Quarter Ended 30 September 2012 PETRONAS Chemicals Group Bhd Earnings Presentation Event Date: 28 November 2012, 5.30pm

Wan Asmah Che Din:
Good evening, everyone. I'm Wan Asmah from Investor Relations. It is a pleasure to have you on our conference call, and we'd like to welcome everyone for the PETRONAS Chemicals Group financial highlights briefing for the quarter ended September 30, 2012.

Joining the briefing today is Dr. Abd Hapiz, the President & CEO; Miss Wan Shamilah Saidi, the CFO; Mr. Yusa' Hassan, Head of the Olefins & Derivatives business; and Mr. Muhammad Shah, Head of the Fertilisers & 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.

Abd Hapiz:
Good evening, ladies and gentlemen. Thank you for joining us today. It is my sincere pleasure to announce our results for quarter 3 for the period ending September 30, 2012.

We have recorded a relatively healthy performance in the first half of 2012. For the period of nine months, the Group achieved a revenue of MYR12.2 billion, with an EBITDA of about MYR4.3 billion. We recorded stronger Group operational performance, particularly in our Olefins & Derivatives segment. We did, however, face a lot of challenges.

Firstly, in terms of market conditions, quarter 3 saw poorer market conditions and softening demand. Global manufacturing activity declined due to lower export orders. The pessimism on global economic conditions continues. Our market spreads remain low. Despite higher naphtha prices in Asia, product prices fell due to weak demand.

Secondly, we faced external challenges. There were feedstock supply limitations for both our segments, O&D and F&M. And, as discussed in last quarter, our methanol 1 facility was shut down as a safety precaution following the fire incident on board a vessel at the jetty facilities in Labuan.

Overall, it has been a tough quarter for the Group, as well as to the petrochemical industry in general. That's my brief introductory and highlights. Let me now hand over to Shamilah, our CFO, to provide further details on what I've just stated.

Over to you, Shamilah.

Wan Shamilah Saidi:
Thank you, Dr. Hapiz. As you can see on the slide, we have summarised all the key indicators compared to the comparative period. So as you can see as well, all indicators are not favourable, very much reflecting market conditions and the external limitations that we faced during the quarter.

Let me take you through further details. When we compare our quarter results against corresponding quarter, revenue dropped by 15%. This was due to lower prices as well as lower volumes. Our operating profit though fell by a larger percentage at 41%. Feedstock prices did not move in tandem with product prices. On average, we saw product prices drop by around 11%, but feedstock prices only moved marginally.

Our contribution from associates also fell, again due to lower prices and volumes, reflecting market conditions as well. EBITDA margin quarter against corresponding quarter was lower at 32%. We did see lower margins for both segments; O&D due to lower volumes as well as lower spreads; and F&M, the impact was lower volumes, lower prices, as well as higher cost of revenue, partly due to purchases of products to mitigate system shortfall.

When you compare against preceding quarter, prices and volume were maintained, so marginal change. But when we look at operating profit, it fell by 16%. We did have, compared to preceding quarter, again the product purchases that we undertook particularly for Fertilisers & Methanol segment.

And there's also a once-off adjustment relating to amortisation expense. This basically, if I may explain, we do component accounting. So there were items before that were grouped as one group and it was amortised over a longer period, we have further broken down into smaller components. And then, the useful life changes according to each component. So that was just accounting adjustment and its once-off impact of MYR56 million.

Compared to preceding quarter, contributions from our associates lowered by 11%, again lower prices and lower volumes. EBITDA margin again is lower, as explained earlier.

Moving on into more details, basically operationally, the Group's plant performance improved, but our production was constrained by feedstock limitations for the Olefins & Derivatives segment and plant maintenance activities that we undertook for our Fertilisers & Methanol segment.

That brought down our plant utilisation rates to 74.8%, but year to date, as you can see, it's higher compared to corresponding period nine months at 80.6%, reflecting the higher level operational performance we achieved during the current nine-month period.

Revenue follows the trend of plant utilisation rates as well as price movements. And overall for the Group, the EBITDA margin for the current quarter is 32%. It is the lowest for the current year, but again, that's a factor of the price movements and lower volume.

