BOROUGE PLC Q2 / H1 2024

Management Discussion & Analysis

31st July 2024

1. Summary of Operational & Financial Performance

Borouge reported second quarter revenue of $1,503 million, representing a quarter-on-quarter increase of 15 percent mainly due to a 16 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 9 percent and 25 percent, respectively, versus the previous quarter. The company achieved one of the highest utilisation rates in the quarter of 114% for PE and 103% for PP.

On a year-on-year basis, overall sales volumes are up by 9 percent in the second quarter, whereas sales volumes for PE are up by 14 percent and PP are up by 2 percent. Blended average selling prices moderately declined by 2 percent, on year-on-year basis while selling prices for PE are down by 5 percent and for PP are up by 2 percent.

Borouge achieved premia above benchmark price of $198 per tonne for PE and $138 per tonne for PP during the second quarter, down 11 percent and 15 percent respectively, versus the previous quarter. On a year-on-year basis, premia above benchmark for PE and PP are down by 21 percent and 8 percent respectively.

The company reported an adjusted EBITDA of $613 million, up 18 percent on a year-on-year basis and strong margin of 41 percent. Total operating cost base (excluding depreciation & amortisation) in the second quarter remains broadly stable on a year-on-year basis and up 21 percent from the previous quarter driven by volume impact (lower volumes in the first quarter from the feedstock-related turnaround). The company maintained a high cash conversion of 95 percent during the quarter.

On a half yearly basis, net profit is up by 35 percent to $581 million and EBITDA of $1,181 million, up by 21 percent on a year-on-year basis. This is supported by strong sales volumes up by 4 percent and ongoing cost discipline as reflected by an 11 percent decrease in the total operating cost base (excluding depreciation & amortisation) on a year-on-year basis.

Net Debt stood at $2,813 million as of 30 June 2024 (vs $2,423 million as of 31 March 2024).

	Q2 2024	Q2 2023	YoY (%)	Q1 2024	QoQ (%)	H1 2024	H1 2023	YoY (%)
	$m	*$m*		*$m*				
Revenue	**1,503**	**1,416**	*6%*	**1,302**	*15%*	***2,805***	***2,798***	***0.3%***
Cost of sales	(873)	(899)	*(3)%*	(730)	*20%*	(1,603)	(1,813)	*(12)%*
Gross profit	**630**	**517**	***22%***	**573**	***10%***	***1,202***	***984***	***22%***
General and administrative expenses (excluding D&A)	56	49	*15%*	51	*8%*	107	95	*13%*
Selling & distribution expense	105	105	-	96	*9%*	***201***	***204***	*(2)%*
Other income and expenses	7	5	*32%*	4	*61%*	***11***	***10***	*6%*
Operating profit	**476**	**369**	***29%***	**429**	**11%**	***905***	***696***	***30%***
Profit for the period	**308**	**231**	***33%***	**273**	**13%**	***581***	***431***	***35%***
Profit margin (%)	*20%*	*16%*		*21%*		***21%***	***15%***	
Total Comprehensive Income	**309**	**226**	***37%***	**279**	**11%**	***587***	***427***	***38%***
Adjusted EBITDA(1)	**613**	**518**	***18%***	**567**	**8%**	***1,181***	***978***	***21%***
Adjusted EBITDA margin (%)	*41%*	*37%*		*44%*		***42%***	***35%***	
Basic earnings per share (US$)	0.01	0.01		0.01		***0.02***	***0.01***	
Diluted earnings per share (US$)	0.01	0.01		0.01		***0.02***	***0.01***	
Net debt	**2,813**	**3,168**	***(11)%***	**2,423**	***16%***	**2,813**	**3,167**	***(11)%***

