SOUTHERN ACIDS (M) BERHAD

39TH ANNUAL GENERAL MEETING 25 SEPTEMBER 2020

REPLIES TO MSWG'S QUESTIONS

SLIDE 1
STRATEGY & FINANCIAL MATTERS

1. The Oleochemical segment had incurred losses in the last two financial years (FY20: - RM3.2 million; FY19: - RM2.4 million). The loss before tax of RM3.2 million in FY20 was due to a decline in average selling price (ASP) of fatty acids and glycerine, notwithstanding a higher sales volume (page 12 of Annual Report 2020).

(a)	What are the current dynamics of demand vs supply, and ASPs for the two key products?
Reply	There is a global slowdown in demand due to the COVID-19 pandemic. ASP for fatty acids tracks closely the price fluctuations of palm oil prices. ASP for glycerine is similar, but it is also affected by biodiesel production and crude oil prices.

SLIDE 2
STRATEGY & FINANCIAL MATTERS

1. The Oleochemical segment had incurred losses in the last two financial years (FY20: - RM3.2 million; FY19: - RM2.4 million). The loss before tax of RM3.2 million in FY20 was due to a decline in average selling price (ASP) of fatty acids and glycerine, notwithstanding a higher sales volume (page 12 of Annual Report 2020).

(b)	What is the outlook and catalysts for the Oleochemical segment in FY21 and FY22? Will the segment be profitable in FY21?
Reply	The Oleochemical Segment in FY2021 and FY2022 remains challenging in view of the adverse impact from the COVID-19 pandemic. Moving forward, recovery in economic activities will be the main catalyst for the segment. The team is expecting an improvement in performance compared to last year despite the ongoing pandemic.

SLIDE 3
STRATEGY & FINANCIAL MATTERS

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(c)	SAB has cited competition, forex risk from exports and substitution of petrochemical products as the key risks facing by the Company. To what extent does petrochemical products pose a threat as substitutes to SAB's oleochemical products? What is the percentage of SAB's oleochemicals product portfolio that can be substituted with petrochemical products?
Reply	Oleochemical is a more environmentally sustainable alternative to petrochemical. Substitution of products depends on the environmental awareness of the target market

SLIDE 4
STRATEGY & FINANCIAL MATTERS

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(d)	With the volatility in crude oil prices, what would be the approximate crude oil price or range of prices to render petrochemical substitutes less price competitive?
Reply	As mentioned, oleochemical serves as a more sustainable alternative to petrochemical. Customer's preference on environmentally sustainable products will affect the demand of oleochemical products.

SLIDE 5
STRATEGY & FINANCIAL MATTERS

2. The oleochemical plant in Kapar, Klang has been in operation for more than 30 years. Given the age of the plant, SAB's long-term focus is to upgrade the plant, enhance the plant's manufacturing and cost efficiency via modernization and process automation (page 12 of AR2020).

(a)	When does the Company expect to complete the upgrading work of the plant? Will the resultant manufacturing and cost efficiency sufficient to reduce the segment's loss or even turning around the division?
Reply	Improvement work on the existing plant has been done and will be continued. Work done will reduce the cost per mt. As a result, the plant's efficiency has seen some improvements.

SLIDE 6
STRATEGY & FINANCIAL MATTERS

2. The oleochemical plant in Kapar, Klang has been in operation for more than 30 years. Given the age of the plant, SAB's long-term focus is to upgrade the plant, enhance the plant's manufacturing and cost efficiency via modernization and process automation (page 12 of AR2020).

(b)	In the reply to MSWG on questions raised last AGM, SAB said upgrading work on the entire oleochemical plant in Kapar would cost between RM250 million and RM350 million. How much of the estimated capex been spent on upgrading the Kapar plant? At which stage is the upgrading work presently?
Reply	So far no upgrading works has been done. Nominal amount is used on improvement works to achieve better operational and cost efficiency for the current plant that is more than 30 years old.

