BOROUGE PLC – Q4 and FY2022

Management Discussion & Analysis

02 February 2023

INSPIRING TOMORROW

1. Summary of Operational & Financial Performance

Borouge Plc reported full year 2022 revenue of $6,727 million, representing a year-on-year growth of 8%. The increase in revenue was driven by a 15% increase in sales volumes, more than offsetting the 7% decline in average selling prices during the year.

Fourth quarter revenue was down 5% quarter-on-quarter, primarily due to a 12% decline in average selling prices which was partially offset by sales volume growth of 6%. Overall pricing was impacted by an oversupplied market resulting in lower underlying IHS Markit benchmark pricing and lower premia over benchmark realized as compared to the prior period.

During the fourth quarter, operating profit decreased on lower average selling prices with a flat overall cost base quarter-on-quarter. In the fourth quarter, Borouge generated adjusted EBITDA of $541 million, down 9% versus the previous quarter and net income of $247 million, down 20% versus the previous quarter. Full year 2022 adjusted EBITDA was $2,646 million, down 3% year-on-year. Full year 2022 net income was $1,409 million, down 8% year-on-year.

Cashflow conversion in the fourth quarter was 86% versus 95% in the previous quarter, reflecting higher investment activity in the fourth quarter mostly due to operations expenses related to LDPE and B2 Turnaround. Net debt remained stable at approximately 1.1x net debt / EBITDA.

	Three Months Ended			Twelve Months Ended	
	31 December 2022	30 September 2022	31 December 2021	31 December 2022	31 December 2021
Total sales volumes (kt)	**1,415**	**1,341**	**1,143**	**5,083**	**4,422**
…Polyethylene	733	681	661	2,676	2,509
…Polypropylene	628	544	466	2,126	1,772
…Ethylene and others	54	116	16	281	141
Average selling price ($/t)					
…Polyethylene	1,116	1,271	1,441	1,318	1,421
…Polypropylene	1,016	1,133	1,432	1,222	1,313
Product premia ($/t)					
…Polyethylene	217	304	323	311	334
…Polypropylene	117	184	260	208	147

	Three Months Ended (Unaudited, Pro Forma)			Twelve Months Ended (Unaudited, Pro Forma)	
	31 December 2022	30 September 2022	31 December 2021	31 December 2022	31 December 2021
	US$MM	**US$MM**	**US$MM**	**US$MM**	**US$MM**
Revenue	**1,593**	**1,674**	**1,694**	**6,727**	**6,216**
Cost of sales	(1,010)	(992)	(903)	(3,792)	(3,233)
Gross profit	**583**	**681**	**791**	**2,935**	**2,983**
General and administrative expenses (excluding D&A)	(59)	(35)	(34)	(176)	(147)
Selling & distribution expense	(148)	(192)	(150)	(703)	(483)
Other income and expenses	13	3	(154)	19	27
Operating profit	**388**	**457**	**453**	**2,075**	**2,208**
Profit for the period	**247**	**308**	**299**	**1,409**	**1,528**
Profit margin (%)	*16%*	*18%*	*18%*	*21%*	*25%*
Total comprehensive income for the period	269	302	304	1,419	1,529
Adjusted EBITDA(1)	**541**	**593**	**543**	**2,646**	**2,725**
Adjusted EBITDA margin (%)	*34%*	*35%*	*32%*	*39%*	*44%*
Basic earnings per share (US$)	0.01	0.01	0.01	0.05	0.05
Diluted earnings per share (US$)	0.01	0.01	0.01	0.05	0.05
Net debt	3,010	3,094	3,476	3,010	n/a

(1) Adjusted EBITDA is calculated as EBITDA plus adjustments on foreign exchange gain or loss and impairment loss on property, plant and equipment

2. Operational Review

Borouge grew overall production capacity by 8% in 2022 due to the new PP5 unit adding 21% more polypropylene capacity compared to the previous year. This new unit initially started production with base grades, but from the third quarter onwards, the Company has been successfully introducing more differentiated grades into the production mix.