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

	Q2 2024	Q2 2023	YoY (%)	Q1 2024	QoQ (%)	H1 2024	H1 2023	YoY (%)
Total sales volumes (kt)	**1,311**	**1,206**	***9%***	**1,135**	***16%***	***2,447***	***2,363***	***4%***
Polyethylene	752	659	*14%*	688	*9%*	*1,441*	*1,232*	*17%*
Polypropylene	559	547	*2%*	447	*25%*	*1,006*	*1,035*	*(3)%*
Ethylene and others	-	-	-	-	-	-	*96*	*(100)%*
Average selling price ($/t)								
Polyethylene	1,113	1,166	*(5)%*	1,122	*(1)%*	*1,117*	*1,182*	*(5)%*
Polypropylene	1,062	1,041	*2%*	1,051	*1%*	*1,057*	*1,060*	*(0.3)%*
Product premia ($/t)								
Polyethylene	198	250	*(21)%*	222	*(11)%*	*209*	*256*	*(18)%*
Polypropylene	138	150	*(8)%*	162	*(15)%*	*149*	*144*	*3%*

2. Operational Review

During the second quarter, production operated at one of the highest utilisation rates of 114 percent for PE and 103 percent for PP, achieving record-breaking production volumes during the quarter.

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.

	Q2 2024	Q2 2023	YoY (%)	Q1 2024	QoQ (%)	H1 2024	H1 2023	YoY (%)
Production capacity (kt)	**1,242**	**1,242**	**-**	**1,242**	**-**	**2,483**	**2,470**	***1%***
Polyethylene	686	686	-	686	-	1,371	1,364	*1%*
Polypropylene	556	556	-	556	-	1,112	1,106	*1%*
Utilisation rate								
Polyethylene	114%	110%		105%		110%	94%	
Polypropylene	103%	99%		80%		92%	90%	

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 and expected to contribute an incremental $20-$40 million in potential EBITDA compared to plan.

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

	Q2 2024	Q2 2023	YoY (%)	Q1 2024	QoQ (%)	H1 2024	H1 2023	YoY (%)
Sales volumes by product (kt)	**1,311**	**1,206**	***9%***	**1,135**	***16%***	***2,447***	***2,363***	***4%***
Polyethylene	752	659	*14%*	688	*9%*	*1,441*	*1,232*	*17%*
Polypropylene	559	547	*2%*	447	*25%*	*1,006*	*1,035*	*(3)%*
Ethylene and others	-	-	-	-	-	-	*96*	*(100)%*
Polyethylene (US$ / t)								
Average sales prices	1,113	1,166	*(5)%*	1,122	*(1)%*	*1,117*	*1,182*	*(5)%*
Premia	198	250	*(21)%*	222	*(11)%*	*209*	*256*	*(18)%*
Benchmark	915	916	*(0.1)%*	901	*2%*	908	926	(2)%
Polypropylene (US$ / t)								
Average sales prices	1,062	1,041	*2%*	1,051	*1%*	*1,057*	*1,060*	*(0.3)%*
Premia	138	150	*(8)%*	162	*(15)%*	*149*	*144*	*3%*
Benchmark	924	891	*4%*	889	*4%*	908	916	*(1)%*

	Q2 2024	Q2 2023	*YoY (%)*	Q1 2024	*QoQ (%)*	H1 2024	H1 2023	*YoY (%)*
Revenue by product	**$m**	**$m**		**$m**		**$m**	**$m**	
Polyethylene	888	820	*8%*	810	*10%*	1,698	1,578	*8%*
Polypropylene	606	591	*3%*	483	*26%*	1,088	1,145	*(5)%*
Ethylene and others	9	6	*68%*	10	*(2)%*	19	74	*(75)%*
Total revenues	**1,503**	**1,416**	***6%***	**1,303**	***15%***	**2,805**	**2,798**	***0.2%***

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

During the quarter, total sales volumes are up by 16 percent versus the previous quarter. Sales volumes from Polyethylene (PE) and Polypropylene (PP) account for 57 percent and 43 percent of total sales volumes during the quarter. Sales volumes from infrastructure solutions contributed 41 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 66 percent of total sales volumes.

Borouge achieved a premia over benchmark of $198 per tonne for PE and $138 per tonne for PP, in-line with management's through-the-cycle guidance of $200 per tonne for PE and $140 per tonne for PP.

