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Operator
Thank you for standing by and welcome to the Petronas Chemicals Group Q1 FY 2016 analyst briefing conference call. (Operator Instructions). I must advise you that this conference is being recorded today, May 10, 2016. I would now like to hand the conference over to your first speaker today, Mr. Edward Ong. Please go ahead.

Edward Ong, Head of Investor Relations:

Good morning and thank you for joining us at Petronas Chemical's 1Q 2016 conference call. Before we start, can I just draw your attention to slide 2, which has the usual legal disclaimer?

So with us today we have our Managing Director and Chief Executive Officer, Datuk Sazali Hamzah; Rashidah Alias, our Chief Financial Officer; as well as our heads of department, Encik Akbar Thayoob, Head of Commercial; Encik M Yusri, Head of Manufacturing; and Encik Aziz, Head of Strategic Planning.

Without further ado I'd like to hand the time over to Datuk for his opening remarks.

Datuk Sazali Hamzah, Managing Director / Chief Executive Officer:

Okay. Thank you, Edward. Good morning, everyone. 2016 began with a weaker crude oil prices and cautious market. Brent crude price fell as low as $26 per barrel in January this year, which was the lowest in the last 12 years. Despite the strengthening toward the end of the quarter, the average for quarter one 2016 was $34 per barrel, which was lower than $52 per barrel if you compare in the average of 2015.

The low oil price together with low economic growth, mainly from China, has a significant impact on petrochemical product price. However, our commendable achievements in both operations and commercial help to negate the impact of the product prices and thinner spread.

For the first quarter of this year, our operation performed very well at 92% plant utilization. This is one of the highest achievements that we have achieved so far.

The increased production volume and higher efficiency has resulted in lower operating cost. Whenever we can push the plant at higher capacity, this will result in unit cost per barrel will be -- cost per metric ton will be at the lowest point and make us very competitive.

The volume produced were directed to market with higher netback returns, hence securing healthy margin for the Group. Our commercial team have worked quite hard to make sure that we get the best value of our product that we produce. As a result, I'm pleased to report that quarter one 2016 Group revenue, despite the cautious product market, remained comparable to the same quarter last year at MYR3.147b. We also grew EBITDA by 3% to MYR1.146b, and EBITDA margin was strong at 36%.

So for more details, I would like to pass to Puan Rashidah to go through our financial numbers.

Rashidah Alias, Chief Financial Officer:

Thank you, Datuk Sazali, and good morning, everyone.

For reference on the quarterly financial performance, please kindly refer to slides 5 and 6 for the comparative quarter's performance. For your ease of reference, on the left of the slide are the financial performance. The patterned bar denotes revenue and the solid bar refers to EBITDA. And boxed above the bars are their respective EBITDA margins. On the right, are the comparative plant utilization. For both slides, the top half refers to the Group performance, whereas the bottom half of the slide shows the segmental performance.

So moving on to the performance, please refer to slide 5 for the comparison against the corresponding quarter, Q1 2016 versus Q1 2015. For Q1 2016, production and sales volume were higher for the quarter, in line with higher Group plant utilization of 92% compared to 90% last year. This was achieved through better feedstock supply and improved plant reliability.

Overall petrochemical prices, however, were weaker during the quarter as Brent crude oil price averaged at $34 per barrel. As a result, Group revenue was comparable at

$3.1b, supported by the higher sales volume plus stronger US dollar, which offset the weaker petrochemical product prices.

The higher sales volume result in lower unit operating costs and help to push EBITDA 3% higher at MYR1.15b. EBITDA margin remained comparable at 36%. However, profit after tax was comparable at MYR671m despite the higher EBITDA due to a lower effective tax rate for quarter one last year. The effective tax rate in quarter one 2015 was lower primarily due to an initial recognition of the deferred tax assets pertaining to tax incentives that we received for the SAMUR project.

The O&D segment saw a 24% increase in EBITDA to MYR808m, with improved plant utilization and stronger US dollar. Consequently EBITDA margin increased 5 percentage points to 36%.

Profit for the segment also grew by 27% to MYR461m from MYR364m, supported by higher volumes. EBITDA for the F&M segment was lower at MYR338m compared to MYR472m last year, and EBITDA margin fell 8 percentage points to 36%.