	Three Months Ended			Full Year	
	31 December 2022	30 September 2022	31 December 2021	31 December 2022	31 December 2021
Production capacity (kt)	**1,244**	**1,244**	**1,134**	**4,875**	**4,500**
…Polyethylene	693	693	693	2,750	2,750
…Polypropylene	551	551	441	2,125	1,750
Utilisation rate					
…Polyethylene	99%	90%	89%	91%	81%
…Polypropylene	104%	97%	97%	95%	98%

Plant utilisation grew quarter-on-quarter due to a strong operational performance in the fourth quarter across all assets including the fully ramped-up new PP5 plant.

The Low-Density Polyethylene (“LDPE”) unit is expected to resume operations in the first quarter of 2023, with good progress having been made on preparations for restart. The LDPE unit is one of 16 units at the Ruwais production complex. In order to mitigate the LDPE shutdown impact, Borouge continues to internally produce significant extra volumes of propylene, maximizing the conversion of ethylene via its Olefin Conversion Unit (“OCU”), which ran at a near 100% utilisation rate during the period. This operational asset flexibility is considered one of the key competitive advantages of Borouge. Maximising internal Propylene resulted in a significant feedstock advantage versus purchased propylene in the current market, even after conversion expenses. This internal polypropylene production has helped significantly to mitigate the LDPE shutdown impact. Borouge is working closely with Borealis to provide supply continuity for those customers buying XLPE.

3. Revenue & Pricing

	Three Months Ended			Full Year	
	31 December 2022	30 September 2022	31 December 2021	31 December 2022	31 December 2021
Sales volumes by product (kt)					
…Polyethylene	733	681	661	2,676	2,509
…Polypropylene	628	544	466	2,126	1,772
…Ethylene and others	54	116	16	281	141
Polyethylene (US$ / t)					
…Average sales prices	1,116	1,271	1,441	1,318	1,421
…Premia	217	304	323	311	334
...Benchmark	899	967	1,118	1,007	1,087
Polypropylene (US$ / t)					
…Average sales prices	1,016	1,133	1,432	1,222	1,313
…Premia	117	184	260	208	147
…Benchmark	899	949	1,172	1,014	1,166

	Three Months Ended (Unaudited, Pro Forma)			Full Year (Unaudited, Pro Forma)	
	31 December 2022	30 September 2022	31 December 2021	31 December 2022	31 December 2021
Revenue by product	**(US$MM)**	**(US$MM)**	**(US$MM)**	**(US$MM)**	**(US$MM)**
…Polyethylene	880	941	988	3,775	3,547
…Polypropylene	672	648	687	2,706	2,538
…Ethylene and others	41	85	19	247	132
Total revenues	**1,593**	**1,674**	**1,694**	**6,727**	**6,216**

(1) Benchmark prices represent HDPE Blow Molding NEA CFR and polypropylene Raffia NEA CFR prices as per IHS Markit data.
(2) Average sales prices are equal to revenue over sales volumes (including commissions).
(3) Premia is equal to the difference between average sales prices and the benchmark prices.

Fourth quarter sales volumes grew by 6% versus the prior quarter reflecting strong Borouge market presence, reasonable demand towards year end supported by higher underlying production and ramp-up of PP5.

Sales volumes from energy & infrastructure solutions represent 45% of total polyolefin sales volumes in 2022 versus 38% in 2021, representing a year-on-year growth in segment volumes of 27% versus overall polyolefin sales volume increase of 12%, or 15% including Ethylene and other sales. This is part of Borouge's strategy to focus on durable products for industrial applications. Specifically, sales volumes of PE100, a key premium product used in infrastructure applications, have contributed positively to the overall sales mix outcome. The Asia Pacific market continues to be the largest destination for sales.

