

PETRONAS CHEMICALS GROUP BERHAD

2Q 2024 ANALYST BRIEFING

16 Aug 2024, 6.00pm Malaysia

Management attendees:

1.	Mazuin Ismail Managing Director & Chief Executive Officer	4.	Yaacob Salim Head, Strategic Planning & Ventures
2.	Mohd Azli Ishak Chief Financial Officer	5.	Zaida Alia Shaari Head, Investor Relations
3.	Debbie Chiu Chief Operating Officer, Specialty Chemicals		

Zaida Alia Shaari:

Welcome to PETRONAS Chemicals Group Berhad's analyst briefing for the second quarter ended June 30, 2024. Good evening. I'm Alia, Head of Investor Relations. Thank you for joining us. I am the event host and moderator this evening.

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.

Before we begin, I shall go over a few housekeeping rules.

(Event Instructions)

We estimate this session will take about an hour so that we can end at 7:00 PM.

As a reminder, all information presented and discussed today is strictly intended for participants of this meeting. 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 performance highlights. After which, our CFO, Azli, will provide details of the financial results.

Also present to take questions are the rest of the senior management, including our Head of Strategic Planning and Ventures, Mr. Yaacob; and Dr. Debbie Chiu, Head of Specialty Chemicals.

I shall now hand you over to Mr. Mazuin, our CEO.

Mazuin Ismail:

Thank you, Alia. Ladies and gentlemen, thank you for joining us this evening. In the first half of 2024, global GDP growth showed a modest improvement, rising to 2.52% from 2.1% in the same period last year. This was bolstered by increased household incomes, moderating

inflationary pressures, and accommodative monetary policies.

The global purchasing manufacturing index, or PMI, and that expansion territory reaching 50.4, this is compared to 48.8 during the same period in 2023. This is primarily driven by manufacturing and services sectors in the Middle East and India. The benchmark crude oil price remains elevated at \$84 per barrel, a 5% increase compared to the first half of 2023 over the concerns stemming from the Middle Eastern geopolitical crisis and continued output cuts.

The chemicals sector continued to face challenges throughout the first half of the year. The Bloomberg World Chemical Index fell by 4% year on year, while the Asia Pacific Chemical Index dropped by 9%, impacted by China's continued challenge in the construction sector and sluggish economic growth there.

The most significant price drop observed was in Fertiliser and Methanol segment. Ammonia fell by 25% due to decreased production costs as natural gas prices almost halved compared to the first half of 2023. Meanwhile, for urea and methanol, both products decreased by 7% and 2%, respectively.

For Olefins and Derivatives, the overall segment sales price improved by 3%, with benzene leading the increase at 14% as crude oil price remained elevated. Sales prices in the specialty segment continued to remain under pressure due to general sentiments across the end markets being in construction, transportation, and consumer goods, which have remained weak throughout the first half of 2024.

Now moving on to our operational performance. We completed one turnaround during the first quarter at PETRONAS Chemicals Fertiliser Kedah. And by next week, we will complete the turnaround at PC Methanol Plant 1, which started its turnaround activities in the second week of June.

In the first quarter of this year, we faced several unplanned shutdowns affecting our urea plant in Bintulu and PC LDPE. We also undertook maintenance works at our MTBE and PDH plants. Several other maintenance downtimes also occurred in the second quarter in Bintulu and in Kedah plants due to equipment issues. The larger methanol plant PC Methanol 2 in Labuan also faced some downtime. As a result, the PU for the first half of 2024 was slightly lower at 88% as compared to 89% in 2023.

Our total production volume improved with higher production from specialty segment, mainly Perstorp, resulting in a total production of 5.4 million metric tons. Total sales volume was comparable at 4.9 million metric tons as the lower commodity sales was balanced by increased volumes from the specialty segment, higher volumes from BPC, and also strategic sourcing volumes.

Now we recorded a 4% revenue improvement at MYR15.2 billion as compared to the same period last year with higher sales volume and supported by positive foreign exchange impact. We registered a 6% increase in EBITDA, which is MYR129 million improvement on favorable exchange rate, lower fuels and energy and utilities cost, and higher contribution from specialty segment, mainly from Perstorp.

EBITDA margin was marginally higher at 14.9%. This is compared to 14.6% in the first half of 2023. At MYR1.5 billion profit after tax was higher, mainly due to finance income arising from adjustment of timing for payment of trade payables, which was partially offset, but by unrealised forex loss on revaluation of shareholders' loan to a joint operation entity.

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



Mohd Azli Ishak:

Thank you, Encik Mazuin. Ladies and gentlemen, thank you for being with us this evening. So, before I proceed with the financial performance of each business segment, let's have a quick look at our current business composition.

