PETRONAS CHEMICALS GROUP BERHAD

1Q 2024 ANALYST BRIEFING

29 May 2024, 6.00pm Malaysia

Management attendees:

1.	**Mazuin Ismail** Managing Director & Chief Executive Officer	5.	**Debbie Chiu** Chief Operating Officer, Specialty Chemicals
2.	**Mohd Azli Ishak** Chief Financial Officer	6.	**Yaacob Salim** Head, Strategic Planning & Venture
3.	**Zamri Japar** Chief Manufacturing Officer	7.	**Zaida Alia Shaari** Head, Investor Relations
4.	**Muhammad Nizam** General Manager (Marketing & Sales)		

Zaida Alia Shaari:

Hello, welcome to PETRONAS Chemicals Berhad's Analyst Briefing for the first quarter ended March 31, 2024. Assalamualaikum. I'm Zaida Alia, Head of Investor Relations. Thank you for joining us. I am the event host and moderator for today.

You should by now be able to access and download the financial results from Bursa Malaysia's website. The same is available on our corporate website together with today's presentation materials. The agenda for today will be a short presentation followed by the Q&A.

(Event Instructions)

Participants are reminded that this meeting is being recorded and the recording will be made available on our website in a few days. No other parties have been authorized to record.

Ladies and gentlemen, to lead our briefing today is Mr. Mazuin Ismail, our Managing Director and CEO, who will start the presentation with the first quarter 2024 performance highlights, after which our CFO, Mr. Azli, will provide details of the financial results.

Also present to take questions after the presentation are the rest of the senior management, comprising of Chief Manufacturing Officer, Mr. Zamri; Dr. Debbie Chiu, Head of Specialty Chemicals; Mr. Muhammad Nizam, Acting Chief Commercial Officer. Without further ado, I shall now hand you over to Mr. Mazuin.

Mazuin Ismail:
Thank you, Alia. Ladies and gentlemen, assalamualaikum warahmatullahi wabarakatuh, good evening. Thank you for joining us today.

Ladies and gentlemen, in the first quarter of this year, 2024, the global GDP growth showed signs of improvement, rising to 2.5%, and this is compared to 1.7% in the same quarter last year, led, of course, mainly by the US economy. The Global Purchasing Manufacturing Index, or PMI, moved into expansion territory at 50.3 after a year of contraction, again, notably lifted by the US manufacturing sector.

Supported by Middle Eastern geopolitical crisis and output cuts, offsetting price pressure from the weak global demand, the benchmark Brent crude oil price of $83 remained at par against last year, so effectively keeping inflationary pressures in place. The chemical sector, however, continues to be on a declining trend. The Bloomberg World Chemical Index is down 3% year on year, and at a more drastic level, the Asia-Pacific Chemical Index is down by 12%.

Gauging by the movement in product prices across our business segments, this downward trend is evident. The biggest decline in prices seen is in the Fertilizer and Methanol segment. Urea market is flat partly due to less urea import volume in India due to high opening stocks for 2024, with strong domestic production offsetting tight supply in the region. Similarly, for methanol, weak MTO and other downstream demand dragged prices down. Ammonia suffered as much as 50% drop due to weak downstream demand amid major price corrections, resulting from a fall in natural gas prices.

The price movement of products in Olefins and Derivative segments have been mixed due to varying levels of availability and consumption. For instance, ethylene, MEG, and butanol were up on tight supply. On the contrary, prices of polymers were down due to weak downstream demand amid supply disruption due to regional maintenance activities, while propylene, paraxylene and MTBE declined between 2% to 4% due to ample supply. In the specialty segment, our average price for intermediates, such as polyols, declined against last year, impacted by continuous price competition from Chinese suppliers following weak China domestic demand.

Now moving on to our operational performance. In the first quarter of this year, we completed one turnaround during the quarter at PETRONAS Chemicals Fertilizer Kedah. At the same time, we faced some unplanned shutdown at our urea plant in Bintulu, PCLDPE and we undertook some maintenance work at MTBE and PDH plant. As a result, rate was lower as compared to first quarter of 2023.

