LyondellBasell Industries
First Quarter 2024 Earnings Conference Call
April 26, 2024

Presenters
David Kinney, Head, IR
Peter Vanacker, CEO
Michael McMurray, CFO
Kim Foley, EVP, Intermediates, Derivatives & Refining
Aaron Ledet, EVP, Intermediates and Derivatives
Torkel Rhenman, EVP, Advanced Polymer Solutions

Q&A Participants
Steve Byrne - Bank of America
Patrick Cunningham - Citi
Frank Mitsch - Fermium Research
Matthew Blair - Tudor, Pickering, Holt
Jeff Zekauskas - JPMorgan
Josh Spector - UBS
Hassan Ahmed - Alembic Global
Kevin McCarthy - Vertical Research Partners
Vincent Andrews - Morgan Stanley

Operator
Hello and welcome to the LyondellBasell Teleconference. At the request of LyondellBasell, this conference is being recorded for instant replay purposes.

Following today's presentation, we will conduct a question-and-answer session.

I would now like to turn the conference over to Mr. David Kinney, Head of Investor Relations. Sir, you may begin.

David Kinney
Good day everybody and thank you for joining today's call. Before we begin the discussion, I would like to point out that a slide presentation accompanies today's call and is available on our website at www.lyondellbasell.com/investorrelations.

Today, we will be discussing our business results, while making reference to some forward-looking statements and non-GAAP financial measures. We believe the forward-looking statements are based upon reasonable assumptions and the alternative measures are useful to investors.

Nonetheless, the forward-looking statements are subject to significant risk and uncertainty. We encourage you to learn more about the factors that could lead our actual results to differ by reviewing the cautionary statements in the presentation slides and our regulatory filings, which are also available on our Investor Relations website.

Comments made on this call will be in regard to our underlying business results using non-GAAP financial measures, such as EBITDA and earnings per share, excluding identified items.

Additional documents on our Investor website provide reconciliations of non-GAAP financial measures to GAAP financial measures, together with other disclosures, including the earnings release and our business results discussion.

A recording of this call will be available by telephone beginning at 1:00 P.M. Eastern Time today, until May 26th, by calling 877-660-6853, in the United States and 201-612-7415, outside the United States. The access code for both numbers is 13743073.

Joining today's call will be Peter Vanacker, LyondellBasell's Chief Executive Officer; our CFO, Michael McMurray; Kim Foley, our Executive Vice President of Global Olefins and Polyolefins and Refining; Aaron Ledet our EVP of Intermediates and Derivatives; and Torkel Rhenman, our EVP of Advanced Polymer Solutions.

During today's call, we will focus on first quarter results, current market dynamics, our near-term outlook, and our long-term strategy.

With that being said, I would now like to turn the call over to Peter.

Peter Vanacker
Thank you, David, and welcome to all of you. We appreciate you joining us, today, as we discuss our first quarter results. During today's call, our leaders will be discussing results in line with the organizational changes we announced on February 19th.

In addition to her prior responsibilities for Refining and Supply Chain, Kim Foley is now our Executive Vice President for Global Olefins and Polyolefins. Kim will discuss the results for both O and P segments, as well as the Refining segments.

Joining us for the first time on our earnings telephone conference in his new role as Executive Vice President, is Aaron Ledet, who is taking over responsibility from Kim in leading our Intermediates and Derivatives segment.

Over more than 20 years in the petrochemical industry, with 12 of those years at LYB, Aaron has served in a variety of roles in both Europe and the United States. Most recently, Aaron was responsible for the manufacturing and commercial operations for our O&P Americas segment, where he was also responsible for developing future options for our Houston refinery. Please join me in welcoming Aaron to this call.

Before we dive into the results, I hope you will invest some time to review this year's edition of our sustainability report that we released a few weeks ago.

Over the past year, we embedded sustainability into our strategy and made significant progress on our ambitions. This year's sustainability report describes how LYB is making everyday sustainability a reality.

Let's turn to Slide 3 and begin the discussion with our continued leadership in safety performance. There is no greater accomplishment than having every member of our team return home to their families every day in the same health as when they began their working day. This is a cornerstone of our successful and sustainable business.

LyondellBasell's first quarter incident rate for employees and contractors improved to a rate of only one injury per 2 million hours worked. We believe our safety metrics continue to hold a leading position in our industry. And I want to congratulate our team for their outstanding safety performance.

Moving to Slide 4. As we discuss our company's performance during today's teleconference, we hope you will take away two main messages. First, LyondellBasell continues to generate resilient results, while managing challenging market conditions, which have pressured our industry over the past two years.