Profit for the segment also declined by 33% to MYR193m as higher volumes and the stronger US dollar were unable to negate the significantly lower product prices. Please note that the primary difference between the performance of these two segments are the extent of the price drop. While O&D prices do not drop -- did not drop as much, F&M did drop fairly significantly.

Next on performance against preceding quarter. Please refer to slide 6, which compare Q1 2016 versus Q4 2015. For the quarter under review, group revenue declined by 9% to MYR3.1b from MYR3.4b, mainly due to lower petrochemical product prices. EBITDA increased by 12%, driven by stronger operational performance leading to higher production volume and lower unit production cost.

We also directed more of our volume into higher netback markets, as mentioned by Datuk Sazali just now. Consequently EBITDA margin increased by 6 percentage points from 30% to 36%.

Profit after tax was lower for the quarter, declining 15% from MYR791m to MYR671m. This was because fourth Q 2015 had a higher interest income and a non-recurring item of MYR64m for reversal of provisions of decommissioning expenditure. This is for our decommissioned plant in VCM and polypropylene. In addition there is some reversal of overprovision of tax.

The higher volumes recorded during the quarter was in line with the higher plant utilization of 92% compared to 86% in the preceding quarter. This was contributed by higher PU from both the O&D and F&M divisions. Both segments saw product prices continue to slide during the quarter as crude oil prices remained weak.

The O&D segment EBITDA increased by 4% from MYR781m to MYR808m due to higher volume of high-margin ethane-based products. Consequently EBITDA margin increased to 36% from 32% in the preceding quarter. However, profit declined by 20% to MYR461m due to the reversal of provision in decommissioning expenditure previously mentioned.

Moving on to F&M, F&M product prices continued to be dampened as urea is currently in a long-supply position and methanol is impacted by weaker demand for energy-based application.

EBITDA for the segment was equivalent at MYR338m as higher volume offset the lower spreads. EBITDA margin increased 4 percentage points to 36%. However, profit for the segment decreased by 22% to MYR193m due to the reversal of overprovision of tax that was mentioned previously.

Moving on to our Group cash flow and cash balance on slide 8, for the quarter under review, we saw higher cash generated from our operations, with higher cash receipts from customers in line with revenue. During the quarter we also paid out the second interim dividend for the year 2015 of 10 sen per share, which was paid in March this year, amounting to MYR800m.

We also had MYR523m CapEx, mainly in relation to our growth projects, namely SAMUR and RAPID petrochemical project. Currently, with MYR8.6b, our cash position remains strong and we remain committed to invest this cash in our growth projects.

Finally, I would like to note that we had earlier announced that we will not be proceeding with the RAPID elastomers projects. We are currently finalizing the amount that will be written off and we expect to see this non-cash adjustment in our second-quarter results later this year.

And that brings me to the end of my review of our first-quarter financial performance. I now hand over to Yusri for the operational highlights.

M Yusri M Yusof, Head of Manufacturing:

Thank you, Rashidah. Good morning everyone. This is Yusri. Please refer to slide number 9 for my presentation and let me share the operational highlights for this quarter.

Leveraging on the foundation that we have laid and the hard work that we have been putting in, 2016 began on a strong note for us operationally. As we focus on reliability, either for feedstock through greater synergy or for internal plant reliability through operational excellence, we have seen continued improvements in our operation. For

Q1 this year, which is also our year-to-date number, we achieved 92% plant utilization, one of the best quarters since our listing. This was achieved through dedicated and continuous execution of our three main operational excellence strategies.

Let me take you through -- again through our strategy. First strategy, we are targeting on a stronger internal reliability. For this strategy we remain focused on three elements. First focus is to resolve non-plant issues through effective management of equipment with repetitive or costly reliability incidences. As we resolve these non-plant issues, invariably the plant operates more reliably.

Second focus on this strategy is on our equipment reliability strategy to have an effective maintenance program. Our planned maintenance program compliance is now reaching more than 90%. And with the new tools that we have added recently, we are targeting to further improve the effectiveness of our maintenance program. This is important for us to reduce reliability risk.

The third focus on this strategy is to manage plant threats effectively. As a proactive measure we are also instituting a structured approach to manage potential plant threats. We hope, through this structured approach, the threats would not turn into repetitive reliability incidents.