Moving on to segmental analysis, this is where you can see the segment performance. O&D operational performance overall has been good this year. It was though limited in the current quarter 3 by feedstock limitations, but despite that, it still achieved 88.6%.

The feedstock limitation was primarily due to revamp and rejuvenation work that was undertaken by our suppliers' gas processing plant. It is still currently on-going so it may also affect our quarter 4 results.

For Fertilisers & Methanol, 62.9% plant utilisation rates is impacted by feedstock limitations, although it is improving. There were maintenance work undertaken at our fertiliser facility, as well as the precautionary shutdown at plant number 1 after the fire incident in July, and that's around 35 days of downtime.

Looking at the EBITDA margin of the two segments; O&D EBITDA margin is only at 31%, reflecting the lower prices, but partly supported by the higher volume. Therefore, EBITDA overall increased compared to preceding quarter, but EBITDA margin lower due to impact of lower prices.

For Fertilisers & Methanol, 34% EBITDA, margin reflecting the lower volume, as well as the impact of the purchases of products to meet our customers' requirements, in particular as a result of the fire incident and the shutdown of plant number 1.

Excluding those product purchases, we would have generated a similar EBITDA margin at around 40%.

Our cash flow remains strong. A few key highlights; during the quarter, we did settle the remaining MYR1.9 billion shareholders' loan with our parent, PETRONAS.

We have also opted for early settlement of Islamic debt securities totalling MYR224 million. This relates to our subsidiaries, PC Glycols and PC Derivatives. It makes sense for us to do that because the profit rate is higher than the rate of yield that we earn by investing the cash available.

Another highlight would be last year you'll see -- although we paid a higher amount of loans this year, cash flow generated from financial activities, the outflow quantum is about the same. That's because last year, the final dividend for the full year was paid during corresponding period, but this year, as you know, we paid the dividend in two tranches. So then you see higher dividend in the last nine months.

Dr. Hapiz, may I pass back to you now.

Abd Hapiz:
Thank you very much, Shamilah. As you are all already aware, we announced plans to discontinue our Group Vinyls business as part of on-going product portfolio optimisation effort.

The VCM and the PVC plant in Malaysia will continue to operate until the end of the year, after which it will be decommissioned. We will also initiate a divestment process for the sale of our stake in the PVC plant in Vietnam.

Now, apart from external challenges impacting our operations, forecasted economic and market conditions remain the biggest challenge being faced.

We have with us today Yusa’ and Shah, the Heads of O&D and F&M segments respectively, to share the outlook for the Group. And I'll pass this over to Yusa’ to talk about the O&D segment.

Please, Yusa’.

Yusa’ Hassan:
Thank you, Dr. Hapiz, and evening to all. For products in the O&D segment in quarter 3, buyers generally remained cautious on concerns of the general economic outlook.

In quarter 3, ethylene price remained above $1,000 per metric tonne, and this actually as a result of limited spot cargos available from Middle East, as well as some heavy cracker turnaround in August. In quarter 4, producers may even reduce operating rates in view of squeezed margin and low demand.

For polymers, overall demand in quarter 3 was slower due to regional holidays, with very limited restocking activities. In quarter 4 similarly, overall demand for polymers remains lacklustre as the year end approaches.

LDPE remained even weaker, as margin was squeezed in quarter 3 due to extremely low demand as well as long supply, and we expect this trend continues in quarter 4 as well.

In paraxylene, demand uncertainty surfaced in quarter 3, with delays in new PTA plant start-up, extended PTA turnarounds and PTA operating rate cutbacks as a result of weak polyester demand. In quarter 4, PX demand is driven by potential new PTA start-ups and downstream derivatives demand, although existing PTA producers are cautious on operating rates in view of weak margins.

For chemical and derivatives, quarter 3 saw a slowdown in activity, as downstream demand continues to be soft resulting from weak macroeconomics. Generally, for the most part of 2012, our purchasers have been keeping inventory at low level. It is just enough to meet demand, and the current trend of keeping inventory is likely to continue until firmer economic recovery indicators are seen.

Based on the low inventory scenario, prolonged outages, or unplanned activities from major producers on the supply side, will lead to volatilities in the market for affected products.

So with this, I will hand over to Shah for his outlook on Fertilisers & Methanol Segment.

