

SECOND QUARTER 2020 EARNINGS UPDATE PRESENTATION TO MEDIA & ANALYSTS

Jakarta, 28 July 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. Welcome to Chandra Asri's second quarter 2020 Earnings Call. Thank you for joining us today. I hope that everyone is still in good health as we collectively navigate the global public health crisis.

In our last Earnings Call, I talked about the impact of the COVID-19 pandemic, and I told you about the important work we at Chandra Asri are carrying out to help the shifting needs of our clients, employees and stakeholders. Our work continues and we remain totally committed to progressing together.

Please read the **Forward-looking statement** disclaimer. During our call, we will make forward-looking statements regarding our expectations or predictions about the future. Because these statements are based on current assumptions and factors that involve risks and uncertainties, our actual performance and results may differ materially from our forward-looking statements.

Let me kick-off by sharing the **Management Overview** and Key Highlights of our Q2 2020 results, with these 4 key messages.

First, Improved Profitability. In Q2 2020, we have recorded US\$18 million positive EBITDA, marking a material and swift turnaround vs negative US\$13.5 million of EBITDA in Q1 2020. With this rebound, our YTD EBITDA is now positive, and this uptrend is expected to continue.

Second, Increased Resilience. Our financial resilience strategy to maintain maximum financial flexibility and our strong Balance Sheet is well on track. We closed Q2 2020 with a US\$931 million Liquidity Pool, with US\$649 million of cash, up from the corresponding US\$880 million Liquidity pool and US\$624 million of cash in Q1 2020.

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Third, an Enhanced Outlook. With the uptick in industrial activity especially in China and North East Asia, we have seen to strengthening demand for polymers. This factor, plus the reduction in naphtha prices in line with the decline in crude oil values, have increased polymer spreads by 20% to 30%, to industry mid-cycle profit levels.

Fourth, Strong Management Confidence. We are expecting a meaningful recovery in the second half of 2020, with a significant rebound since the petrochemical industry trough in Q1 2020. Hence, in July 2020 we have executed a full US\$125 million prepayment of secured term loan to reduce debt levels, whilst continuing to invest in our Digital Transformation and Sustainability Programme across our operational and financial activities together with industry leaders and long-term partners, to be the Industry 4.0 leader in Indonesia.

As shared in the prior Earnings Call, I outlined our **COVID 19 Key Strategic Imperatives** of Business Continuity, Operational Excellence and Financial Resilience. All this work continues, and we remain steadfast to emerge strongly through these challenging times. We continue to be guided by our north star principle, of taking all possible measures and precautions to protect and take care of the health and safety of our employees, community and stakeholders. We have worked closely with our customers to maintain continuous supply and support the re-start of the domestic industry. We have implemented and taken all objective measures closely with the government and health authorities, with strict adherence to public safety protocols. Our Covid-19 Task Force, which I chair together with Pak Suryandi, continues to meet daily and stay focussed on taking clear, decisive and swift actions to ensure Business Continuity.

One area I would like to highlight is our **COVID 19 focus to support front-line workers and the domestic Personal Protective Equipment (PPE) industry.** This crisis has reminded us of the selflessness and importance of frontline health workers, in taking on significant personal risk to ensure all of us can receive the care needed to everyone, everywhere. In times of need, every small effort and help counts. Throughout our history, Chandra Asri has had a firm commitment of coming to the aid of our surrounding communities during times of crisis, from natural disasters to health outbreaks. In addition to providing food aid, mask donations, PCR test-kits, and maintaining employment, here are other efforts Chandra Asri has focused on. On 10 June 2020, the Company together with the assistance of SCG Indonesia donated

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five positive-pressured swab booths to protect medical personnel from potential virus infection. This swab booth is an innovative solution using a pressure generator to allow the air inside the room to remain sterile, when medical personnel examines or take patient samples. We are also working with leading domestic suppliers to supply polypropylene that is used for face masks, and to produce hygienic swabs for COVID-19 PCR test kits.

Let me now move on to share about **Product Spreads**. The reduction in naphtha prices in line with crude prices, and the sustained polymer product demand, have contributed to margin uplift in the range of 20% to 30% since the industry trough in Q1 2020. In Q2 2020, Ethylene price was US\$577/Ton, PE price was US\$775/Ton, PP price was US\$874/Ton; against Naphtha price of US\$318/Ton, reflecting lower Brent crude oil prices which contracted to an average of US\$40 per barrel in Q2 2020 compared to US\$66 per barrel in Q2 2019. Overall, polymer spreads are now in the mid-cycle EBITDA range of US\$500 – 600 / ton, and we are cautiously optimistic for this to be maintained in the second half of 2020.

Our total **Production Volume** were higher in Q2 2020 at 1,774KT and total **Sales Volume** were maintained at 1,082KT for Q2 2020. With the 400KTA New Polyethylene plant coming on stream, Chandra Asri's PE production and sales volume have doubled compared to 2019. Butadiene and Styrene Monomer sales were reduced due to negative cash netback in line with global index prices, as Chandra Asri continues to stay focussed on taking proactive actions to manage and only produce where it makes commercial sense to do so, in maximising and protecting our long-term shareholder value.

YTD Q2 2020, all plants **Operating Rates** was recorded at 89% is mainly due to Butadiene and Styrene Monomer plants capacity being turned down for aforementioned commercial reasons, due to tight spreads. We experienced some unplanned downtime for our LLDPE plant in Q2 due to a technical issue, and operated in lower rate which brought down overall Polyethylene plant operating rates to 85%. However, our integration granted us flexibility, and we were able to swap to Ethylene sales at favourable spreads with domestic premiums via our dedicated pipelines connected to monomer customers. With that, let me now handover to Andre to discuss our financials, strategy and growth outlook.