Let me go to the second strategy on our operational excellence, which is having an effective supplier relationship management. In addition to plant reliability, the availability of feedstock is a critical success factor towards higher plant utilization. Our supplier relationship management for feedstock remains a priority in ensuring reliability and security of feedstock supply. We have established greater collaboration in planning our operational activities and in providing technical support throughout our value chain.

For methane, since the completion of Dalak tie-in late last year, we had since gone through its commissioning stages during the first quarter. Despite being in its early stages of operation, it has complemented the feedstock availability for our methanol plants in Labuan. And this has translated to improvement of PU for F&M to 89%, which is better than the preceding and corresponding quarter.

As we continue to stabilize the operation of Dalak, we expect to see further improvement to the utilization rate for F&M and subsequently to the Group. For ethane, the resolution of plant issues at both our supplier's plant and our crackers have also contributed to the improved PU.

Finally, our third strategy is in having a flawless turnaround activity. For quarter one, we have successfully completed one turnaround activity and started another TA activity towards the end of March. We have completed the turnaround, as I mentioned, at PCMTBE, at our PDH plant safely and ahead of schedule. And at PC Aromatics we have started the turnaround on March 25. And actually it has just been completed earlier this week. Moving forward, we will have another turnaround this year at our urea facility in Bintulu in quarter three.

As a conclusion, looking at our performance thus far, I believe through the successful execution of our operational excellence strategy that I have mentioned just now, we should be able to meet the target of high eighties PU that we targeted for this year.

And that's all that I have for operational highlights. I would like to hand over to Akbar for market performance and outlook.

Akbar Md Thayoob, Head of Commercial:

Thank you, Yusri. Good morning, again, everyone. Akbar here. Let's proceed with the market highlights.

Overall prices for quarter one 2016 have softened from quarter four 2015 for most of O&D and F&M products. Nonetheless, towards the end of quarter one 2016, O&D product prices strengthened and recovered on the back of improving crude oil and naphtha prices, supported by further limitation of ethylene supply and restocking activities.

Methanol stabilized from firm ethylene prices as MTO producers ramped up production. Urea and ammonia prices were persistently bearish given the weak demand, compounded by prolonged Thailand drought and the long supply situation.

Moving into quarter two 2016, prices for olefins and derivatives products are expected to improve as ethylene supply continues to tighten throughout the first half of 2016, resulting from heavy cracker turnaround in Asia and Middle East, as well as in line with improving crude oil price. For fertilizer and methanol, we expect prices to stabilize based on supply/demand fundamentals.

I will now touch on our outlook under the olefins and derivatives business segment, starting off with ethylene.

Ethylene prices have weakened in quarter one 2016 compared to quarter four 2015 following bearish crude and naphtha prices in addition to weak downstream demand amidst the Lunar New Year holiday. Conversely, the average ethylene price is expected to firm above price level in quarter one in view of tightening regional supply.

The demand/supply glut -- tighter -- the demand/supply balance gets tighter in the second quarter, with major crackers in key importing areas of Asia scheduled to shut down for maintenance. Meanwhile, ethylene prices have gained as companies in some derivative sectors are seeing healthier margins given higher prices amidst relatively stable feedstock cost consequently encouraging ethylene sellers to maintain their asking prices.

On to polymers. Polymers prices saw a declining trend in quarter one 2016 versus quarter four 2015 as a result of sluggish demand ahead of Lunar New Year celebrations as buyers anticipated polyethylene prices to soften further in view of relatively low naphtha and ethylene prices. We anticipate polymer prices to strengthen in quarter two. And this price uptrend in the polyethylene market in Asia is drawing support from limited supply for certain grades of polymer, firmer feedstock prices and limited supply conditions resulting from scheduled maintenance activities by local producers in China.

The bullish sentiment is also attributable to healthy demand in Southeast Asia as some converters, particularly in Indonesia, have started preparations for Eid al-Fitr festivities happening in July this year. The open arbitrage window is also expected to ramp up market prices.

For MEG, prices have gained ground in quarter one this year, backed by supply tightness caused by a series of production woes at several Asian MEG facilities. As in tradition, the prices for MEG picked up after the end of Chinese New Year festivities as market players were back. In quarter two, MEG prices are predicted to escalate on the back of improved demand from downstream polyester sector. Limited supply availability owing to plant shutdowns in the Northeast Asia region has further reinforced this bullish sentiment.