Consequently, we saw 7% decrease in commodities production but was balanced by a 13% increase in specialties volume, resulting in a total group production of 2.68 million metric tons. Similarly, total sales volume declined despite improvement in specialty chemical sales due to lower production at the Malaysian operations.

Against this backdrop of mixed market and operational performance, our first quarter 2024 revenue was comparable at RM7.5 billion, supported by positive foreign exchange impact and higher sales from PIC, as well as strategic sourcing volumes. We registered a 7% increase in EBITDA, that is a RM77 million improvement on pay variable exchange rate, lower fuels and energy and utilities costs, partially offset by lower average product spreads. Correspondingly, EBITDA margin was higher at 16%. Profit After Tax also improved by 31% to RM703 million, mainly due to higher contribution Perstorp stemming from unrealized Forex gain on revaluation of loan receivables.

Ladies and gentlemen, next I'll have Azli to take you through the details of the financial performance.

Mohd Azli Ishak:
Thank you, En. Mazuin. Ladies and gentlemen, thank you for being with us this evening. Before we proceed with the financial performance of each business segment, let's have a quick look at our current business composition.

To future-proof the business, PCG has set a clear two-pronged strategy to sustain its strength in the basic petrochemical and grow its Specialty Chemicals portfolio. To date, our traditional business segments, namely the O&D and F&M segments, remain the core of our business, with 90% of our production and sales volume coming from these two segments. Revenue contributions from the three segments are displayed, with 50% coming from O&D, 27%

coming from F&M, and 23% from our Specialties segment. This has brought us closer to our set aspiration to achieve 30% additional revenue from non-traditional business.

Now, let's deep dive into the financial performance of each business segment. Starting with the Olefins and Derivatives segment on page 4 of the deck, where we will compare the results of the first quarter of 2024 against fourth quarter of 2023. As mentioned by En. Mazuin earlier, we have seen some improvement in the global GDP and PMI in the first quarter. Additionally, average market prices for O&D products were higher about 6% for most of O&D products, mainly due to tight supply in the markets and upward trend in naphtha prices.

On the operational front, our plant utilization for the segment improved to 87%, which led to a 20% increase in production volume at 867,000 metric tons during the quarter. With improvements seen during the quarter, the segment revenue increased 17% to RM3.7 billion on higher sales volume, which includes volume from Pengerang Petrochemical Company and positive Forex impact.

We reversed the negative EBITDA recorded in the previous quarter to a positive RM398 million during the quarter under review. This is basically due to higher sales volume, reduced maintenance costs, lower energy and utilities costs, as well as higher unrealized Forex gain from the revaluation of payables at Pengerang, and subsequently our EBITDA margin also turned positive at 11%. PAT for the segment is at RM238 million in the first quarter of 2024.

Moving on to the Fertilizer and Methanol segment on page 5 of the deck. Contrary to the O&D segment, the F&M segment now saw a decrease in product prices, particularly ammonia, which declined as much as 36% quarter on quarter due to lack of downstream industrial demand in the Far East, as well as increased supply for the Middle East and Southeast Asia. Meanwhile, urea and methanol prices saw marginal decrease between 1% to 2%.

On the operational performance, plant utilization rate decreased to 86% due to planned scheduled turnaround at PC Fertilizer Kedah and unplanned shutdown at the urea plant in Bintulu, Sarawak, as mentioned by En. Mazuin earlier. As a result of lower PU, production volume was lower following lower production in urea and ammonia, resulting in lower sales volume for both products, which was partially offset by higher volume from methanol.

Coupled the lower volume with lower average product prices, the segment saw revenue decrease by 17% to RM2 billion, while EBITDA decreased 7% to RM720 million as reduction in volume and spread were offset by lower fuel costs and positive Forex impact. However, EBITDA margin for the segment improved to 36% from 32% recorded in the previous quarter, and this is mainly due to lower fuel costs in line with lower F&M prices and strengthening of US Dollar against Ringgit Malaysia.

