Quarter Ended 31 Dec 2013 PETRONAS Chemicals Group Bhd Earnings Presentation
Event Date: 11 February 2013, 5.00pm

Nor Shahda Zakaria (Head of IR):

Hi, good evening, everyone. Welcome to PETRONAS Chemicals Group Berhad quarterly briefing for the financial results ended December 31, 2013. I'm Shahda from Investor Relations and I will be facilitating the session today.

We will begin the session with a foreword by PCG President and CEO Datuk Dr. Abd Hapiz who will be sharing with you some key messages about the Company. Then we will go through the results followed by Question and Answer session afterwards.

Just a reminder, the analyst briefing is accessible via conference call or webcast, which is available on our corporate website i.e. www.petronaschemicals.com. Likewise, the presentation slides are also available for download from the webcast window or directly from the PCG website.

Before we start please take a moment to read through the disclaimer statement in the briefing pack.

Without further ado I will now hand over to Datuk Dr. Hapiz.

Datuk Dr. Abdul Hapiz Abdullah (President/CEO):

Thank you, Shahda. Ladies and gentlemen, good evening and thank you for joining us today. Before I proceed with the briefing of our quarterly results, I would like to take this opportunity to share PCG New Vision.

Over the last three years since our listing back in October 2010, we have been consolidating our petrochemical entities into a single integrated PCG Group focusing on operational efficiencies and economies of scale across the value chain. Recently, we have developed a vision to guide our strategic direction going forward. This is, “to be the preferred chemical company providing innovative customer solutions.”

The vision basically focuses on three major capabilities. One is operational excellence, number two is marketing and sales excellence and number three is innovation excellence.

We have also embarked on an organizational transformation with the creation of a Commercial Division and Manufacturing Division to ensure focused responsibilities and capabilities to execute operational matters as well as marketing matters. In particular, for the short-term, in operation, we want to really focus on turnaround.

As such, I am pleased to introduce some of the PCG new key management personnel who are here with us today. As some of you are aware we have made an announcement to Bursa on November 29 regarding the appointment of our new CFO, Farina, effective December 1, 2013.

In addition, effective January 1, 2014, Akbar Thayoob is our new Head of Commercial and Yusri Yusof is our new Head of Manufacturing. Also, our Head of Strategic Planning and Ventures Aziz Othman is also joining us today. This will be the management lineup that will be part of the analyst briefing from now on. So you will be able to interact with them should you have any questions later.

As part of the overall transformation of PCG we have since started implementing several key initiatives to support our New Vision and growth strategy. One of the key initiatives is to move from commodity-based products to a specialty chemicals. One example is through our venture to invest in an integrated aroma ingredient complex in Gebeng, Kuantan with our partner BASF. This project paves the way for our foray into growing markets of aroma chemicals which is used in multiple end consumer industries as flavor and fragrances, especially in Asia.

In addition, we have also expanded our customer base in the region covering countries like Indonesia, Thailand, Philippines, Australia, New Zealand, Bangladesh, Pakistan and Sri Lanka.

In line with our vision to be the preferred chemical company providing innovative customer solution, we have also created and Innovation and Technology Division to focus on innovation excellence. And to that, we have appointed Dr. Ross Gilmour as our new Chief Innovation and Technology Officer.

I am confident that this organizational transformation with a highly capable management team will steer PCG to greater heights moving forward.

Back to the subject at hand today. Let me start with a brief on market conditions in 2013. The global economy shows improving fundamentals in key economies in the US and euro zone with China recording a modest but healthy performance supporting an overall improving business environment.

Generally, market conditions were mixed. Most of the Olefins and Derivative (O&D) product prices were higher on supply constraints mainly due to regional turnaround activities. The exceptions were MTBE and paraxylene. MTBE moderated on lower demand while paraxylene softened on additional capacity on the back of lower demand.

Moving on to Fertilizer and Methanol (F&M), while methanol prices strengthened on tight supply, urea and ammonia prices weakened on additional supply and slow demand respectively.

For the quarter we completed heavy turnaround and maintenance activities at our main facilities in Peninsular Malaysia. This is a mandatory requirement by DOSH and as we have mentioned before, it is our first cracker and its related downstream facilities turnaround exercise since our listing in 2010.

In addition, we took a heavy stand to bring down our second methanol plant in Labuan, in sync with our upstream supply and maintenance activity, to address operational issues and fix bad actors comprehensively in the fourth quarter 2013. These activities affected our short-term financial performance. Consequently, the gross financial result declined due to lower volume.

For the 12 months ended December 2013 we recorded revenue of MYR15.2B and EBITDA of MYR5.1B. Our annual EBITDA margin remained resilient at 33%.

Now, I will hand over this session to Farina, our CFO, to provide details on PCG's financial performance. Over to you, Farina.

Farina Farikhullah Khan (CFO):

Thank you, Datuk Dr. Hapiz. Good evening, everyone. Let me now go through the highlights of our financials, both for Quarter 4 as well as for the year ended 2013.