Benchmark pricing declined in the fourth quarter versus the prior quarter, driven by an overall weaker pricing environment, global economic uncertainty, and ample supply. However, after the announcement that China will reverse its zero-COVID policy and reopen, prices stabilized and slightly recovered from mid-December onwards. In the fourth quarter, there was premia compression from the previous quarter and relative to the exceptional premia levels achieved in the first half of the year. Management maintains its over-the-cycle premia guidance for both PE ($200 per tonne) and PP ($140 per tonne). FY 2022 premia for both PE and PP remained above the over-the-cycle guidance with premia of $311 per tonne and $208 per tonne, respectively. In the fourth quarter, premia for PE and PP were $217 and $117 per tonne, respectively.

Segmental revenue breakdown

	Three Months Ended			Full Year	
	31 December 2022	30 September 2022	31 December 2021	31 December 2022	31 December 2021
By product group					
…Polyethylene	55%	56%	58%	56%	57%
…Polypropylene	42%	39%	41%	40%	40%
…Ethylene and others	3%	5%	1%	4%	3%
By end market					
…Consumer solutions	48%	45%	54%	48%	56%
…Infrastructure solutions	46%	47%	43%	46%	38%
…Other	6%	8%	3%	6%	6%
By geography					
…Asia Pacific	67%	65%	58%	63%	59%
…Middle East & Africa	27%	29%	34%	31%	33%
…Rest of World	6%	6%	9%	6%	9%

(1) Consumer Solutions includes sales to the agriculture sector.
(2) "Other" in "By End Markets" includes approximately 0.1Mt to the mobility and healthcare sectors and approximately 0.1Mt of ethylene and other products.

4. Costs

	Three Months Ended (Unaudited, Pro Forma)			Full Year (Unaudited, Pro Forma)	
	31 December 2022	30 September 2022	31 December 2021	31 December 2022	31 December 2021
	US$MM	**US$MM**	**US$MM**	**US$MM**	**US$MM**
Revenue	**1,593**	**1,674**	**1,694**	**6,727**	**6,216**
Cost of sales (excluding D&A)	(861)	(858)	(816)	(3,237)	(2,719)
…Feedstock costs	(331)	(342)	(303)	(1,266)	*(1,170)*
…Other variable and fixed production costs	(530)	(516)	(513)	(1,971)	*(1,549)*
…as % of revenue	*53%*	*51%*	*48%*	*48%*	*44%*
General and administrative expenses (excluding D&A)	(59)	(36)	(34)	(176)	(147)
…as % of revenue	4%	*2%*	2%	3%	2%
Selling and distribution expenses	(148)	(192)	(150)	(703)	(483)
…as % of revenue	*9%*	*11%*	*9%*	*10%*	8%
Other income and expenses	13	3	(154)	19	(145)
Depreciation and amortization	(149)	(134)	(87)	(555)	(514)
Operating profit	**388**	**457**	**453**	**2,075**	**2,208**
…as % of revenue	*24%*	*27%*	*27%*	*31%*	*36%*
Total operating costs / tonne of production	*921*	*952*	*1,174*	*972*	*906*

During the fourth quarter, revenue declined by 5% and total costs fell by 1%. As a result, operating profit was down by 15% to $388 million in the fourth quarter. The operating profit margin declined to 24% vs. 27% in the prior quarter.

Overall costs per tonne were down 3% in the fourth quarter versus the previous quarter, primarily driven by lower selling & distribution costs. The overall cost base remained flat quarter-on-quarter on higher production volumes. In the fourth quarter, aggregate selling and distribution costs were down 23% versus the previous quarter. G&A expenses increased over the period due to one-off effects, primarily associated with manpower costs.