Moving on to our specialty segment. In the first quarter of 2024, the specialties segment recorded higher EBITDA, and this is mainly attributable to higher contribution margin due to higher sales volume attributable to restocking activities and high demand from EMEA market, as well as lower raw material costs following savings from negotiated term with supplier, mainly for propylene, ethylene, and caustic soda. On the respective segmental performance, for the resins and coating, engineered fluid and advanced material, they were all registered higher volumes and margin driven by uptake and niche construction application.

Animal nutrition also saw higher margin, and this is attributable to high demand on high-margin product such as gut health and lower cost of material. However, we registered lower volume from silicon and lubricant additive and chemical, and this is due to slow market recovery as well as lower demand from high-margin product such as automotive industrial lubricant.

Now, let's have a look at the group's quarter one performance on page 7 of the deck. Against the preceding quarter, our Malaysian operation plant utilization improved to 87% from 84%, and this is mainly due to better plant performance at most plants, except for -- at ABF in Bintulu and PC MTBE in Gebeng. The total group revenue increased 4% to RM7.2 billion to RM7.5 billion quarter on quarter, and this is on the back of higher average O&D product prices and higher sales of specialty chemicals products.

The group's EBITDA and EBITDA margin was higher at RM1.16 billion and 60% respectively, and this is due to lower fuel costs, lower maintenance costs, higher contribution from Perstorp, higher product prices and spread, particularly for propylene, aromatics, derivatives, as well as the impact from a weaker Ringgit against the US Dollar. In line with higher EBITDA, PAT registered significant improvement at RM703 million on higher contribution from Perstorp due to unrealized Forex and loan receivables.

Now, let's proceed with the cash flow and balance sheet on page 8 and page 9. Overall, the cash balance was lower due to higher investing and financing activities. In the first quarter of 2024, we generated cash flow from operation at RM1 billion, and most of our cash was used for investing and financing incurred for Capex investment, project growth, dividend payment to shareholders, as well as repayment of Perstorp group, as well as PC Aromatics revolving credit facilities.

On the balance sheet at page 9 of the deck, our total assets were higher by RM362 million at RM60.6 billion, and this is mainly due to higher trade and other receivables in line with higher sales in March compared to December 2024. On top of that, we also recorded higher property plant and equipment, mainly due to turnaround costs, as well as further strategic Capex and growth Capex. Meanwhile, for the total equity during the period, it was comparable at RM42 billion, and total liabilities were higher due to higher trade and other payables.

So that's all for the financial breakdown. I'm handing back the session to En. Mazuin for updates on sustainability matters and way forward. Thank you.

Mazuin Ismail:
Thank you, Azli. Now, ladies and gentlemen, let's move on to the sustainability updates, starting with our emissions management, which from our previous results briefing, we have begun to report on a market-based accounting approach.

In the first quarter of our operations, our total emissions accounting for both our commodities business and specialty chemicals amounted to 1.82 million tonnes of CO_2 equivalent. The slight increase of total emission as compared to the last quarter is due to changes in plant operations.

In the first quarter of 2024, we had high flaring at PC Fertilizer Kedah due to plant startup in mid-March and plant trip at the end of March. We had numbers of initiatives in the first quarter of 2024 through ongoing operational optimizations, such as energy efficiency improvement, flooding and venting reduction, as well as ongoing GHG reduction projects as part of our ongoing decarbonization efforts.

With regards to hazardous waste recycle rate, higher waste recycling rate for year-to-date March 2024 due to higher waste sent to recovery by PC Ethylene and PC Olefins, Glycol, and Derivatives. On the social impact front, we reached more than 700 people through our social impact from plastic sustainability and new education. And with regards to our mangrove rehabilitation initiatives, we planted a total of 235 mangrove trees at Setiu Wetlands.

Ladies and gentlemen, moving on to the market outlook. The key factors that will drive the chemicals market for this year would be feedstock prices, geopolitical tensions, China's economic activities, capacity expansions and demand from the downstream sector. The

Caixin China Manufacturing PMI increased to 51.4 in April 2024 from 51.1 in the previous month. This positive development is supported by improvement in demand conditions with new orders of purchasing activities. And this is expected to support the Olefins and Derivatives segment in the near term.