SLIDE 7
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(c)	Is there any plan to increase production capacity in view of higher sales volume and increase in utilization rate to 86.9% from the preceding year's 83.0%?
Reply	We are looking into this by the means of upgrading the plant. This would require a thorough study on the overall market, return on investment, potential risks, and viability to safeguard the interests of the shareholders.

SLIDE 8
STRATEGY & FINANCIAL MATTERS

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(d)	Given the age of the oleochemical plant and asset value of the oleochemical assets (FY20: RM172.29 million), would not it be more viable for SAB to replace the entire plant instead of spending RM250 million to RM350 million capex to upgrade and improve its efficiency?
Reply	The capex amount mentioned was in consideration to upgrading the whole plant, not to be mixed up with the improvement works done periodically to the existing plant.

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STRATEGY & FINANCIAL MATTERS

3) SAB's long-term strategy on the milling and estate division is to increase production efficiency and increase the production of fresh fruit bunches (FFB) in its internal estate. The collective measures will in turn lower the production cost.	
(a)	Where does SAB stand among industry peers in terms of FFB yield per mature hectare, crude palm oil (CPO) yield per mature hectare and oil extraction rate?
Reply	SAB should not be confused as a plantation company. SAB only owns 4,214 hectare of planted area in Riau. As compared to some of the plantation players: • Sime Darby Plantation: 583,766 hectare • FGV: 339,385 hectare • KLK: 270,750 hectare • IOI: 176,156 hectare • Genting Plantation: 143,827 hectare

SLIDE 10
STRATEGY & FINANCIAL MATTERS

3) SAB's long-term strategy on the milling and estate division is to increase production efficiency and increase the production of fresh fruit bunches (FFB) in its internal estate. The collective measures will in turn lower the production cost.

(b)	What measures has the Group taken to increase production efficiency and lower the processing cost of the mill? What are the results generated from the measures taken?
Reply	Measures taken: • Automation • Maximizing mill capacity • Suitable human resources Results: • Decreased cost per mt.

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STRATEGY & FINANCIAL MATTERS

4) The FFB required by the Group's palm oil mills (POMs) are supplied by its internal estates and from third-party external estates. FFB production from its 4,214 hectares (ha) of planted area in Riau yielded 91,635 MT in FY20, providing approximately 17.1% of the POMs current requirements (page 13 of AR2020).

(a)	Why has the Board not increased the acreage of its internal estates, since the Group requires more FFB, to avoid relying too much on third-party external estates?
Reply	The management is looking into this. Consideration will be given if the right opportunity arises in Riau.

SLIDE 12
STRATEGY & FINANCIAL MATTERS

4) The FFB required by the Group's palm oil mills (POMs) are supplied by its internal estates and from third-party external estates. FFB production from its 4,214 hectares (ha) of planted area in Riau yielded 91,635 MT in FY20, providing approximately 17.1% of the POMs current requirements (page 13 of AR2020).

(b)	The Group intends to carry out a replanting exercise which will cost RM12 million and will cover 774ha of land in the Riau estate. How many years will the replanting exercise take?
Reply	The replanting exercise is already completed as of September 2020. Plants will mature in year 2023. RM12 million is the total cost to be spread out until maturity.

SLIDE 13
STRATEGY & FINANCIAL MATTERS

5) As of 30 June 2020, SAB has RM245.64 million of cash and cash equivalents, with cash and bank balances of RM153.24 million, RM83.03 million of fixed deposits with licensed banks and short-term placements of RM9.36 million. Meanwhile, it has a very low level of borrowings with total term loan amounted RM5.4 million.

(a)	Given current low interest rate environment, how does SAB plan to generate better return on the cash on hand?
Reply	The cash and cash equivalents are being used for the following: - **1. Used as working capital** To purchase raw material (Oleochemical Segment) & to purchase external FFB (Milling & Estate Segment). **2. To finance FY2021 capex purposes** Applicable to all segments **3. Earmark for expansion** The Group is involved in industries that require high capex. The available cash and cash equivalents will be insufficient to finance the expansion in totality.

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Thank you!