Muhammad Shah Bin Ali:
Thank you, Yusa'. Good evening as well, ladies and gentlemen. Let's start with Fertilisers.

We've seen that from quarter 2, urea prices have started to deteriorate as the supply from Middle East starts to enter the market from QAFCO 5 in May 2012.

Another factor that will contribute to basically the reduction in urea prices will be the addition of another 0.5 million tonnes that's coming from QAFCO 6 as they have been ramping up the production since September to December.

Also in quarter 3, the market also saw an additional supply of around 2.5 million tonnes coming out of China due to the low export tax window from July to October. That further brought the urea price further downwards.

Both the US and Thailand demand is seen to be quite bearish following the off-season in quarter 3, despite expectation for bullish market in quarter 4, which remains to be seen.

Looking forward for quarter 1, 2013, we foresee the market price will be under some pressure because there's additional capacity that's coming out from Algeria and Abu Dhabi; about 2.4 million tonnes expected in January 2013. Again, we're really hoping that the health of the market will improve when we see the US and Thailand buying season coming in in the early part of the year.

Moving on to Methanol, slowing China demand was also bearish in quarter 3. The monsoon season in quarter 3 has also affected the formaldehyde industry, with most acetic acid plants operating at lower rates due to low seasonal demands.

In quarter 4, we see that the China market is going to be sideways, although we hope that the winter season will strongly support good demand as higher energy consumption using gas and coal affects gas and coal-based methanol production plants.

Similarly, the market for South East Asia continues to be tight, with the Bontang plant undergoing 40 days maintenance.

Buying sentiments into quarter 1 next year is projected to be weaker, as we feel that the demand for methanol will be reduced with cheaper domestic and potentially Iranian cargos that still make inroads to China, despite the sanctions. Methanol price outlook is, therefore, expected to be roughly sideways.

For ammonia, the market has been very bullish from quarter 2 right up to quarter 3 due to low supplies in the Middle East caused by plant maintenance and shutdowns, and also with the Iranian sanctions coming on also limiting supplies.

However, in mid-December QAFCO 5 ammonia unit is expected to run at full capacity, and this is expected to ease the tight supply that's in the market right now.

Then again, industrial buyers from the acrylonitrile and caprolactam markets is expected to cut back demand, obviously because of the very high ammonia stock prices.

In India, as of today, supply contracts have yet to be concluded. People are waiting, and this has caused the softening outlook in ammonia demand and prices.

With that, I will hand over the session to Dr. Hapiz.

Abd Hapiz:
Thank you, guys. Let me recap. Moving forward, we can expect a mixed outlook for both business segments for the remaining period in 2012. In these market conditions, we remain focused on portfolio optimisation and on products that bring in maximum value to the Group; and also to continue with our strong operational performance that are currently on-going at the plants.

Ladies and gentlemen, thank you very much for your attendance. I now open the floor for questions to all of you. Thank you.

Question and Answer Session

Mohshin Aziz, Maybank:
Good presentation; very refreshing to hear from a lot of key people, and also outlook. So outlook is a bit tough-ish for the next two to three months per se. Is there by any chance you're trying to put more heavy maintenance – things that are required to be done in 2013 – earlier on to take advantage of this low period, so to speak?

And the second question – with regards to uncertainty of feedstock supply to the Olefins & Derivatives. We're already end of November, so I suppose there should be clarity whether that's going to impact 4Q or not. Could I seek your cooperation to quantify how severe the impact is?

Wan Shamilah Saidi:
Let me try the second question first. The feedstock limitations for is basically for O&D due to the revamp work at one of the gas processing plants. So that's been brought down and this is the unit that can process or extract ethane. It has the capacity of about 250 mmscf a day.

The methane supply in Malaysia is not affected because there are backup units, but the backup units do not have the ability to extract ethane. So basically, that's the situation, and currently, the revamp works are still on-going.

Yusa' Hassan:
On the maintenance activities for next year whether or not it can be brought forward; this is unlikely due to two reasons. One is actually, normally, we don't carry out our turnaround activities or heavy maintenance during the end of the year monsoon season. And the second one actually is due to the fact that normally, all these shutdown turnarounds require a lot of preparation well ahead of time because there are actually long-lead items. So it's actually not likely that we will bring forward the turnaround to this year.

