PETRONAS CHEMICALS GROUP BERHAD

3Q 2024 ANALYST BRIEFING

20 NOV 2024, 6.00pm Malaysia

Management attendees:

1.	**Mazuin Ismail** Managing Director & Chief Executive Officer	5.	**Bahrin Asmawi** Chief Commercial Officer
2.	**Mohd Azli Ishak** Chief Financial Officer	6.	**Yaacob Salim** Head, Strategic Planning & Ventures
3.	**Debbie Chiu** Chief Operating Officer, Specialty Chemicals	7.	**Zaida Alia Shaari** Head, Investor Relations
4.	**Zamri Japar** Chief Manufacturing Officer		

Zaida Alia Shaari:

Welcome to PETRONAS Chemicals Group Berhad's earnings briefing for the third quarter ended September 30, 2024.

I'm Zaida Alia, Head of Investor Relations. I'm also your event host and moderator this evening. Thank you for joining us.

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. In the interest of time, we invite you to use the question box function should you already have questions prepared. We will prompt you when to start using the raise hand function at the start of the Q&A session.

As a reminder, all information presented and disclosed today is strictly intended for participants of the meeting. You are reminded that this meeting is being recorded and the recording will be made available on our website or upon request. No other parties have been authorized to record this meeting.

Ladies and gentlemen, to lead our briefing today is Mr. Mazuin Ismail, our Managing Director and CEO, who will start the presentation with the third quarter 2024 performance highlights. And then we shall have our CFO, Azli, to present the details of the financial results.

Also present to take questions after the presentation are the rest of the senior management. We have today, our Chief Manufacturing Officer, Mr. Zamri; Chief Commercial Officer, Mr. Bahrin, Head of Strategic Planning & Ventures, Mr. Yaacob; and Dr. Debbie Chiu, Head of Specialty Chemicals.

Let's now proceed to the highlights. Mr. Mazuin, over to you.

Mazuin Ismail:

Thank you, Alia. Good evening, everyone, and thank you for joining us today.

So to start, let's look at our chemical sector. Ladies and gentlemen, at the start of this year, high inflationary pressures led most of central banks globally. This is including of course the Federal Reserve to keep the interest rate elevated to curb inflation.

As inflationary pressures began to ease by mid-year, the Federal Reserve and other major banks began shifting from rate hikes to easing policies. Now, consequently, the average global GDP growth showed improvement, rising from 1.77% in the first nine months of last year to 2.58% in the same period this year.

While these conditions have encouraged investors' optimism and an overall growth uptick, the manufacturing sector remains challenged. When we look at recent PMI readings, it dips below the 50-point threshold, highlighting contraction in production and new orders.

The average global PMI fell to 48.8 during the first nine months of the year. This is of course down from 49.1 in the same period last year. This of course reflects the ongoing inventory buildup and decreased new orders across most regions.

Now, if you look against the nine months of 2023, the average benchmark Brent crude price was comparable, supported by OPEC plus supply cuts. However, price began to trend down in the third quarter, and this is on the back of slowing global economic growth and continued weak demand, particularly from China. And the chemical sector continued to face challenges as reflected in the average Bloomberg World Chemical Index which declined 5.2% year on year despite temporary spike in the index at the end of the quarter due to the excitement over China's economic stimulus package.

Now, product price performance was mixed against the nine months of last year. Within our segments, significant price drop was observed in F&M segment as market price for ammonia fell by 16% on lower production costs due to the decline in natural gas prices. Urea also declined with reduced demand from Brazil and European markets.

For O&D, the segment improved as crude oil price remain elevated in the nine months -- the first nine months of 2024. Significant improvements were seen in the prices of ethylene and polymers that saw 11% increase year-on-year due to stabilized feed stock prices and improved demand.

Specialty sales prices continue to face downward pressure as key specialty chemical and markets such as construction, transportation, as well as consumer goods remain flat without significant improvements in demand.

Ladies and gentlemen, onto our performance. Early of this year, we completed one turnaround during the first quarter at PETRONAS Chemical Fertilizer Kedah. We also completed our second turnaround that was in PC Methanol Plant One in the third quarter.

During the first nine months of the year, we experienced some unexpected downtime across both F&M and O&D segments. In the second quarter, our urea and methanol plants in Sabah faced supply issues. While in the third quarter, we encountered mechanical challenges at PC MTBE, PC Fertilizer Sabah, PC Ammonia, and PC Methanol. All of these challenges are now solved.

Now, notwithstanding the earlier setbacks that we faced, our group's plant utilization rate for the period stood higher at 89% compared to 85% last year. As a result, production volumes rose by 6% year-on-year reaching 8.25 million tonnes.

Sales volumes showed a year-on-year increase in all segments, with the O&D segment recording marked increase from the addition of volume contributions from PPC. This of course, led to an 8% uptick in group revenue, reaching MYR23.2 billion despite a slight decrease in overall product prices.