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ANDRE

Thanks Khun Chatri. Good afternoon everyone. Now, I will take you through our Financial Performance, as well as Chandra Asri's strategic priorities and sustained focus on Profitable Growth.

We booked **YTD Q2 2020 Net Revenues** of US\$841 million compared to US\$1,054 million in same period last year, mainly due to lower Average Selling Prices (ASP) across all products of US\$777/T on average over the first 6 months this year vs US\$996/T in the corresponding period in 2019. As an indicator, average Polyethylene prices realized in for the year to the second quarter of 2020 dropped to US\$824/T from US\$1,170/T in the same period of 2019. Our sales volume remained stable at the level of 1,082KT in YTD Q2 2020 compared to 1,058KT in same period last year.

As you can see, Polyolefins is now our main Revenue driver with 66% contribution with the 400KTA Polyethylene and 110KTA Polypropylene plant expansions, followed by Olefin at 14%, Styrene Monomer at 12% and Butadiene at 8%. The increased integration enhances our capability and flexibility to capture more value across the petrochemical chain.

Our **Key Financials** for the first six months of 2020, on a year-to-date basis, is as follows: Gross Profit of -US\$11.2 million, EBITDA of +US\$4.5 million, Net Loss of US\$29.9 million.

I am pleased to note and share the turnaround in performance in the Second Quarter of 2020, picking up from the low points of the first Quarter of this year. The first phases of economic recovery, plus the decisive actions we had taken; such as reducing opex, optimizing working capital, and fundamentally staying focused on cash; have all begun to show in the results.

We have realized a high of 11% gross profit and 14% EBITDA margin in June, and as mentioned by Khun Chatri we are cautiously optimistic for this trend to continue moving forward. In view of this confidence and the turnaround in profitability, increased resilience, and enhanced outlook, we took the clear step forward of fully prepaying US\$ 125 million of long-term secured debt from our Liquidity Pool of US\$931 million to reduce our debt levels.

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With a **Robust Liquidity Pool** of US\$931 million, we are well-positioned to weather the uncertainty, manage the volatility, and emerge strongly at the rebound with the strong foundations of our US\$649 million cash and cash equivalents, increased US\$250 million available revolving credit facilities, and US\$32 million in marketable securities. We maintain a solid financial profile, underpinned by robust and ample liquidity, with full flexibility and access to the bank and bond capital markets at very competitive rates. We are also pleased with the extended and expanded unsecured and committed Revolving Credit Facilities from our key long-term relationship banks, DBS Bank and Bank Danamon.

We are on track towards delivering our **Streamlined Capex 2020 Budget**. Given the volatile macroeconomic situation, we took the decisive step forward to re-phase our capex, in line with our Financial Resilience strategic imperative. As shared in the last quarter, we reduced 2020 total planned capex of US\$430 million to US\$135 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, to maintain the continued strength of our Balance Sheet. As of June 2020, our total capex spending was US\$70 million which include US\$15 million for Asset Integrity, US\$15 million for Margin Improvement and US\$40 million for Growth Projects; which is well on track and fully in line with the full year capex spend of US\$135 million.

In particular, we continue to deploy capex and invest confidently in **Digital Transformation and Sustainability**. We have partnered with Bentley and Siemens to build the first automated digital twin in Indonesia, to serve as the full-fledged framework of an integrated platform for the digital management of all our plant asset documentation and data. This provides enhanced control and transparency of plant asset information, and will deliver a step-up in cost-efficiency, reliability and bottom-line performance for Chandra Asri to be the Industry 4.0 leader in Indonesia. Our second petrochemical complex expansion to meet Indonesia's growing demand will certainly benefit also from this digitalization and integration of end-to-end operations of world-scale operations, to optimize and fully unleash the economic benefits of operating as a single economic unit.

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We have also implemented DBS RAPID, real-time application programming interface, to digitize our cash management and treasury processes, enabling real-time fulfillment of transactions with instant execution, and actively collaborate, integrate and transact across Bank and Client systems on secure host-to-host protocols.

Chandra Asri believes that investment in renewable energy is key towards creating a cleaner future. To achieve that goal, Chandra Asri, working together with Total Solar, had invested in solar panels to power our laboratories, warehouses and office building in our plant area with solar energy. Our solar panel generates up to 347 MWh, equivalent to 1,252 GJ of renewable energy. This is now part of our total energy ecosystem to power our new fleet of electric forklifts, which is one of the first and largest fleets to be brought into Indonesia.

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, to 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 4.2 million tons per annum. The plant facility will be able to further process our Raffinate to create more added value of downstream products. This will also help the domestic Indonesian balance of payments in two pivotal ways: we will increase exports of MTBE that is used for gasoline blending, as an octane booster; and simultaneously reduce imports of Butene-1 that is used as the co-monomer feedstock of our PE production.

We resolutely continue to believe in the long-term attractiveness of the Indonesian petrochemical market. **CAP 2** timelines have been updated in line with the re-phasing of capex. Our target FID date for CAP 2 is now 2022. 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, subject to COVID-19 and public health considerations. We continue to discuss with shortlisted

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Strategic Investors, as well as market-leading utility facility operators. We also continue to assess the market situation for the execution of the rights issue.

In Summary: Chandra Asri remains financially resilient, and we will stay fully focused on taking clear and decisive actions to enhance our competitiveness. With the turnaround in profits, and stronger management confidence, we are investing in Digital Transformation and Sustainability to better serve our customers. We are stepping up on our operational and financial agility, fundamentally positioning ourselves to capture the growth and rebound in the inevitable market recovery. To conclude: We remain totally committed towards realizing the exciting growth opportunities that lie ahead for the Indonesian petrochemical market.

With that, we would like to open the floor for questions. Thank you.

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