In the second quarter, blended average prices were flat versus the previous quarter and down by 2 percent on a year-on-year basis. Average selling prices for PE are down 5 percent and PP are up by 2 percent on year-on-year basis and relatively flat on quarter-on-quarter basis. Product benchmarks for PE and PP improved slightly by 2 percent and 4 percent respectively, on a quarterly basis. Premium above benchmark for PE and PP is down 11 percent and 15 percent respectively versus the previous quarter.

On a half yearly basis, averages selling prices for PE are down by 5 percent and flat for PP versus the previous year. For the half year, the company achieved premia above product benchmark of $209 per tonne for PE and $149 per tonne for PP (above management's through-the-cycle guidance).

Borouge continues to capitalise on value creation opportunities in it's 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)

	Q2 2024	Q2 2023	*YoY (%)*	Q1 2024	*QoQ (%)*	H1 2024	H1 2023	*YoY (%)*
By product group								
Polyethylene	59%	58%		62%		61%	56%	
Polypropylene	40%	42%		37%		39%	41%	
Ethylene and others	1%	-		1%		1%	3%	
By end market								
Consumer solutions	53%	52%		49%		51%	49%	
Infrastructure solutions	43%	45%		47%		45%	46%	
Other	3%	3%		3%		3%	5%	
By geography								
Asia Pacific	65%	65%		57%		61%	62%	
Middle East & Africa	29%	28%		35%		31%	29%	
Rest of World	6%	6%		7%		7%	7%	
Ethylene & others	1%	-		1%		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.

Segmental volume breakdown (includes polyolefins and olefins)

	Q2 2024	Q2 2023	YoY (%)	Q1 2024	QoQ (%)	H1 2024	H1 2023	YoY (%)
By product group								
Polyethylene	57%	55%		61%		*59%*	*52%*	
Polypropylene	43%	45%		39%		*41%*	*44%*	
Ethylene and others	-	-		-		-	*4%*	
By end market								
Consumer solutions	57%	58%		53%		*55%*	*53%*	
Infrastructure solutions	41%	40%		45%		*43%*	*40%*	
Other	2%	2%		2%		*2%*	*6%*	
By geography								
Asia Pacific	66%	66%		58%		*62%*	*61%*	
Middle East & Africa	28%	27%		35%		*31%*	*28%*	
Rest of World	6%	7%		7%		*7%*	*7%*	
Ethylene & others	-	-		-		-	*4%*	

(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

	Q2 2024	Q2 2023	YoY (%)	Q1 2024	QoQ (%)	H1 2024	H1 2023	YoY (%)
	$m	*$m*		*$m*		*$m*	*$m*	
Revenue	**1,503**	**1,416**	***6%***	**1,302**	***15%***	***2,805***	***2,798***	***0.3%***
Cost of sales (excluding D&A)	(739)	(750)	*(1.4)%*	(594)	*24%*	(1,334)	(1,531)	*(13)%*
...Feedstock costs	(339)	(324)	*5%*	(252)	*35%*	(591)	(699)	*(15)%*
...Other variable and fixed production costs	(400)	(426)	*(6)%*	(343)	*17%*	(743)	(832)	*(11)%*
...as % of revenue	*49%*	*53%*		*46%*		*48%*	*55%*	
General and administrative expenses (excluding D&A)	(54)	(49)	*10%*	(50)	*8%*	(103)	(95)	*9%*
...as % of revenue	*4%*	*3%*		*4%*		*4%*	*3%*	
Selling and distribution expenses	(105)	(105)	-	(96)	*9%*	(201)	(204)	*-2%*
...as % of revenue	*7%*	*7%*		*7%*		*7%*	*7%*	
Other income and expenses	7	5	*29%*	4	*61%*	11	10	*6%*
Depreciation and amortization	(136)	(149)	*(9)%*	(137)	*(1)%*	(273)	(283)	*(3)%*
Operating profit	476	369	*29%*	429	*11%*	905	696	*30%*
...as % of revenue	*32%*	*26%*		*33%*		*32%*	*25%*	

During the second quarter, the overall operating cost base (excluding depreciation & amortisation) remained flat on a year-on-year basis and increased 21 percent versus the previous quarter driven by higher production volumes.