Group's EBITDA, however, declined significantly to MYR2.8 billion, mainly due to unrealized Forex loss from revaluation of payables and higher operating costs at PPC, coupled with lower product spreads, particularly aromatics and MTBE. Consequently, EBITDA margin was lower at 12% compared to 15% in the same period last year.

The group's PAT also declined to MYR750 million from MYR1.6 billion during the same period last year, mainly due to lower EBITDA, unrealized Forex loss from revaluation of shareholders loan to PPC, as well as share of loss from our JV and associates. If we were to exclude Forex impact, our net income was estimated higher at MYR1.7 billion.

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

Mohd Azli Ishak:

Thank you. Thank you, Mazuin. Ladies and gentlemen, thank you for joining us this evening.

Let's delve into the fiscal highlights starting with the Olefins and Derivatives segmetn on page 3 of the deck, where we will compare the result of third-quarter 2024 against second-quarter 2024. As Encik Mazuin mentioned earlier, the global PMI continued to contract in the third quarter, signaling further decline in manufacturing worldwide, primarily due to weaken new orders, reduce export demand, and slowdown in economic growth particularly in China.

Consequently, the O&D product prices were impacted where we saw average O&D prices were down by 3% against preceding quarter. On the operational front, our plant utilization rate for the segment is slightly higher quarter-on-quarter at 95% due to lower internal unplanned shutdown days. As a result, production volume was higher by 3%, mainly contributed by higher production from aromatics and propylene.

Our sales volume showed significant increase of 23% due to inventory drawdown of paraxylene, propylene, and ethylene glycol to fulfill our term commitment, coupled with higher sales volume from Pengerang.

On the financial performance, the segment revenue increased by 12% quarter-on-quarter, mainly due to higher sales volume but partially offset by the unfavorable Forex. We recorded negative EBITDA of MYR137 million due to the unrealized Forex loss from revaluation of payables as well as higher operating costs at PPC.

If we were to exclude the Forex impact, the EBITDA was estimated to be at around MYR388 million. Subsequently, the O&D segment posted a loss after tax of MYR493 million in line with the negative EBITDA, as well as higher depreciation costs and interest expense on borrowings at PPC. As we have guided earlier, PPC has started depreciating the plant and charged interest expense starting from July 1, 2024.

Moving on to fertilizer and methanol segment on page 4 of the deck. This quarter, we saw positive development in the F&M segment, particularly for urea. The urea prices increased by 9%, contributed by bullish market, driven by shortage of supply in the Middle East as well as higher demand in India as they issue import tenders twice in third quarter, while China continues their curb on exports.

On the operational front, plant utilization rate increased by 4%, at 90%, due to better plant performance, particularly at ABF as well as PC Fertilizer Kedah. And this is despite the recently concluded turnaround at Plant One Methanol in Labuan, as Mr Mazuin has mentioned earlier.

Our sales volume improved by 3% to 1.4 million metric tonnes with higher volume from urea as well as methanol. However, our revenue was comparable due to lower average sales price particularly for methanol and ammonia where the prices slightly declined by 2% and 1%, respectively.

EBITDA for the segment was lower by 16% at MYR606 million due to higher maintenance costs as well as unfavorable Forex impact. Consequently, EBITDA margin contracted from 34% to 29%. In line with lower EBITDA, PAT for the segment declined by 24% quarter-on-quarter to MYR350 million.

Let's move on to specialty segment on page 5 of the deck. In third quarter 2024, the specialty segment recorded lower EBITDA, mainly attributable to lower sales volume following softened market demand. Other than lower sales volume, contribution margins are also lower for most segment.

For resins and coating, as well as engineering fluid, are lower mainly because the segments were hit by lower demand following unfavorable market dynamic resulting from sluggish growth in the automotive industry. For advanced material, the segment was mainly impacted by lower demand for PVB films as well as PVC polymer additive following key competitors returning back to their normal operations.

For lubricant additive chemical, LAC, we saw lower contribution margin due to lower sales volume, mainly due to seasonal effect from summer season and as well as uncertainty in the Middle East. However, the overall lower contribution margins were partially offset by higher contribution margins from the animal nutrition segment as well as from the silicon segment.

Next, let's look at the quarter-three performance for the group on page 6 of the deck. Against the preceding quarter, our Malaysian operation plant utilization rate improved to 92% from 89%, and this is mainly due to better plant performance at ABF and PC Fertilizer Kedah. As a recap, there were several maintenance downtimes that occurred in the second quarter in Bintulu and Kedah due to equipment issues which have impacted the group utilization rate in quarter two.

The group's revenue increased 3% to MYR8 billion mainly due to higher revenue contribution from Pengerang, improved product prices, higher sales revenue from our Malaysian operation, as well as higher revenue contribution from strategic sourcing. The group's EBITDA half to MYR554 million, mainly due to negative contribution from Pengerang, including the unrealized Forex loss from revaluation of payables, and as I mentioned earlier, higher plant operation costs.

