



FIRST QUARTER 2020 EARNINGS UPDATE – PRESENTATION TO MEDIA & ANALYSTS

Jakarta, 5 June 2020

**By Chatri Eamsobhana, Vice President Director and Chief Operations Officer, &
Andre Khor, Director of Finance and Chief Financial Officer**

Chatri

Good afternoon ladies and gentlemen. I hope you are all in good health and staying safe in navigating this unprecedented situation during Covid-19 pandemic. Welcome to Chandra Asri's first quarter 2020 Earnings Call. Thank you for joining us today.

We will update you on our 2020 first quarter results, and continuous journey of sustainable and profitable growth over these unprecedented and unpredictable times.

You should have access to the presentation materials. Before we start, let me highlight the **Disclaimer Statement** which outlines the implications and caveats of Forward-Looking Statements contained in the presentation we will be sharing throughout this session. This Statement is more pertinent than ever in light of the present high volatility and uncertainties observed in the global, regional and local markets with the evolving global Covid-19 pandemic.

I will take you through the Management Overview of Summary Highlights, followed by our response to the Covid-19 global pandemic. I will then share highlights of Operating Performance, before passing to Andre who will provide an update of the Financial Performance, Key Value Drivers and Strategy & Growth. We will then collectively address Questions and Answers you may have.

Management Overview. The global Covid-19 pandemic has created a lot of uncertainty for us all. Now is also a particular time where the work we do is most critical, to provide essential goods for the stakeholders and communities. Given the unprecedented uncertainty the world is experiencing due to Covid-19, Chandra Asri is focused on three key imperatives which are (1) Business Continuity, (2) Operational Excellence, and (3) Financial Resilience.

This year started off with a challenging quarter for the petrochemical industry around the globe, with historically low margins. Our first quarter of 2020 performance was largely shaped by this challenging

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macro environment, tight petrochemical margins, and softening demand especially in China domestic market due to Covid-19 pandemic.

Notwithstanding these challenges, we recorded a commendable and competitive performance that was above industry averages, with Q1 2020 Revenues of US\$477 million, EBITDA of -US\$13.5 million, and a Net Loss of US\$17.5 million. Since then, the overall industry and market conditions have improved from April. Overall polyolefin spreads have improved with the sharp decline in crude, translating to a 20-30% margin uplift. In addition, we have also seen China's start of manufacturing rebound which has been underpinning product prices. As a bell weather indicator, PE-Naphtha spreads that were in the doldrums and historical lows of around US\$350/T in Quarter 1 have recovered to the US\$450-500/T range.

Whilst macro-economic factors are beyond Chandra Asri's control, we have swiftly implemented clear action plans to re-phase capex, reduce opex, and optimize working capital. Our Balance Sheet remains rock solid, with a Liquidity Pool of US\$880 million including a cash balance of US\$624 million as of March 31st, 2020 to manage through the cycle.

We resolutely continue to believe in the long-term attractiveness of the Indonesian petrochemical market. Our MTBE and Butene-1 plant is slated for completion in Q3 2020. We continue to progress our CAP 2 project, with sustained focus on capital discipline within the stage-gated framework we have deployed from inception to ensure prudent and effective deployment of capital.

Let me now move on to share about our **COVID 19 Response**, and outline Chandra Asri's Key Imperatives to navigate the unprecedented uncertainty. First is Business Continuity, guided by the principle of protecting the safety of our staff, stakeholders and community. Second is Operational Excellence, to maintain asset integrity, productivity and customer focus. And Third is Financial Resilience, with re-phasing of US\$295 million of Capex, >\$US10 million reduction in opex, and sustaining a liquidity pool of US\$880million with our credit ratings reaffirmed by Key Credit Rating Agencies.

For **Business Continuity**, we have focussed on initiatives to Protect our staff, stakeholders and communities and Prevent any Outbreaks. This includes a dedicated COVID-19 Task Force to support daily

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operations that I personally chair. We have implemented physical distancing with no large group meetings; reduced occupancy on buses, canteen, entry points; split-shift. We have enhanced Cleaning and Disinfecting activities across all site. We also proactively promote preventive measures like frequent handwashing, wearing of masks, and establishing maximum Work from Home capabilities for Support Staff.

