

BOROUGE PLC Q3 / 9M 2023

Management Discussion & Analysis

30th October 2023



1. Summary of Operational & Financial Performance

Borouge PLC (Borouge) reported Q3 2023 revenue of \$1,496 million, representing a quarter-on-quarter increase of 6 percent, primarily due to a 16 percent increase in sales volume partially offsetting a 7 percent decline in average selling prices. On a year-on-year basis, Q3 2023 revenue is down 11 percent, driven by a 15 percent reduction in average selling prices. On a nine-month basis, revenue is down 16 percent to \$4,294 million versus \$5,134 million in the same period last year primarily due to a 20 percent decline in average polyolefin prices.

Despite a challenging pricing environment, in Q3 2023, Borouge achieved a premium over product benchmark price of \$174 per tonne for Polyethylene (PE) and \$107 per tonne for Polypropylene (PP), respectively.

Borouge reported Q3 2023 Adjusted EBITDA of \$592 million, operating profit of \$449 million, and net profit of \$282 million. Net profit declined 9 percent year-on-year, primarily owing to a 15 percent decrease in average selling prices over the period, partially offset by a 4 percent increase in sales volume and 14 percent reduction in the overall cost base (equivalent to 26 percent reduction in costs per tonne) over the period.

For the nine-month period ended, operating profit is down 32 percent to \$1,145 million versus \$1,687 million in the same period last year. Adjusted EBITDA is down 25 percent to \$1,571 million, and net profit is down by 39 percent to \$713 million. These declines are driven primarily by a 20 percent reduction in average selling prices.

The Value Enhancement Program achieved a \$420 million impact in nine months ended in September year to date versus a 2022 baseline, partially counteracting polyolefin price declines in the period.

Cash conversion in Q3 2023 of 97 percent, up 1% versus the previous quarter. Net debt as of 30 September 2023 is \$3,173 million, versus \$3,167 million as of 30 June 2023.

	Q3 2023	Q3 2022	YoY (%)	Q2 2023	QoQ (%)	9M 2023	9M 2022	YoY (%)
Total sales volumes (kt)	1,395	1,341	4%	1,206	16%	3,758	3,669	2%
Polyethylene	733	681	8%	659	11%	1,965	1,943	1%
Polypropylene	642	544	18%	547	17%	1,677	1,498	12%
Ethylene and others	20	116	-83%	0	-	116	228	-49%
Average selling price (\$/t)	1,035	1,210	-15%	1,110	-7%	1,092	1,357	-20%
Polyethylene	1,093	1,271	-14%	1,166	-6%	1,149	1,394	-18%
Polypropylene	967	1,133	-15%	1,041	-7%	1,024	1,309	-22%
Product premia (\$/t)								
Polyethylene	174	304	-43%	249	30%	225	346	-35%
Polypropylene	107	184	-42%	150	-29%	130	247	-47%

	Q3 2023	Q3 2022	YoY (%)	Q2 2023	QoQ (%)	9M 2023	9M 2022	YoY (%)
	\$m	\$m		\$m		\$m	\$m	
Revenue	1,496	1,674	-11%	1,416	6%	4,294	5,134	-16%
Cost of sales	(915)	(994)	-8%	(899)	2%	(2,728)	(2,794)	-2%
Gross profit	581	680	-15%	517	13%	1,566	2,340	-33%
General and administrative expenses (excluding D&A)	(41)	(34)	21%	(49)	-15%	(136)	(105)	29%
Selling & distribution expense	(95)	(192)	-51%	(105)	-9%	(299)	(554)	-46%
Other income and expenses	4	3	14%	5	-26%	14	6	120%
Operating profit	449	457	-2%	369	22%	1,145	1,687	-32%
Profit for the period	282	308	-9%	231	22%	713	1,161	-39%
<i>Profit margin (%)</i>	19%	18%		16%		17%	23%	
Total Comprehensive Income	282	302	-7%	226	25%	709	1,150	-38%
Adjusted EBITDA(1)	592	593	-0.1%	518	14%	1,571	2,105	-25%
<i>Adjusted EBITDA margin (%)</i>	40%	35%		37%		37%	41%	

