

BOROUGE PLC Q3 / 9M 2024

Management Discussion & Analysis

29th October 2024



1. Summary of Operational & Financial Performance

Borouge reported third quarter revenue of \$1,600 million, representing a quarter-on-quarter increase of 7 percent mainly due to a 9 percent increase in sales volumes. Average selling prices for both Polyethylene (PE) and Polypropylene (PP) remain relatively flat on a quarter-on-quarter basis. Sales volumes for Polyethylene (PE) and Polypropylene (PP) are up by 8 percent and 9 percent, respectively, versus the previous quarter. The company continues to maintain high utilisation rates in the quarter of 106 percent for PE and 109 percent for PP.

On a year-on-year basis, overall sales volumes are up by 2 percent in the third quarter. Sales volumes for PE are up by 10 percent and PP are down by 5 percent. Blended average selling prices moderately improved by 4 percent, on a year-on-year basis while selling prices for PE remained flat and for PP are up by 9 percent supported by higher Premia.

Borouge achieved premia above benchmark price of \$198 per tonne for PE and \$160 per tonne for PP during the third quarter, up 14 percent and 50 percent, respectively, versus the previous year. On a quarter-on-quarter basis, premium above benchmark for PE is flat and PP is up by 16 percent.

The company reported an adjusted EBITDA of \$646 million, up 9 percent on a year-on-year basis and strong margin of 40 percent for the fifth consecutive quarter. Total operating cost base (excluding depreciation & amortisation) in the third quarter increased 4 percent on a quarter-on-quarter basis and up 7 percent from the previous quarter driven by volume impact. The company maintained a high cash conversion of 94 percent during the quarter.

On a nine-month basis, net profit is up by an impressive 27 percent to \$908 million and EBITDA of \$1,827 million, up by 16 percent on a year-on-year basis. This is supported by healthy sales volumes which is up by 3 percent, stable average selling prices and ongoing cost discipline as reflected by an 5 percent decrease in the total operating cost base (excluding depreciation & amortisation) on a year-on-year basis.

Net Debt stood at \$3,106 million as of 30 September 2024 (vs \$3,173 million as of 30 June 2024).

	Q3 2024	Q3 2023	YoY (%)	Q2 2024	QoQ (%)	9M 2024	9M 2023	YoY (%)
	\$m	\$m		\$m				
Revenue	1,600	1,496	7%	1,503	6%	4,405	4,294	3%
Cost of sales	(916)	(915)	-	(873)	5%	(2,519)	(2,728)	-8%
Gross profit	684	581	18%	630	9%	1,886	1,566	20%
General and administrative expenses (excluding D&A)	57	41	38%	56	2%	163	136	21%
Selling & distribution expense	127	95	33%	105	21%	327	299	9%
Other income and expenses	6	4	47%	7	-18%	16	14	17%
Operating profit	506	449	13%	476	6%	1,411	1,145	23%
Profit for the period	328	282	16%	308	6%	908	713	27%
<i>Profit margin (%)</i>	20%	19%		21%		21%	17%	
Total Comprehensive Income	321	282	14%	309	4%	908	709	28%
Adjusted EBITDA(1)	646	592	9%	613	5%	1,827	1,571	16%
Adjusted EBITDA margin (%)	40%	40%		41%		41%	37%	
Basic earnings per share (US\$)	0.01	0.01		0.01		0.03	0.02	
Diluted earnings per share (US\$)	0.01	0.01		0.01		0.03	0.02	
Net debt	3,107	3,173	-2%	2,813	10%	3,107	3,173	-2%

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

	Q3 2024	Q3 2023	YoY (%)	Q2 2024	QoQ (%)	9M 2024	9M 2023	YoY (%)
Total sales volumes (kt)	1,422	1,395	2%	1,311	9%	3,869	3,758	3%
Polyethylene	809	733	10%	752	8%	2,250	1,965	15%
Polypropylene	607	642	-5%	559	9%	1,613	1,677	-4%
Ethylene and others	6	20	-70%	0	-	6	116	-95%
Average selling price (\$/t)	1,076	1,035	4%	1,091	-1%	1,087	1,092	-
Polyethylene	1,093	1,093	-	1,113	-2%	1,109	1,149	-4%
Polypropylene	1,053	967	9%	1,062	-1%	1,055	1,024	3%
Product premia (\$/t)								
Polyethylene	198	174	14%	198	0%	205	225	-9%
Polypropylene	160	107	50%	138	16%	153	130	18%

2. Operational Review

During the third quarter, production operated at one of the highest utilisation rates of 106 percent for PE and 109 percent for PP, achieving high utilisation rates on a consecutive basis.