Over these challenging times, we also focus our efforts to Support and Uplift. We have implemented Detailed internal protocols and resources, from Travel management, Contact Tracing, COVID Response Protocol, to Recovery Team Readiness. We have strived to get through this together with all staff by maintaining full employment and full health insurance cover including for COVID-19 coverage over these times. Our dedicated internal medical team monitors employee physical and mental health. We at Chandra Asri have also taken the clear and active steps to support communities and hospitals by donating much needed medical consumables such as face masks, N95, PPE, gloves, rapid test kits, etc. We have also provided donations to support the National Covid-19 Task Force, food for local communities, and established hand washing facilities in partnership with the municipal government in Central Java. You can see on slide 7 a snapshot of all our focus and passion in action.

For **Operational Excellence**, we have focussed our efforts on 5 key prongs. First is Robust IT infrastructure to ensure our staff can work from home and on site, efficiently. Second is Supply Chain Resilience, through proactive engagement with our vendors and suppliers, to sustain operations with no disruptions. Third is supporting our Customers proactively to ensure we continue to partner with them for growth. Fourth and fifth are Asset Integrity and Staff Productivity. Coming out of Turnaround Maintenance in 2019 and having completed additional capacity after expansion projects last year, we have been keeping our plant running optimally.

We have taken significant measures to strengthen **Financial Resilience** of our business. Good traction has been made to rephase Capex, reduce Opex and optimize Working Capital. We are executing a number of specific actions which have cash and financial impact for 2020 including:

- US\$295 million of reduction in Capex budget 2020 from US\$430 million to US\$135 million.
- US\$41 million of cash release from working capital optimization

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- US\$11 million of reduction in conversion costs with lower gas prices
- >US\$10 million of reduction in operating expenditure
- US\$70 million of 5-year term loan from Permata Bank
- US\$75 million of net increase in LC trade facilities

Moving on to margins, our **Product Spreads** in Q1 2020 reflect continued tight margin due to additional supply capacity coming on-line and lacklustre global demand as a result of economic slowdown. Oil price collapse in March has been followed by lower Naphtha prices and as such we have seen margins rebound. For Q1 2020, Ethylene price was US\$713/Ton, PE price was US\$874/Ton, PP price was US\$1,036/Ton, against Naphtha price of US\$521/Ton, reflecting lower Brent crude oil prices which contracted to an average of US\$50/bbl in Q1 2020 compared to US\$63/bbl in Q1 2019.

Our total **Production Volume** were higher in Q1 2020 at 913KT and total **Sales Volume** were maintained at 551KT in Q1 2020. With the 400KTA New Polyethylene plant coming on stream, Chandra Asri's PE production and sales volume have doubled. On that note, in order to anticipate disrupted domestic supply chain due to the large scale social distancing (PSBB) implemented, and to optimize PE production capacity, we are able to penetrate into new export markets. Correspondingly, Q1 2020 all plants **Operating Rate** was recorded at 91%. Our key focus is to run the plant at full rate with clear vision on safety, whilst optimising economics and spreads.

With that, let me now handover to Andre.

Andre

Thank you Khun Chatri. Good afternoon everyone. Now, I will take you our Financial Performance and share the progress we've made, and continue to make, on Strategy & Growth.

We booked Q1 2020 **Net Revenues** of US\$477 million compared to US\$552 million in same period last year, mainly due to lower Average Selling Prices (ASP) across all products of US\$865/T in Q1 2020 vs US\$999/T in Q1 2019. As an indicator, average Polyethylene prices realized in the first quarter of 2020 dropped to US\$874/T from US\$1,180/T in the same period of 2019.

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Our sales volume remained stable at the level of 551KT in Q1 2020 compared to 553KT in same period last year. As you can see, Polyolefins is now our main Revenue driver with 62% contribution with the 400KTA Polyethylene and 110KTA Polypropylene plant expansions, followed by Olefin of 16%, Styrene Monomer of 13% and Butadiene of 9%. The increased integration enhances our capability and flexibility to capture more value across the value chain.

Our **Key Financials** for the 3 months of 2020 is as follows: Gross Profit of -US\$16.6 million, EBITDA of -US\$13.5 million, Net Loss of -US\$17.5 million, and Net Cash Used in Operations of US\$101 million due to lower cash generated from operations. Whilst operating in these extremely challenging conditions of margins being below historical averages, our EBITDA margin of -3% is commendable and better than industry averages and peers, in line with our aspiration to achieve top quartile performance, leveraging our clear strategic advantages of being Indonesia's leading and preferred petrochemical company serving the domestic markets. Our strategic intent to maintain strong liquidity and financial flexibility remains well on track, with Net Debt to EBITDA at 2.6x and cash balance of US\$624 million as of March 31st, 2020 which translates into a Debt Capitalization ratio of 34%.

