

BOROUGE Q1 2024 EARNINGS CALL TRANSCRIPT

CORPORATE PARTICIPANTS

Samar Khan – Borouge – Vice President of Investor Relations

Hazeem Al Suwaidi – Borouge – Chief Executive Officer

Rainer Hoefling – Borouge – Chief Marketing Officer

Hasan Karam – Borouge – Chief Operating Officer

Jan-Martin Nufer – Borouge – Chief Financial Officer

CONFERENCE CALL PARTICIPANTS

Faisal Azmeh – Goldman Sach

Prateek Bhatnagar – HSBC

Afaq Nathani – International Securities

Shadab Ashfaq – Al Ramz

Giuseppe Villari – Morgan Stanley

TOTAL ATTENDANCE

More than 70 Participants (Analysts and Investors)

PRESENTATION

Operator

Good morning or good afternoon. Welcome to the Borouge Q1 2024 earnings management webcast. My name is Adam and I'll be your operator for today. If you'd like to ask a question at the Q&A portion of today's call, you may do so by pressing star followed by one on your telephone keypad. I will now hand the floor to Samar Khan to begin, so please go ahead when you are ready.

Samar Khan – Borouge – Vice President of Investor Relations

A warm welcome to everyone and thank you for joining Borouge's first quarter earnings call. My name is Samar Khan and I am the Vice President of Investor Relations at Borouge. I have with me today the Borouge management team, Chief Executive Officer Hazeem Al Suwaidi, Chief Marketing Officer Rainer Hoefling, Chief Operating Officer Dr Hasan Karam, and Chief Financial Officer Jan-Martin Nufer.

We'll begin with a short presentation by the management team in respect to performance for the first quarter as well as our outlook for the rest of 2024. We'll then open the call to your questions.

I'll now hand over to Hazeem to present highlights from the first quarter.

Hazeem Al Suwaidi – Borouge – Chief Executive Officer

Thank you, Samar, and thank you all for joining us today.

Borouge has delivered a very strong financial performance for the first quarter 2024, significantly beating market expectations in a challenging market environment. Performance was driven by improved pricing from our strategic focus on high value-added segments and regional optimisation, operational excellence and maintained cost efficiencies.

Borouge reported an excellent net profit of \$273 million in Q1, representing an increase of 37% on a year-on-year basis supported by higher pricing premia and disciplined cost management. Adjusted EBITDA in Q1 increased 23% versus the same period last year to \$567 million, representing an outstanding EBITDA margin of 44%. This is one of the highest EBITDA margins amongst our direct peers.

Strong cash conversion, industry-leading margins and robust balance sheet support our commitment to maintain a 2024 dividend of \$1.3 billion. This reflects our commitment to deliver exceptional shareholder value through market cycles.

I would like to spend a moment on our substantial and sustained EBITDA margin evolution over the last year, which is a key differentiator for us.

In Q1 '24, we reported an EBITDA margin of 44% which has been steadily increasing over the previous four quarters. This is mainly due to the successful execution of the Value Enhancement Program which delivered \$607 million positive impact in 2023.

Through the cycle, our unique business model supports our ability to deliver one of the highest EBITDA margins amongst our direct peer group. This strong margin profile is driven by our ability to command premia above product benchmark prices by focusing on high value add and differentiated products and geographic optimisation, our ability to sell our full production volumes even in the most challenging market conditions due to our well-established selling and distribution network and our long-standing partnerships in our core markets, our management approach to maintain a well-positioned cost base that supports our bottom line in an unstable pricing environment. All these value drivers hinge on our ability to deliver exceptional production volumes, high utilisation rates and excellent asset reliability.

I would like now to hand over to Rainer to provide the commercial update.

Rainer Hoefling – Borouge – Chief Marketing Officer

Thank you, Hazeem, and good afternoon, everyone.

In quarter 1 2024, blended average selling prices of Borouge across polyethylene and polypropylene were up 5% versus the previous quarter and down 5% year on year. In quarter 1, benchmark prices for both PE and PP were flat versus the previous quarter and down by 4% and 6% respectively on a year-on-year basis. Despite this challenging environment, Borouge was able to command relatively higher premia over benchmark prices, reflecting the Company's strategic focus on high value-add products.

In quarter 1, premia for PE and PP were both up 19% and 46% respectively versus quarter 4 2023. Premium for PE, \$222 per tonne, up by US\$35 per tonne versus last quarter. For polypropylene, US\$162 per tonne, up by US\$51 per tonne versus the previous quarter.