Wan Shamilah Saidi:
The opportunistic maintenance work that we can do would be the smaller types. Those we can do Mohshin. So if our demand is low and we re-channel feedstock to other facilities and bring down running rates at certain facilities, and if it is the normal maintenance type of work that we need to do; those we can bring forward.

Oscar Yee, Citigroup:
I had three questions. Firstly is regarding your restructuring of the Vinyl business. Could you share with us how you're planning to use the surplus ethylene, around 90 kilo tonnes that you have from the current VCM plant? Are you planning to expand some downstream plant further, or you plan to just sell the ethylene in the market?

Second question is could you maybe quantify a bit if you, say, compare fourth quarter with the third quarter? Do you see this a feedstock issue or constraint about the Olefins & Derivatives division to be more severe or less severe than that of third quarter? So, i.e., would the utilisation be higher or lower compared to third?

My third question is you mention that for your Fertiliser & Methanol division, you actually purchased some products from the market to offset the lost volume in third quarter. Could you share with us how much as a percentage is your portion for that in third quarter?

Wan Shamilah Saidi:
Can I take the second and the third question first? And Yusa' will take the first question after that.

For the fourth quarter, we are actually seeing the supply issues at our Labuan facility is very much improved, so you'll see higher utilisation rate for our Labuan facility. Of course, there's still one month to go, but so far, it's improved level of supply for methane.

For the feedstock for the Olefins & Derivatives, I would say given that the revamp work are still on-going, therefore, it will be about the same. But overall, you should see high utilisation rate for quarter 4.

The other reason is that we finished all our maintenance work; the bigger maintenance work. Of course, there's still some smaller ones that we may undertake, but the major maintenance work has already finished for the year; that's another reason.

Ratio of the purchase of products that we did for Fertilisers & Methanol, of total sales volume - approximately around 10%.

Yusa' Hassan:
On the first question, the surplus ethylene, our immediate move is to try to maximize our downstream plant, for example, the chemicals and polymers. And there will be, from time to time, there will be actually spot cargos. And we are also looking at opportunity to further expand some portion of our downstream business; that's actually on the longer term.

Alex Goh, AmInvestment Bank:
I just have two questions. The first is we noted that the discontinuation of the Vinyl business relates to a charge of about MYR560 million. Will this all be accounted for in the fourth quarter, or will some of it spill into the first quarter of next year?

Wan Shamilah Saidi:
The impact of the total MYR560 million will take the full impact in quarter 4, but then the cash flow impact will be next year largely.

Alex Goh, AmInvestment Bank:
Okay. But you mentioned some of these operations will also continue to be running into next year. How is that accounted for then?

Wan Shamilah Saidi:
Can you clarify your question, please, Alex?

Alex Goh, AmInvestment Bank:
Some of your operations, on the vinyl business overseas will still be continuing. Am I right?

Wan Shamilah Saidi:
Yes, that will still continue. Once the vinyl plant in Malaysia stops operations on December 31, we will be sourcing the feedstock that we require for our Vietnam facility. So that business will still continue. And, as you know, we will be seeking to divest our entire shareholding in that operation.

Alex Goh, AmInvestment Bank:
But when you sell off that Vietnam business, would you be accounting a profit later, depending on the price, of course?

Wan Shamilah Saidi:
Of course, depending on the consideration that we'll get, there might be of course potential for gain. But it depends. Let's wait and see what kind of consideration we'll be able to get.

Alex Goh, AmInvestment Bank:
But you have already written the value of the business down to its book value?

Wan Shamilah Saidi:
The Vinyl Chloride Malaysia assets have already been previously impaired. Actually, we have nearly largely impaired the full amount already. What's left in the provision of the MYR560 million is about 50% relating to decommissioning, 30% relating to potential contract termination dues, and another 20% relating to impairment of remaining assets. It largely has been already impaired previously.

Alex Goh, AmInvestment Bank:
You've also mentioned that due to the weak market outlook, you are looking at ways to optimise your product mix. How much of the impact would that be? Looking into the fourth

quarter and looking at the prices that we now have, what would you say is your margins going into fourth quarter? Would it be stronger than third quarter?