So to future-proof the business, PCG has set a clear two-pronged strategy to maintain our strength in basic petrochemicals and to grow our specialty chemicals portfolio. To date, our commodities business segments, namely the O&D and F&M segments, remain to be the core of our business with more than 90% of our production and sales volume coming from these two segments.

And revenue contribution from the three segments are displayed with 50% coming from the O&D segment, 27% from F&M, and 23% from our Specialties segment.

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 second quarter against the first quarter of 2024.

In the second quarter, we saw modest improvement in global GDP and PMI and improvement was seen in the manufacturing sector, where the increase in manufacturing production was underpinned by rising intake of new orders. On top of that, average sales price for O&D products were higher by about 3% for most of O&D products, mainly due to tight supply in the market and increase in crude oil prices.

On the operational front, our plant utilization for the segment improved to 94%, which led to an 8% increase in production volume at 932,000 metric tons during the quarter. Despite this improvement, total sales volume for the segment was lower quarter on quarter due to lower available volumes from PPC.

Revenue for the quarter saw a marginal increase of 1% to MYR3.8 billion as the higher production prices were negated by overall lower segment sales. EBITDA declined 17% to MYR330 million in this quarter on higher plant operating costs at PPC and also due to unfavorable forex movement on revaluation of PPC's payables as well as higher energy and utility costs but partially offset by higher product spreads. Consequently, EBITDA margin contracted from 11% to 9%.

Nonetheless, net income for the segment almost doubled to MYR458 million, mainly due to finance income arising from adjustment of timing for trade payables, partially offset by unrealized forex loss on revaluation of shareholders' loan to PPC.

Moving on to the fertilisers and methanol segment on page 5 of the deck. F&M segment saw average prices decrease by 4%, particularly urea, which declined as much as 12% quarter on quarter due to the global El Nino effect in early April through May that has resulted in a delay in the fertiliser application season, affecting buyers' interest as inventories remain high.

Meanwhile, ammonia and methanol prices saw some modest improvement between 1% to 7%. On the operational performance, plant utilisation rate was comparable at 86% and mainly due to operational downtime. Correspondingly, production volume was also comparable at 1.6 million tonnes.

Segment revenue increased by 7% to MYR2.1 billion, mainly contributed by higher sales volume and higher revenue from strategic sourcing, mainly for methanol. EBITDA was comparable at MYR720 million against preceding quarter as lower product spreads and higher variable costs from increased fuel consumption offsets the gain.

Following to that, the EBITDA margin for the segment decreased by 2% to 34%. Nevertheless, net income in the segment was comparable against last quarter at MYR459 million.

Moving on to Specialties segment on page 6 of the deck. In quarter two 2024, the Specialties segment recoded slightly higher EBITDA, mainly attributable to higher contribution margin following higher average selling price attributable to favorable pricing policy as well as better product mix. Higher contribution margin, mainly attributable to resins and coating, engineered fluid, silicon, lubricant additive chemicals, as well as advanced material.

All in all, the Specialties segment was stronger quarter on quarter, contributed by improved contribution margin mainly attributable to higher average selling prices.

Next, let's have a look at the group's quarter two performance on page 7 of the deck. Against the preceding quarter, our Malaysian operations plant utilisation rate improved to 89% from 87%, mainly due to better plant performance at most plants amid operational challenges at ABF and PC Fertiliser Kedah. Group's revenue increased 3% at MYR7.7 billion, mainly due to higher sales volume, higher revenue contribution from Specialties segment, as well as higher revenue contribution from strategic sourcing.

The group's EBITDA was slightly lower, mainly due to higher plant operating costs at PPC. Nonetheless, PAT was higher by MYR106 million, mainly due to finance income arising from adjustment of timing for payment of trade payables at PPC. However, it was partially offset with unrealized forex loss on revaluation of shareholders' loan, as well as share of loss from our JVs and associates during the quarter.

Now let's proceed with the cash flow and balance sheet on page 8 and 9 of the deck. Our cash flow in second quarter of 2024, we generated cash flow from operation at MYR1.6 billion and most of our cash used for investing are incurred for Capex investment, as well as for growth projects. And most of our net cash outflow from financing activities are dedicated for dividend payment to our shareholders.

On the balance sheet on page 9 of the deck, our total assets were higher by MYR1.5 billion to MYR61.7 billion, mainly due to higher trade and other receivables by MYR1.1 billion, contributed mainly to higher sales. Also contributed to higher asset are higher PP&E by close to MYR400 million, mainly due to investment for growth projects.