Polyolefin market prices improved slightly during quarter 1 mainly due to supply tightness following lower supply from North America and Middle East, and higher freight costs. China's economy returned to expansionary zone

with March PMI of 50.8, but market analysts are still cautious and await further signs of sustainable recovery. We expect prices to fluctuate within a narrow band in 2024 and pricing in quarter 2 2024 to be slightly lower than levels achieved in quarter 1 2024 for both PE and PP. That said, Borouge remains well-positioned versus industry peers and is expected to continue to deliver product premia above benchmarks due to its strategic focus on differentiated and durable products.

I will now briefly discuss sales volumes for the period before I ask Dr Hasan to take us through some operation highlights from the first quarter.

Quarter 1 2024 sales volumes remained healthy at 1,135 kilotons despite the feedstock-related turnaround in the quarter. Sales volumes for PE were down by 8% and for PP were down by 26% respectively on a quarter-on-quarter basis.

Our sales volumes from energy and infrastructure solutions represent 45% of overall sales volumes in quarter 1 versus 36% in the previous quarter. This is part of Borouge's strategy to focus on durable and high value-add products where we can realise higher pricing premia.

Borouge maintains its focus on innovation and strives to generate at least 20% of annual sales volumes from new products. The 2024 product pipeline includes new products offering differentiated solutions to our customers.

The Asia Pacific market continues to be the largest destination for sales with 58% of total sales volumes, followed by the Middle East and Africa with 39%. Other regions represent 4%.

Over to you, Dr Hasan.

Hasan Karam – *Borouge – Chief Operating Officer*

Thank you, Rainer, and good afternoon, everyone.

In Q1, we secured the highest product quality and asset reliability of 99%, demonstrating our operational and commercial excellence.

Production operated at utilisation rates of 106% and 81% for PE and PP respectively. This allowed us to deliver strong production volumes, mitigating the impact of the feedstock-related turnaround.

The Olefin Conversion Unit, OCU, also played an important role by maintaining a very high utilisation rate of 101% during the quarter.

As previously communicated, we are also planning the turnaround of the Borouge 3 plant expected to have a total volume impact of 330 kilotons. This is currently planned for Q4 2024.

Our turnarounds are part of Borouge's regular plant maintenance which keeps the Company's world-class asset base well maintained and supports industry-leading asset reliability and efficient and safe operations.

I will now hand over to Jan-Martin to discuss our financials.

Jan-Martin Nufer – Borouge – Chief Financial Officer

Thank you, Hasan, and good afternoon, everyone.

Overall, we are delighted to report a very strong net profit of US\$273 million for the first quarter in a challenging market environment. It represents an increase of 37% from the previous year.

Q1 revenue was recorded at USD\$1.3 billion, a 6% decline on a year-on-year basis and a 13% decline from the previous quarter. The 16% decline in total sales volumes was counteracted by a 5% increase in average selling prices due to our focus on high-value add segments during the quarter.

We delivered a strong EBITDA margin in Q1 2024 of 44% versus 33% in Q1 2023 and 40% in Q4 2023. This is reflecting our improved operational efficiencies.

Excellent production levels enabling strong sales, cost efficiencies and strategically managed sales volumes were successfully counteracting overall market softness.

On to the next slide, we will now look at costs, an area where again we continued to make progress.

In Q1 2024, our overall cost base, excluding depreciation and amortisation, declined by 20% as compared to the same period last year and 18% from the previous quarter. Total cost of goods sold, excluding again depreciation and amortisation, decreased by 24% on a year-on-year basis and 21% versus the previous quarter due to lower production volumes and one-off adjustments such as positive inventory effects.

Our selling and distribution expenses in Q1 2024 recorded a decline of 4% year on year, despite higher freight costs towards the later part of the quarter. General and admin expenses in Q1 increased by 7% from US\$46 million to US\$50 million on a year-on-year basis.

Borouge's first quartile position in the PE and PP cost curves, when combined with its ability to command premia against benchmarks, supports a very strong margin profile.

On to CapEx and cash flow, adjusted operating free cash flow in Q1 was very significant with US\$552 million. Cash conversion was recorded at 97%, one of the highest since IPO.

Further optimising the financial position and financing cost, a further loan prepayment of US\$100 million was done under the commercial facility. With this, a total of US\$950 million debt volume could be retired.

Dividend payment of US\$650 million was made in Q1 related to the full-year 2023 dividend commitment of US\$1.3 billion. Borouge intends to maintain a US\$1.3 billion dividend for 2024.

Borouge maintains premia above benchmark prices over the cycle, which contributes to a strong operating free cash flow and high through-the-cycle dividend paying capacity.

I will hand over to Hazeem to summarise and conclude.