Ethylene prices is expected to be stable in view of tight supply in the region. For MEG, price is forecasted to be stable amidst ongoing MEG units′ maintenance activities in China and demand recovery for end product polyester. For polymers, prices supported by limited supply in Southeast Asia due to planned shutdown in the region amid restocking activities for China holidays. Restocking activities is expected to take place between holidays to accommodate for packaging requirement prior to China's Labor Day holiday in May and Dragon Boat Festival in June. Meanwhile, paraxylene prices is expected to stabilize amid tight supply concern in Asia due to unplanned shutdowns by China aromatics reformer.

Now, moving on to F&M segment. Europe price is forecasted to be soft due to ample supply in the region and slow demand in Southeast Asia due to the impact of the current hot and dry weather. Supply is anticipated to increase further when China returns with export volume policy. Stable ammonia price following unscheduled plant curtailments, which is expected to add tightness to lengthy market. Meanwhile, methanol price is anticipated to be steady due to limited supply in Southeast Asia despite increasing supply volume from major producers in the Middle East.

The performance of our specialty segment continues to rely on the improvements in the end market demand that tracks the macroeconomic environment as well as effective feedstock management, especially in Europe. Global market conditions remain dynamic. And also uncertain with ongoing geopolitical tensions, but gradual recovery in the market demand is expected for second half of this year. EU's weak economic activity persists, impacting chemicals demand while US and China's industrial activities and consumer demand continue to be improving.

The weakness in building and construction sector continues to persist, but automotive and consumer goods sectors are expected to maintain growth trajectory moving forward. Specifically, the construction sector remains weak worldwide due to high interest rates. It can be observed that indicators such as existing home sales, new home prices, and construction confidence indicator continue to decline in the US, China, and also Europe.

Overall, market remains challenging for 2024. As such, we will continue to closely monitor market dynamics, paying particular attention to factors such as geopolitical tensions and the progress of China's recovery, to ensure we remain agile and effective in our response to market volatility.

Ladies and gentlemen, before we move to the Q&A sessions, I would like to briefly touch on our ongoing projects and strategic focus areas. Over the past year, our performance has been impacted by operational challenges, persistent inflationary pressures, and the ongoing effects of monetary policies on economic growth. Now despite these challenges, we remain steadfast on our commitment to growth and diversification, and it remains unwavering on that front.

Our next turnaround is slated for June at PC Methanol Plant 1 in Labuan, followed by PC Ethylene and PC Polyethylene simultaneously in the third quarter, and EBF later in the year. Now, throughout these periods, our primary focus remains on executing these plans effectively while ensuring the safety of our employees as well as our contractors.

We have made significant progress in addressing operational challenges and have strategically positioned ourselves to capitalize on opportunities when the market rebounds. We are looking forward on the commencement of our commercial operations for our new plants in 2024.

First on the agenda is the melamine plant in Gurun, Kedah, followed by the expansion of 2-EH plant in Gebeng, Pahang, through our joint venture company, BASF PETRONAS Chemicals or BPC. The third addition to our portfolio, we are excited about the PENTA and calcium formate plant in Sayakha, India, within our specialty chemicals segment, expected to be operational in the third quarter of this year.

We are actively involved in implementing post-acquisition integration plans to realize identified value creation projects, bolstering our pursuit of growth and expansion at Perstorp. In commercial excellence front, PCG aims to optimize value from current business operations while maintaining competitive cost structures. We will ensure a reliable supply to meet customers' commitments and enhance value creation in non-traditional business platforms through innovative product solutions.

Ladies and gentlemen, that concludes my update for today. Now let's open the floor for question and answer session. Thank you.

Zaida Alia Shaari:

Thank you, Encik Mazuin and Azli. We shall now begin the Q&A. To post any question, please use the raise hand function. You may also use the Q&A function, thank you. We shall now first go to Ahmad of Nomura, for our first question. Please go ahead, Ahmad.