Wan Shamilah Saidi:
I think we've already given you our perspective on the outlook, and we don't provide forecasts, unfortunately.

Suwat Sinsadok, CIMB Securities:
I have three questions. The first question would be about utilisation. Would you still expect 90% utilisation target for next year? But of course, I think this year probably could be difficult to achieve.

And second question is about which product group within the O&D group that actually make the realised price lower in the third quarter? Because some products I see is q-on-q relatively stable, but 11% drop in the average product price actually is quite significant.

And the third one; could you update on the RAPID project you still have? Could you announce FID by the mid of next year?

Wan Shamilah Saidi:
The first question on plant utilisation rate, yes, our year-to-date number is only at 80% for the Group. So, yes, given where we are, we won't be achieving 90% for the year, or the 12 months.

It has been a difficult year for us certainly with external limitations. But as I hope you will also see that the performance of our key contributor, which is Olefins & Derivatives, was steady. And this quarter results would have been a lot better if not for the limitations that O&D segment are facing in terms of feedstock.

So actually, given the track record that we have managed to show, or demonstrate for O&D, our target for next year does remain around 90% plant utilisation rate.

In terms of pricing, overall for the Group, prices were lower. The larger variance came from O&D, but all our products we saw decline in the teens; and we did see also lower prices for our fertilisers and methanol products, mainly urea and small reduction in methanol. Sorry, I beg your pardon; I was giving you a narrative on quarter on quarter. Did you ask on preceding quarter, or quarter on quarter?

Suwat Sinsadok, CIMB Securities:
Quarter on quarter would be okay.

Wan Shamilah Saidi:
Can I just clarify? With the quarter, you mean current quarter which is preceding, or current quarter with the corresponding quarter?

Suwat Sinsadok, CIMB Securities:
Actually, I'm asking about the corresponding.

Wan Shamilah Saidi:
Then what I just explained is correct. Our RAPID project, our parent is leading this, and it's targeted to be sanctioned by around middle of next year.

Mayank Maheshwari, Morgan Stanley:
My questions are more related towards the divisions in terms of operations. So on the Fertilisers division; are we seeing any other operational challenges except for gas supplies? Because you're not seeing utilisation rates really going up on the operational front as well.

And my second question was both for Yusa' and Mr. Shah. When you are going out into the market today for 2013, are you seeing any change in the customer behaviour in to 2013?

Yusa' Hassan:
Let me answer the second question on the outlook for 2013. We don't actually see much change the first half of 2013. People remain cautious, so at least for the first half of next year, we don't expect any increase in demand. So general economy remains as it is, at least for the next six months until June next year. So that's actually from O&D.

Muhammad Shah Bin Ali:
On the Fertilisers & Methanol business, as I mentioned earlier, Fertilisers alone, on urea, basically, the biggest challenges will be the additional supplies that are coming in from the Middle East. That has always been a big issue for us predicting what's going forward for prices in markets. So we do get those huge volumes coming in from the Middle East. We suspect the impact will be the prices will start getting soft.

On methanol, as I mentioned just now, basically, it depends very much on Chinese demand, and this correlates very much to energy. We see the current crude oil and energy prices are at high levels, and this relates very much to how stable we think methanol prices are right now and moving forward.

Wan Shamilah Saidi:
If I can answer the first question on the operational challenges, may I also clarify? The 62.9% plant utilisation rate was on the back of feedstock limitation, as well as maintenance work. And the maintenance work that was undertaken during the quarter 3 was the completion of

the turnaround at our fertiliser facility, as well as the full turnaround of another fertiliser facility. So that's what we undertook during quarter 3.

Well, you asked about challenges. I guess a challenge for Fertilisers &Methanol business is it has one of the oldest plants in the Group. The fertiliser plant in Bintulu was the first plant that was commissioned in 1985. So if you asked about challenges, that plant, given the age and given the technology that was used, is a plant that relatively poses more challenge than others.

Yong Liang Por, BNP Paribas:
Just two quick questions on methanol. The first thing is that I read that the jetty at Labuan was still damaged and it's impacting loadings. I was wondering whether that's still going to be a problem going forward.