PCG's gross financial performance was lower against the corresponding quarter and corresponding year. As mentioned by Datuk Dr. Abd Hapiz earlier, due to our heavy maintenance activity at both our O&D as well as our F&M segment.

We were also affected by a disruption in the supply of feedstock during the year as well as the supply of utilities particularly in early December 2013.

As per our website announcement, specifically on December 6, the disruption in the supply of utilities affected our main cracker and its related downstream facility. The disruption of the supply of utilities also affected our aromatics and ammonia plant in Peninsular Malaysia.

Fortunately, our second smaller cracker and its related facility were not affected by this utilities supply disruption. As you may be aware also, we had announced on December 27, on the resumption of normal production for the operations that were affected by the utility supply disruption.

In addition, our larger methanol plant was shut down in November and December as we had decided to synchronize our maintenance activities with our upstream suppliers' activities. These maintenance activities will result in expected improvement in the reliability of the supply going forward as well as the reliability of our methanol plant going forward.

Taking all this into account, our plant utilization for the quarter as well as for the year had declined. Accordingly, our production and sales volume were also lower. This lower sales volume, of course, had affected our performance both for the quarter as well as for the year.

I will now go into a bit more detail on the results. Starting with the result for the corresponding quarter, revenue was lower by 24% mainly due to the lower sales volumes as a result of the earlier mentioned heavy maintenance activities as well as the external supply limitations across both the business segments.

Correspondingly, our operating profit was impacted by 31% due to the lower sales volume as well as the higher maintenance cost following some of the opportunistic maintenance activities that we took during the statutory turnaround activity. Contribution from our associates was higher, supported by improved market conditions for some of our associate companies' downstream end products.

Overall, at Group level, profit before tax dropped by 28%. Similarly, profit after tax also decreased by 50% to about MYR450M. Our EBITDA and EBITDA margin for the quarter for the Group were lower at MYR712M and 21% .

The lower EBITDA and EBITDA margin is, of course, a result of lower volume of our high margin ethylene-based products in the overall sales mix following the earlier mentioned statutory turnaround of our main cracker during Quarter 3 and part of Quarter 4.

The Group's EBITDA was also affected by the lower prices for some of the O&D products, MTBE as well as paraxylene in particular, and also the fertilizers in our F&M segment.

Now, moving onto the analysis for the corresponding year, the revenue was lower by 8% mainly again due to the lower sales volume. The lower sales volume was especially in Quarter 3 and Quarter 4. As you may be aware from our previous announcements, we had very strong first two quarters of 2013.

Again, because of the statutory turnaround activity that we undertook for our main cracker and its related downstream facilities as well as the maintenance activities that we undertook for our methanol plant in Quarter 3 as well as Quarter 4, we saw the weaker sales volume in the second half of the year which brings the overall average for the whole year, down.

Operating Profit was comparable mainly attributable to the once-off expenses that we recognized in the corresponding year relating to the discontinuation of our vinyl business. The contribution from our associates decreased on lower spread in a softening market and lower production volume for some of the associates.

Overall, our Profit Before Tax is comparable despite the fact that the volume for the year was lower. This is again because of the once-off provision that was made last year in relation to the continuation of the vinyl business. I'm happy to say that for this year there isn't any more provisions that are required to be made with respect to any of our businesses, reflecting the fact that the current business portfolio of PETRONAS Chemicals Group is healthy.

Similarly, Profit After Tax dropped by 11% to MYR3.2B largely due to the significantly higher tax expense this year. This is actually because of the recognition of deferred tax -- for the deferred tax asset for one of our subsidiaries last year that brought the tax expense for 2012 down, so this year in comparison to that, the tax expense is higher.

EBITDA was lower by 12% attributable to lower sales volumes and higher maintenance expenses. However, our EBITDA margin continued to remain resilient at 33.4% only marginally lower than 34.8% in 2012 as the impact of lower volumes were offset by lower trading activities undertaken for the period.

Lastly, in comparison to the preceding quarter, the revenue was lower by 5%, again mainly due to the lower sales volume but cushioned by the higher average product prices in Quarter 4 compared to Quarter 3. Again, the heavy maintenance activities, the gas supply constraint at our methanol facility as well as the interruption in the utilities supply in December had impacted our production volume.

Similar trends were observed for Operating Profit, Profit Before Tax and EBITDA as a result of those lower sales volumes, again particularly in the ethylene-based products.

Now, if I can move on to the Group operational performance. On an annual basis we achieved a plant utilization rate of close to 78%, lower than 82.5% in 2012, again due to the higher level of maintenance activities that was explained earlier. Meanwhile, our year-to-date plant utilization for O&D was at 83.1%, lower than the 90.7% recorded in 2012 due to the turnaround activities of our main cracker and the disruption of the utilities supply in December as mentioned earlier.

As for the F&M business segment, the plant utilization rate was at 74.1% which was only slightly lower than the 75.4% in 2012 due to the heavier maintenance activities that we had decided to take for our methanol facility.

I will elaborate further in the next two slides on the operational performance of our business segments.