Consequently, EBITDA margin for the group was recorded at 7%. We recorded loss after tax of MYR762 million compared to a profit after tax of MYR809 million in the previous quarter, mainly due to unrealized Forex loss on revaluation of shareholders loan to PPC.

Now let's proceed with the cash flow and balance sheet on page 7 and 8 of the deck. On cash flow, in the third quarter of 2024, we generated cash flow from operation at MYR3.1 billion and most of our cash are used for investing, and are incurred for Capex investment as well as to fund our growth project, while most of our net cash outflow from financing activities are dedicated to dividend payment, and to shareholders repayment of revolving credit at Perstorp.

On the balance sheet and page 8 of the deck, total asset were lower by MYR3 billion, mainly attributable to the strengthening of Ringgit Malaysia against US dollar, Euro, as well as Swedish Krona, including the depreciation of Pengerang since July 2024.

Total equity was lower, mainly due to strengthening of ringgit against those other currencies, as well as the payment of 2023 second interim dividend and 2024 first interim dividend. Total liabilities were higher due to higher trade and other payables, mainly due to pre-commercialization costs at Pengerang which are mainly related to fixed stock costs, higher strategic sourcing, but partially offset by the settlement of various plant maintenance costs that were incurred last year.

That's all for the financial breakdown. I'm handing back to Mr Mazuin for the way forward.

Mazuin Ismail:

Thank you, Azli. Now on to the market outlook.

Ladies and gentlemen, China's slow economic recovery has significant implications for the olefins and derivatives market. Consumer demand in key sectors like construction, automotive, and textiles, which rely on olefin-based products, remained weak. Additionally, high domestic inventories as we approach the year end is putting further pressure on olefins and derivatives product prices.

As such, for the remainder of the year, we are expecting that product prices in O&D segment to remain subdued with buyers only making necessary purchases and supply is expected to be sufficient for that. Ethylene prices are expected to be soft given the volatility of oil and feedstock prices, slow Chinese growth, and new capacity coming online in fourth quarter, particularly from China and South Korea.

Meanwhile, MEG prices are expected to be stable, supported by limited supply, and with China's stimulus potentially boosting the demand post-Golden Week.

Now for polymer, prices are expected to be soft ahead of seasonal lull, but further drop will be cushioned by regional supply tightness. Paraxylene prices are expected to be stable despite weak downstream demand and reduced gasoline blending plan maintenance by several producers, particularly in China and South Korea.

Now, ladies and gentlemen, moving on to the F&M segment, we expect that product prices for F&M segment will be firm, supported by improved demand and limited regional supply. For urea, price is anticipated to be stable, driven by demand from India, recent escalating tensions in the Middle East potentially affecting supply, along with anticipation of seasonal demand return from Latin America, as well as China's continued export restriction.

We are also expecting stable ammonia outlook with tighter supply in October, following lower production rates and plant outages, balanced by limited demand from the Far East amidst turnaround season.

For methanol, prices are forecasted to remain stable with potential limited supply due to gas curtailments during winter season in the fourth quarter, and Southeast Asia supply is expected to be stable until the year end.

Now moving on to specialty segment. The performance of our specialty segment continues to rely on the improvements in the end markets demand that tracks the macroeconomic environment, as well as effective feedstock management, particularly in Europe. We previously mentioned that global market conditions remain dynamic with ongoing geopolitical tension and elections, but a slow recovery in market demand is expected to continue for the rest of the year, which has largely remained true.

The Federal Reserve's decision around rate cuts may provide stimulus to rejuvenate the demand for industrial and specialties. This is influential given the muted demand growth for specialties leading to the fourth quarter of this year, with softness in Europe and China remaining a potential concern, while the market observes effects from regional interest rate cuts and China stimulus package.

As the market tries to digest the stimulus package, headwinds remain for the building and construction sector heading into the fourth quarter of this year. When we look at the automotive sector, it has also indicated downturn for the rest of the year with most OEMs reporting a slower demand recovery with potential uptick in early next year.

Consumer goods and retail on the other hand are expected to maintain the positive momentum from the past quarters as consumer spending confidence picks up gradually. As such, fourth quarter is expected to remain challenging for specialty segment, and we will continue to navigate the evolving business landscape cautiously.

Ladies and gentlemen, before we move into the Q&A session, I would like to briefly touch on our ongoing projects and strategic focus areas. This year, we have navigated through operational challenges, inflationary pressures, and the impact of monetary policies on economic growth. Despite these challenges, our commitment to growth and diversification remains strong.

We have strengthened our operational excellence as reflected on the better plant utilization for the first nine months of this year compared to 2023, while executing our planned maintenance and turnaround program. We are currently undertaking turnaround at PC Ethylene and PC Polyethylene in Kerteh. Our focus as always is to execute the turnaround effectively and ensure the safety of our employees and those who work around us.