Moving on to aromatics, prices also dipped in the early part of quarter one 2016, tracking long supply due to robust production, combined with slowdown in trading activity as many players, in China especially, were away for the New Year festivities. It is foreseen that prices will firm up in quarter two 2016, attributable to stronger demand from downstream sectors amid several heavy turnarounds in Asia, restricting supply availability in the market.

Stability in terms of demand and margins seems to be the general expectation for early 2016, with some reverse arbitrage movement to the Americas likely to manifest itself in quarter two. Exports to the US are expected to lend support by continuing to absorb some of Asia's glut.

Apart from that, supply is expected to further shorten as feedstock, mainly reformate for aromatics production, is possibly to be reduced given growing demand for gasoline blending applications.

Moving on to the fertilizer and methanol business segments. I shall now start with urea. Prices continued to be on the downward trend in quarter one this year, with ample supply availability and sluggish demand in key importing regions, such as Thailand and

Latin America, due mainly to bad weather conditions. We anticipate prices to stabilize in quarter two following turnaround activities at several producers in the Middle East.

Despite this, demand remained stagnant as opposed to the usual bullish seasonal demand as Thai drought continues to affect planting. In addition, lack of buying interest in China and limited inventory stocking in India translates to very little relief of volumes for the market in the short term.

Towards the end of quarter two, global urea market is expected to see some pressure and slower-than-expected demand in many markets and ample supply causing prices to edge downward. Major urea producer in Nigeria is expected to begin exports in the second quarter, which will swell supply in the market.

For ammonia, in quarter one 2016, prices also dipped from global oversupply and weak downstream demand in the caprolactam and acrylonitrile market, coupled with slow restocking activities. However, ammonia short-term outlook for quarter two 2016 is expected to stabilize following tight supply conditions due to lack of availability, with several plant shutdowns in major markets, such as the Middle East and Indonesia, alongside weak demand for downstream caprolactam.

For methanol, prices were also lower in quarter one, weighed down by the persistently weak buy/sell sentiment due to sluggish downstream demand, mainly for formaldehyde within the Asian region following the Lunar New Year celebrations. Furthermore, pressure on global crude oil prices has capped the methanol price level.

We foresee prices will stabilize into quarter two 2016 as demand for downstream MTO and MTBE remain resilient, although the sentiment is negated by ample supply, with all major plants within the Southeast Asia region operating at normal rates.

In conclusion, overall a firmer outlook prevails for almost all products as most prices are expected to stabilize at new price levels by the end of quarter two 2016. Olefin and derivatives products are anticipated to strengthen given the tight supply situation and further supported by healthy demand.

Fertilizer and methanol market segment is expected to stabilize at the back of supply/demand balance being more -- tracking the demand.

And that concludes my market updates. Back to you, Datuk, on your key focus area.

Datuk Sazali Hamzah, Managing Director / Chief Executive Officer:

Okay. Thank you, Akbar. Before we go to question and answer, I would like to say that at PCG, we have set clear goals for the years to come. While the journey ahead will be challenging, we remain committed to move forward and face the challenges head on.

We have seen improving results from transforming our operational performance within the last two years. The challenge now is to sustain and continue achieving high plant reliability and utilization. We also have to push our commercial excellence to continue to produce better netback and also create value.

In the short term, the market remains cautious, although there has been some recovery in crude oil prices. And there has been bright spots in the market, notably the ethylene due to supply outages. It will be a challenge to maintain short-term margins similar to previous year. What we can do is to focus on optimizing manufacturing unit cost, improving customer experience and optimizing our cost to serve, thus ensuring continuous sales with healthy return.

Looking at the long term, we are excited given the pipeline of growth projects that we have undertaken, such as SAMUR, AROMA complex in Gebeng, 2-EHAcid, HR-PIB and our mega-project RAPID Petchem.

The first of our growth projects, which is SAMUR, is due to be commercialized sometime later this year. We have three specialty projects, as I mentioned earlier, in Kuantan, Gebeng, and as well as RAPID Petrochemical project. And these projects will come on stream progressively from 2016 through 2019. So we are going to see a gradual increase of our volume and hence make us much more interesting.

And these growth projects will increase PCG capacity in future and so we stand what we said earlier this year, that 2016 will be a very exciting year and for many years to come.