With a **Robust Liquidity Pool** of US\$880 million, we are well-positioned to weather the uncertainty, manage the volatility, and emerge strongly at the rebound. It is a clear strength in this environment to have US\$624 million cash and cash equivalents, US\$225 million available revolving credit facilities, and US\$31 million in marketable securities. We are also able to access the bank and bond capital markets at competitive rates, which is demonstrated by our recent issuances in both US dollars and Indonesian Rupiah, most recently in February for Indonesia retail bonds of IDR 750 billion, and then in May via a 5-year unsecured term loan facility signed with PermataBank. Due to retail investor demand, we are progressing with our 3rd IDR Bond Shelf Programme after the successful full completion of prior programs that were oversubscribed. We paid down our debt totaling US\$78 million in 2019, extended maturities of trade facilities alongside net increase in headline size, and expect annual interest expense saving with lower LIBOR and competitive financing.

We have an **Updated Capex Budget 2020**. Given the volatile macroeconomic situation, we took the decisive step forward to re-phase our capex, in line with our Financial Resilience strategic imperative. We

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have reduced 2020 total planned capex of US\$430 million to US\$135 million, primarily through deferring the CAP 2 pre-FID spend by around US\$300 million. This prudent step is fully consistent with our objective of underpinning our second petrochemical complex, the CAP 2 project, with a solid equity base to support long-term value creation for Chandra Asri's shareholders and stakeholders, and most fundamentally, maintain the continued strength of our Balance Sheet. We remain focused and will not lose sight of making the necessary investment in our business, to maintain safety and Asset Integrity of our plant by channeling US\$37 million to such capex.

Looking ahead, our **Outlook** is one of cautious optimism. Whilst uncertainty remains, we are positive as lockdowns begin to be unwound, domestically, regionally and globally. We have begun to see a marked improvement in spreads and results. Volumes remain robust for Chandra Asri being well placed to serve the structurally short Indonesian market, with any impact mitigated through exports via our dedicated jetty facilities. Regional shutdowns, rupiah volatility and restricted movements have affirmed added-value to domestic customers as supplier of 1st choice and sustained local premiums. Polymer product prices have strengthened since the trough in Q1, with a clear China manufacturing rebound observed as their economy reopens. Purchasing Managers Index (PMI) above market expectations. Our dedicated COVID-19 Task Force have ensured smooth operations. And at today's crude prices of around US\$30-40 per barrel, Naphtha producers' price competitiveness has moved from 3rd to 1st quartile along the petrochemical cost curve. Lower feedstock cost frees up working capital.

Moving on to **Projects and Growth**. We are well on track to complete our multi-year Phase 2 Master Plan that was initiated in 2016, and complete the vertical integration of our existing petrochemical complex. The completion of our MTBE and Butene-1 plant will bring our total production capacity to 4.2MTA. The plant facility will be able to further process our Raffinate to create more added value of downstream products. MTBE is used for gasoline blending (as octane booster) while Butene-1 is used as co-monomer feedstock of our PE production. The project is slated for a start-up by Q3 2020. Hence, we should see its full impact to our annual revenues by 2021.

CAP 2 timelines have been updated in line with the re-phasing of capex as shared earlier. Inevitably, travel bans and restrictions due to the coronavirus pandemic have had an impact on our potential contractors,

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management, staff, strategic investors and advisors. Our target FID date for CAP 2 is now 2022, with start-up in 2025/2026. Our intention to expand and develop second petrochemical complex remains fully unchanged, and the pace will be subject to the stage-gated approach we have consistently adopted to ensure prudent and effective deployment of capital, underpinned by a strong equity base.

We are proud of the **Key Milestones** achieved for CAP 2, which stands us in good stead to take FID at the right time. This includes ongoing discussions with international Strategic Investors; obtaining sufficient land for plot plan; attaining shareholder approval for a pre-emptive rights issue to be executed subject to market conditions, Total Investment Cost of the project being US\$5 billion +/- 30% as affirmed by independent 3rd party professionals, confirmed tax holiday for 100% of Corporate Income Tax plus 2 years at 50% of Corporate Income Tax, funding plan clarity, and strong partnership interest from market-leading utility facility operators.

In Conclusion: The extremely challenging and extraordinary events that unfolded in the start of the year has somewhat impacted our Q1 2020 results. However, Chandra Asri is in an extremely strong position to respond to this crisis, and we are well placed for the rebound with a relentless focus on Business Continuity, Operational Excellence, and Financial Resilience.

Together with all our stakeholders, from our customers and suppliers through to employees, investors and financiers, we are confident of navigating the uncertainties and emerging strongly on the other side. With that, we'd like to open the floor for questions. Thank you.

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