Ahmad Usman:
All right, okay. Two questions on my side, the usual one. What were PIC pre-startup expenses or losses in the first quarter? That is the first one.

And then the Perstorp plant in India, the new one, what would be the initial output, roughly, that you are looking at in the third quarter?

That's all from my side.

Mohd Azli Ishak:
This is Azli. I think I'll try to take the first question with regards to the pre-op cost for Pengerang. I think it's not just cost. Because during commissioning, we are also selling commissioning product.

So we do have corresponding revenue during the commissioning stage. So, net-net, in terms of EBITDA, it's slightly negative for quarter one, but a small single-digit negative EBITDA.

Ahmad Usman:
Okay. Just to be clear, is it lower than fourth quarter of RM8 million, I believe?

Mohd Azli Ishak:
Yes.

Ahmad Usman:
That negative RM8 million?

Mohd Azli Ishak:
Yeah.

Ahmad Usman:
Yeah. Fourth quarter, I recall you mentioned was negative RM8 million EBITDA loss.

Mohd Azli Ishak:

Yes. It's around that region.

Ahmad Usman:
Okay. All right. Thank you.

Debbie Chiu:
All right. So, I will take the second question regarding our Perstorp Sayakha, India, plant. What is the initial output capacity expected?

So the plant was designed for a 40,000 capacity for the PENTA and, of course, with the byproduct of the formate. Our initial commercial startup, we will start to create like a typical startup. We will start with 50% of the capacity to make sure everything runs smooth, and we can do all the commercial, the pre-marketing, and everything. So that is our plan for starting initial production in our Sayakha plant.

Ahmad Usman:
All right. Just to follow-up on that plant, can you remind us again what was the Capex allocated for that plant?

Debbie Chiu:
It's 1.2 -- it's roughly around USD100 million.

Ahmad Usman:
Okay. Thank you so much. That's all from my side. Thank you.

Mohd Azli Ishak:
Thank you, Ahmad.

Zaida Alia Shaari:
Mayank, Morgan Stanley.

Mayank Maheshwari:
Yeah. Hi. So, I think my first question was more on Perstorp. If you can -- you had seen a good steady improvement on Perstorp.

Can you just highlight of -- in terms of how much do you think is volume-driven and how much is basically a steady margin improvement that you have started to see? Or any comments around how you are seeing customers and stocking levels, etc on that front as such?

Debbie Chiu:
Okay. I will not give you the specific numbers, okay. But we do see a good volume increase compared to last quarter. Of course, there are some -- because the customer has to complete their stock. So, we begin to see the normal order coming. That's one.

Second is also because they are -- we have to say that because of geopolitical. So, with the Red Sea logistics, it does give the Europeans some advantage. And also because we do have some competitors, they have troubles with their plant. So, with all those combined, we do see quite a nice increase in the volume.

Regarding on the margin, we have done quite a bit, as what Azli has talked about. Not only with the drop in the raw material cost, we also have done quite a job to renegotiate our position with our suppliers. So, we have done quite an improvement in our cost position, and that also boosts our profit margin in that regards.

Mayank Maheshwari:

Okay, that's interesting. If you can kind of elaborate a bit on the demand side of the story, because it's been a struggle for some years now.

So if you kind of break it up between the subsegments of demand, where are you kind of seeing numbers and demand now coming back to pre-COVID or above pre-COVID levels and where you are still seeing some challenges in terms of the subsegments?

Debbie Chiu:
Okay. If we just talk from the high level, okay, the stocking actually started in probably 2022 or late of 2021. If you recall, that time, there was a lot of a supply issue with the logistic, right? So because of that, we have seen a lot of customers doing a lot of stocking just in case if they don't get the shipping in place.

And with that, suddenly, the demand has dropped in the late 2022 because of the weaker demand and the high stocking. And that is why we have seen a very poor performance in 2023. And as the customer beginning to be depleting their stocks, their inventory, and we see a lot of activities coming up in the different parts of the world, especially in the automotive and transportation.