The Penta and Calcium Formate plant in Sayaka, India is slated for commercial operation by the end of this year. This plant is designed to produce 40,000 tonness of Penta and 27,000 tonness of calcium formate per annum. This expansion within our specialty segment will increase our capacity to serve our Asia Pacific market better.

Next, the petrochemical facilities at the Pengerang Petrochemical Company, have completed performance test run for all of our plants, and we expect to have full commercial operations by end of the year. This is a significant milestone for us in delivering part of our long-term strategy to strengthen our basic chemicals business and selectively diversify into derivatives and specialty chemicals.

However, the startup of these large-scale capital-intensive assets will have material impact to the Group's earning. As PPC is a US dollar functional currency company, we will also be exposed to currency translation effects that we saw in the third quarter when the US dollars weakened. Nonetheless, if the US dollar continues to rebound in fourth quarter 2024, we will see partial reversal of the unrealized Forex loss.

In terms of commercial excellence, we mentioned earlier that the market will be mixed with O&D and specialty segments seeing seasonal softness towards the year end; while our F&M segment, we expect it to be stable as key suppliers focus on fulfilling their long-term commitments.

Ladies and gentlemen, we will continue to prioritize value chain optimization, competitive cost management, of course, in response to the challenging economic outlook and slow market recovery. At the same time, we will strive to ensure reliability of supply to meet customers' commitments and enhance value creation in non-traditional business platforms through our innovative product solutions.

Ladies and gentlemen, that concludes my update for today. Now let's open the floor for Q&A. Thank you.

Zaida Alia Shaari:
Thank you, Mr. Mazuin and Azli. (Event Instructions)

Do we have any questions?

Raymond Yap:
Hi Alia, this is Raymond here. Can I ask my question?

Zaida Alia Shaari:
Yes, Raymond. Please go ahead.

Raymond Yap:
Okay. Hi, Mr Mazuin and MR Azli. Thank you very much for the presentation. So, I think today, I'll just focus a little bit on the numbers. So, I noticed that the depreciation in the third quarter compared to the immediately preceding second quarter actually rose by MYR90 million. And I look at the interest expense line. On a quarter-on-quarter basis, it went up by MYR62 million.

Can I just check whether these increases are entirely due to the PPC depreciation and interest expense? Because I think MYR90 million in one quarter for PPC, if you analyze it, it seems to match your previous guidance of about MYR400 million per year. But the interest expense of an additional MYR62 million, if I remember correctly, previously, you guided about MYR100-over million.

Mohd Azli Ishak:
Yeah. I mean, thank you, Raymond for the question. For the depreciation part, yes, spot on. The guidance was still depreciation of about MYR400 million a year. So, about MYR100 million per quarter of depreciation mainly due to PPC.

With regards to interest expense, total interest expense for the year will be around MYR300 million. So, per quarter, it will be around MYR75 million.

Raymond Yap:
Oh, I see. Okay. MYR300 million, this is your portion alone of the PPC?

Mohd Azli Ishak:
Correct.

Raymond Yap:
Oh, okay. Oh, this is much higher. I think previously, you guided about MYR100 over million if I remember correctly.

Mohd Azli Ishak:
No.

Raymond Yap:
Okay. So, I must have listened wrongly then. Okay. Anyway, it's MYR300 million.

Mohd Azli Ishak:
But with regards to interest expense, Raymond, per quarter will be around MYR75 million.

Raymond Yap:
Okay. MYR75 million per quarter. Okay, so this is MYR400 million per annum and interest of MYR75 million per quarter. That's MYR300 million per year. So that's specifically referring to your 50% portion only, right?

Mohd Azli Ishak:
Correct.

Raymond Yap:
Okay, okay. Can I just double-check what was the EBITDA for PPC and the sales volume for PPC in the third quarter?

Mohd Azli Ishak:
Okay. For PPC, I think it's best if I will share this if we were to exclude the Forex impact.

Raymond Yap:
Yeah, that's right, yeah.

Mohd Azli Ishak:
I think that that's why you're going to head towards anyway, right?

Raymond Yap:
Yes.

Mohd Azli Ishak:
So, if we were to exclude the Forex, I think in quarter two, we mentioned that the negative EBITDA at PPC, our 50% portion, is around MYR80 million. So, for quarter three, it has slightly increased to MYR130 million in line with the ramping up of production and a higher pre-commercialization cost. So that's basically the increase from quarter two to quarter three.

Raymond Yap:
Okay. So, what happens when COD comes in? Then you can claim that special discount for the feedstock?

Mohd Azli Ishak:
That's part of the arrangement where we can discuss with the Pengerang refinery company on the special discount, and it only applies after COD.

Raymond Yap:
But before COD, you are getting the fixed discount already, right?

Mohd Azli Ishak:
The contractual discount, yes.