First, I will start with the year-to-date highlights of our business segments. For the whole year of 2013 compared to 2012, Plant Utilization (PU) for O&D was lower as we undertook heavy maintenance activities, the statutory DOSH turnaround that was mentioned earlier at our main cracker and its downstream facilities. This was again in Quarter 3 and Quarter 4, coupled with the external limitations following the disruptions of the utilities in December, so the overall PU that we saw for the O&D segment is lower.

The product prices were higher by 3% compared to the corresponding year as a result of supply constraints following maintenance activities at several regional producers and also improved fundamentals in key product markets. Revenue was lower for O&D by 6% compared to the corresponding year as a result of lower sales volumes.

EBITDA for O&D segment was lower by 12% to MYR3.4B in line with lower volumes and higher maintenance expenses. EBITDA margin at 30.2% was lower than 32.2% in the corresponding year, again due to the lower volume of high ethane-based products.

For the F&M segment, the annual PU was also lower as a result of heavier maintenance activities undertaken during the year at our methanol facilities. Product prices were down by 4% compared to 2012, particularly because of the weaker urea and ammonia prices, but was cushioned by strengthening methanol prices due to the regional supply constraints.

Following the lower sales volume for the F&M segment, revenue decreased by 14% compared to 2012.

Similarly, that affected our EBITDA by 11%, again following the lower sales volume for the year. EBITDA margin though was marginally higher by 1.5% as a result of lower trading activity that was undertaken in 2013 compared to 2012.

If I can move on now to the segmental analysis for the quarter. First of all, O&D segment undertook statutory planned activities. There were also external limitations as previously elaborated. As a result, we saw our PU for O&D lower compared to both the corresponding as well as the preceding quarter.

Product prices for Quarter 4 were lower by 7% compared to the corresponding quarter, but comparable to the preceding quarter. Revenue was impacted by 15% compared to the corresponding quarter, and again comparable to the preceding quarter due lower sales volume.

EBITDA and EBITDA margin followed the same trend for the corresponding quarter, down by 53% and 14%, respectively. Compared to the preceding quarter, EBITDA and EBITDA margin were lower by about 40% range, respectively.

In the F&M segment, PU rate was also lower due to the synchronization of our maintenance activities with our upstream suppliers. Consequently, the PU for the F&M segment was lower than the corresponding quarter. However, as there were also operational issues in the preceding quarter, the PU rate in Quarter 4 for the F & M segment is actually higher than Quarter 3.

Product prices for Quarter 4 were down by 7% compared to corresponding quarter, but up by 9% compared to Quarter 3. This is particularly as a result of the recovery of the urea prices. We saw very weak urea prices in Quarter 3.

As a result of lower sales volume, revenue was lower by 43% and 15% respectively, in the corresponding and preceding quarters. EBITDA was lower consequently by 48% on lower methanol volume, whilst EBITDA margin was lower by 4% due to the lower volumes as well as higher maintenance costs.

EBITDA and EBITDA margin were slightly better by 3% and 7% respectively, supported by higher average prices, mainly due to methanol prices which surged by about 22% compared to the preceding quarter.

Lastly, I would like end with sharing our Group cash flow and cash position. Our Group cash flow remained very strong at MYR10.2B. During the year, our cash position had increased compared to the beginning of the year by close to MYR1B. And this is despite the heavy maintenance and general activity as well as peak capital expenditure for our SAMUR Project, which basically just shows the strength of our operating cash flow as well as our cash conversion rate.

Our board have also declared a second interim single-tier dividend of MYR0.12 per share, which will be paid on March 18, 2014. This second interim of course is in addition to the earlier interim dividend of MYR0.08 per share that was paid on September 25, 2013. So if we take the total of that, it would translate into a payout ratio of close to 51%. This is well within our dividend policy of around 50%.

With the strong cash balance that we have, we are now very well positioned to undertake our current and future growth plans to support our new vision and our growth strategy going forward.

With that, I would like to end my presentation. And we will move next to Akbar who will give some update from the business.

Akbar Md Thayoob (Head of Commercial):

Thank you, Farina. Good evening, everyone. This is Akbar here. I will cover both the O&D and F&M business segments today.

The overall price performance in Quarter 4 has been quite encouraging as some of our key products have performed quite well given the supply constraints in absence of major regional producers.

Now let me dive in to the O&D business.

The ethylene prices were on an upward trend owing to the tight supply in Asia, continuous schedule cracker turnarounds throughout 2013 and some unplanned production shutdowns that kept the prices at higher levels. Similarly, O&D prices are expected to remain strong going into Quarter 1 2014 as supply will continue to be limited with the upcoming cracker maintenance within the region.

In the polymer business, prices strengthened in Quarter 4 from Quarter 3 due to the ongoing shortages arising from unplanned shutdown by a regional producer. We also saw an increase in demand from China - earlier restocking activities ahead of Chinese New Year which drove prices higher.

As for Quarter 1 2014, we expect prices to remain firm as supply shall be limited with the scheduled maintenance activities from major producers in Middle East and Asia.

Moving on to MEG, prices were higher in the last quarter on the back of strengthening ethylene feedstock costs and improved demand arising from restocking activities before Chinese New Year. We expect MEG prices to stabilize at current level in Quarter 1 2014 amidst high feedstock costs and healthy fundamentals to balance the supply/demand equation.