After COVID, we see a strong pickup in the automotive and transportation segment. In consumer goods, we also see post-COVID is beginning to coming up. There's one thing in the building construction. I have to say, in the US side, the building construction -- the home purchase, they're doing good.

But we all know, with China's real estate market, we do see a much weaker demand. So overall speaking, in the building construction, it's a bit underperformed. But for the automotive, transportation, and consumer goods, we do see it is kind of back to the pre-COVID level.

Mayank Maheshwari:
Okay. And how about animal nutrition? Has that come back?

Debbie Chiu:
Animal nutrition, yes. Yes, we do see animal nutrition -- even though it's a small portion of our business. But we do see a steady growth. Especially, we have some new product coming out, specifically, for the gut health. And that's where we see our profit improving.

Mayank Maheshwari:
Okay. And a second question is more related to the, I think, the olefins business as well as, I think, RAPID as well, in terms of, how are you kind of thinking about the ramp-up on RAPID, as well as on olefins. I think -- any further details, if you have got, in terms of renegotiations around the gas prices, etc with PETRONAS in terms of extension around the contracts, etc? That will be helpful. Thank you.

Mohd Azli Ishak:
Okay. Thank you, Mayank. I'll take the next question. With regards to Pengerang, I think there's a few units -- I think around three or four units yet to achieve a performance test run. And we anticipate that test run will happen this quarter, quarter two.

Assuming that happens smoothly, so we expect COD will be in the second half of the year. So that will be our latest guidance to you with regards to commissioning, ramping up, as well as the estimated time for COD. With regards to the feedstock contract, I think you're referring to the ethane and propane contract, right?

Mayank Maheshwari:

Yes.

Mohd Azli Ishak:
We do have another six-month runway before that particular contract needs to be renewed. But as I mentioned earlier, we are still in our position with regards to having the current terms sustained.

But the conclusion of this negotiation with PETRONAS is yet to be completed. And once we reach an agreement with PETRONAS, we will make that announcement, if required, accordingly.

Mayank Maheshwari:
Got it. This is the last question from my end, was more in terms of olefins as well. Similar to Perstorp, are you seeing any restocking activity there as well, or that's something not yet seen in the olefins side?

Mohd Azli Ishak:
I do have Nizam here from our commercial team, who can further elaborate on this matter. Go ahead, Nizam.

Muhammad Nizam:
With regards to olefin, I think the first signpost would be the naphtha crackers operating rate around this region. If you look at South Asia, typically with higher naphtha supported by higher crude.

However, we did not see the corresponding reaction from ethylene, olefin. So typical naphtha crackers will run about 80%. Of course, you will see a lot lower in China, probably running about 60% and not more than 70%. So, stocks-wise remain very lean across the chain.

Mayank Maheshwari:
Okay. So, no real restocking happening at least in PE and the olefin value chain. Okay. Thank you.

Mohd Azli Ishak:
Thank you, Mayank.

Zaida Alia Shaari:
Jeremie, Maybank.

Jeremie Yap:
Hi, good evening. My question is in regards to your RM268 million Forex gains, right, how much of it is the mark-to-market Pengerang loans?

Mohd Azli Ishak:
It's about around half, Jeremie. I don't have the correct figure. It's about half. Basically, if you recall, last year, we had an unrealized Forex loss because of the improvement in ringgit.

I mean -- sorry -- in quarter-four 2023, we had an unrealized Forex loss because the ringgit was stronger compared to quarter three. So now, as you see, average for quarter one, the ringgit is even weaker than -- particular Forex gain was coming from the PIC loan revaluation.

Jeremie Yap:
Okay. My next question would be, when specifically, would be the COD -- the consolidation of Pengerang into PCHEM's operations, like financials? Just now you mentioned second half. But is it specifically third quarter or fourth quarter?

Mohd Azli Ishak:

I think the Pengerang has always been in our balance sheet and income statement and our financials. Because we are consolidating 50% of the company into our books.

So I think what you're probably referring to is the commercial operation date. So, as I guided to Mayank earlier, it would be in the second half of the year. Did I answer your question, Jeremie?