Raymond Yap:
Okay. So, I'm not sure whether you can give us any guidance whether once COD kicks in November. So basically, in December, we will have the first full month of COD. Will the feedstock discount kick in immediately or will it kick in with a lag? That means you present your financial statements to Pengerang refining and then only they give you the discount on a lag basis.

Mohd Azli Ishak:
So, the arrangement will be discussed between PPC as well as PRC. In terms of mechanics, it is to be discussed between the two entities. And then that -- whether it's lagging or immediately or whether it will be reconciled every quarter or every six months, that will be in discussion within the two entities.

Raymond Yap:
Okay. So, one last question about the third quarter loss. If you strip out the pre-commissioning and whatever that is once-off in nature that will not recur after COD, do you think that you will still be running at MYR130 million loss excluding that special discount?

Mohd Azli Ishak:
That will depend on the market price, Raymond, and other factors as well. But everything being equal, we expect the same kind of EBITDA level.

Raymond Yap:
Okay. So, if you strip out the pre-commissioning expenses, naturally, you wouldn't be incurring MYR130 million loss. But will it still be a loss? Will it go back to last quarter's MYR80 million?

Mohd Azli Ishak:
Yes. As the plant ramps up and once the special discount kicks in, and then we would expect those negative EBITDA to reduce further.

Raymond Yap:
Okay, but still negative depending on the market.

Mohd Azli Ishak:
Correct.

Raymond Yap:
All right. Thank you.

Mohd Azli Ishak:
Thank you, Raymond.

Zaida Alia Shaari:
Anshool, JPMorgan.

Anshool Singhi:
Hi, good evening. Can you hear me?

Mohd Azli Ishak:
Yes, Anshool.

Anshool Singhi:
Yes. I just had a couple of questions regarding the plant utilization and plant turnaround activity for 2025. If you could give us guidance on the utilization rate. And also, what are the plant turnarounds? And when are they in which quarter?

Zamri Japar:
Well, thank you, Anshool, for the question. As mentioned by Mr Mazuin, we have had actually two turnarounds specific for this quarter, for quarter three. And that has been completed successfully.

To give you guys a little bit of guidance on what's coming afterwards, we have another two turnarounds that are happening as we speak. And those two are already very near to completion. We are talking it's a matter of one or two days.

Anshool Singhi:
And what are your plans for 2025?

Mazuin Ismail:
2025, if I may, we're going to have four turnarounds and six pit stops. So, it's quite a number of turnarounds that we're going to face next year.

Just to add, just now for the third-quarter PU, I'm sure it's actually 91.7% PU. Thank you. Thanks.

Anshool Singhi:
So, can we assume that overall, the turnaround will drop -- will average back about 90% in 2025? Or do we expect it to still be in the range of 85% to 90%?

Mohd Azli Ishak:
I think due to the heavy turnaround year for 2025 as well as a pit stop schedule for 2025, we may not be able to achieve our internal target of 90% plant utilization rate, but be that as it may, we will strive to ensure that a safe and successful execution of plant turnaround as well as strive for increase in PU, but much better than what we initially target.

Anshool Singhi:
So just coming to PIC -- PPC, sorry. If you could share what are your ramp-up plans post-commercialization. What is the utilization we can expect in 1Q '25 if you commercialize by the end of November this year. And if you could share what were the volumes related to PPC that were booked in 3Q.

Mohd Azli Ishak:
Okay. I think I can give you guidance on the plant utilization rate. It's about 70% for average of all the plants as they are prepared for ramp up. In terms of volumes, because currently we have yet to allocate the volume as per the equity entitlement, it's still on bidding basis. I cannot provide to you how much was produced and sold during quarter three.

Anshool Singhi:
Maybe then for post-COD, if we could share at 70% what were the volume supply.

Mohd Azli Ishak:
Of course, post-COD we will try to strive to maximize and optimize the production based on linear programming, which to produce, which product that provides the best net pack to the plant.

Anshool Singhi:
Understood. Thank you. I'll get back in the queue. Thank you so much.

Mohd Azli Ishak:
Thank you, Anshool.

Zaida Alia Shaari:
Next we have Muhammad Nuur Ashman.

Muhammad Nuur Ashman:
Hi, Mr Mazuin. Hi, Azli. My first question is a continuation of Raymond's question earlier on the EBITDA performance. So, you said earlier that second quarter you saw MYR80 million, and third quarter you saw a loss of MYR130 million, but that was mainly because of the COD expenses.

But I'm just trying to quantify here at MYR80 million in the second quarter. What utilization rate were you actually seeing? Because I'm trying to get some sense of what we can actually project for PPC over the coming few quarters, ideally.

Mohd Azli Ishak:
If I recall, Ashman, in the second quarter analyst briefing, we mentioned that the plant utilization rate for PPC was around 60% to 65%. And as they gear up for COD, they increase the utilization rate. So that for them to achieve all the PTR completed, and that explained the ramping up of all the plants.