The Olefin Conversion Unit (OCU) was maintained at a high-capacity utilization rate. 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.

Borouge continue to maintain a very high asset reliability of 98 percent in Q3 2024.

	Q3 2024	Q3 2023	YoY (%)	Q2 2024	QoQ (%)	9M 2024	9M 2023	YoY (%)
Production capacity (kt)	1,255	1,255	-	1,242	1%	3,738	3,725	0.3%
Polyethylene	693	693	-	686	1%	2,064	2,057	0.3%
Polypropylene	562	562	-	556	1%	1,674	1,668	0.4%
Utilisation rate								
Polyethylene	106%	104%		114%		109%	97%	
Polypropylene	109%	109%		103%		98%	96%	

The scheduled maintenance of Borouge 3 plant, previously planned for Q4 2024, with an estimated volume impact of 320,000 tonnes, has been shifted to Q2 2025. The updated timeline is driven by feedstock optimization.

Borouge's commitment to operational excellence is driven by high asset reliability and utilization rates of its young asset base. At the same time, the company maintains an unwavering focus on achieving the highest standards of health, safety and environmental performance.

3. Revenue & Pricing

	Q3 2024	Q3 2023	YoY (%)	Q2 2024	QoQ (%)	9M 2024	9M 2023	YoY (%)
Sales volumes by product (kt)	1,422	1,395	2%	1,311	9%	3,869	3,758	3%
Polyethylene	809	733	10%	752	8%	2,250	1,965	15%
Polypropylene	607	642	-5%	559	9%	1,613	1,677	-4%
Ethylene and others	6	20	-70%	0	-	6	116	-95%
Polyethylene (US\$ / t)								
Average sales prices	1,093	1,093	-	1,113	-2%	1,109	1,149	-4%
Premia	198	174	14%	198	0%	205	225	-9%
Benchmark	895	919	-3%	915	-2%	903	924	-2%
Polypropylene (US\$ / t)								
Average sales prices	1,053	967	9%	1,062	-1%	1,055	1,024	3%
Premia	160	107	50%	138	16%	153	130	18%
Benchmark	893	860	4%	924	-3%	902	894	1%

	Q3 2024	Q3 2023	YoY (%)	Q2 2024	QoQ (%)	9M 2024	9M 2023	YoY (%)
	\$m	\$m		\$m		\$m	\$m	
Revenue by product								
Polyethylene	928	840	11%	888	5%	2,626	2,418	9%
Polypropylene	657	637	3%	606	8%	1,745	1,782	(2)%
Ethylene and others	15	20	-23%	9	63%	34	94	(63)%
Total revenues	1,600	1,496	7%	1,503	7%	4,405	4,294	3%

- (1) Benchmark prices represent HDPE Blow Molding NEA CFR for polyethylene and Raffia NEA CFR for polypropylene (as per CMA).
(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.

During the quarter, total sales volumes are up by 9 percent versus the previous quarter. Sales volumes from Polyethylene (PE) and Polypropylene (PP) account for 8 percent and 9 percent of total sales volumes during the quarter. Sales volumes from infrastructure solutions contributed 38 percent to total sales volumes. This is part of Borouge's strategy to focus on high value-added segments and realise higher selling prices versus the product benchmarks. Asia Pacific region continues to be the region with highest sales of 65 percent of total sales volumes.

Borouge achieved a premia over benchmark of \$198 per tonne for PE and \$160 per tonne for PP, above with management's through-the-cycle guidance of \$200 per tonne for PE and \$140 per tonne for PP.