Jeremie Yap:
Yes.

Mohd Azli Ishak:
Yeah.

Jeremie Yap:
Just to make sure, they are all pretty much running on gross losses at the moment, right?

Mohd Azli Ishak:
Like I responded to Ahmad earlier, so for quarter-one 2024, they have negative EBITDA of around RM8million to RM9 million.

Jeremie Yap:
All right. Thanks.

Zaida Alia Shaari:
Thank you, Jeremie. We only have one hand raised by Mayank. Mayank, do you have a follow-up question?

Mayank Maheshwari:
Yeah, just I think one more question mostly on the turnaround side. You talked about the June turnarounds. Any further things that you can talk about for the second half of this year?

Zamri Japar:
Hi, Zamri here. Mr. Mazuin mentioned the remaining number of turnarounds that we're going to have. There are about four remaining turnarounds. One will happen at PC Methanol in June. And in the third quarter, two turnarounds will happen at PC Ethylene and PC Polyethylene. And this will happen simultaneously because of the integrated nature of the complex.

And on the fourth quarter, we will have turnarounds at the ABF facility. The duration of the turnaround approximately will be around 50 to 60 days, depending on the complexity of the turnaround itself.

Mayank Maheshwari:
Got it.

Mohd Azli Ishak:
Yeah. I mean, Mayank, other than that, we do not foresee any other major scheduled maintenance. And in terms of turnaround, we are actually assessing whether we can optimize some turnaround, whether we can defer leveraging on the product prices at that point of time. So, we are looking at whether we have flexibility to max up our production.

Mayank Maheshwari:
Got it. But I think, overall, 90% is still your target after all these turnarounds, is what you're saying for both olefins and the fertilizer division?

Mohd Azli Ishak:

Yes. I mean, for both combined, yes. Even with the turnaround, it has always been our internal target to achieve 90% PU.

Mayank Maheshwari:
And the reason I'm asking this is because, normally, I think you have done -- even the first quarter this year, you have done 86%, 87%. And normally, that's not always the case. You are running higher reasonably normally in the first quarter. And considering the level of turnaround you have in the second half and even in June now, do you think that's an optimistic target of 90%?

Zamri Japar:
No, I don't think so. Because the way we spread turnarounds in between years is to achieve the main target of achieving the 90%. And based on the forecast of what we have currently, we do expect that we will achieve this 90% target for this year.

Mayank Maheshwari:
Okay, sure. Thank you.

Zaida Alia Shaari:
Thank you, Mayank. We have one question from Azim Bank Islam. When do you expect to pay off Pengerang loan and whether it will be replaced with ringgit loan.

Mohd Azli Ishak:
The Pengerang loan has a scheduled repayment program. Probably need to come back when it's supposed to expire.

But Pengerang has been actively servicing both interest and principal of that loan. And currently, there's no intention to replace it with ringgit because most of its proceeds are in dollars. So, it's a natural hedge for us to borrow in dollars to match the revenue proceeds.

Zaida Alia Shaari:
Sumedh, JPMorgan.

Sumedh Samant:
Yeah, hi. Thanks, Alia. So, I have three questions. So firstly, on your Pengerang complex again, I just want to understand when we will start to see the depreciation and interest expenses. I think there was a question around when does the commercial operation start.

But I presume that you are not yet booking the D&A and interest cost in your P&L. So, want to understand if it's going to coincide with COD, commercial operation. So that's my first question.

My second question is, can you please elaborate more on your energy and utilities cost saving, especially for the olefins business? It was quite big. So just want to understand where it came from.

And my third question is on your gas contract restructurings where -- we want to understand what's on the table. I mean, the renegotiation is by the end of this year, right? But what's on the table? What is being discussed? Are we going to see a significant change in the way formula runs or not? Thank you so much.

Mohd Azli Ishak:
Okay. I'll attempt to answer all three, Sumedh. With regards to the depreciation for Pengerang, we will do so upon the COD. So as guided earlier, the COD we anticipate in the second half of the year. So as soon as we achieve COD after all performance test run of the remaining unit has been completed, and we will achieve COD and we will start to depreciate accordingly.