Meanwhile, our total equity during the period was higher in line with profit generated during the period. Total liabilities were higher due to a drawdown of revolving credit at Perstorp, as well as higher trade and other payables, mainly due to higher heavy naphtha purchase during the period.

That's all for the financial breakdown. I'm handing back the session to Encik Mazuin for updates on sustainability matters and way forward.

[Mazuin Ismail:](#)

Thank you, Azli. Ladies and gentlemen, moving on to our sustainability update. Our sustainability journey, ladies and gentlemen, is one of continuous improvement, and we are also learning to adapt to changing industry requirements, standards, and shareholders -- stakeholders' expectation.

As we continue to drive sustainability through our business and operations, I am pleased to inform that we have appointed our Chief Sustainability Officer, or CSO, Ms. Gretchen Govoni. She brings to us 26 years of experience and expertise in sustainability-focused roles from her time at large global pharmaceutical and chemical companies such as Takeda Pharmaceuticals, SABIC, and General Electric. Gretchen's current responsibilities include a

review and alignment of our carbon reduction initiatives, targets, resources, and talents to address our emission reductions aspirations.

Now moving on to the market outlook, ladies and gentlemen, the key factors that drive the chemical market for this year would be feedstock prices, geopolitical tensions, China's economy activities, capacity expansions, and the demand from downstream sector.

Moving into second half of the year, China manufacturing PMI has slipped into contraction territory as new orders shrank, owing to subdued demand conditions and reduction in buying sentiments from consumers and businesses. As such, we are of the opinion that olefins and derivatives segments will largely be flat forward-looking amid continuous weak downstream demand.

Ethylene prices are forecasted to be soft. Supply is expected to be long as most regional crackers in Southeast Asia returned from maintenance. This is also coupled with new capacities expected to come onstream in Northeast Asia by 2024 and in the early 2025.

Meanwhile, MEG prices are expected to be stable with balanced market sentiments. Supply is quite tight with delayed planned restart affecting a number of producers and shutdowns in others. China imports from Saudi Arabia is expected to be limited, given Saudi's output curtailment, which is expected to continue in the near term.

For polymers, prices are expected to be stable with support from restocking activities for festivities such as China's Golden Week. Converters are expected to replenish their inventories to cater to the peak manufacturing season needs in the third and fourth quarter to meet the increased demand for packaging and agricultural film. Paraxylene prices are expected to be stable to soft, largely due to hurricane season in the US, weakening gasoline blending demand, coupled with slow activities in China for PTA applications.

For F&M segment, urea price is forecasted to be firm in anticipation of demand from Latin America region with expected volume of 4 million metric tons, which will have stabilised the urea market price. Stable ammonia outlook as availability is set to improve in the third quarter, following a restart of a Middle Eastern plant, while import demand remains steady in India and Far East Asia.

Meanwhile, methanol prices forecasted to be stable to soft amid lackluster demand, coupled with ample supply from Southeast Asia and Middle East producers. 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 with ongoing geopolitical tensions and elections, but a slow recovery in market demand is expected to continue in the second half of this year. Despite rebound in US economic growth, industrial activities in Europe is expected to struggle in second half of 2024, while China's slower industrial activities and consumer demand also remain a concern.

Headwinds are expected to persist in building and construction sectors due to the lack of policy stimulus, particularly in China. At the same time, the automotive sector shows indications of flattish demand in the second half of this year as the EV inventory starts to build up amid weaker demand with consumers adopting a wait-and-see approach.

There is, however, selective improvement in consumer goods sector as inflation starts to come under control. Notwithstanding any potential future supply constraints and some product prices are expected to retreat from previous highs. As such, ladies and gentlemen, 2024 is expected to continue to be equally, if not more, challenging than last year.

Ladies and gentlemen, before we move to Q&A session, I would like to briefly touch on our ongoing projects and strategic focus areas. Over the past year, we have faced operational challenges, inflation, and the effects of monetary policies on economic growth. Despite this, we remain committed to our growth and diversification.

Our next turnaround is scheduled in September at both PC Ethylene and PC Polyethylene, with ABF following in the fourth quarter this year. Our focus during these times is to execute our plans effectively, efficiently, and ensure that the safety of our employees and contractors to be our top priority.

We have made significant progress in addressing operational challenges and have strategically positioned ourselves to capitalise on market opportunities in the first half of 2024, and we plan to do the same in the second half of this year.