Basic earnings per share (US\$)	0.01	0.01		0.01		0.02	0.04	
Diluted earnings per share (US\$)	0.01	0.01		0.01		0.02	0.04	
Net debt	3,173	3,094	3%	3,167	0%	3,173	3,093	3%

(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

In Q3 2023, production operated at very high utilisation rates of 104 percent and 109 percent for PE and PP, respectively. Sales volumes were up by 16 percent on a quarter-on-quarter basis and 4 percent on year-on-year basis.

	Q3 2023	Q3 2022	YoY (%)	Q2 2023	QoQ (%)	9M 2023	9M 2022	YoY (%)
Production capacity (kt)	1,255	1,255	0%	1,242	1%	3,725	3,725	0%
Polyethylene	693	693	0%	686	1%	2,057	2,057	0%
Polypropylene	562	562	0%	556	1%	1,668	1,668	0%
Utilisation rate								
Polyethylene	104%	90%	15%	110%	-5%	97%	88%	10%
Polypropylene	109%	96%	14%	99%	10%	96%	86%	11%

The Olefin Conversion Unit (OCU), which allows Borouge to internally produce large amounts of propylene from ethylene also operated at a high utilization rate of 109% in Q3 2023. 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.

3. Revenue & Pricing

	Q3 2023	Q3 2022	YoY (%)	Q2 2023	QoQ (%)	9M 2023	9M 2022	YoY (%)
Sales volumes by product (kt)	1,395	1,341	4%	1,206	16%	3,758	3,669	2%
Polyethylene	733	681	8%	659	11%	1,965	1,943	1%
Polypropylene	642	544	18%	547	17%	1,677	1,498	12%
Ethylene and others	20	116	-83%	0		116	228	-49%
Polyethylene (US\$ / t)								
Average sales prices	1,093	1,271	-14%	1,166	-6%	1,149	1,394	-18%
Premia	174	304	-43%	249	-30%	225	346	-35%
Benchmark	919	967	-5%	916	0%	924	1,048	-12%
Polypropylene (US\$ / t)								
Average sales prices	967	1,133	-15%	1,041	-7%	1,024	1,309	-22%
Premia	107	184	-42%	150	-29%	130	247	-47%
Benchmark	860	949	-9%	891	-3%	894	1,062	-16%
	Q3 2023	Q3 2022	YoY (%)	Q2 2023	QoQ (%)	9M 2023	9M 2022	YoY (%)
Revenue by product	\$m	\$m		\$m		\$m	\$m	
Polyethylene	840	941	-11%	820	3%	2,418	2,894	-16%
Polypropylene	637	648	-2%	591	8%	1,782	2,035	-12%
Ethylene and others	20	85	-77%	6	255%	94	205	-54%
Total revenues	1,496	1,674	-11%	1,416	6%	4,294	5,134	-16%

(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.

Q3 2023 sales volumes are up by 16 percent versus the prior quarter counteracting the decline in average selling prices during the same period. Sales volumes from energy & infrastructure solutions represent 38 percent of overall sales in the third quarter. This is part of Borouge's strategy to focus on durable products for industrial applications. The Asia Pacific market continues to be the largest sales region with 62 percent of total volumes followed by the Middle East and Africa with 30 percent of total volumes.

On a year-on-year basis, blended average selling prices across PE and PP were down 15 percent from the exceptionally high prices achieved in 2022. On a sequential quarter-on-quarter basis, blended average selling prices were down 7 percent. PP benchmark prices came down on a quarter-on-quarter basis, whereas PE benchmark prices remained stable.