Hazeem Al Suwaidi – Borouge – Chief Executive Officer

Thank you, Jan-Martin.

As mentioned earlier, we are still navigating a challenging market environment characterised by subdued global demand, geopolitical uncertainty and delayed recovery in the sector. I would like to highlight that Borouge continues to deliver strong results and has been performing ahead of market expectations across key financial metrics.

The Company will continue to focus on its core strategy in the high value-added products and regional optimisation to tactically navigate the softer pricing expected in Q2. In Q2, sales volumes are expected to return to normal levels, following the feedstock-related turnaround in Q1. Borouge is well-positioned from an overall cost basis for the rest of 2024, following the successful implementation of the Value Enhancement Programme in 2023. We continue to monitor the various geopolitical situations and to proactively manage and mitigate any risks and impact to our business.

As an update to our major strategic growth project, Borouge 4 has crossed the 60% completion mark and expected to be completed as scheduled. With the re-contribution of Borouge 4, our production capacity will increase by 1.4 million tonnes and is expected to add \$1.5 billion to \$1.9 billion to revenue annually after full ramp-up.

In addition, as part of our asset optimisation and debottlenecking programme, Borouge is currently also advancing plans for a second ethylene unit, EU2, to expand total production of olefins and polyolefins by a further 230 kilotons. After project completion 2028, the unit is expected to contribute \$220 million to \$250 million of annual revenue.

Additional growth is also being actively explored through international expansion opportunities as mandated by the Board. We are currently exploring an attractive growth opportunity in Asia Pacific region, which has entered the feasibility stage. We will provide further updates in due course.

Borouge is committed to driving innovation and value creation across the business and is implementing digitisation and artificial intelligence programmes to enhance efficiency across operations. These initiatives have started delivering value and we expect more to be realised in the near future.

We re-affirm Borouge's commitment to pay \$1.3 billion in dividends for 2024, offering a significant dividend yield of 6.5% on the current share price. Since the IPO, Borouge has paid substantial dividends of \$2.3 billion.

With that, we will open the floor for any questions.

Operator

As a reminder, if you would like to ask a question today, please press star followed by one on your telephone keypad now to enter the queue. When preparing to ask your question, please ensure your headset's fully plugged in and unmuted locally.

Our first question comes from Faisal Azmeh from Goldman Sachs. Faisal, your line is open. Please go ahead.

Faisal Azmeh – Goldman Sachs

Hi and congratulations on the strong set of numbers. Maybe two questions on my end.

Just in terms of the CapEx so far spent on Borouge 4, when you compare it with what was guided during the IPO, are you effectively realising any meaningful cost savings or should we expect the same level of CapEx to be spent on the project? That's my first question.

My second question relates to underlying demand in Asia. How have the issues in the Red Sea really impacted underlying demand in that part of the world? Are you seeing more supply coming from the Gulf into Asia? How are you mitigating this? Yes. Thank you.

Jan-Martin Nufer – Borouge – Chief Financial Officer

Yes. Thanks for the question. Jan-Martin here. Maybe let me answer the first question related to the CapEx for Borouge 4. I think we're pleased to report that we do not foresee at that stage any change in terms of the magnitude for the CapEx for Borouge 4 at that point. As Hazeem has been pointing out, we are making good progress, so the trajectory is heading towards the completion date as earlier communicated and the CapEx are within the earlier indications.

Rainer Hoefling – Borouge – Chief Marketing Officer

On the market side and Red Sea, so on the Red Sea side, what we have, more or less business as usual. Although there is some longer lead time to customers, but that we managed already. The logistic companies, the shipping companies, they enlarged their network there. Bit higher logistic cost, compensated by higher prices also. When it comes to growth, it was even a bit the opposite that there was more demand in the market based on this disruption. We could take some opportunity out of that, which means there is currently less supply into the Asian market on polyethylene that we could take the opportunity, also raise the polyethylene prices and, on the other side, Q2, some slightly increased logistic cost from Asia. There was less of polypropylene material into the Middle East region where we were able to significantly increase also the prices there, which you have seen, and also resulting into better premium.

But looking a bit forward, I think based on the fact that Panama Canal perhaps gets a bit more water so that the supply into Asia is looking up a little bit. On the other hand, if you look at the overall feedstock situation, what we see also, based on this slide, disruption, so the feedstock prices remain on a relatively high level. It came up around the 90 level. Also naphtha came up respectively. The analyst estimate is also that will remain in quarter 2 to quarter 3 as when, in this combination, we think that in quarter 2 price is coming down a little bit, but they remain then relatively stable in quite a narrow band. On the demand side, so not a lot of changes.