In the third quarter, blended average prices were up by 4 percent versus the previous year and down by 1 percent on a quarter-on-quarter basis. Average selling prices for PE are flat and PP are up by 9 percent on year-on-year basis and relatively flat on quarter-on-quarter basis. Product benchmarks for PE and PP declined slightly by 2 percent and 3 percent respectively, on a quarterly basis. Premium above benchmark for PE and PP is flat and up 16 percent, respectively, versus the previous quarter.

On a nine month basis, blended averages selling prices are flat and average selling prices for PE are down by 4 percent and up by 3 percent for PP versus the previous year. For the nine month period ended 30th September 2024, the company achieved premia above product benchmark of \$205 per tonne for PE and \$153 per tonne for PP (above management's through-the-cycle guidance).

Borouge continues to capitalise on value creation opportunities in its core markets by leveraging its exceptional operations, differentiated product portfolio, and extensive sales and distribution network that drives the ability to achieve premia above product benchmark prices.

Segmental revenue breakdown (includes polyolefins and olefins)

	Q3 2024	Q3 2023	YoY (%)	Q2 2024	QoQ (%)	9M 2024	9M 2023	YoY (%)
By product group								
Polyethylene	58%	56%		59%		60%	56%	
Polypropylene	41%	43%		40%		40%	41%	
Ethylene and others	1%	1%		1%		0.8%	2%	
By end market								
Consumer solutions	56%	52%		53%		53%	50%	
Infrastructure solutions	40%	43%		43%		43%	45%	
Other	3%	4%		3%		3%	5%	
By geography								
Asia Pacific	63%	62%		65%		62%	62%	
Middle East & Africa	30%	31%		29%		31%	29%	
Rest of World	6%	6%		6%		7%	6%	
Ethylene & others	1%	1%		1%		1%	2%	

- (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 2024	Q3 2023	YoY (%)	Q2 2024	QoQ (%)	9M 2024	9M 2023	YoY (%)
By product group								
Polyethylene	57%	53%		57%		58%	52%	
Polypropylene	43%	46%		43%		42%	45%	
Ethylene and others	-	-		-		-	3%	
By end market								
Consumer solutions	59%	58%		57%		56%	55%	
Infrastructure solutions	38%	38%		41%		41%	39%	
Other	3%	4%		2%		3%	5%	
By geography								
Asia Pacific	65%	62%		66%		63%	61%	
Middle East & Africa	29%	30%		28%		30%	29%	
Rest of World	6%	6%		6%		6%	7%	
Ethylene & others	-	1%		-		-	3%	

(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 2024	Q3 2023	YoY (%)	Q2 2024	QoQ (%)	9M 2024	9M 2023	YoY (%)
	\$m	\$m		\$m		\$m	\$m	
Revenue	1,600	1,496	7%	1,503	7%	4,405	4,294	3%
Cost of sales (excluding D&A)	(779)	(773)	1%	(739)	5%	(2,113)	(2,307)	(8)%
...Feedstock costs	(359)	(323)	11%	(339)	6%	(950)	(1,022)	(7)%
...Other variable and fixed production costs	(420)	(450)	(7)%	(400)	5%	(1,163)	(1,286)	(10)%
...as % of revenue	49%	52%		49%		48%	54%	
General and administrative expenses (excluding D&A)	(55)	(40)	38%	(54)	2%	(158)	(131)	20%
...as % of revenue	3%	3%		4%		4%	3%	
Selling and distribution expenses	(127)	(95)	33%	(105)	21%	(327)	(299)	9%
...as % of revenue	8%	6%		7%		7%	7%	
Other income and expenses	6	4	47%	7	-18%	16	14	17%
Depreciation and amortization	(139)	(143)	(3)%	(136)	2%	(412)	(426)	(3)%
Operating profit	506	449	13%	476	6%	1,411	1,145	23%
...as % of revenue	32%	30%		32%		32%	27%	

During the third quarter, the overall operating cost base (excluding depreciation & amortisation) increased 4 percent a year-on-year basis and 7 percent versus the previous quarter driven by higher volumes.

Cost of goods sold (excluding depreciation and amortization) was almost flat on a year-on-year basis and up by 5 percent versus the previous quarter. On a nine month basis, total cost of goods sold was down by 8 percent supported by 7 percent and 10 percent reduction in feedstock costs and other variable and fixed costs respectively.