Thank you. I pass back to Edward.

Edward Ong, Head of Investor Relations:

Thank you, Datuk. We are now going to open for questions and answers. If you could help us by identifying yourself as well as your company, we'd appreciate that very much. Back to you, operator.

Ajay Mirchandani, Analyst, JP Morgan:

Morning, everybody. Congratulations on a pretty solid set of numbers. Three questions from me. One is if we can get a little more detail in terms of the reasoning for the improved EBITDA margin, specifically for the olefins division on a Q-on-Q basis. You did briefly mention about higher volumes. I just wanted to get a sense if there's been some increase ethane supply, etc.

The second question was, the big surprise for me was the very strong urea margins for the quarter. How sustainable do you see that to be for the rest of the year?

And my third question was specific to a comment by Rashidah about a non-cash adjustment in the second quarter specific to the rapid elastomer write-down. If you could just give us more details on that, please. Thank you.

Datuk Sazali Hamzah, Managing Director / Chief Executive Officer:

Okay. Probably I answer the first question. Second question will be answered by Encik Akbar and the last one will be answered by Rashidah.

So when you ask about the improved EBITDA margin, especially on O&D, as you're aware, our O&D is a key driver of our profit. So the more volume that we produce from O&D segment will further improve our EBITDA margin. And that translates into the volume that we produce is higher, as well as this year we also pushed a bit more in terms of our ethane supply from our supplier. So we also anticipate higher O&D product this year based on our plan.

Okay? The second question I would like to pass to --.

Ajay Mirchandani, Analyst, JP Morgan:

Can I just clarify, in terms of higher ethane supply, is there a number you could share with us in terms of the level of increase that we've seen on a Q-on-Q basis?

Datuk Sazali Hamzah, Managing Director / Chief Executive Officer:

Roughly we are targeting about minimum 5% higher than what we have seen last year. Can you -- you get it or not?

Ajay Mirchandani, Analyst, JP Morgan:

Yes. No, that's helpful. Thank you.

Datuk Sazali Hamzah, Managing Director / Chief Executive Officer:

Okay. Akbar?

Akbar Md Thayoob, Head of Commercial:

Okay. Regarding the strong urea margin, I think first and foremost we have a very good production level in the first quarter. That actually brings down the unit production cost and that gives us some better room for the margin of the product.

Secondly, most of our contracts are being done under the term contract and we have improved our mix for the end user. And as such, we were able to get a better pricing excellence for the urea product.

And thirdly, we also play around with our geographical mix and we are able to get sales into the higher-margin geographic mix for methanol, and especially methanol in that segment.

Ajay Mirchandani, Analyst, JP Morgan:

If I can just clarify the higher of the better pricing and the better geographical mix, what's the kind of pricing impact and premium impact you get? Is it 2% to 3% or is it larger than that on a big picture?

Akbar Thayoob^ In the big picture, I think we've got roughly better on about 1.5%, better than the price level that we were targeting. We did -- I think overall for F&M we get plus 1.5% above market level. That actually has compounded with the lower unit cost, we are able to open up our margin better than last year. Did I answer your question?

Ajay Mirchandani, Analyst, JP Morgan:

No, it was -- that was very helpful. If I can just get that last clarification on the non-cash adjustment that was being talked about.

Rashidah Alias, Chief Financial Officer:

But before that, Ajay, could I just clarify, are you referring to the F&M EBITDA margin of 36% from quarter one just now when you were asking about the urea?

Ajay Mirchandani, Analyst, JP Morgan:

That is correct. So that was specifically me asking about the 36% margins being sustainable for the rest of the year.

Rashidah Alias, Chief Financial Officer:

Right. In addition to what Akbar mentioned just now, the F&M also includes methanol. So it's urea and methanol. And for methanol, our supply this quarter has improved compared to quarter one last year. If you recall, we talked about our Dalak pipeline in sourcing methane from additional sources of upstream supply. So that has been commissioned in December last year and we are starting to see the outcome of having this alternative supply.

So please bear in mind that 36% is a combination of urea and methanol. So a certain portion of that improve in margin also comes from this improved supply of methanol – sorry, methane.

Ajay Mirchandani, Analyst, JP Morgan:

That makes sense.