5. Cash Generation

	Three Months Ended (Unaudited, Pro Forma)			Full Year (Unaudited, Pro Forma)	
	31 December 2022	30 September 2022	31 December 2021	31 December 2022	31 December 2021
	US$MM	**US$MM**	**US$MM**	**US$MM**	**US$MM**
Profit for the period	247	308	299	1,409	1,528
Income tax expense	95	123	149	564	674
Net finance loss, including foreign exchange loss	46	27	5	102	7
Depreciation of property, plant and equipment	143	128	79	530	486
Depreciation of right-of-use assets	1	1	1	4	5
Amortisation of intangible assets	5	4	8	21	23
Impairment loss on property, plant & equipment	4	2	2	16	
Adjusted EBITDA (1)	**541**	**593**	**543**	**2,646**	**2,725**
Capital expenditure (2)	76	29	98	189	254
Adjusted operating free cash flow (3)	465	564	445	2,457	2,469
Cash conversion (%)	*86%*	*95%*	*82%*	93%	*91%*

(1) Adjusted EBITDA is calculated as EBITDA plus adjustments on foreign exchange gain or loss and impairment loss on property, plant and equipment.
(2) Capital expenditure is calculated as additions to property, plant and equipment for the period.
(3) Adjusted Operating Free Cash Flow is calculated as Adjusted EBITDA less capital expenditure.

Adjusted EBITDA in the fourth quarter declined by 9% to $541 million versus the prior quarter, primarily reflecting the decline in average selling prices. Borouge generated $465 million of adjusted operating free cashflow during the fourth quarter at a conversion rate of 86% versus 95% in the previous quarter, reflecting higher investment activity in the fourth quarter mostly into operations expenses related to LDPE and B2 Turnaround.

6. Current Trading & Outlook

Borouge management recognises signs of slower economic activity in developed markets, however, economic activity in its core Asia Pacific and Middle East markets remains relatively better with economic growth rates ahead of developed economies. Market sentiment improved after China announced nationwide loosening of Covid conditions. Borouge expects stable polyolefin demand growth in its core territories.

Current significantly softer pricing levels reflect the global demand and supply situation and industry-wide feedstock prices observed during the period. Benchmark prices for PE and PP have come down across all regions, with an improving trend emerging from mid-December onwards. Borouge management re-iterates the over-the-cycle premia guidance for both PE ($200 per tonne) and PP ($140 per tonne), reflecting the differentiated product mix and Borouge's ability to capture regional demand and price opportunities. Despite market challenges, the Company continues to successfully place volumes and be tactical about the markets it addresses in response to changes in demand.

Further, Borouge's core strategy of developing innovative products and continuous innovation supports its premium pricing. In 2022, Borouge launched 10 new products including a new Random polypropylene packaging portfolio based on the new non-phthalate catalyst. The launch of these new PP products will facilitate phasing out of the existing phthalate catalyst while supporting our differentiation objective. Borouge has taken a proactive approach in promoting the benefits of non-phthalate content in consumer goods while supporting the development of a regulatory framework like that currently in Europe. In the area of Circular Economy, Borouge implemented several mono-material projects in collaboration with the value chain, and by establishing 12 recycling partnerships in 7 different countries.

The planned turnaround of Borouge 2 is underway and is expected to commence end of January and run until March 2023, with a volume impact of approximately 200kt during that period. The turnaround of Borouge 2 is part of Borouge's regular plant maintenance schedule, which keeps the Company's world-class asset base well-maintained and supports industry-leading asset reliability, and efficient and safe operations.

In response to the prevailing market challenges and to sustain its competitive positioning, Borouge has launched a $400 million value enhancement programme, with implementation having already partially started in the fourth quarter itself. The programme is focused on high-impact cost efficiency initiatives and revenue optimization. Most of the programme value relates on the cost side to savings in logistics variable costs the remainder in conversion variable and fixed costs, as well as significant revenue enhancement initiatives.

The programme targets a $400 million positive impact to EBITDA in 2023, most of which is expected to be achieved during the second half of the year and offsetting anticipated market pressures. Thereafter, Borouge management expects to sustain this positive EBITDA impact from 2024, versus a full-year 2022 baseline.

Based on recent performance and business outlook, Borouge reiterates its commitment to pay $975 million in post-IPO dividends to shareholders for Financial Year 2022 (of which $325 million has already been paid), and at least $1.3 billion in dividends for Financial Year 2023.

The Company will announce its Q1 2023 results on 28 April 2023.