General and administrative expenses are up both year-on-year and on a quarterly basis due to one-off expenses realised during the quarter. Selling and distribution expense increased on a year-on-year basis by 33 percent due to higher shipping related costs during the quarter.

On a nine-month basis, cost of goods sold (excluding depreciation and amortization) are down by 8 percent. Selling and distribution expenses are up 9 percent on year-on-year basis, respectively. General and administrative expenses are up 20 percent on a year-on-year basis due to one-off items.

5. Cash Generation

	Q3 2024	Q3 2023	YoY (%)	Q2 2024	QoQ (%)	9M 2024	9M 2023	YoY (%)
	\$m	\$m		\$m		\$m	\$m	
Profit for the period	328	282	16%	308	6%	908	713	27%
Income tax expense	134	116	15%	123	9%	369	288	28%
Net finance loss, including foreign exchange loss	45	51	-13%	45	-1%	134	144	-7%
Depreciation of property, plant, and equipment	131	137	-4%	129	2%	391	401	-3%
Depreciation of right-of-use assets	1	1	16%	1	2%	4	3	14%
Amortisation of intangible assets	6	6	10%	6	15%	17	21	-18%
Impairment loss on property, plant & equipment	1	0	-	1	-43%	2	-	-
Adjusted EBITDA (1)	646	592	9%	614	5%	1,826	1,571	16%
Capital expenditure (2)	42	20	109%	33	27%	89	125	(28)%
Adjusted operating free cash flow (3)	605	573	6%	581	4%	1,737	1,446	20%
Cash conversion (%)	94%	97%		95%		95%	92%	

(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 third quarter increased by 9 percent on a year-on-year basis to \$646 million and an industry leading margin of 40 percent. Adjusted operating free cash flow of \$605 million represents an increase of 6 percent versus the same quarter last year. Cash conversion in the second quarter is 94 percent.

For the nine-month ended 30 September 2024, Borouge reported an EBITDA of \$1,827 million, up 16 percent on a year-on-year basis and an EBITDA margin of 41 percent. Cash conversion for the period is 95 percent versus 92 percent during the same period last year.

6. Current Trading & Outlook

Expectations of a stable macro environment in Borouge core markets for Q4 2024 with potential for demand increase in the Chinese market, following targeted stimulus efforts. Polyolefins prices are expected to remain stable and within a narrow band for the remainder of the year. Higher supply due to year-end debottlenecking likely to exert pressure on Polyolefin prices in Q4 2024.

Management intends to maintain high utilisation rates to maximize production volumes. The B3 turnaround has been rescheduled from Q4 2024 to Q2 2025, to better optimize feedstock supply between the two periods.

Borouge remains committed in its focus on innovation and strives to generate at least 20% of annual sales volumes from new products. Management reiterates its over-the-cycle premia guidance of \$200 per tonne for PE and \$140 per tonne for PP.

Management has committed to pay a dividend of \$1.3 billion for FY 2024, with an interim dividend for the half year of \$650 million paid in September 2024.

Borouge management guidance summarised below:

Metric	Management Guidance
Planned Turnaround of Borouge 3	<ul style="list-style-type: none">▪ B3 Turnaround moved from Q4 2024 to Q2 2025▪ Production volume impact in Q2 2025 of 320,000 tonnes
Through-the-cycle product premia guidance⁽¹⁾	<ul style="list-style-type: none">▪ Polyethylene: \$200 / tonne premia▪ Polypropylene: \$140 / tonne premia
FY 2024 Dividend	<ul style="list-style-type: none">▪ \$1.3 billion (\$0.043 / share)

(1) Benchmark prices represent HDPE Blow Molding NEA CFR for polyethylene and Raffia NEA CFR for polypropylene (as per CMA).

Borouge will announce its Q4 2024 results on 4th February 2025.

Borouge Investors Day 2024

Borouge is hosting its first Investors Day on 30th October 2024 from 9:00am UAE time onwards at Ritz Carlton, Abu Dhabi

Please join us to watch live management presentations from 10:00am (UAE time):

https://us06web.zoom.us/webinar/register/WN_HBbl9ZkhRZKA2eSmF9eEhQ