Rashidah Alias, Chief Financial Officer:

Yes. Moving on to your last question, Ajay, on elastomer. As of the 31st March 2016, we had about MYR225m of cost that we have spent in doing the FID for elastomer project. So obviously when we cancel this elastomer project, the amount will need to be written off. We are not required to write it off in quarter one, because the decision was undertaken... If you recall, we announced it on 14 of April. So that amount will be written off in quarter two.

However, although we have recorded -- already we have incurred MYR225m, we are still finalizing the final amount to be written off. And by quarter two we will, yes, we will finalize the amount. We don't expect it to go beyond the MYR225m. This is also in our Bursa report announcement.

Ajay Mirchandani, Analyst, JP Morgan:

Thank you.

Rashidah Alias, Chief Financial Officer:

Yes.

Alex Goh, Analyst, AM Investment Bank:

Yes. Thank you. Just following up on the elastomer project. Is there any way that the amount that is spent can be redeployed to other parts of the RAPID project which you have not cancelled? That's my first question. One perhaps follow-up. Is there any way for you to offset some of the amount that you may need to write off?

Okay. My second question is regarding your plant utilization. Congratulations on a strong 92% result that you achieved. But I've noticed that you indicated that, for the rest of the year, it's high 80%. Now I just want to find out how much -- what would be your plant utilization in second quarter of this year, given the fact that there's a turnaround activity in the end of March. And as for the rest of the year, are we looking at something that is closer towards the 80% mark? That's all. Thanks.

Rashidah Alias, Chief Financial Officer:

I'll take the first question, Alex. Thank you for the question. Yes, precisely what you mentioned, we are looking at, number one, some of the amount is still provisional in nature so it will come in and we will finalize the quantum. And the other bit, certain costs we are looking to redeploy to the other projects. For example, like operational readiness cost, some manpower costs could potentially be reallocated or redirected to the other projects. So those are the things that we're currently finalizing.

Of course from an impact perspective, we do put in a disclosure as to the potential maximum impact, which is why I quoted this amount MYR225m. But we're working alongside what I've mentioned just now in order to come to a finalised number.

Datuk Sazali Hamzah, Managing Director / Chief Executive Officer:

Okay. Let me bring you to the second question and third question. Basically you're asking us we have put the high 80 mark as our target this year. When we said high 80% mark, it's virtually we are targeting at least more than 85%, between 85% and 90%. So of course we target the highest end. So for quarter two, similarly we also target close to 90% utilization, similarly for the overall year. So we are targeting 85% to 90%.

The reason why, because as you know, the Dalak pipeline is a new line that we installed. And this line has not been tested in terms of robustness. At the same time, our methanol plant 2 is also the first time that we really push up to the maximum capacity. In the past it ran at lower capacity, around 65%, mainly because short of the methane gas. So this is the first time that we are going to run at 100% full capacity.

So because of these two factors that we say that our target is this end high 80s, so between 85% to 90%. And we target at the end the highest one.

Alex Goh, Analyst, AM Investment Bank:

Okay. Thank you.

Oscar Yee, Analyst, Citigroup:

Hi. This is Oscar from Citi. My first question is regarding your elastomer project. You've canceled the project so you're not able to capture the value chain for the C4 area. Is there any plan to do other downstream product that's going to off-take the butadiene from the cracker?

And secondly, if you don't do that, given you have MYR1.3b surplus cash, will you consider taking a stake in the parent's upstream naphtha cracker so that you can achieve a better vertical integration? If not, then do you plan to return the surplus cash to minority shareholders?

And I also have a minor question regarding your methanol number 2 plant in Labuan, because I read some articles in ICIS saying there has been some operating issues in the 2Q. Could you give us a little bit update on that as well? Thanks.

Datuk Sazali Hamzah, Managing Director / Chief Executive Officer:

Okay. Let me answer first on your question with regard to elastomer cancelation. Okay. As part of our rigorous process in prioritizing our capital investment, we have a methodology, every step we have a certain limit to achieve, otherwise we will drop this decision. So particularly for elastomer, have reached into a stage three, going to stage four. Unfortunately at stage three that does not meet our benchmark number. That's why we decided to cancel this project before we put a lot of investment on it. As you're aware, elastomer we estimate about MYR1.2b roughly the cost. So before we spend a lot, we must make sure that this project really brings us a good economy, otherwise we look into other options.