Muhammad Nuur Ashman:
All right. And then with regards to that, right? So, if you have MYR80 million at 65% utilization, so we can expect for that to actually increase in the coming future. But if you were to register a positive EBITDA, will you still be eligible for special discount on the feedstock?

Mohd Azli Ishak:
That will be a discussion between the two entities. And it all depends on whether, first of all, whether the Pengerang refining company also generates sufficient return to provide such special discount.

Muhammad Nuur Ashman:
And when we talk about utilization rates at 65% going up to 80%, is that assuming that the refinery is up and running and fully commissioning?

Mohd Azli Ishak:
Yes. Yeah, I mean, it's supposed to achieve the integrated performance test run. My understanding also, we cannot represent PRC, but what we understand is even the refinery and cracker has already achieved PTR.

Muhammad Nuur Ashman:
Okay, okay, okay. All right. So generally, it should be EBITDA positive and improving in the coming quarters. Could you explain a bit more on the payables at PPC side? The one that was revalued. What is it actually for you?

Mohd Azli Bin Ishak:
Okay. I'm glad that you asked this. The Pengerang Petrochemical Company basically buys the ethylene and propylene from PRC. And currently, the whole arrangement is denominated in ringgit. And over time, this payable has increased because of the ramping up of the production, more ethylene and propylene are being consumed by PPC.

And number two, there's also payables from PPC to the utility provider, which basically a company called PRPC UF, which is 100% owned by PETRONAS. That provide utilities and gas and all that to the petrochemical plant.

And total payables are around MYR4 billion, our 50% portion. And that is basically -- all that is denominated in ringgit. Now, we did mention in the media release that Pengerang companies, they are US dollar functional currency companies.

So when the ringgit strengthened against the dollar and vice versa, I mean the dollar weakened against the ringgit, they need more dollar to pay the same ringgit that they owe their suppliers. So that is basically number one impact to their EBITDA's on this Forex loss. That explains and then we have also clearly identified in the media release how much was attributable to the revaluation of trade payables.

The other part is basically a shareholders loan that we provide, we mean PCG, provide to PPC. So, the shareholders loan come to about USD800 million that we provide our pro rata portion to PPC. And as the dollar weakens, we get less dollar. And since we are a ringgit company, PCG is a ringgit company, we are also exposed to Forex unfavorable unrealized Forex loss. So that is basically the second leg of the Forex impact.

So total Forex loss, as mentioned in our media release, is about MYR1.1 billion. MYR1 billion itself comes from PPC-related matters. But this is basically like what Encik Mazuin mentioned, hinges upon the movement in the currency between ringgit and dollar.

As we all know, the dollar has strengthened since September 30. And I probably can also share that for the month of October, we have already managed to reverse more than half of this Forex loss in just one month in October. So as Encik Mazuin mentioned earlier, if dollar continue to strengthen, we may potentially offset most of this Forex loss towards the end of the year.

I hope that gives you some color, Ashman.

Muhammad Nuur Ashman:
Yes, it surely does. Azli, I just want to confirm, so in second quarter, you were booking ringgit at what -- dollar at what rate, and at third quarter at what rate?

Mohd Azli Ishak:
If you look at our Bursa, Ashman, the closing rate is 4.107 and average of -- and then in June 30 is 4.721.

Muhammad Nuur Ashman:
Alright, okay, okay. And then I have another question on your book value per share. I saw that there was quite a steep decline versus FY23. Now it's around 4.7 against last year's fiscal year end of 5.1. I'm assuming that's largely due to FX losses and lower PPE, but is there any other sizable difference? And could you confirm with us what is your NTA per share at the moment?

Mohd Azli Ishak:
Okay. Other than the loss and then the assets, we also have foreign currency translation reserve, that also affect the equity part. So, I think that is fully described in our Bursa announcement and what makes up the lower book value.

Muhammad Nuur Ashman:
And then your -- sorry, I believe next year there will be two major turnarounds, one in Pengerang and another one in Kertih. Are you still okay with your usual plant utilization guidance of 90%?

Mohd Azli Ishak:
There's no plan turnaround next year at Pengerang, as what Mr Mazuin guided earlier. I think the turnarounds are not in Pengerang. So, if I can elaborate that the four main turnarounds, these are PC Olefins and PC Glycols, and PC Derivative, as well as PC Fertilizer Sabah. So, we will spread these four turnarounds equally over the years.

Muhammad Nuur Ashman:
All right, okay. Thank you very much, Azli.

Zaida Alia Shaari:
Next, we have Desmond.

Desmond:
Hey. Hi, management. Can you hear me?

Mohd Azli Ishak:
Yeah, Desmond.

Desmond:
Yes. So, the first question, I want to ask is that, when PETRONAS Chemicals consider final dividends this year end, will the huge FX translation loss be excluded from the core profits and then apply certain payout ratio? Or is there any plan for management to stick to a more stable absolute DPS?