We are looking forward to the commencement of our commercial operations of our new plants in 2024. First on the agenda is the expansion of the 2-EH acid plant in Gebeng through our joint venture company BASF PETRONAS Chemicals Sdn Bhd. And next, we are looking forward to the commercial operations of our penta and calcium formate plant in Sayaka, India, within our specialty chemical segment.

Moving on the next update, the petrochemical facilities in Pengerang Petrochemical Complex are expected to start full commercial operation within the second half of this year. To date, we have completed all PTR for our four plants in petrochemical plants in Pengerang.

Now, in addressing our commercial excellence, despite the challenging economic outlook and slow market recovery, our priority is to optimise the value chain from current business operations while maintaining competitive cost structures.

We will continue to closely monitor market dynamics, ensuring that we remain agile and effective in our response to market volatility. At the same time, we will strive to ensure reliability of supply to meet customer commitments and enhance value creation in non-traditional businesses through our innovative product solutions.

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

Zaida Alia Shaari:

Thank you, Encik Mazuin and Azli.

(Event Instructions)

We have John on the line. Please go ahead John.

John:

Hi, this is John from Goldman Sachs. Thank you for the opportunity to ask question. I just want to check on your new cracker at PIC that's about to start in 2H '24. Do you expect it to be margin accretive or dilutive? And given the current oversupply environment in PE PP space, would you expect your new cracker at PIC to turn EBITDA margin positive?

And my second question is on your outlook on fertilisers business on potentially lower gas or energy prices. And my last question will be on the specialty chemicals. We are seeing some commentary from European specialty chemicals that the visible restocking around April and May has broadly faded. Would you think Perstorp's chemicals business earnings contribution to be sustainable? Thank you.



Mohd Azli Ishak:

Thank you, John. I may want to correct your question here. For our investment in Pengerang, we don't own the cracker. We only own the petrochemical plant. The cracker is owned by a company with a joint venture 50-50 between PETRONAS and Aramco. That's the naphtha cracker. The plant that we have is LDPE, HDPE, polypropylene, as well as glycol plant.

In any case, for us, currently, like what Encik Mazuin mentioned, we have achieved PTR to most of the plants and is gearing up to reach COD within this half -- second half of the year. So currently, we expect the EBITDA contribution from these ventures will be breakeven once they've achieved stable operation and throughput.

Your question about EBITDA margin, to us, since like any other petrochemical plant running on liquid will have a typically lower EBITDA margin compared to our gas-based business. While it will be EBITDA margin dilutive, it will be EBITDA amount accretive. I hope I answered your first question.

On that second question, I would like, if possible, John, if you can repeat that second question again.

John:

Yes. So, it's regarding our fertilisers business. We are seeing some oversupply in the gas market. So, in the event of a potentially lower gas price outlook, what impact do you see on your fertilisers business?

Mohd Azli Ishak:

Okay. For our F&M segment, our gas price is somewhat different from other players in the sense that our gas price is at a certain percentage of the final product. So, it depends on the final product prices of methanol, final product prices of ammonia, and urea. So, while the methanol prices, ammonia, and urea were lower, we pay lower feed gas prices to PETRONAS. It doesn't really impact what you mentioned just now, natural gas prices outlook going lower.

Because for us, we are quite competitive feedstock arrangement with PETRONAS, allows us to have a stable EBITDA margin from this reference to the final product price. I hope I answered your second question, John.

John:

Yes, thank you. Just on the third question on the specialty chemicals as well.

Mohd Azli Ishak:

Yeah, on the specialty, I'll hand over your question to Dr. Debbie to answer it.

Debbie Chiu:

Okay, all right. Thank you, Azli. Hello John. Thank you for the question. Yes, you mentioned that there are some observations with the restocking is slowing down. That is correct, but this has to go back in 2023. Remember, one of the very key activities is because our customer is doing the destocking. That's why we see the demand coming down.

So the restocking is really just because the stock has been completed. So, the -- we see some action coming from the customers during the restocking. But looking at the overall -- the

future market, we see this activity is going to continue. We don't see there's a gradual structure change in the supply demand.

However, we do see there is a slow recovery. We keep the cautious optimistic attitude going forward. So, with your question, we believe with the supply demand situation, we will expect the second half of 2024 will be performing at a similar level as the first half of 2024. I hope that answers your questions.

Zaida Alia Shaari:

Okay. Next, we have Raymond on the line. Raymond, please go ahead. Raymond from CGS.

Raymond Yap:

Yes. Good evening. Thank you very much for the briefing. So, the first thing is that I wanted to ask about the O&D EBITDA. So, the O&D EBITDA in the second quarter was MYR330 million. You do have a MYR353 million gain on trade payables. Could I just check whether that MYR330 million EBITDA includes the MYR353 million gain or is that separate?

