

BOROUGE PLC Q1 2024

Management Discussion & Analysis

30th April 2024



1. Summary of Operational & Financial Performance

The Company reported first quarter revenue of \$1,302 million, representing a quarter-on-quarter decline of 13 percent, primarily due to a 16 percent drop in sales volumes impacted by feedstock-related operational turnaround. Average selling prices for both Polyethylene (PE) and Polypropylene (PP) were up 4 percent and 6 percent on a quarter-on-quarter basis. Sales volumes for Polyethylene (PE) and Polypropylene (PP) were down by 8 percent and 26 percent respectively versus the previous quarter. Utilisation rates remained high at 106 percent for PE and 81 percent for PP.

On a year-on-year basis, overall sales volumes are down by 2 percent whereas sales volumes for PE are up by 20 percent and PP are down by 8 percent. Blended average selling prices moderately declined by 5 percent, on year-on-year basis while selling prices for PE and PP are down by 7 percent and 3 percent respectively.

Borouge achieved a Premia above benchmark price of \$222 per tonne for PE and \$162 per tonne for PP during the first quarter, up 19 percent and 46 percent respectively, from the previous quarter. On a year-on-year basis, premium above benchmark for PE is down 16 percent while PP is up by 18 percent.

The company reported an adjusted EBITDA of \$567 million, up 23 percent on a year-on-year basis and a healthy margin of 44 percent versus 33 percent for the same period last year. Total cost base declined 20 percent on a year-on-year basis and 18 percent from the previous quarter.

Cash conversion of 97 percent during the quarter is one of the highest ever achieved since IPO. Net Debt stood at \$2,423 million as of 31 March 2024 (vs \$2,957 million in Q4 2023, down 18 percent).

	Q1 2024	Q1 2023	YoY (%)	Q4 2023	QoQ (%)
	\$m	\$m		\$m	
Revenue	1,302	1,382	-6%	1,497	-13%
Cost of sales	(730)	(914)	-20%	(896)	-19%
Gross profit	572	467	22%	601	-5%
General and administrative expenses (excluding D&A)	(51)	(46)	11%	(52)	-1%
Selling & distribution expense	(96)	(100)	-4%	(100)	-4%
Other income and expenses	4	5	-20%	3	23%
Operating profit	429	327	31%	452	-5%
Profit for the period	273	199	37%	288	-5%
<i>Profit margin (%)</i>	21%	15%		19%	
Total Comprehensive Income	279	201	39%	285	-2%
Adjusted EBITDA(1)	567	460	23%	600	-6%
Adjusted EBITDA margin (%)	44%	33%		40%	
Basic earnings per share (US\$)	0.01	0.01		0.01	
Diluted earnings per share (US\$)	0.01	0.01		0.01	
Net debt	2,423	3,277	-26%	2,957	-18%

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

	Q1 2024	Q1 2023	YoY (%)	Q4 2023	QoQ (%)
Total sales volumes (kt)	1,135	1,157	-2%	1,359	-16%
Polyethylene	688	573	20%	751	-8%
Polypropylene	447	488	-8%	608	-26%
Ethylene and others	-	96	-100%	-	-
Average selling price (\$/t)	1,095	1,147	-5%	1,039	5%
Polyethylene	1,122	1,202	-7%	1,077	4%

Polypropylene	1,051	1,082	-3%	991	6%
Product premia (\$/t)					
Polyethylene	222	264	-16%	187	19%
Polypropylene	162	137	18%	111	46%

2. Operational Review

During the first quarter, a feedstock-related operational maintenance was successfully carried out as planned. In the first quarter, production operated at high utilisation rates of 106 percent and 81 percent for PE and PP, respectively. The Olefin Conversion Unit (OCU) was maintained at a high utilization rate of 101 percent during the quarter and supported in mitigating the lower propylene supply due to the feedstock-related turnaround.

Ethylene is typically prioritized for use in maximizing PE production and the additional quantities are sent to the OCU. Any excess ethylene can be sold in the market.

	Q1 2024	Q1 2023	YoY (%)	Q4 2023	QoQ (%)
Production capacity (kt)	1,238	1,228	1%	1,255	-1%
Polyethylene	684	678	1%	693	-1%
Polypropylene	554	550	1%	562	-1%
Utilisation rate					
Polyethylene	106%	78%	35%	112%	-6%
Polypropylene	81%	81%	0%	99%	-19%

A planned turnaround of the Bourouge 3 plant is scheduled to take place in Q4 2024 with an estimated volume impact of 330kt.

Bourouge continues to maintain its strategic focus on delivering innovative, high value added and differentiated products to its customers. We remain committed to operational and commercial excellence, with a detailed efficiency enhancement strategy focused on safety, plant reliability and integrity, and opex optimisation.