On the other hand, aromatic prices were pretty stable in Quarter 4, supported by strong naphtha prices in addition to the unplanned shutdowns and delayed startup of upcoming capacities. However, we expect prices of aromatics to soften in Quarter 1 amidst the resumption of plant production coupled with the startups of new capacity, especially in China. In addition, reduction in operating rates by PPA producers due to narrowing margin from PX/PTA is also unfavorable for aromatic business.

Now let me go into urea under the F&M business. In Quarter 4, we saw a price recovery from the continuously bearish urea market in Quarter 1 2013, supported by buyers from US, Europe and India for the planting season.

On the supply side, in Quarter 4, we saw one of the unplanned shutdown of Iranian Pardis urea plant and the closure of China low export tax window in October, as well as Sorfert's plant shutdown in December due to a lengthy new export permit process. Coupled with the fact that Middle East producers had no spot availability lent support to tight global supply. Hence, we saw a positive spike in the urea market since December 2013, which superseded the traditional historical price trend in that period.

Moving into Quarter 1 2014, we expect prices to remain stable, albeit some corrections from December 2013. The main factor for the diversion from the usual urea market trend, which is usually bearish in early Quarter 1, is a result of market speculations and continued tight supply in the Middle East with no spot availability. QAFCO 5 and 6 are undertaking a 45-day turnaround activity and are expected to be fully operational only towards the end of February 2014. India is also expected to enter the market again for about 1.5m ton tender as their supply from previous purchase tender will eventually run out in the anticipation of the Khariff planting season in April.

Moving on to ammonia, market has been fairly quiet, with slowing demand from both fertilizers and industrial buyers. Nevertheless, demand from India, which is the world's largest ammonia importer, was also seen to slowly recover. However, supply shortage was offset by poor urea and DAP market condition, coupled with weakening caprolactam and ACN prices which kept the ammonia market moving sideways towards the end of 2013.

In Quarter 1 2014, demand remains weak and prices are expected to continue to soften. Currently the main factor that has been sustaining the ammonia price is the reduction of supply following the planned shutdown of QAFCO 1 and 4. However, this situation will only hold the price at the current level for a short period.

On the demand side, Taiwan's Formosa ACN unit is currently undergoing a planned turnaround of 30 days, which will reduce demand by 12,000 to 15,000 metric tons in the current weaker markets and further pressurizing their prices. Concurrently, the quantity from Iranian ammonia is expected to be back in the market possibly in March or early April.

Lastly, on the methanol market, methanol prices skyrocketed in Quarter 4, soaring above USD600 per metric ton CFR levels, as a result of tight supply in the region, mainly at PML2 and Brunei Methanol. Supply constraints further tightened during the 45-day shutdown in Indonesia's Kaltim Methanol towards the end of Quarter 4.

Furthermore, Middle Eastern producers diverted their cargoes to Europe to capture higher gains. Consequently, only biodiesel producers could afford the high methanol prices, while the traditional buyers, such as acetic acid, formaldehyde and DME, remain on the sidelines waiting for the prices to soften. Meanwhile, buyers in China rely on limited domestic supply amidst the escalating prices. Nonetheless, low coal prices enabled them to increase production level.

In 2014, in Quarter 1 of this year, we will be seeing some market correction as supply slowly stabilizes. Kaltim Methanol in Indonesia and Brunei Methanol Company have resumed their normal production. As such, demand is going to be quite comparable to Quarter 4, with continued strong demand from the biodiesel industry, while the rest of the traditional industries are still finding it difficult to sustain their methanol demand even at the current high methanol price.

Methanol demand in China is expected to stabilize post Chinese New Year festive holidays. Iranian producers are all running at normal rates and are actively supplying to China. Low coal prices resulted in lower domestic methanol prices. This shall in turn put a downward pressure on China import prices. If the bearish trend continues, Southeast Asia prices are likely to shadow China price trend. In the US, formaldehyde demand is expected to be stronger compared to 2013 given a rebound in the construction industry.

In summary, the price performance of key products in Quarter 1 2014 still appears generally favorable for both business segments. We expect prices to remain firm as supply constraint is expected to prevail until producers resume operations towards Quarter 2 2014 for O&D. As for the F&M segment, the fundamentals of demand by the agriculture industry and methanol remain healthy and as such will be steady, albeit some market pressures.

With that, I would now like to hand over to Datuk Dr. Abd Hapiz.

Datuk Dr. Abdul Hapiz Abdullah (President/CEO):

Thank you, Akbar. Ladies and gentlemen, that's the end of our presentation.

To recap, we had conducted major statutory turnaround and maintenance activities in 2013. In 2014 we will also be having statutory turnarounds at our smaller ethylene cracker and our smaller methanol plant. In addition, we will also be conducting maintenance activity at ABF, our fertilizer plant which started operation back in 1985.