And then the second question is related to the depreciation and interest costs. I believe that management has already answered it, but then I have some technical issues just now. So might need you to repeat.

Has the depreciation and interest costs in third quarter fully reflected in the consolidation? If not, how much will this go up further in the fourth quarter? Thank you.

Mohd Azli Ishak:
Okay. Thank you, Desmond, for your question. For the first question, in terms of final dividend, this is a discussion that we will take with our Board. And for the next dividend we will discuss with the Board and propose in February to be paid in March since we pay dividend twice a year. We declare in February and then the other one we declare in August.

So of course, I cannot mention upfront what we will propose, but in other companies, what will typically happen is they may still pay dividend excluding those extraordinary one-off item. So, I mean, that is basically the practice from other companies. I cannot mention upfront that what we will mention, and you probably have to wait for February then.

For your second question, yes, the depreciation and interest in quarter two has already reflected all PPC-related depreciation as well as interest expense.

Zaida Alia Shaari:
Thank you. We have follow up question from Raymond. Raymond, please go ahead.

Raymond Yap:
Yes. Hi, Azli. I just wanted to double check on the EBITDA line. So, if I look at the F&M EBITDA, it declined in the third quarter compared to the second quarter. But if I look at the EBITDA for the Olefins and Derivatives. And adding back the Forex loss, the EBITDA actually rose quarter on quarter. So just wanted to understand why the F&M dropped.

Mohd Azli Ishak:
Okay. One factor is, Raymond, because of the maintenance cost at Labuan. Mr Mazuin mentioned earlier that third quarter, we undertook turnaround for plant 1 in Labuan. So that's basically number one, the volume is affected and coupled with higher maintenance expenses.

Raymond Yap:
Okay. So that's entirely it, right? So, the fourth quarter, is there any significant maintenance in the fourth quarter?

Mohd Azli Ishak:
For F&M, no.

Raymond Yap:
Okay, thank you.

Zaida Alia Shaari:
Next, we have Yong Liang Por.

Yong Liang Por:
Regarding PPC, so it is loss making. And we have seen, for example, Siam Cement starting up Long Son and then shutting it down again. So, I'm wondering, because refining margins aren't great as well, so I'm not sure how much the refinery is making.

So, my question is, if the losses continue and continue, is there a point at which you would consider shutting it down again? Thanks.

Mohd Azli Ishak:
That's a very hypothetical question, Yong. We wish we won't be in that situation. And as I mentioned in the previous analyst briefing, these complex are supposed to run on integrated basis, and we do have support from the strong shareholders in these ventures. So, we are leveraging the support from these shareholders to ensure that this project is a success.

Yong Liang Por:
Some companies are considering ethane feedstock possibilities. Is that a potential consideration, such as importing ethane from the US?

Mohd Azli Ishak:
Yeah, I think it makes sense now. And even with the transportation cost, it makes sense. But we need to study this over the long term. So, we need to study this, whether this will work for the next 20 years. So, I think it's definitely one of our radar on top of other opportunity that we're looking at. And then if this team materialize and we will certainly provide an update.

Yong Liang Por:
Okay, thank you.

Mohd Azli Ishak:
Yeah. I mean, I think also I want to brief the analysts and those joining the call. If you also manage to take our other Bursa announcement, we also announced today that the feedstock agreement for the ethane and propane for our PC olefin has been extended for the next five years. So, I hope the analysts have already caught and comprehended this announcement as well.

As we know, these are a favorite subject from the analysts. So, I want to make sure that you all are aware of this announcement.

Zaida Alia Shaari:
Next we have Ahmad, from Nomura.

Ahmad Maghfur Usman:
Hi, everyone. Sorry, my line is pretty bad right now. Thanks. No thanks to TIME.

But anyway, just wanted to double check on that ethane and propane extension for five years. So that's basically based on the same agreement that applies. Am I right to say that?

Mohd Azli Ishak:
Yes, Ahmad. As the announcement said and as per in our media release, it's on the same pricing terms.

Ahmad Maghfur Usman:
I see. Okay, alright. Thanks for that. And then, I'm still pretty lost on this second quarter EBITDA. So, second quarter EBITDA for the PIC, was that MYR80 million EBITDA or MYR80 million negative EBITDA?

Mohd Azli Ishak:
Negative EBITDA.

Ahmad Maghfur Usman:
So minus MYR80 million, okay. And then third quarter, it jumped to minus MYR130 million. Is that correct?

Mohd Azli Ishak:
Yes. Of course both numbers exclude the Forex impact.

Ahmad Maghfur Usman:
Yeah, yeah, yeah, yeah. Understand. That one's pretty clear, okay. All right.

And for your other ventures in Malaysia, so can you remind us again on the timeline and when can we expect some contributions from there?

Mohd Azli Ishak:
Which venture are you specifically referring to, Ahmad?