3. Revenue & Pricing

	Q1 2024	Q1 2023	YoY (%)	Q4 2023	QoQ (%)
Sales volumes by product (kt)	1,135	1,157	-2%	1,359	-16%
Polyethylene	688	573	20%	751	-8%
Polypropylene	447	488	-8%	608	-26%
Ethylene and others	-	96	-100%	-	-
Polyethylene (US\$ / t)					
Average sales prices	1,122	1,202	-7%	1,077	4%
Premia	222	264	-16%	187	19%
Benchmark	901	938	-4%	890	1%
Polypropylene (US\$ / t)					
Average sales prices	1,051	1,082	-3%	991	6%
Premia	162	137	18%	111	46%
Benchmark	889	945	-6%	880	1%

	Q1 2024	Q1 2023	YoY (%)	Q4 2023	QoQ (%)
Revenue by product	\$m	\$m		\$m	
Polyethylene	810	758	7%	858	-6%

Polypropylene	483	555	-13%	620	-22%
Ethylene and others	9	69	-86%	19	-51%
Total revenues	1,302	1,382	-6%	1,497	-13%

(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.

A moderate increase in selling prices counteracted the decline in sales volumes during the quarter. Sales volumes for the period are recorded at 1,135 kt, down 16 percent from the previous quarter and down 2 percent on a year-on-year basis.

Sales volumes from Polyethylene (PE) and Polypropylene (PP) account for 61 percent and 39 percent of total sales volumes for the first quarter. Sales volumes from infrastructure solutions account for 45 percent of total volumes sold during the quarter, exhibiting Borouge's strategic focus on high value-add segments and ability to realise higher average selling prices versus product benchmarks.

The Asian market continues to be the top destination for Borouge's differentiated products with 58 percent of sales volumes, followed by Middle East and Africa at 39 percent.

Borouge achieved a premia over benchmark of \$222 per tonne for PE and \$162 per tonne for PP, both above management's through-the-cycle guidance of \$200 per tonne for PE and \$140 per tonne for PP.

During the quarter, blended average selling prices increased 5 percent from the previous quarter. Average selling prices for PE and PP are up by 4 percent and 6 percent respectively. Premia above benchmark prices for PE and PP are up by 19 percent and 46 percent on a quarter-on-quarter basis while benchmark prices for both PE and PP improved by 1 percent during the quarter. Premium above benchmark for PE is down 16 percent while for PP increased by 18 percent on a year-on-year basis.

The Company maintains its focus on innovation, with approximately 20 percent of Borouge's annual sales volume comprised of new products. The 2024 product pipeline includes new applications including the introduction of healthcare grades.

Segmental revenue breakdown (includes polyolefins and olefins)

	Q1 2024	Q1 2023	YoY (%)	Q4 2023	QoQ (%)
By product group					
Polyethylene	62%	55%	13%	57%	9%
Polypropylene	37%	40%	-8%	41%	-10%
Ethylene and others	1%	5%	-85%	1%	-44%
By end market					
Consumer solutions	49%	45%	9%	56%	-11%
Infrastructure solutions	47%	48%	-1%	40%	18%
Other	3%	7%	-52%	4%	-23%
By geography					
Asia Pacific	57%	59%	-3%	63%	-9%
Middle East & Africa	38%	29%	32%	29%	30%
Rest of World	4%	7%	-50%	6%	-44%
Ethylene & others	1%	5%	-85%	1%	-44%

(1) Consumer Solutions includes sales to the agriculture sector.

(2) "Other" in "By End Markets" includes mobility and healthcare sectors and ethylene and other products.

Segmental volume breakdown (includes polyolefins and olefins)

	Q1 2024	Q1 2023	YoY (%)	Q4 2023	QoQ (%)
By product group					
Polyethylene	61%	50%	22%	55%	10%
Polypropylene	39%	42%	-7%	45%	-12%
Ethylene and others	0%	8%	-100%	0%	-

By end market					
Consumer solutions	53%	49%	8%	61%	-13%
Infrastructure solutions	45%	41%	9%	36%	23%
Other	2%	10%	-76%	3%	-8%
By geography					
Asia Pacific	58%	56%	3%	63%	-9%
Middle East & Africa	39%	28%	37%	30%	28%
Rest of World	4%	7%	-48%	7%	-45%
Ethylene & others	0%	8%	-100%	0%	-

(1) Consumer Solutions includes sales to the agriculture sector.

(2) "Other" in "By End Markets" includes mobility and healthcare sectors and ethylene and other products.