As mentioned earlier, in Quarter 4 2013, the second methanol plant, which is the bigger one, was shut down in sync with upstream maintenance activities. At the same time, in order to ensure continuous feedstock supply to our second methanol plant, offshore technical works have also been carried out by our upstream supplier, which has now been extended. Consequently, in the first quarter of 2014, the Group's second methanol plant is facing gas supply constraints until the technical works have been completed.

In the short term we will continue to drive plant integrity and operational excellence. Ultimately, in the longer term, the benefits will not only translate into higher operational efficiency; it will also enhance our market responsiveness to leverage on opportunities in the chemical industry.

We will also continue to drive excellence in marketing and innovation capabilities in line with our vision to enhance our resilience and robustness, which will in turn position PCG to remain as a leading and competitive chemical player in the region.

With that, we now open the floor for question and answers. Thank you.

Question and Answer Session

Oscar Yee – Citigroup – Analyst

Hi. Thank you for the presentation. I have a few questions. Firstly, could you provide some updates in terms of the expected restart date of the methanol plant? Is the plant currently still down at the moment?

Secondly, is regarding the RAPID project. Could you provide some update on that because I remember you were going to decide to make the Final Investment Decision actually very soon?

And thirdly, could you provide the CAPEX guidance for the year 2014?

And finally, with regards to the recent announcement about the fire, on some of the equipment for your new urea plant. Could you provide us some more details on that? Thanks.

M Yusri M Yusof (Head of Manufacturing):

Good evening, Oscar, this is Yusri. I would maybe respond to the first question on our methanol plant. The works at the methanol plant has been completed. It is now ready for startup. It is actually under commissioning stage. We are now expecting the work at our offshore by the supplier to be completed any day soon. And we are expecting to actually restart the plant within a week or so.

Datuk Dr. Abdul Hapiz Abdullah (President/CEO):

On the question on the readiness of RAPID project, Oscar, as previously announced, PETRONAS plans to announce the FID by the end of this quarter, which is the first quarter of 2014. I guess we will just have to wait until that announcement is in play, and then we can give you further details on how we can be involved in the RAPID project. On CAPEX, I'll let Farina address that question.

Farina Farikhullah Khan (CFO):

As far as CAPEX for 2014, as I mentioned earlier, for 2013, we actually saw peak capital expenditure as far as our SAMUR project is concerned, and there was also an increase in CAPEX as a result of our heavy turnaround activities during 2013.

But looking at 2014, we expect, given that SAMUR has passed its peak CAPEX expenditure, overall, there will be a reduction for 2014 as far as CAPEX is concerned, even though the capital expenditure on statutory turnaround would still continue because as you are aware, 2013 and 2014, as mentioned by Datuk Dr. Hapiz, are our two years of heavy statutory turnaround and maintenance activities. But overall, again, to summarize, we should expect to see a reduction compared to 2013 for overall CAPEX.

Datuk Dr. Abdul Hapiz Abdullah (President/CEO):

And on your last question, Oscar, regarding the fire on the ship for SAMUR, it is an unfortunate situation for us. The fire happened on the ship while the cargo was being loaded on, and it was meant to be arriving into our site around this time. We are currently working to analyze the situation and understand the implications. We do know, it will most likely create some delay to our project, but we have not been able to determine that yet, until the final study on the fire is understood, and how it impacts the equipment that we have on that ship.

Oscar Yee – Citi – Analyst

All right, thank you very much.

Farina Farikhullah Khan (CFO):

Sorry, can I just add further on the CAPEX guidance given earlier, I would say business as usual for the undertaking of statutory maintenance activity and remaining expenditure for SAMUR project. But given our strong cash position, we would be pursuing some growth opportunities. Whether we are actually taking a certain strategic CAPEX for that, it would be subject to the evaluation of growth opportunities, which we will doing the scanning throughout the year.

So the reduction, I was mentioning earlier, it's just on the basis of business as usual.

Oscar Yee – Citi – Analyst

On SAMUR project, you mentioned that CAPEX will actually drop, but I thought the project CAPEX is around USD1.5 b, and I think you have only spent probably, 30% or 40%?

Farina Farikhullah Khan (CFO):

No, we have spent more than half of the total project cost, in line with the project progress. So amount spent is more than half already.

Oscar Yee – Citi – Analyst

Okay, I see. Maybe it is because some of them have not been seen as a cash outflow in the purchase of PPE?

Farina Farikhullah Khan (CFO):

Yes. So basically what we're seeing is that cash spent on SAMUR or the CAPEX for SAMUR up to now is more than 50%, and the remaining will be spent in 2014, as well as 2015.

Alex Goh - AM Investment Bank - Analyst

Thank you everyone for giving us this opportunity. Can I direct you to the slide 9, where you have the quarterly segmental performance?

I'm just trying to understand the drop in the EBITDA margin for the Olefins and Derivatives segment. In the fourth quarter, your plant utilization has dropped to 67% from 78%, but your revenue is flat and yet your EBITDA has collapsed by 42%. That means your cost has actually gone up during that fourth quarter. What actually went into that fourth quarter?