So for your information, at this moment we are also in parallel looking into other options. We have several options actually. But in terms of timeline, it will not be so strict to couple up with overall RAPID project because RAPID still can start the plant without elastomer.

In the meantime, butadiene itself actually is a gold product. Without upgrading we still can sell in the market. This is based on our current assessment. So there is no issue for us to run RAPID without elastomer. But in the meantime we are evaluating other options. And we have actually several parties already register their interest. So we will announce later if we have come into a decision for another alternative of elastomer. Okay. That's one.

Secondly, whether we want to start buying -- looking into a cracker part. What we are saying that based on our cash that we have now, our focus will be on the petchem side, because if you look at the configuration of RAPID, beyond first phase of petchem there will be a lot of other opportunity later on to move into derivative and specialty. So that may come later on after we commission RAPID. So we need to reserve some of our cash as well for future expansion. And this can be much more value than we look at, at the cracker.

The most important thing is to ensure that we have a steady feedstock supply. By having refinery and cracker couple up, we are guaranteed by Petronas to get continuous feedstock supply on the long-term basis.

Okay. The last question is on PML 2, so --.

M Yusri M Yusof, Head of Manufacturing:

Yes. Oscar, this is Yusri. I will just maybe highlight a bit on what happened in quarter two, especially for methanol. I think as Datuk Sazali mentioned that as we are stabilizing Dalak pipeline and also we are stabilizing the plant 2 at 100% load, which we have never run at that point before, so we're seeing some constraint and we're seeing some couple of incidences during the month of May. But as we are managing that, we believe that we should be able to position plant 2 methanol to be able to run at a high load moving forward.

Datuk Sazali Hamzah, Managing Director / Chief Executive Officer:

So in general, what we anticipate from plant 2 is basically we are going to produce more than what we produced last year. The only thing, we don't put our target at 100% full capacity throughout the year, so we have to reserve some portion for the liabilities in moving forward. But as far as we run, I think about more than three months running at full capacity, we think that all the reliability issues is something that we can control or we can manage appropriately. Okay?

Oscar Yee, Analyst, Citigroup:

All right. Thank you very much.

Mayank Maheshwari, Analyst, Morgan Stanley:

Hello, sir. Thank you for the call. I had two questions. Firstly in terms of project updates, especially on the AROMA project, where we are right now and what is the possible commissioning date on that. And how are you seeing margins for AROMA project moving right now?

And the second question was related to the dividends that you have paid to the minority side this quarter has been pretty chunky at about MYR463m. What is this for and what do you think will be -- because historically this number has been relatively small. So what's the reasoning for this? Thank you.

Datuk Sazali Hamzah, Managing Director / Chief Executive Officer:

Okay. The first question, you asked us about the progress of AROMA. At this moment it is as per plan. And we target for the first two plants, which is citral AROMA and 2EHAcid, to be commissioned by end of this year. The next two projects, HR-PIB as well as menthol -- AROMA menthol, will be commissioned in 2017. So we still stick with our plan. The progress is as per what we expect.

Second question?

Rashidah Alias, Chief Financial Officer:

Yes. Mayank, I'll take the second question. On the dividend stake to minority interest, that's primarily the portion that was -- that's primarily the dividend declared by one of our subsidiaries, Asean Bintulu Fertiliser. One of the focus that, on a financial front, that we're doing currently is to try and be efficient at the subsidiary level. And we will repatriate any excess cash that we have at subsidy level, excess meaning over and above what they require from an operational perspective. And we'll swipe it back to the parent company.

So ABF is about 40% owned. Yes.

Datuk Sazali Hamzah, Managing Director / Chief Executive Officer:

60.

Rashidah Alias, Chief Financial Officer:

60 -- no, 40% minority interest. So that relates to the question that -- the dividend from ABF. It was quite substantial this time around. It's about MYR900m-odd dividend paid. We have not been paying dividend from ABF for the past, I would think, 10, 11 years. And this is the first time that we're repatriating. But it's still the financial discipline within PCG Group.

Mayank Maheshwari, Analyst, Morgan Stanley:

And ma'am, just again a bit more numbers-related. Basically you had MYR463m on page 4 of your report, which is under the change in equities, while if you look at your cash flow the number was only MYR213m. So I don't know whether there is some difference out here.