With regard to your second question, energy and utilities, I think you probably see the remark where EBITDA improvement is due to lower energy utilities. Number one, it's to do with consumption. So we had a lower consumption of certain segment of utilities, especially steam. And in fact, the tariff for the steam also reduced compared to the previous quarter. So that is also contributing to a lower energy utilities cost for, especially, for O&D.

With regard to your third question, I think the -- as I mentioned to Mayank earlier, we do have six months' runway. And we are actively negotiating with PETRONAS. I think for us, we would like to have the current contract terms to be maintained. And the negotiation has yet to be concluded.

Zaida Alia Shaari:
Ahmad, Nomura.

Ahmad Usman:
Hi. It's me again. Just to follow-up on Sumedh's question. So, you mentioned on depreciation, it will kick start once COD -- does that apply for the interest expense as well?

Mohd Azli Ishak:
Yes. So, the short answer to that is yes, Ahmad.

Ahmad Usman:
Okay. All right. And then another question on Sarawak Petchem. Do you have any indication what will be the volumes to be sold under your trading umbrella for the first half?

Mohd Azli Ishak:
I think just to provide context, Sarawak Petchem is owned by the Sarawak state government entity. And we have a long-term offtake of 100% of the output from the plant.

So I think for us, what we anticipate is that early part of the second half of the year, the plant will start to commission and gradually commission until the year-end. So, it's a bit difficult to really give you an answer how much of that capacity we will offtake. Because it will depend on how Sarawak Petchem commission the plant.

So it's an asset that we don't own, we don't control. But we are working closely with Sarawak Petchem in terms of anticipating the volume so that we can pretty much anticipate -- or find homes for these volumes later.

Ahmad Usman:
Okay, thanks. So, for the benefit of the audience, I just wanted to check also the -- you will earn a certain percentage commission as a marketing fee right on the offtake?

Mohd Azli Ishak:
Correct. It's a marketing fee over the selling price. So, the higher price that we manage to fetch, the higher marketing fee that we will earn. So, it work both ways for the plant as well as for us.

Ahmad Usman:
All right. Okay. Thanks so much. That's all from my side.

Zaida Alia Shaari:
Paul Yong Liang.

Paul Yong Liang:
Hi, thanks. Sorry, two questions. So, I know you said depreciation on Pengerang will start in the second half. Can you give us an idea of how much that is?

Mohd Azli Ishak:
So, it will be around RM400 million a year.

Paul Yong Liang:
Okay. And second question, I was looking at your other income. And then if you back -- take out the Forex gains and you back out your interest income, you still get about RM100 million or so. Just trying to understand what that is.

Mohd Azli Ishak:
Okay. So, if you were to exclude the Forex, most of it are basically due to interest income.

I'm hearing echo as I speak. So, I hope you can -- you manage to hear me clearly. So, most of it is interest income.

Paul Yong Liang:
Got it. Thank you.

Mohd Azli Ishak:
Thank you.

Zaida Alia Shaari:
Thank you. So, we have time for one more question. And we have one question from the Q&A box from Zulaikha, CIMB.

Regarding the unplanned shutdown at your urea plant in Bintulu, what is the issue, and has it been completed? Without this unplanned shutdown, do you see PU for F&M to be close to 90% or above?

Zamri Japar:
Yeah. Zamri here. To answer your question, the issue that we have in Bintulu is the two major equipment problems that have to be repaired.

One thing that contributes to this is because of the age of equipment itself. However, these two have been fixed. If we take out the ABF production -- as mentioned earlier, we also have an issue at PC MTBE. And then that's what impacted the F&M production.

Zaida Alia Shaari:
That's all the questions we have. And there are no more raised hands. With that, we would like to conclude the session.

Thank you, everyone, for your participation. Should you have any follow-up questions, please reach out to us. We look forward to receiving your reports once published.

Good evening, and have a great week ahead. Assalamualaikum. Thank you.

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