Mohd Azli Ishak:

It's separate, Raymond. It doesn't impact the EBITDA. It only impacts the profit after tax because it's the revaluation of timing that we pay on the trade payables.

Raymond Yap:

Okay. So, these trade payables are payable to who, actually?

Mohd Azli Ishak:

All right. Thank you for the question, Raymond. For your information, this is not the first time we have this arrangement. If you look on our 3Q 2022, Bursa announcement, that's the first time this arrangement was recorded. So just for some background, the Pengerang Integrated Complex, in terms of their electricity, water, and industrial gases, and other parts of utilities, are being provided by companies fully owned by PETRONAS.

And to facilitate the commissioning, the COD, of Pengerang Integrated Complex, these companies providing the utilities have provided some relief on the payment of these utilities. And because of this relief, and then the allowance for this payable to be paid longer than what's expected, we need to do a fair value assessment on that payable. And what has been recorded is basically the net present value impact of that deferral of trade payables. I hope that particular explanation answers your inquiries, Raymond.

Raymond Yap:

Yes, yes, it does. Okay. So, I just move on to another question, which is that I noticed in the Bursa pack, you mentioned that there's higher maintenance and plant operating costs at Pengerang, and also the PIC sales volume, actually in second quarter, it was much lower than in the first quarter. So, what's happening there?

Mohd Azli Ishak:

Okay, there's two questions in that particular question. The first question is basically with regards to higher operating costs from Pengerang. So as the commissioning progresses, certain expenses that was capitalised, for example, fixed manufacturing costs, are now needed to be expensed off.

So previously, fixed manufacturing, for example, fixed tariff, manpower, were unable to be dedicated to any particular operating unit. We used to capitalise it. So now, since most of the plant has achieved PTR, there's a decision by the management to expense off this amount.

So what's left is basically depreciation and interest that's still being capitalised, of which such expenses we expect to be recorded into the income statement in quarter three as the plants achieve COD.

Raymond Yap:

Okay, so this expensing of the Opex is actually only started in the second quarter, right?

Mohd Azli Ishak:

Correct, yes.

Raymond Yap:

I see, I see. Okay, and then why did the sales volume drop on a quarter-on-quarter basis? Is there some issue with the operations?

Mohd Azli Ishak:

No, it's basically as part of the performance test run, and there's adjustment to the operating rates. So, there's basically adjustment to operating rates in preparation for the performance test run. So, it's no issue with the plant.

Raymond Yap:

Okay. And Encik Mazuin mentioned that the PTR for four plants have been completed, so there's a remainder of three plants to go through PTR?

Mohd Azli Ishak:

No, basically, there's two more plants. One is EOEG, which is a glycol plant, and we hope this PTR will be completed soon. And the other part is basically Isononanol, the one that is 100% owned by PCG.

Raymond Yap:

Yeah, right, right. Okay, so the rest are all completed, right, for the PTR?

Mohd Azli Ishak:

Right.

Raymond Yap:

Okay. Okay, maybe I just ask one more question before I go back to the back of the queue. Petros is basically taking over the gas distribution in Sarawak that has been widely publicised, and ABF actually purchases the methane gas feedstock from PETRONAS currently. Now, with Petros coming in, how do things change for ABF?



Mazuin Ismail:

Thanks, Raymond. So actually, for that, ABF current gas sales agreement is not impacted with that arrangement, so there is no real impact to ABF with the current arrangement, so no real change.

Raymond Yap:

Okay, so Petros will effectively take over the agreement that you have with PETRONAS right now, is that right? Will they take it over? I mean, given that PETRONAS is responsible or is hoping to be responsible going forward for the sale of gas within Sarawak to domestic end users, including ABF?

Mazuin Ismail:

Actually, for ABF, in particular, that is actually the arrangement once that is being finalised, that would be the arrangement, and until then, the current arrangement applies.

Raymond Yap:

Okay, so once the new arrangement takes effect, my question is whether the current feedstock pricing arrangement whereby Encik Azli was talking about it being pegged to the final selling prices of the Urea, is that arrangement going to change or is Petros going to maintain that arrangement going forward?

Mazuin Ismail:

The current arrangement remains, Raymond.

Raymond Yap:

It remains until Petros takes over? Yes? And then after Petros takes over, will the arrangement remain as well?

Mazuin Ismail:

Well, based on the current arrangement, it remains.

Raymond Yap

Okay, sure. Thank you. Thank you.

Zaida Alia Shaari

Currently, we don't have anyone in queue. Raymond, would you like to continue? Okay, sorry. Maybe we give way to Vivek. Just raised his hand. Go ahead, Vivek.

