortage from the Middle East, as well as the delayed startups of new capacity in Singapore as well as China. Notwithstanding, polymer prices, I expect it to strengthen in the third quarter, amidst tight supply from the maintenance shutdown at regional producers in Thailand as well as China.

MEG; the prices were fluctuating in quarter 2, due to speculative buying and volatility in the demand from downstream polyester market. Although the market expects ample energy supply in quarter 3, prices are expected to improve slightly, supported by ongoing speculative trade, seasonal demand from the polyester industry and existing inventories at the Chinese ports.

Moving on to aromatics; the prices dropped in quarter 2 due to the subdued demand and economic uncertainties. Nevertheless, in quarter 3, aromatic prices are expected to be stable, as the fundamentals of supply and demand remain balanced.

Roughly, that's the short brief on O&D; let me pass the session to Shah, our Head of Fertiliser & Methanol.

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

Thank you, Dr. Hapiz. Ladies and gentlemen, very good afternoon to all of you. I apologise up front as I am a little bit under the weather, so please bear with me as I go through the market dynamics briefing.

First up for Fertiliser & Methanol; urea; we've been seeing a steep price drop in June, mainly as a result of the China's lower tax export window that's going on until August. So immediately after this, urea prices will slowly recover with India absorbing most of China's surplus volume.

Prices went up by about 1% in July, and we see this stabilising towards the end of quarter 3, as strong demand from Australia, the US and Latin America start to come in.

Also, not forgetting there's some new capacity addition from FERTIL's plant; it is highly anticipated to hit the Asian market in August and September. However, the volumes that have been sold will probably be on spot basis, giving the user more room for price play. So, we see the urea market basically moving from bearish to probably a more stable situation.

Moving on to ammonia; the market is currently bearish with slow demand from the industrial buyers in Southeast Asia and the Far East. Demand for agricultural application is also looking weak from India, a result that we're seeing from the DAP prices. Producers in the Middle East and Yuzhny are lowering their prices to as low as USD420 FOB to manage their escalating inventories.

However, we are anticipating a price bounce back, obviously from US demand coming back in September. At the same time, Yuzhny is also planning turnarounds in August, so this will basically ease the ammonia surplus by at least 100,000 to 120,000 tonnes in third quarter.

The Kaltim Parna Industry, or KPI ammonia plant in Bontang is also down right now and has not resumed production since end June due to high production costs and weakening prices. So, altogether the loss of production from Kaltim is estimated to be about 80,000 tonnes. So, we could see the impact that most likely, the ammonia market is likely to recover by the end of quarter 3, as these production cutbacks allow supply and demand to balance itself.

Finally, methanol; demand from China is looking stable, although not entirely at par with yearly forecasts and slightly lower than expected demand growth. Prices in Southeast Asia have soared in quarter 2/quarter 3, mainly due to several factors. The two main factors are basically tight supply from unplanned and planned production outages in Europe, America and Southeast Asia, us included; and Middle Eastern producers taking advantage of the supply shortage in the US and Europe by increasing premiums.

The significant disparity between the current Southeast Asia and China prices however, will start to even out as soon as the production outages return. Hence, we can say that the outlook for methanol to be from bullish to stable in quarter 3.

That ends my presentation on F&M. I'll pass it back to Dr. Hapiz, please.

Abdul Hapiz Abdullah (President/CEO):

Okay, ladies and gentlemen, that's the end of our presentation. Overall, we achieved good results for the first half of the year with improved margins.

Operational excellence is a key requisite to ensure optimisation of our products in addressing the challenging market conditions. In quarter 3, we are undertaking maintenance activities at our facilities in Kertih. We are focused on ensuring effective and safe execution of these activities. We hope that by sustaining and enhancing our operational excellence, we'll be more resilient in the challenging market conditions.

We now open the floor for Q&A. Over to you, thank you very much.

Question and Answer Session

Alex Goh – AmInvestment Bank - Analyst

I have three questions. One is regarding your plant maintenance activities in the second half. Is there any more? If so, how would it affect the plant utilisation rates for the O&D and F&M segments?

Wan Shamilah Saidi:

As you are aware, we are undertaking our maintenance activities involving our biggest cracker in quarter 3. So, yes, the plant utilisation rates, if I can comment at the Group level, given these activities that we will be undertaking, the plant utilisation rate for quarter 3, therefore, will be below 80%.

Overall for the year, our target is 90%, the plant utilisation rates will recover in quarter 4. However, given the level that you've seen in quarter 2 and the level that you will see in quarter 3, so it will be challenging, but we will take the challenge and utilisation will recover in quarter 4.

Alex Goh:

And my next question is; what is the impact of a weaker Ringgit to Petronas Chemicals revenue and net profit? Do you have any sensitivity on that?

Wan Shamilah Saidi:

Well, let me just try to guide you. When USD is stronger, given that we are reporting in Ringgit, and that our revenue is actually linked to USD pricing, you will see that we benefit from a stronger dollar. But in terms of revenue, nearly all of our revenue is referenced to USD pricing and in terms of our cost about 60% to 70% of it is in USD. So, I hope that gives you enough guidance, but a stronger USD will be beneficial to us overall.

Alex Goh:

And could you update us on the progress on the Sipitang plant, as well as, I understand that the FID status is still going ahead with the Pengerang petrochemical plant as well?

Wan Shamilah Saidi:

In terms of Sipitang, it's progressing on track and if you followed recent news, I think there's been coverage on some very big, heavy equipment or machinery that has been delivered on site. So, it is on track for construction, to be completed in the second half of 2015.

For Pengerang, you would have also followed announcements by our parent, PETRONAS, that FID is now in 2014, a delayed date compared to what was originally announced. That is due to various works that needs to be undertaken in terms of settlement of communities and land, etc. Those are all still progressing in earnest.

Yong Liang Por - BNP Paribas - Analyst

I have a question on the mega methanol plant in Labuan. I understand it's down now for unplanned shutdown. I'm wondering what happened and when it will come back into operation?

Wan Shamilah Saidi:

We're facing some operational limitations that we are now addressing. It will come back very soon, by the end of the month.

Yong Liang Por:

May I ask, is it related to feedstock issue or is it a technical difficulty with the plant?

Wan Shamilah Saidi:

These are operational constraints in the plant that we are addressing.

Hong Li Tan - Goldman Sachs - Analyst

Two questions from me, firstly regarding surplus ethylene from the divestment of the Vinyl business and what's happening to that surplus ethylene?

Also, a second question from me is, do we expect higher dividends going forward, given the surplus cash?

Wan Shamilah Saidi:

Let me tackle the second question first. Yes, you can see that our cash position is very high. And you see too that the interim dividend that the Board has approved, is maintained at the same level last year. And as you are aware, our dividend policy is to pay dividend around 50%, and we expect to continue maintaining that, in accordance to our dividend policy at around 50%. But the cash balance that we are holding is gearing us to take growth projects.

On the first question regarding surplus ethylene; yes, we optimise the surplus ethylene. And when the value chain is operating smoothly, both from our supplier and PETRONAS, as well as us, that will be the situation where we can optimise it fully, but we do optimise the value chain as best as possible. So when we are doing very well, that's when you may even see us selling ethylene into the market. Otherwise, we optimise what is available and delivered by our supplier in terms of feedstock utilisation.

Nor Shahda Zakaria:

All right, if there are no more questions, I reckon we have reached the end of our briefing and we thank you for tuning in. The recording of this webcast will be made available at our website at the end of the day. Thank you very much and good evening.

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