Farina Farikhullah Khan (CFO):

The feedstock costs had gone up for naphtha. If you look at Quarter 4 sales volume mix, because we don't have the high-margin ethane-based products, the mix then is skewed more towards aromatics and polymer and the rest of the products in the O&D segment.

As you may be aware, the high margin of the O&D segment primarily comes from our ethane-based products. And as you are also aware, the feedstock in relation to the ethane-based products is lower compared to the aromatics, so the cost for Quarter 4 is mainly due to the cost of revenue, primarily because of the higher proportion of naphtha.

Alex Goh - AM Investment Bank - Analyst

My second question is regarding the planned maintenance schedule for this year, because according to your announcement, there will be a major maintenance at the small cracker plant, for MTBE, fertilizer, methanol and aromatics plant in 2014. Could you give us the plant maintenance schedule, for example, the length of time and when is it going to start?

M Yusri M Yusof (Head of Manufacturing):

Alex, thank you. As mentioned, we are going to have regulatory shutdowns at the smaller cracker and its downstream facilities; at the smaller methanol plant, at ABF, MTBE, and also, scheduled maintenance for the aromatics plant. Most of these shutdowns is geared towards the first quarter and with one activity geared towards the third quarter.

Alex Goh - AM Investment Bank - Analyst

How often is this statutory turnaround undertaken? What is the cycle like?

M Yusri M Yusof (Head of Manufacturing):

The cycle for statutory turnaround, we target for every 60 to 72 months. This is purely dependent upon the approval of our Certificate of Fitness, by the government body, which is DOSH.

Alex Goh - AM Investment Bank - Analyst

Just to recap, you mean there will be a statutory turnaround every 16 to 17 months? That means 1.5 years?

M Yusri M Yusof (Head of Manufacturing):

No, 60 to 72 months, 5 to 6 years.

Alex Goh - AM Investment Bank - Analyst

Based on the planned maintenance that you've indicated in the notes to account and based on your presentation earlier, what is your own estimate for the plant utilization for 2014 average?

Farina Farikhullah Khan (CFO):

As you are aware, we don't actually give specific guidance on plant utilization rate, but I think we have given enough information as far as the key plants and facilities that will undergo either a statutory turnaround activity or a planned maintenance activity.

And if I can just add onto what Yusri said earlier, if you look at 2013, the turnaround activity will impact the O&D segment more than the F&M segment. So, again, our main cracker was done last year. But this year, in 2014, for O&D, it's only at the smaller cracker. However, for the F&M segment, we will see heavier statutory turnaround or maintenance activity compared to 2013.

To summarize it all, we have many plants, so it's just that at different intervals, based on what Yusri communicated, it will affect different plants. And that will happen according to statutory requirements.

Alex Goh - AM Investment Bank - Analyst

Can I safely say that for this year your average plant utilization will be similar to around the 78% you achieved in 2013?

Datuk Dr. Abdul Hapiz Abdullah (President/CEO):

We are definitely striving to do better than that, and I think the activities we have done last year, hopefully, will make the production of our bigger plants, the O&D plants, to be a much better, bolder number, and also at the larger methanol plants. From the volume point of view, we hope to make it even bigger and better than what it was last year.

Obviously, we have our long-term commitment to make sure our PU comes up to 90%. That is our ultimate goal, and we will strive to get that level in the near foreseeable future.

Arhnue Tan – Alliance Bank - Analyst

Hi, thanks for the call. I just have a couple of questions. The first one is, I'm just trying to understand where the Other Operating Income of MYR400M plus comes from, that was recorded in full year, FY2013.

Farina Farikhullah Khan (CFO):

The Other Operating Income for 2013 is mainly from our interest income earned from our high cash balance, primarily coming from both the higher yield, as well as the cash balance.

Arhnue Tan – Alliance Bank - Analyst

Okay, so I just look at the Cash Flow Statement, Interest Income, that's where it comes from.

Farina Farikhullah Khan (CFO):

In addition to the interest income, there's also some foreign exchange, but the primary reason is the interest income.

I'd just like to add that the interest income is mostly tax exempt, and this is because most of our cash balance are actually sitting with PETRONAS Group's Treasury Shared Services Center, and the interest income earned there is basically tax exempt.

Arhnue Tan – Alliance Bank - Analyst

Okay, thanks. Also pertaining to another announcement you made on MYR97M provision for the shutdown of the vinyl plant, the money that you're supposed to pay to PETRONAS Gas. Just want to double check, was that number booked in Quarter 4 2013?

Farina Farikhullah Khan (CFO):

Yes, that's already provided for in Quarter 4 2013.

Kahyan Fung - RHB - Analyst

Hi. I wanted to ask if there's any change to your targeted commissioning date to SAMUR, and is there any insurance claim on the incident? If there is, what would be the compensation like?

Datuk Dr. Abdul Hapiz Abdullah (President/CEO):

As mentioned earlier, the investigation is still ongoing with regards to the fire, and we do not really have a good understanding right now yet, as to the extent of the potential delay that might happen. Given that we need to also make sure that the equipment that we need are in the right integrity as what it is supposed to before it comes over to our site. So therefore, right now, we are maintaining our stand at 47 months as mentioned earlier, and we will work through the investigation to finally determine how much delay there will be, if there is any.