Vivek

Thank you, ma'am. Just a couple of questions from me. Firstly, if you could just remind us of the significant turnarounds that you're expecting for 3Q and 4Q. And the second question was, you mentioned you'll be commercialising Pengerang in the second half of 2024. I just wanted to clarify, is this third quarter or fourth quarter? Just a sense in terms of a more closer date. Thank you so much.

Mohd Azli Ishak

Thank you, Vivek. With regards to scheduled plant turnaround, as Encik Mazuin mentioned earlier, we do have an ongoing turnaround that's supposed to be completed by early next week. That is a scheduled turnaround of our Plant 1 methanol plant in Labuan, which started in the middle of June and scheduled to start up first molecule in hopefully by this Sunday.

So you will see the impact in terms of lowest volume of methanol in quarter three. And what Encik Mazuin also mentioned, in quarter three we do have planned plant turnaround for our ethylene cracker, our first ethylene cracker, as well as the polyethylene plant. So, because those two are highly integrated, those two plants will undergo turnaround in September. So, in quarter four, there's a plan for us to also take down the ABF for maintenance.

With regards to your second question, the commercialization of Pengerang, as Encik Mazuin mentioned earlier, that most of the plant has achieved a performance test run status. We hope that the COD, the commercial operation date of Pengerang will be in quarter three.

Zaida Alia Shaari

Okay, we shall now move on to Por Yong Liang.

Por Yong Liang

Hi, thanks for the call. Two questions. So, you said that the deferment of the payables was due to the utilities providing relief to you. What is the dollar amount exactly? Is it MYR300 million? And just curious, what discount rate did you use to calculate that NPV? And for what period of time was this deferral calculated for? That's my first question. Thanks.

Mohd Azli Ishak

Okay. Thank you. All right. For the deferment of payables -- there's an echo. All right. The dollar amount in terms of the gain is about MYR350 million. And that is basically the present value impact arising from that deferment. Unfortunately, I cannot reveal to you what was the whole payables amount to the utilities provider, as well as what are the discount rates that we used for the NPV calculation.

Por Yong Liang

Sorry. So, this is just relating to the utilities for Pengerang, right?

Mohd Azli Ishak

Yes.

Por Yong Liang

Okay. I mean, like if I use like 8% or something, I think it works out to be a pretty massive amount. So that's an interesting number. Second question is, ringgit has appreciated, thank goodness. But I'm concerned now, what is the impact on operating profit? And also, does that-- will this result in some kind of a non-cash Forex loss? Thanks.

Mohd Azli Ishak

The short answer to that question is yes. Since most of our revenues are denominated in dollar, any strengthening of ringgit or weakening of dollar will have a negative impact to our bottom line. The fact that we are recording our accounts are all in ringgit. So, as you can see, for the later part of 2023 and first part of 2024, there's appreciation of dollar against ringgit

and you see a lot of gain recorded by PCG.

So now that, as everyone is aware, ringgit appreciating, that will have a negative impact to our EBITDA as well as PAT. I will say that the impact to EBITDA could be minimal because we also have a negative hedge. The fact that most of our cost of revenue are also denominated in dollar. So, the net effect could be much less.

But for the profit after tax, we do have a shareholder's loan from PCG to Pengerang JV. And that particular loan is in dollar. So as dollar weakened, so there's an unrealised Forex loss on revaluation of that particular loan. That's what we have experienced in this quarter. So that particular revaluation will only impact (technical difficulty)

Por Yong Liang

Sorry, yes. Could you give us a sensitivity for the revaluation amount? Thanks.

Mohd Azli Ishak:

For the actual amount, Yong Liang, I would need to get back to you. But if there's a rough calculation, MYR0.10 appreciation, our impact to EBITDA will be a reduction by about MYR25 million to MYR30 million.

Por Yong Liang:

Okay. Thank you.

Mohd Azli Ishak:

Thank you.

Zaida Alia Shaari:

Thank you, Yong Liang. Next, we go to Anshool. Anshool, please go ahead.

Anshool Singhi:

Hi, good evening. Can you hear me?

Zaida Alia Shaari:

Yes, Anshool.

Anshool Singhi:

Yes. So, I have a couple of questions, maybe starting with the O&D performance. Could you share if there was any off-spec product which was sold in this quarter and recognised in the O&D segment related to PIC? And also, can you also mention the PIC Opex booked this quarter?

And maybe following up on that is what, considering there's a startup in 3Q and you're trying to recognise the depreciation and the finance costs starting then. Could you share what the run rate will be for that in 3Q?