In the first quarter, LYB increased its EBITDA modestly, over the fourth quarter. Our cash generation was negatively impacted by a build in working capital for good reasons-higher prices and higher volumes. And we see other encouraging signs that the industry is beginning to recover.

The ratio of oil to gas prices strongly favors LYB's advantaged production in North America and the Middle East. Our Olefins and Polyolefins Europe, Asia, and International segment has returned to profitability, and we're seeing early indications of improvements in the performance of our APS segments.

The second key message is that LyondellBasell's focused strategy is creating unique opportunities to transform our business. As you have heard me say many times, we are executing on three strategic pillars.

We're growing and upgrading our core businesses through the startup of our new PO/TBA capacity and the acquisition of our NATPET joint venture in the Middle East. We intend to give a more substantive update on this pillar of our strategy, during our second quarter results.

And we're stepping up our performance in culture to embrace value creation through our value enhancement program and the transformation of our APS segment. As you might recall, we gave a detailed update on our VEP during last quarter's results.

But the most impactful transformation is the progress we have made on our strategic pillar to build a profitable Circular and Low-Carbon Solutions business. The so-called CLCS business will move our feedstocks away from fossil fuels towards an increasing share of recycled and renewable sources.

We're building this business through a disciplined, capital-efficient strategy that leverages our existing infrastructure and our competitive advantages, such as leading positions in growing markets and a global network of deep customer relationships.

In addition to the first quarter improvements in our underlying businesses, I hope you will come away from this call with an improved understanding of our progress in building CLCS and share our excitement for the future of LyondellBasell.

Moving to Slide 5, let's focus on the actions we are taking to build a profitable CLCS business. LYB is targeting capabilities across the Circular and Low-Carbon Solutions value chain.
We are making a series of strategic investments in plastic waste sourcing, advanced sorting, mechanical recycling and advanced recycling.

Slide 5 illustrates how all of these investments fit together to form a comprehensive approach to value creation for LyondellBasell’s CLCS business.

LyondellBasell's investments in waste sourcing and advanced sorting enable our company to maximize value from a wide variety of recycled and renewable waste streams.

Our network will allow LYB to select the highest value proposition for a particular waste feedstock, whether that involves mechanical recycling, advanced recycling, or renewables.

We continue to use JV structures, where appropriate, to improve capital efficiency and build in supply chain resiliency, while growing scale and gaining access to market-leading technologies.

Construction is underway in Germany at our Cologne integrated hub for our first advanced recycling asset using LYB's proprietary catalyst technology, MoReTec, with a final investment decision expected next year for a second unit in Houston that will likely be twice the size of the German facility.

We are evaluating options for the potential reuse of the hydrotreaters at our Houston refinery to purify recycled and renewable cracker feedstocks. All of these capabilities enable LYB to leverage the substantial investments in our existing cracker and polymerization capacities to process recycled and renewable feedstocks.

Finally, in collaboration with converters and brand owners, we bring the recycled and renewable content of these polymers to markets through both, direct channels and through the custom compounding solutions offered by our APS business. Using mass balancing, the majority of our sales volumes were sold under our well-known Circulen brands.

Turning to Slide 6, you can see how the focused execution of our CLCS strategy is resulting in rapid and meaningful growth in sales volumes for LYB's recycled and renewable-based polymers.

In 2023, our volumes grew to 123,000 tons, doubling our 2022 sales. And we expect this excellent momentum will continue as we drive toward our 2030 target of at least 2 million tons per year.

Last year, at our Capital Markets Day, we outlined our financial targets for LyondellBasell's C and LCS business. We continue to expect an incremental EBITDA contribution of $500 million by 2027 and $1 billion by 2030, from this business.

By expanding our regional hubs with disciplined acquisitions and organic growth, we are confident we can continue to build and strengthen the leadership position to serve this undersupplied market, while generating attractive margins to achieve our financial targets.

Let's turn to Slide 7 and summarize our financial results. During the first quarter, LyondellBasell's businesses delivered resilient results from our well-positioned and diverse portfolio.

Earnings were $1.53 per share. EBITDA was $1.1 billion. During the quarter, cash from operating activities consumed about $100 million, and our balance sheet remains robust with $6.5 billion of available liquidity.

Let me turn the call over to Michael first, and then to each of the business leaders, who will describe our financial and segment results in more detail.

Michael McMurray
Thank you Peter and good morning everyone. Please turn to Slide 8, and let me begin by addressing our cash generation.