What we see here overall, perhaps a little bit, when I talk about market, cautious optimism of a soft landing globally. But when you look in our regions, that we had recently the Chinaplast but the last couple of days, there is a better sentiment than it was last year, so there is a bit of light in the tunnel. They estimate a better growth here in China. The other Southeast Asian regions, also the GCC, think with a solid growth. With this, we think that the overall year 2024 remains a solid year with demand and also on the price level side.

Faisal Azmeh – Goldman Sachs

Thank you very much.

Operator

The next question comes from Prateek Bhatnagar from HSBC. Prateek, your line is open. Please go ahead.

Prateek Bhatnagar – HSBC

Yes. Hey. Thanks a lot for taking my question. I have two.

With respect to your growth, both organic and inorganic, which product chains look attractive to you in the long term? Are you looking to diversify into other product chains apart from polyolefins? That's the first question.

The second question is on the feedstock-related shutdown of the feed supply. If propylene feed supply from ADNOC would have been usual, what would have been the EBITDA margin in Q1? Thanks.

Hazeem Al Suwaidi – Borouge – Chief Executive Officer

I can take the first one. [When] it comes to our growth, whether it's organic, whether it's inorganic. I would just like to remind everyone we are fundamentally based on a very strong foundation when it comes to our joint venture between ADNOC and Borealis based on technological leading-edge - it's called Borealis Borstar Proprietary Technology. This is a unique technology in polyethylene and polypropylene. We had been growing significantly in this specific area within PE, PP because this is a business we know very well. Based on a very strong support on feedstock from ADNOC and leading-edge technology from Borealis Borstar, we have the right recipes to make this a competitive-edge solution when it comes to polyethylene and polypropylene. As we have seen throughout the years, over the last 25 years, we have been investing primarily in PE and PP. With Borouge 4 also, as you have seen, we have completed 60% of the project. That's also primarily PE with the latest technology of Borstar third-generation technology for our plant and on Borouge 4. That will enable us also to go more towards more specialty products with Borouge 4. There is no intention to invest in any different, I would say, business besides polyolefins but we will make sure to evaluate all the possible good business opportunities that we can implement and build further synergies. Yeah.

Hazeem Al Suwaidi – Borouge – Chief Executive Officer

...till we make sure we'll evaluate all the possible good businesses that can implement and best offer synergy for our business. Yes, add some also on EBITDA margin.

Jan-Martin Nufer – Borouge – Chief Financial Officer

Yes. Thanks for the other question in respect to the EBITDA margin. First of all, very happy to see the trajectory that we have been taken that was depicted in the presentation in terms of the EBITDA margin. If you would now look at the first quarter and take out the single effects in the quarter, you would still be looking at an EBITDA margin in the magnitude of 40%-plus. That's what you can expect in terms of the trajectory if you look at the development that we have been depicted from the last five quarters onwards.

Prateek Bhatnagar – HSBC

Thanks a lot. Very helpful.

Operator

The next question comes from Afaq Nathani from International Securities. Your line is now open. Please go ahead.

Afaq Nathani – *International Securities*

Hi. Thank you for taking my question and congratulations on a great set of numbers. Just one thing on the side. We've seen the product premiums, seen the significant jump in q-on-q. That's always very encouraging to see. Just trying to understand what is driving this momentum and what should we be expecting going forward? I know the medium-term guidance has been communicated and stays the same, but maybe a little bit on how should we be looking at this in the near term? Thank you.

Rainer Hoefling – *Borouge – Chief Marketing Officer*

Yes. On the premium side, the driver, what I said already is everything so the one is obviously the product mix, how you position this. So we were selling in the first quarter, quite significant volumes on the infrastructure side. Then this driving, of course, also the premium up. On the other side, with the volume we were selling, we had a significant price increase also in the Middle East on polypropylene. Then also on the regional mix, we were selling on the mix side more to the Middle East region, which was driving the premium quite up. That tells you what we discussed already in the last couple, one-and-a-half years.

When the opportunity comes, we have to put opportunity and agility with our set-up what we have, either to technically position also the volumes [either] if we can. On the other side, with the differentiation, what we have in the product, when there's an opportunity we can also drive the price premium up. As I said in the future, the volumes will go up. Either it will normalise a little bit - so we will also sell then a bit more in the other regions again. Perhaps the premium come down a little bit. Also, as I said, in quarter 2, perhaps prices come down a little bit. But over the cycle, we reiterate our premium of \$200 and \$140.

Afaq Nathani – *International Securities*

Understood. That's very clear. Thank you so much.