Mohd Azli Ishak:

Okay. On the first question, there is no off-spec product coming from the PIC, especially because most of the plant has already achieved PTR and have produced on-spec products.

And because for us, we don't sell off-spec product, especially arising from the commissioning of the plant.

On the second question, in terms of PIC, Opex for the quarter, I think I mentioned earlier that the fixed and variable costs of PIC has already been expensed off starting quarter two. And that will be the guidance moving forward, that we will expense off both variable and fixed Opex relating to Pengerang in quarter two onwards. So, what's left is depreciation and interest.

So that will be a nice segue to your third question in terms of how much depreciation and interest in terms of guidance with regards to Pengerang. On an annual basis, depreciation for Pengerang will be around MYR400 million. And with regards to the interest, it will be around MYR200 million to MYR250 million.

Anshool Singhi:

Perfect. My last question is regarding the Petros takeover of the feedstock from the region. If you could share your exposure to feedstock which is based out of fields in Sarawak versus the one which is from Peninsular Malaysia or offshore Peninsular Malaysia.

Mohd Azli Ishak:

That particular question, I think, it will be best answered by PETRONAS because they are the one that procure the gas from which field. And what we do is we just take the gas from PETRONAS, it's not specific to any field.

Anshool Singhi:

So maybe a follow up on that would be in terms of the finalization of the feedstock agreement, do you have to have another agreement with Petros by the end of this year? Or you will still have one single agreement with PETRONAS?

Mazuin Ismail

At the moment, we have a gas agreement with PETRONAS. Until other arrangement is finalised, then we'll take it then.

Anshool Singhi:

Okay, okay. Thank you.

Zaida Alia Shaari:

Thank you. We shall now go back to Raymond. Raymond, please go ahead.

Raymond Yap:

Yes, okay, thanks. I just want to follow up with Azli's remark. Just now you made a remark that the interest expense is about MYR200 million to MYR250 million. I think long, long ago you guided that it was around MYR100 million if I remember correctly. Is the increase because of the floating rate increase?

Mohd Azli Ishak:

Partially, Raymond, but I think the interest rate is around MYR200 million.

Raymond Yap:

Okay.

Mohd Azli Ishak:

Or 50% portion. But maybe because of the higher floating rates that could drive that particular increase.

Raymond Yap:

Okay, sure. For Pengerang, it probably made losses in the first and second quarter of this year. Could you share, Azli, what the quantum of those losses are?

Mohd Azli Ishak:

Quantum of the losses? Okay.

Raymond Yap:

Yeah, for PIC in the first and second quarter?

Mohd Azli Ishak:

Okay. In terms of the losses, I think it's somewhat negated from the impact of the finance income. So, including income gain and all that, okay. That was before the EBITDA. That was before the PAT. So, in terms of EBITDA, the EBITDA recorded for Pengerang for second quarter is around negative MYR100 million.

Raymond Yap:

MYR100 million, okay.

Mohd Azli Ishak:

That is basically the impact of that additional fixed manufacturing cost that was recorded during the quarter.

Raymond Yap:

Okay. So MYR100 million, then I add MYR353 million, right?

Mohd Azli Ishak:

Add *MYR353 million, then it's a positive.

*Please note that the figure mentioned relating to fixed manufacturing cost was inaccurate. The accurate figure is MYR279 million. We apologise for the discrepancy and appreciate your understanding.

Raymond Yap:

Okay, okay. How about --

Mohd Azli Ishak:

Raymond?

Raymond Yap:

Yeah, sorry. How about first quarter?

Mohd Azli Ishak:

First quarter, it was around breakeven, around EBITDA breakeven, around a slightly negative, I think about negative MYR10 million EBITDA.

Raymond Yap:

Okay, okay. Yeah, because you haven't started expensing the cost yet, right?

Mohd Azli Ishak:

Correct. So that differential.

Raymond Yap:

So, the discount on the feedstock for Pengerang, it has not kicked in yet, is it?

Mohd Azli Ishak:

No, it has not kicked in yet because we have yet to achieve COD.

Raymond Yap:

Okay. Kicks in, your EBITDA should be breakeven, right? Whatever the -- regardless of the market situation, you should be able to breakeven on the EBITDA level.

Mohd Azli Ishak:

I think you're referring to the additional discount, right? Currently, there's a contractual discount.

Raymond Yap:

Yes.

Mohd Azli Ishak:

That is reflected already. There's a provision for additional discount to be provided to the petchem plant post COD, with the condition also that the refinery and cracker makes money.

Raymond Yap:

Which it is right now. I'm sure the refinery is making money.