On insurance claim, yes, we are looking into this. As you are aware, the party that is handling this have declared a force majeure, and we are now looking as to whether to work on this, to understand the impact to us, and on how we then process the insurance claim. Amount-wise we can't reveal to you right now until we have sorted it all out.

Mayank Maheswari – Morgan Stanley – Analyst

Hello, sir. Thank you for your time today. I have three questions, starting with the first one on the progress of aroma and in terms of how much is the completion rate of SAMUR. Is it 50%, 60%, 70% complete?

And in terms of your gas pricing negotiating with PETRONAS, have they started, and what is the management guidance on timing for the start of those negotiations, considering the contract's ending in 2016?

And the final question, on your tax rate for the fourth quarter, it has been a bit low at 15%. What exactly caused that? Thank you.

Datuk Dr. Abdul Hapiz Abdullah (President/CEO):

On the question on aroma, as mentioned earlier, we are making good progress on coming to an FID. However, we still have not finalized that yet. We hope to finalize that within the next couple of months, and by then, we will be able to move forward with this project. We are actually very excited about this project, as I have mentioned in my earlier comments, it will put PCG in a different arena, to where we really wanted to play.

With regards to the SAMUR, in terms of where are we prior to the fire, SAMUR is progressing as per plan, with the final completion by end of 2015. This is prior to the fire. With the fire, we are now reassessing, and once we have the report and fully understand the implications on the equipment involved, we'll be able to inform the market as to the potential delay that will come.

On the gas pricing negotiation with PETRONAS, we have not started that discussion, and most likely, we will do it sometime this year – end of this year, because the contract expires in 2016. It will take about a year to a year and a half in the negotiation phase. Normally, negotiating internally is quite difficult, and it takes a longer period of time to get that sorted out. But we feel confident that our supplier of gas will be very accommodating to our requests.

And on the last one, on the tax rate, let me get Farina to handle that.

Farina Farikhullah Khan (CFO):

Yes, hi, Mayank. On the tax rate, typically, you can see that the effective tax rate for Quarter 4 is quite low compared to previous quarter or even previous year, and this is again as a result of basically two factors. One, is the interest income, the tax-exempt interest income that I mentioned earlier that we get as a result of placing the funds under the PETRONAS' Treasury Shared Services Center.

And the second reason is, as you may be aware, in the Malaysian government budget announcement last year, there was a reduction announced with respect to the corporate income tax rate from 25% to 24%, so we had taken out that 1% adjustment in Quarter 4

Mayank Maheswari – Morgan Stanley – Analyst

Just one final question on BASF PETRONAS, how has been the operational performance at BASF PETRONAS been doing, considering in the fourth quarter we did see some decline on a quarter-on-quarter basis in contribution from BASF PETRONAS. Was it more linked to pricing, or was it also on the operational side that you saw some issues on the utilization rate?

Farina Farikhullah Khan (CFO):

We don't usually comment too specifically for entities that we don't control, because BPC is basically our associate. But suffice to say that I think this year, as you can see overall, I think it's lower compared to last year. From my understanding, it's also because of the spread, as a result of the product spread that they had compared to last year. But I would not be able to comment in a lot more detail on our associates.

Kahyan Fung - RHB - Analyst

I'd like to ask if there's any planned shutdown for PCHEM plants this year and next for major maintenance? And what would be the dividend payout like for financial year 2014 and 2015? And is there any cost constraint going forward, such as price volatility or the electricity hike?

Farina Farikhullah Khan (CFO):

I'm not sure at which point you joined our call, because earlier in the call, we had our Head of Manufacturing, Yusri, to share a bit more in detail, in terms of what the maintenance schedule for this year is. So I would suggest maybe perhaps later after the call you can look at the script instead of going through it again.

But if I can just summarize, to say that the maintenance schedule is heavier on our F&M segment compared to the O&D segment. Because for O&D, we are only doing the statutory turnaround for the smaller cracker. And for F&M, the smaller methanol plant, as well as our Asean Bintulu fertilizer plant. And lastly, our aromatics plant, which will not be a statutory turnaround but a planned maintenance activity.

I would also like to add, to emphasize the fact that earlier Datuk Dr. Hapiz talked about our new vision and our new strategy, and the fact that we had organized ourselves to be functionally focused. So under the leadership of Head of Manufacturing, a lot of programs actually have been implemented, and also taking the opportunity to implement some of the programs during the maintenance or the shutdown activity. This is very much geared towards a higher utilization rate for the mid to long term.

I would say short term, in 2014, we will see still a challenging utilization rate, though like Datuk Dr. Hapiz mentioned earlier, we think we can do better than 2013. But we're certainly more confident beyond 2014, because of the programs that have been undertaken under the leadership of manufacturing division. On top of that, if you look at the utilization rates in the past, it is affected by the statutory turnaround, scheduled maintenance activity, and also as a result of supply disruption, particularly on the feedstock.