Ahmad Maghfur Usman:
I don't know how to pronounce it. Something to do with rubber gloves, if I can recall it correctly. Nitrile something.

Mohd Azli Ishak:
The NBL plant in Pengerang which consumes butadiene from the Pengerang to produce nitrile butadiene latex has already achieved COD in September. And then they're also leveraging on the uptrend in the glove industry in Malaysia specifically to really monetize on the demand for NBL.

Ahmad Maghfur Usman:
Okay. So, has it started contributing positively at least to the operating level?

Mohd Azli Ishak:
It's ramping up as we speak. So, I think once it's material, then we will provide more color to the analysts.

Ahmad Maghfur Usman:
Okay, all right, understand. And then on the other aspect when it comes to this recent announcement by the government on that carbon tax. I'm pretty sure it doesn't apply to you because you're not really in the field of energy, but I just want to be sure.

So that there won't be any carbon tax implication, specifically for PETRONAS Chemicals, am I correct?

Mazuin Ismal:
I suppose we would have to wait when that materializes and we have more detail. But generally, as a discipline, we always have that as a sensitivity when we evaluate projects for example. So that's a discipline that we take proactively. So, we can only answer that when there is a clearer direction what the carbon tax will cover.

Ahmad Maghfur Usman:
Okay. Understand. All right. Okay. That is all from my side. Thank you so much.

Zaida Alia Shaari:
We have on the line questions from Anshool. Please go ahead Anshool.

Anshool Singhi:
Hi, thank you. I just have a few follow up-questions. Starting with the -- you mentioned 50% reversal you've already seen in October related to the US dollar payables and shareholder loan. If you could share, is there any currency risk activity that you would want to undertake? And also, what kind of a sensitivity we should consider for like every dollar or every ringgit appreciation? And what would be the impact on the shareholder loans and payables maybe into the near term next year or the next few quarters?

Mohd Azli Ishak:
We are exploring a lot of ways how to mitigate the Forex exposure, especially for Pengerang. I think safe to say that for our other operations, we have pretty much hatched in terms of our payment and our obligation. I think as I mentioned earlier, the Pengerang, a US dollar company. So, we will explore how best to ensure that both the Pengerang companies, as well as PCG as a shareholder and PETRONAS and Aramco as shareholders of the venture will not be affected from the volatility of the Forex.

Anshool Singhi:
Is there any kind of sensitivity you could share for the shareholder loans and the payables?

Mohd Azli Ishak:
Unfortunately not for now, Anshul. But I think we've already provided sufficient data point with regards to the closing rate of Forex and opening rates of Forex and average rate of Forex for the quarter, as well as providing you the impact of what does the forex movement do to the revaluation of trade payable as well as the shoulders loan. So, I believe you yourself can also do the sensitivity.

Anshool Singhi:
Sure, yeah. Maybe the next question, are you told that the ethane and propane were under the same pricing term? I just want to clarify that the pricing for the feedstock hasn't changed compared to the previous five-year period. I believe it was from 2016, and also, there is no impact to the volume as well.

Mohd Azli Ishak:
There is no impact to the volume. In fact, whenever there's any extra volume that PETRONAS can offer, and we are gladly happy to take.

With regards to the pricing formula, it's not fixed perpetually. It does have a slight escalation on annual basis, but unfortunately I cannot disclose to you what is the slight escalation factor.

Anshool Singhi:
Understood. My final question, you mentioned 4Q the Sayaka plant will start up in 4Q. So, if you could share what kind of EBITDA contribution you could see from those operations, your specialty segment.

Mohd Azli Ishak:
Okay. I think, as Mr Mazuin mentioned earlier that first of all, the small -- the plant 40,000 tonnes per annum and 25,000 tons of calcium formate. So, it's relatively small in the whole PCG group scale of things. We can provide you more color once the plant reaches COD so that we can guide you better in terms of how much it contributes to the percentage of EBITDA for specialties as well as the EBITDA to PCG group.

Zaida Alia Shaari:
Thank you. We have just one last question from the question box from Azim, BIMB Securities. The question is, may we get your guidance on tax rate in FY 2025 and its implementation of global minimum tax?

Mohd Azli Ishak:
Okay. I think for us, the effective tax rate will hinge upon the spread and the movement of prices, especially for petrochemical commodities, because we do have few jurisdictions that we are involved in and then some have low tax jurisdiction, for example Labuan. So as more profits are being taxed at Labuan, so in actual fact our effective tax rate is lower.

But as the guidance, we would like to guide the analysts that our year-in, year-out effective tax rate will be around 10% to 15%. So that will be our guidance.

Zaida Alia Shaari:
Thank you. We have now reached the end of today's briefing. Once again, thank you, ladies and gentlemen, for your kind participation. Please reach out to us should you have follow-up questions. We look forward to receiving your reports once published. Good evening. Thank you.

Mohd Azli Ishak:
Thank you.

Mazuin Bin Ismail:
Thank you.

END