Despite a challenging pricing environment, Borouge was still able to command a healthy premia over benchmark prices, reflecting Borouge's strong market positioning in key market segments. Premia for PE and PP in Q3 were \$174 per tonne and \$107 per tonne, respectively. Premia achieved in the quarter was below management's through-the-cycle guidance of \$200 per tonne and \$140 for tonne for PE and PP, respectively. For the nine months period, the premia for PE and PP was \$225 per tonne and \$130 per tonne, respectively.

Segmental revenue breakdown (includes polyolefins and olefins)

	Q3 2023	Q3 2022	YoY (%)	Q2 2023	QoQ (%)	9M 2023	9M 2022	YoY (%)
By product group								
Polyethylene	56%	56%	0%	58%	-3%	56%	56%	0%
Polypropylene	43%	39%	10%	42%	2%	41%	40%	5%
Ethylene and others	1%	5%	-74%	0%	236%	2%	4%	-45%
By end market								
Consumer solutions	53%	45%	18%	52%	2%	50%	47%	6%
Infrastructure solutions	43%	47%	-9%	45%	-5%	45%	46%	-3%
Other	4%	8%	-46%	3%	41%	5%	6%	-27%
By geography								
Asia Pacific	62%	62%	0%	65%	-5%	62%	59%	6%
Middle East & Africa	31%	29%	7%	28%	8%	29%	31%	-5%
Rest of World	6%	5%	35%	6%	0%	6%	6%	3%
Ethylene & others	1%	5%	-74%	0%	258%	2%	4%	-46%

(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)

	Q3 2023	Q3 2022	YoY (%)	Q2 2023	QoQ (%)	9M 2023	9M 2022	YoY (%)
By product group								
Polyethylene	53%	51%	3%	55%	-4%	52%	53%	-1%
Polypropylene	46%	41%	13%	45%	1%	45%	41%	9%
Ethylene and others	1%	9%	-83%	0%		3%	6%	-50%
By end market								
Consumer solutions	58%	47%	23%	58%	0%	55%	49%	13%
Infrastructure solutions	38%	42%	-9%	40%	-5%	39%	43%	-8%
Other	4%	11%	-64%	2%	66%	5%	8%	-36%
By geography								
Asia Pacific	62%	61%	2%	66%	-6%	61%	59%	4%
Middle East & Africa	30%	26%	16%	27%	11%	29%	29%	0%
Rest of World	6%	5%	44%	7%	-2%	7%	6%	13%
Ethylene & others	1%	9%	-84%	0%	-	3%	6%	-50%

(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

	Q3 2023	Q3 2022	YoY (%)	Q2 2023	QoQ (%)	9M 2023	9M 2022	YoY (%)
	\$m	\$m		\$m		\$m	\$m	
Revenue	1,496	1,674	-11%	1,416	6%	4,294	5,134	-16%
Cost of sales (excluding D&A)	(773)	(860)	-10%	(750)	3%	(2,307)	(2,388)	-3%
...Feedstock costs	(323)	(341)	5%	(324)	-0%	(1,022)	(935)	9%
...Other variable and fixed production costs	(450)	(519)	-13%	(426)	6%	(1,286)	(1,453)	-12%
...as % of revenue	52%	51%		53%		54%	47%	

General and administrative expenses (excluding D&A) ...as % of revenue	(40) 3%	(34) 2%	16%	(49) 3%	-19%	(131) 3%	(105) 2%	25%
Selling and distribution expenses ...as % of revenue	(95) 6%	(192) 12%	-51%	(105) 7%	-9%	(299) 7%	(554) 11%	-46%
Other income and expenses	4	3	14%	5	-28%	14	6	120%
Depreciation and amortization	(143)	(134)	7%	(149)	-4%	(426)	(406)	5%
Operating profit	449	457	-2%	369	22%	1,145	1,687	-32%
...as % of revenue	30%	27%		26%		27%	33%	

The Value Enhancement Program achieved a \$420 million impact in September year to date versus the 2022 baseline, partially counteracting polyolefin price declines in the period. The overall cost base in Q3 2023 is down 14 percent year-on-year. Total cost per tonne in Q3 2023 are down 26 percent year-on-year. Cost of Sales are down 10 percent year-on-year basis, supported by a 13 percent decrease in other variable and fixed production costs.