But again, as mentioned particularly by Datuk Dr. Hapiz earlier, there's a lot of work that has been done by the upstream supplier over the last year, 2013, and in the early part of 2014, that is still progressing. With that, we expect to see a more reliable supply from our feedstock suppliers, together with the fact that we have been addressing the concerns on our plants in 2013 and the balance in 2014. We expect that this, essentially turns into an investment, or much higher operational efficiency going forward.

So internally, we see 2013 and 2014 as two investment years for us as far as improving the operational efficiency and achieving the higher utilization rate for PETRONAS Chemical Group.

On the dividend plan, your question was on the guidance for 2014, and we would expect then, to consistently follow our dividend payout policy, which is around 50%.

Akbar Md Thayoob (Head of Commercial):

I think going forward, on the price outlook, we foresee that it's going to be a little bit on the soft, and a bit more flattish going forward. Both forces are actually, equally playing their part, with some supply constraints, but as well as a softening in demand that will allow us to see the price for 2014 to be more on the flattish level.

Chong Mun Wei – EPF – Analyst

Hi, can I just clarify again on the planned shutdown. Just to confirm on ABF, the smaller methanol plant, the smaller olefins cracker and the MTBE, these are all on the scheduled turnaround. It's not planned maintenance.

M Yusri M Yusof (Head of Manufacturing):

I'm sorry, Mun Wei. The one on turnaround are basically the second cracker, the smaller cracker, ABF and the smaller methanol plant. The ones on scheduled maintenance are MTBE and aromatics.

Actually, MTBE is also on turnaround, and again, as I said earlier, it will happen in Quarter 1. Actually, it straddles both Quarter 1and Quarter 2, and one will also be in Quarter 3

Datuk Dr. Abdul Hapiz Abdullah (President/CEO):

Mun Wai, just to add on to that, what we have learned from last year, we will not want to have it repeated this year, is that we're going to manage our turnaround in a more structured manner and therefore overcome the issues that we have encountered last year, specifically around resources, whereby last year we had issues on resources of our subcontractors and not being able to provide us the necessary numbers for us to do our turnaround correctly.

So this year, we have done that, and we have also looked at the schedule to ensure that it is spread across the year to ensure that the resources are available for us to do the turnaround.

Najman Isa - Aberdeen Asset Management - Analyst

Hello, thanks for hosting the analyst call. I've got two sets of questions. The first question is, could you elaborate a bit more when you mention the initiative to expand the customer base in the region? And what would the customer base look like for the next two to three years?

Akbar Md Thayoob (Head of Commercial):

In the immediate term, we are looking at expanding our customer base in the region, actually, in ASEAN countries. In 2014, we have set out to establish a permanent office, permanent establishment in Shanghai, in Bangkok, as well as in Jakarta.

At the same time, we have also taken over Dow's customers in Northeast Asia, whereby we are consolidating our presence in this region, and will continue to expand our presence in the next few years. We believe that, going forward, we will be attacking more on the higher netback market, and traditionally, Southeast Asia has given us better netback, but we will also not forget opportunistic values whenever the opportunity presents.

Datuk Dr. Abdul Hapiz Abdullah (President/CEO):

Najman, let me add on a little bit to what Akbar has mentioned. With regards to the countries that we have permanent establishment, that is basically where we wanted to have more, and a stronger presence in those countries to get us closer to the customers, whereby then it allows us to further develop the customer and grow together.

However, at the same time, we do have operations right now, through what we call our regional office; our representative office, in Vietnam, Philippines, as well as India. And as you are probably aware, close to 60% of PCG's product is being sold overseas. And most of the products have been sold through agents or distributors in overseas, with the exception of some customers that we deal directly.

So what we intend to do going forward is to have more access to the customers in the countries outside of Malaysia, specifically in ASEAN, where we think that the growth is going to be good, and therefore be able to then capture the growth that we see at the customers' end. So that's one of the key reasons why we are embarking in this in a more focused way, and with bigger attention towards getting to get closer to the customer.

Najman Isa - Aberdeen Asset Management - Analyst

Yes, okay. And on the second question, please correct me if I'm wrong, from my understanding, in terms of the strategy before, PCHEM pretty much take a position of a price taker, meaning you just focus to produce as much as possible, given your supply. But is there any slight tweak in terms of strategy moving forward? Whether you would try to time the market or try to time the price of the products a bit more?

Datuk Dr. Abdul Hapiz Abdullah (President/CEO):

I wouldn't say that was our strategy before. That was probably the old PCHEM business of PETRONAS before, whereby we just produce and we sell. What we are embarking on going forward is to produce what the customer wants. So we are really trying to get ourselves back to the customer angle and figure out what the customer wants, and then we make it as per se. Therefore, that in our view will give us better access to our customer, ensure that they continue to grow together with us, and hopefully then provide us the avenue to grow even bigger in the areas that they want to grow in.

So basically what I'm trying to get at, Najman, is we are going to be more outside-in focused rather than inside-out focused with regards to our pricing, as well as our production.

Nor Shahda Zakaria (Head of IR):

All right, thank you. Please note that the recording of this webcast will be made available on our website at the end of the day. Thank you for your participation, and good evening.

THE END