Operator

As a reminder, that's star followed by one on your telephone keypad to ask a question today. The next question comes from Shadab Ashfaq from Al Ramz. Shadab, your line is open. Please go ahead.

Shadab Ashfaq – *Al Ramz*

Hello. Congratulations on a strong set of results. Thank you for taking my questions, so I have two questions.

First of all, regarding the sustainability of the higher premia on the product, so should we anticipate a downward trend in the coming quarters? In this quarter, we have a recorded relatively higher premium.

My second question's on the dividend with the potential impact from the B4 expansion and inorganic opportunity in the Asia Pacific region, so how confident you are in effectively managing the current dividend payouts?

[Aside discussion]

Rainer Hoefling – *Borouge – Chief Marketing Officer*

Yes, the first question I, in principle, answered already so but first of all, we reiterate our commitment over the cycle of \$140 premium for polypropylene and \$200 for polyethylene. But as said, in quarter 1, the driver was, on one side, the product mix and segment mix. We were selling quite significant volumes in the infrastructure segment, it was up to 45% in quarter 1, which delivers a good premium.

On the other side, also based on these logistic disruptions. There was also some trade flow changes, less polypropylene into the Middle East where we could then take the opportunity of shipping more to the Middle East with a 45% share on the Middle East side in quarter 1 and increasing significantly the polypropylene prices here. But we see prices coming down a little bit in quarter 2, at the beginning of quarter 2, stabilising now based on a good feedstock. So with this also with more sales also in quarter 2 and quarter 3, but you're selling then more also to Asia North and then Asia South again, which brings the premium perhaps a little bit down. But overall we reiterate our commitment over the cycle to raise premium.

Jan-Martin Nufer – *Borouge – Chief Financial Officer*

If I take then the second question in respect to the B4 expansion and the international growth and the impact on the balance sheet, respectively the dividend payout, I'd like to reiterate that we continue our prudent approach in terms of the financial management of the Company. We have, as you can see, a very robust balance sheet, so we are very confident to manage the dividends going forward, including the B4 [re-contribution] which is fully factored in into our considerations. If we look into additional international growth, if and when it materialises, we will also structure that accordingly to be able to live up to the dividend expectations.

Shadab Ashfaq – *Al Ramz*

Okay. Thank you.

Operator

The next question comes from Giuseppe Villari from Morgan Stanley. Giuseppe, your line is open. Please go ahead.

Giuseppe Villari – *Morgan Stanley*

Hello. Thank you for taking my question. I have one, if I may, on the potential Asian expansion. Will it be greenfield or acquiring a stake on an existing project? Yes, what are your thoughts about that?

Hazeem Al Suwaidi – *Borouge – Chief Executive Officer*

As we have communicated, we have been mandated by the Board to seriously look for further potential investments for the Company. We are at a feasibility stage now. It's moving in the right direction. The evaluation is going forward in the right direction, I would say. We'll provide more details as we have more details. In the right time, I think we'll provide you with more materials. But I think what's more important for us is that this opportunity makes sense for Borouge expansions together with Borouge 4. Further also with this international investment

we will make, we will make sure that the synergy is in the right set-up for Borouge and ensuring that it will have the best financial impact on the Company as well. We'll provide more details once we progress with evaluating this opportunity further.

Giuseppe Villari – *Morgan Stanley*

Okay. Thanks. If I may follow up, how do you see the economics of a project in Asia versus the Middle East?

Hazeem Al Suwaidi – *Borouge – Chief Executive Officer*

Do you want to take this, Jan-Martin?

Jan-Martin Nufer – *Borouge – Chief Financial Officer*

That's fine. I think if we compare it obviously to the operations that we have here with our unique positioning in Ruwais, this is a very specific set-up which cannot be replicated as you know. But when we're looking into the potential expansion and the international growth as we have been depicting it, we will make sure that the product is meeting all our hurdle rates in terms of the attractiveness. We'll look into that one, as Hazeem has been pointing out, very carefully in terms of the financial contribution which obviously needs to be positive for the Company.

Giuseppe Villari – *Morgan Stanley*

Okay, very clear. Thank you.

Operator

A final reminder, that's star followed by one on your telephone keypad to ask a question today. As we have no further questions, I'll hand the call back to CEO Hazeem Al Suwaidi for any concluding remarks.

Hazeem Al Suwaidi – *Borouge – Chief Executive Officer*

I just want to thank everyone for joining us for this call. Looking forward to do more engagements in the near future. Thank you, everyone.

Operator

This concludes today's call. Thank you very much for your attendance. You may now disconnect your lines.

THE END