General and admin expenses increased by 16 percent from \$34 million to \$40 million on a year-on-year basis due to non-recurring one-off items, however on a quarter-on-quarter basis, general & admin expenses decreased by 19 percent. Selling and distribution expenses in Q3 2023 are down by 51 percent year-on-year primarily due to significant decreases in freight costs versus the same period last year.

5. Cash Generation

	Q3 2023	Q3 2022	YoY (%)	Q2 2023	QoQ (%)	9M 2023	9M 2022	YoY (%)
	\$m	\$m		\$m		\$m	\$m	
Profit for the period	282	308	-9%	231	22%	713	1,161	-39%
Income tax expense	116	123	-6%	88	31%	288	470	-39%
Net finance loss, including foreign exchange loss	51	27	93%	49	4%	144	56	160%
Depreciation of property, plant, and equipment	137	128	7%	139	-2%	401	388	4%
Depreciation of right-of-use assets	1	2	-31%	1	0%	3	3	2%
Amortisation of intangible assets	6	4	31%	10	-40%	21	15	38%
Impairment loss on property, plant & equipment	-	2	-100%	-	-	-	12	-100%
Adjusted EBITDA (1)	592	593	-0%	518	14%	1,571	2,105	-25%
Capital expenditure (2)	(20)	(29)	-31%	(22)	-10%	(125)	(113)	10%
Adjusted operating free cash flow (3)	573	564	2%	496	15%	1,446	1,992	-27%
Cash conversion (%)	97%	95%	2%	96%	1%	92%	95%	-3%

(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 Q3 2023 increased by 14 percent to \$592 million versus the prior quarter, reflecting the increase in sales volumes and the positive impact of the Value Enhancement Program. On a nine month basis, adjusted EBITDA is down by 25 percent to \$1,571 million reflecting a decrease in the top line due to the challenging overall pricing environment.

Borouge generated \$573 million of adjusted operating free cashflow during the third quarter at a conversion rate of 97 percent.

6. Current Trading & Outlook

The polyolefin market remains challenging. A slower macroeconomic recovery in Asian markets, increased supply due to capacity additions and regional price convergences towards lower levels are contributing towards a muted short-term outlook for polyolefin demand and prices.

In Q4 2023, Management expects polyolefin sales volumes to be in-line with Q2 2023 levels after the exceptionally high levels achieved in Q3 2023. Management expects Q4 2023 pricing for both PE and PP to remain broadly in-line with the levels achieved in Q3 2023 but operating within a narrow band of volatility during the quarter. Borouge remains well-positioned versus peers and is expected to continue to deliver product premia above benchmarks.

Within our cost base, ethane costs will remain essentially fixed under our long-term pricing agreement with ADNOC, which provides us with significant long-term feedstock security, a key competitive advantage. Propylene costs, which broadly track oil prices, remain elevated. We anticipate continuing to run our OCU at high rates in the coming quarter, generating cost effective propylene feedstock for PP production. In response to the ongoing market weakness, management is raising the Value Enhancement Program target to \$500 million as a measure to further support in mitigating the polyolefin price decline.

An operational update in relation to our regular plant maintenance program is that a planned turnaround of our Borouge 3 plant and feedstock-related operations is being scheduled to take place in 2024 with a total volume impact of 500kt. The feedstock-related operational stop will take place in Q1, with an estimated volume impact of 170kt and the Borouge 3 plant shutdown will take place for a 47-day period in Q4 with an estimated volume impact of approximately 330kt. This 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.

Management reiterates its commitment to pay \$1.3 billion in dividends for the Financial Year 2023, of which \$650 million has already been paid in September 2023.

The Company will announce its Q4 2023 results on 1 February 2024.