Rashidah Alias, Chief Financial Officer:

Okay. The dividend was paid in stages. We paid the first stage in the quarter itself. And the second portion was paid around middle April or something like that. That's where the discrepancy is. And that just to jive in with the maturity of deposits that ABF had in order to pay the dividend. So you'll see some portion of the cash coming out in quarter two.

Mayank Maheshwari, Analyst, Morgan Stanley:

Ma'am, is there a target debt to equity at the subsidiary level that you're kind of achieving with these dividend payouts? Or what is the thinking of starting it suddenly after 11 years?

Rashidah Alias, Chief Financial Officer:

In terms of dividend payout at the subsidiary level, we look at the -- how much cash or working capital we will need to put, or remain at the subsidiary level. Yes. And the rest which we treat it as excess capital, excess cash, that is repatriated back.

In terms of debt/equity, if you look at the capital structure, we make an assessment more at the Group level.

Mayank Maheshwari, Analyst, Morgan Stanley:

Okay. So I was just thinking that will you have a similar capital efficiency at the Group level as well in some time?

Rashidah Alias, Chief Financial Officer:

At the Group level?

Mayank Maheshwari, Analyst, Morgan Stanley:

Yes.

Rashidah Alias, Chief Financial Officer:

Yes, because -- sorry, I probably didn't get -- quite get what you're asking.

Mayank Maheshwari, Analyst, Morgan Stanley:

So I was just -- so what I was just trying to figure out was that is there a capital efficiency on -- because your balance sheet is pretty cash-heavy as well, even if you include you growth projects. So I was just thinking is there any capital efficiency that the management is looking at for Group level as well?

Rashidah Alias, Chief Financial Officer:

Yes, certainly. But at the end of the day, our cash currently, that will primarily be utilized for our growth projects for the time being. We do expect that that will be utilized for -- RAPID alone is about $2.7b spending up to 2019. So we do expect to utilize for that purpose. But yes, to your question, we look at the capital efficiency at Group level as well.

Mayank Maheshwari, Analyst, Morgan Stanley:

Okay. Thank you, ma'am.

Rashidah Alias, Chief Financial Officer:

Sure.

Cheong Mun Wai, Analyst, Employees Provident Fund:

Yes. Hi. Good morning. Thanks for the presentation. Just two questions, sir. First question is on the renegotiation of the ethane -- the feedstock ethane prices, which is for the 400,000-tonnes-per-annum cracker expiring end of this year. Any progress on that?

And the second question is can you guide how much is the ethane feedstock that was consumed by PCG or supplied by pet gas for 2015 in metric tons amount? Is it close to maybe 1m metric tons?

Datuk Sazali Hamzah, Managing Director / Chief Executive Officer:

I think the first question, Aziz, our SPV Head, will give the light on that.

Abdul Aziz Othman, Head of Strategic Planning and Ventures:

Hi, Mun Wai. This is Aziz. I think the negotiation is ongoing. As you're aware, the contract is supposed to expire in September. I think we are almost on the last lap of negotiation with Petronas. And I can assure to you that by September this negotiation will be concluded.

Datuk Sazali Hamzah, Managing Director / Chief Executive Officer:

Just to add, I think, as I mentioned earlier, that in terms of ethane supply, since PCG is bringing the highest value to Petronas, so the price that we expect will be immaterial to the overall PCG performance. And based on the negotiation that we have done for gas today is very positive. So when we conclude, we are going to share with you. And personally I don't expect any much impact to our bottom line. But of course there is some revision; but the revision I think would consider as normal revision increment. That's one.

Second is, when you ask how much C2 feedstock will be consumed in 2016, our estimation at this moment -- last year, right? Last year is about 1m metric tons. That is about -- equivalent about 125 metric tons per day, per hour. So this year we anticipate from this number increase another 5%. So that's roughly the numbers.

Cheong Mun Wai, Analyst, Employees Provident Fund:

I see. Got it. Thanks.

Edward Ong, Head of Investor Relations:

Right. If there's no further questions, then maybe what we'll do is we'll stop here. Thank you very much for being on the call. I trust that you've had a lot of insight. And as Datuk mentioned, this will be an exciting year for us.

Thanks very much. And we'll see you next quarter.

Rashidah Alias, Chief Financial Officer:

Thank you.

Datuk Sazali Hamzah, Managing Director / Chief Executive Officer:

Thank you.

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