Mohd Azli Ishak:

I don't have visibility on that because we don't own the complex.

Raymond Yap:

Okay. Last question for me is on the loan to PIC, which is the one that generates the Forex gain or Forex loss, where do I see it actually on the balance sheet?



Mohd Azli Ishak:

The loan to PIC will not appear in your balance sheet because it's eliminated upon consolidation. What we can't eliminate is the Forex revaluation of that particular. So, while we can eliminate the loan, we cannot eliminate the Forex exposure on that such loan.

Raymond Yap:

I see. That's kind of weird, but how much is the loan then if I can't see it?

Mohd Azli Ishak:

I think it's about \$500 million to \$600 million.

Raymond Yap:

Okay. USD500 to USD600 million, yeah?

Mohd Azli Ishak:

Yeah.

Raymond Yap:

Okay. Okay. And maybe one last question is the ABF outage, I think it went offline, I think in May, if I'm not wrong, I think some websites reported it. Has it come back online?

Mohd Azli Ishak:

Can you come again, Raymond?

Raymond Yap:

Yeah. Some websites reported that the ABF went offline in May due to some unexpected issue. Has it come back online?

Mohd Azli Ishak:

Yes, yes.

Raymond Yap:

Okay.

Mohd Azli Ishak:

It's come back online. Raymond, I want to correct myself with regards to the shareholders' loan to Pengerang. It's MYR800 million.

Raymond Yap:

MYR800 million?

Mohd Azli Ishak:

I'm sorry, USD800 million. Sorry.

Raymond Yap:

Okay. USD800 million. Okay. Okay. I mean, maybe I'll sit down with you one day to understand why the Forex gain and loss cannot be eliminated, but I think that should be okay for now. Thank you very much.

Mohd Azli Ishak:

It's an accounting issue, Raymond. Both of us need to open up the accounting standards for us to really understand why we can't really eliminate the losses.

Raymond Yap:

Okay, sure. Thanks.

Zaida Alia Shaari:

Thanks, Raymond. We have time for just one more question from Kaushal. Kaushal, Macquarie, please go ahead.

Kaushal Ladha:

Hi, thank you for the presentation. Just maybe one question, and maybe this is just a follow-up to the prior question. Did you share what is the discount that you're getting from the liquid feedstock of Pengerang, or has that not been disclosed?

Mohd Azli Bin Ishak:

We have not disclosed the discount, and moving forward, we will also not disclose the discount.

Kaushal Ladha:

But in terms of, if, let's say, the spreads get really poor for chemicals, then is there a term in the contract that the discount will get larger to make sure that you are breakeven? Is that how it works?

Mohd Azli Ishak:

Yeah, I mean, yes. Currently, there's a contractual discount between the refinery cracker providing to the petrochemical plant. But as I mentioned earlier, in the event where the petrochemical plant was suffering negative EBITDA, for example, there is a provision in the contract that allows the refinery cracker to provide additional discount on top of the contractual discount, provided always that the refinery cracker makes money.

So because the idea of this mechanism is that the whole complex needs to be run on an integrated basis. So, the refinery cracker cannot run effectively if the petrochemical plant was forced to shut down because of uneconomical situation. So that's the reason for that particular additional discount mechanism.



Kaushal Ladha:

Got it. Okay. And just maybe just a quick follow-up, just another question. Just in terms of deferred payment for the utilities, since the present value is quite large, I just want to understand how long has the payment been deferred for. And I'm guessing, since it's deferred, you'll have to pay it at some point. So, when does that happen? When would you have to pay?

Mohd Azli Ishak:

It's more than five years arrangement.

Kaushal Ladha:

Okay. So, it's a five-year deferred payment and this will have to be paid at some point?

Mohd Azli Ishak:

Of course. Like any trade payable, it will be paid. It's just that the timing for this to be paid will have been deferred.

Kaushal Ladha:

Okay. But the total amount has not been disclosed, right, in terms of the actual payment?

Mohd Azli Ishak:

Yeah. If you look at page 11 of the Bursa announcement, we do disclose the amount of that arrangement. Maybe I can just read it. It's MYR1.7 billion.

Kaushal Ladha:

Great. Thank you.

Mohd Azli Ishak:

Thank you.

Zaida Alia Shaari:

We have now reached the end of today's briefing. Once again, thank you, ladies and gentlemen, for your kind participation. We look forward to receiving reports once published or if you have any more questions, please reach out to us. Good evening and have a great weekend ahead. Thank you. Assalamualaikum.

Mohd Azli Ishak:

Thank you.

Mazuin Ismail:

Thank you.

END