Cost of goods sold (excluding depreciation and amortization) was down 1.4 percent on a year-on-year basis despite higher production during the quarter. On a quarter-on-quarter basis, feedstock costs and other variable and fixed costs are up by 35 percent and 17 percent primarily due to higher production volumes.

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 remained flat on a year-on-year basis despite a 9 percent increase in sales volumes reflecting management's ability to maintain strict cost discipline.

On a half yearly basis, cost of goods sold (excluding depreciation and amortization) and selling and distribution expenses are down 13 percent and 2 percent on year-on-year basis, respectively. General and administrative expenses are up 9 percent on a year-on-year basis.

Management continues to realize efficiencies and deliver strong financial performance and superior shareholder returns.

5. Cash Generation

	Q2 2024	Q2 2023	YoY (%)	Q1 2024	QoQ (%)	H1 2024	H1 2023	YoY (%)
	$m	$m		$m		$m	$m	
Profit for the period	**308**	**231**	***33%***	**273**	***13%***	**581**	**431**	***35%***
Income tax expense	123	88		113		*235*	*172*	
Net finance loss, including foreign exchange loss	45	49		44		*89*	*93*	
Depreciation of property, plant, and equipment	129	139		130		*260*	*265*	
Depreciation of right-of-use assets	1	1		1		*2*	*2*	
Amortisation of intangible assets	6	10		6		*11*	*15*	
Impairment loss on property, plant & equipment	2	0		1		*2*	*-*	
Adjusted EBITDA (1)	**613**	**518**	*18%*	**567**	*8%*	**1,181**	**978**	*21%*
Capital expenditure (2)	33	22	*48%*	15	*116%*	*48*	*105*	*(54)%*
Adjusted operating free cash flow (3)	**581**	**496**	***17%***	**552**	***5%***	**1,133**	**874**	***30%***
Cash conversion (%)	*95%*	*96%*		*97%*		*96%*	*89%*	

(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 second quarter increased by 18 percent on a year-on-year basis to $613 million and an industry leading margin of 41 percent. Adjusted operating free cash flow of $581 million represents an increase of 17 percent versus the same quarter last year. Cash conversion in the second quarter is 95 percent.

For the six-month ended 30 June 2024, Borouge reported an EBITDA of $1,181 million, up 21 percent on a year-on-year basis and an EBITDA margin of 42 percent. Cash conversion for the period is 96 percent versus 89 percent during the same period last year.

6. Current Trading & Outlook

Expectations of a stable macro environment in Borouge core markets in the second half of the year 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 due to logistics bottlenecks and low operating rates in addressable markets.

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.

Several strategic investment projects are progressing at various stages:

- The Borouge 4 project, being built on behalf of the current project owners, ADNOC and Borealis, has crossed 71 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 in annual revenue after full ramp-up.

- Advancing plans for a revamp of its 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 c. $220 - $250 million in annual revenue after full ramp-up.

- Borouge announced in July 2024, a joint agreement to develop a specialty polyolefins complex in China as part of a consortium. Initial collaboration has commenced around a joint feasibility study with China's Wanhua Chemical and its wholly owned subsidiary, Wanrong New Material (Fujian), to evaluate production facilities in Fuzhou with a capacity of 1.6 million tonnes per year. Further updates to be provided in due course.

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 to be paid in September 2024

Borouge management guidance summarised below:

Metric	Management Guidance
Planned Turnaround of Borouge 3	▪ 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)]	▪ **Polyethylene:** $200 / tonne premia ▪ **Polypropylene:** $140 / tonne premia
FY 2024 Dividend	▪ $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 IHS Markit data).

Borouge will announce its Q3 2024 results on 29th October 2024.

Management Q2 / H1 2024 Earnings Call

Borouge management will host its Q2 2024 earnings call on 31 July 2024 at 12:00 pm UAE time. Webcast and call access details are provided below.

Webcast Link:
https://webcast.openbriefing.com/borouge-jul24/

Conference Call Dial-in Details:
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: 204577