The second question is whether there was any feedstock availability issues at the Labuan plant as well.

And, last question; I understand there's a new methanol olefin plant starting up in China in first quarter next year. I'm wondering whether you've seen any more incremental demand from that.

Muhammad Shah Bin Ali:
Let's take a look at the issue on the jetty. Yes, the jetty for the plant 1 is down; expected to be down for about 10 – 11 months. Fortunately, we have the second jetty at plant 2, and this is basically where all the production from plant 1 has been rerouted to. The trick here is basically to manage the size of the loadings and parcel size.

So by cleverly managing and scheduling the kind of vessels that come in, we can manage for the moment without too much trouble getting the products off. So that's how we're handling the issue on the jetty for plant 1. For feedstock, the question was?

Wan Shamilah Saidi:
I think you're asking about the impact of MTO plant; new plants in China. Is that the question?

Yong Liang Por, BNP Paribas:
That's the third question. Sorry, there was a second question. I wasn't clear whether the Labuan methanol plants also had feedstock availability issues.

Wan Shamilah Saidi:
It did. That's the plant that we've been sharing that we have feedstock limitations. But as we also shared earlier, up to now during quarter 4, it's very much improved.

Muhammad Shah Bin Ali:
Basically, so far we don't see any significant changes per se to the importation of methanol to China. We've still yet to see also the start-up of some of these facilities. A lot of them have been reported to be starting up next year. So we are looking at it very carefully to see whether we can increase our sales, obviously.

Cheong Mun Wai, EPF:
I have two questions. The first question is a follow-up on Oscar's question asked earlier on regarding the ethane feedstock availability. If you exclude the issues on this ethane supply in third quarter result, what would have been the utilisation rate again?

Yusa' Hassan:
Just in order of magnitude, we should be able to capitalize additional about 10%.

Cheong Mun Wai, EPF:
So excluding it, you would have been close to 100% utilisation rate for the O&D side?

Yusa' Hassan:
Exactly, almost; the plant were running quite well.

Cheong Mun Wai, EPF:
Another thing related to that is I understand that PETRONAS Gas will also be having their plant rejuvenation for GPP 2 and GPP 4 in 2013 and 2014, so will we be seeing this kind of similar ethane feedstock disruption?

Wan Shamilah Saidi:
Because we are integrated operations within the Group, any scheduled shutdown of this nature are coordinated, and we coordinate it to minimise impact on the value chain downstream. As we shared earlier, the time that they are taking to complete the revamp work has been extended. If it's a normal schedule, usually, we would be able to manage, because it's very much coordinated.

Cheong Mun Wai, EPF:
Second question is on the associates. Just to refresh my mind, one of the products at associates is the ABS, is it?

Abd Hapiz:
ABS is not one of our products.

Tan Hong Li, Goldman Sachs:
I would like to check the respective earning trends for this year in the VCM and PVC plants that you plan to discontinue?

Wan Shamilah Saidi:
The earnings trend for Vinyl business this year actually, given the price movements has been positive, so it is generating a positive result this year. But historically, it's been value dilutive.

Tan Hong Li, Goldman Sachs:
So it is a near break-even as in this year?

Wan Shamilah Saidi:
This year, yes; given the margin.

Tan Hong Li, Goldman Sachs:
The PVC?

Wan Shamilah Saidi:
We're commenting on the whole chain.

Alex Goh, AmInvestment Bank:
Just one question, a follow-up from what I asked. Just want to check on your foreign shareholding what is the level now. Is it still in the single digits?

Wan Shamilah Saidi:
Yes, single digit.

Mohshin Aziz, Maybank:
Just the follow-up question with regards the Vinyl business unit. With regards to that particular factory in Vietnam, is there any particular first right of refusal from your partner? Do you have flexibility to sell to any party? Just trying to gauge the level of complexity trying to sell that particular business unit?

Wan Shamilah Saidi:
That is normal, we do have pre-emptive rights to the existing shareholders, but we don't expect that to be an issue.

Mohshin Aziz, Maybank:
So have you got any interested party who's already negotiating?

Wan Shamilah Saidi:
We've received many queries, but we have yet to commence the formal process. In due course, we will soon do so.

THE END