4. Costs

	Q1 2024	Q1 2023	YoY (%)	Q4 2023	QoQ (%)
	\$m	\$m		\$m	
Revenue	1,302	1,382	-6%	1,497	-13%
Cost of sales (excluding D&A)	(594)	(781)	-24%	(754)	-21%
...Feedstock costs	(252)	(375)	-33%	(335)	-25%
...Other variable and fixed production costs	(343)	(406)	-16%	(419)	-18%
...as % of revenue	46%	57%		50%	
General and administrative expenses (excluding D&A)	(50)	(46)	7%	(47)	5%
...as % of revenue	4%	3%		3%	
Selling and distribution expenses	(96)	(100)	-4%	(100)	-4%
...as % of revenue	7%	7%		7%	
Other income and expenses	4	5	-20%	3	23%
Depreciation and amortization	(137)	(133)	3%	(146)	-6%
Operating profit	429	327	31%	452	-5%
...as % of revenue	33%	24%		30%	

During the first quarter, the overall cost base decreased by 20 percent on a year-on-year basis and down by 18 percent on a quarter-on-quarter basis. The total cost per tonne declined 27 percent on a year-on-year basis and 6 percent versus the previous quarter.

Selling and distribution expenses are down 4 percent as compared to both comparable periods. While General and admin expenses increased by 7 percent and 5 percent respectively due to one-off items.

Borouge's overall cost base remains well position for the year and management will continue to realize efficiencies from the overall profitability optimization point-of-view.

5. Cash Generation

	Q1 2024	Q1 2023	YoY (%)	Q4 2023	QoQ (%)
	\$m	\$m		\$m	
Profit for the period	273	199	37%	288	-5%
Income tax expense	113	84	34%	112	0%
Net finance loss, including foreign exchange loss	44	44	0%	52	-15%
Depreciation of property, plant, and equipment	130	126	3%	138	-6%
Depreciation of right-of-use assets	1	1	12%	1	8%
Amortisation of intangible assets	5	6	-6%	7	-22%
Impairment loss on property, plant & equipment	1	0	-	2	-66%
Adjusted EBITDA (1)	567	460	23%	600	-6%
Capital expenditure (2)	15	82	-82%	74	-80%
Adjusted operating free cash flow (3)	552	378	46%	526	5%
Cash conversion (%)	97%	82%		88%	

(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 for the first quarter increased by 23 percent on a year-on-year basis to \$567 million. Adjusted operating free cash flow of \$552 million represents an increase of 46 percent versus the same quarter last year. Cash conversion in the first quarter of 97 percent is one of the highest ever achieved in any quarter since IPO supporting Borouge's ability to deliver superior shareholder returns through-the-market cycles.

Debt repayments during the quarter stood at \$99 million and net debt to LTM EBITDA of 1.1x as of 31 March 2024.

6. Current Trading & Outlook

The polyolefins market conditions improved slightly during Q1 2024 due to supply tightness following lower supply from North America and Middle East, higher freight costs and increased geopolitical tensions. China's economy returned to expansionary zone with March PMI of 50.8 but market analysts are still cautious and wait for more mature signs of sustainable recovery. Management expects pricing in Q2 2024 to be slightly lower than levels achieved in Q1 2024 for both PE and PP.

A planned turnaround of the Borouge 3 plant will take place in Q4 2024 (330kt volume impact). This is part of Borouge's regular plant maintenance program.

The Borouge 4 project being built on behalf of the current project owners, ADNOC and Borealis, has crossed 60 percent completion mark and is to be completed by the end of 2025. With the re-contribution of Borouge 4, Borouge's production capacity will increase by 1.4 million tonnes per annum to 6.4 million tonnes per annum and is expected to add \$1.5 - \$1.9 billion to revenue annually after full ramp-up.

Borouge is currently also advancing plans for a second ethylene unit (EU2) to increase total production of olefins and polyolefins by a further 230,000 tonnes. After project completion in 2028, the unit is expected to contribute \$220 million – \$250 million of annual revenue. Together with Borouge 4 project, this revamp will help to boost Borouge's annual total polyolefins production capacity to reach 6.5 million tonnes.

Management intends to pay a dividend of \$1.3 billion for FY 2024, demonstrating the Company's strong through-the-cycle cash flow generation and focus on shareholder returns.

Borouge management updated guidance for 2024 is summarised below:

Metric	Management Guidance
Production impact from B3 turnaround	<ul style="list-style-type: none">▪ Q4 24: -330 kt (Borouge 3 planned turnaround)
Through-the-cycle product premia	<ul style="list-style-type: none">▪ Polyethylene: \$200 / tonne▪ Polypropylene: \$140 / tonne
FY 2024 Dividend	<ul style="list-style-type: none">▪ \$1.3 billion (\$0.043 / share)

Borouge will announce its Q2 2024 results on 31st July 2024.

Management Q1 2024 Earnings Call

Borouge management will host its Q1 2024 earnings call on 30 April 2024 at 12:00 pm UAE time. Webcast and call access details are provided below.

Webcast Link:

<https://webcast.openbriefing.com/10762/>

Conference Call Dial-in Details:

Operator Assisted Dial-In:

UAE (Toll-Free): 800 0357 04553

United Kingdom (Local): +44 20 3936 2999

United Kingdom (Toll-Free): +44 800 358 1035

Global Dial-In Numbers

Access Code: 549395