During the past four quarters, LyondellBasell generated $4.3 billion of cash from operating activities. Our team efficiently converted 93% of our EBITDA into cash, over the last 12 months. At the end of the quarter, our cash balance was $2.3 billion.

LYB's investment-grade balance sheet remains strong and enables us to continue to execute on our strategy and grow profitably, while increasing returns for our shareholders.

Let's continue with Slide 9 and review the details of our capital deployment. During the first quarter, our businesses consumed about $100 million in cash from operating activities. EBITDA improvement was more than offset by a working capital build of just over $600 million.

As Peter mentioned, our working capital build was for good reasons, including higher prices and higher volumes, primarily within our O&P EAI and I&D segments. In O&P EAI, receivables increased with higher sales volumes, as we benefited from the Red Sea logistic disruptions.

Our I&D segment had higher receivables due to styrene price increases, and we rebuilt some oxyfuel inventories, after fourth quarter maintenance. Our resilient cash generation has resulted in $1.8 billion returned to shareholders over the last 12 months, through both dividends and share repurchases.

During the quarter, we successfully issued $750 million worth of bonds to refinance our 2024 maturity, which reduced our coupon rate by 25 basis points. Our balance sheet is in great shape. We have $11 billion in long-term debt with an average maturity of about 18 years and a 4% average cost of debt.

I would now like to provide a brief overview of the results from each of our segments on Slide 10. LyondellBasell's business portfolio delivered $1.1 billion of EBITDA during the first quarter. Profitability improved, quarter-over-quarter, in five of our six segments.

In our O&P Americas segment, the absence of fourth quarter inventory valuation benefits sequentially impacted first quarter results. Conversely, our I&D and Refining segments benefited from the absence of fourth quarter inventory valuation charges.

In our fourth quarter teleconference, we outlined $105 million of first quarter estimated EBITDA impact from planned maintenance in O&P Americas and Refining.

Additional unplanned downtime from winter storm Heather in Houston and other events increased the first quarter estimated EBITDA impact from downtime by approximately $150 million. Our estimate for second quarter planned maintenance EBITDA impact remains at $30 million and is focused on a turnaround of one of the POSM units in Channelview.

We continue to align our operating rates with market demand to optimize working capital. During the second quarter, we expect operating rates of 85% for our global olefins and polyolefins assets and 80% for our intermediates and derivative assets.

With that, I'll turn the call over to Kim. Kim.

Kim Foley

Thank you, Michael. After more than 35 years in various leadership positions at LYB, I am very excited to assume responsibility for our O&P segments. Earlier in my career, I was the site manager for our largest site here in Channelview, Texas. It is an honor for me to now lead LyondellBasell's work to grow and upgrade these core businesses for our company.

Let's begin the segment discussions on Slide 11 with the performance of our Olefins and Polyolefins Americas segment. First quarter O&P Americas EBITDA was $521 million. Lower feedstock and energy costs, coupled with stable domestic polyethylene prices, were offset by lower volumes due to planned and unplanned downtime. Olefins margins were supported by higher co-product pricing. As a reminder, fourth quarter results benefited from LIFO inventory valuation changes of $75 million.

During the first quarter, the North American polyethylene demand continued to strengthen, and with the support of strong export markets, led to stable domestic prices, despite new capacity entering the market.

For the North American industry, domestic polyethylene sales volumes improved by more than 5%, relative to the fourth quarter. The addition of new capacity to the North American market in 2023 has led to much higher exports from the region.

During the first quarter, North American exports of polyethylene were, significantly higher than 2023 average. For LYB, our strong domestic share in North America resulted in approximately 30% of our first quarter sales going to the export customers.

In the second quarter, we expect feedstock and energy costs will remain relatively low, with LYB targeting higher operating rates, following downtime in the first quarter.

North American integrated polyolefin producers, including LYB, continue to benefit from a highly advantaged oil-to-gas ratio, leading to a significantly lower cost, relative to oil-derived production.

With the remainder of the U.S. polyethylene capacity now online, the market is well supplied, yet demand is keeping the industry inventories relatively balanced at about 40 days of supply. We remain focused on aligning our operating rates to serve domestic and export market demand.

As Peter mentioned, we are focused on growing our Circular and Low-Carbon Solutions business to build our leadership in the attractive markets of premium recycled and renewable-based polymers.

In February, we announced the acquisition of mechanical recycling assets from PreZero in Jurupa Valley, California. These assets extend our recycling footprint into the Greater Los Angeles Metropolitan area, providing good access to plastic waste feedstock in the region. We believe California offers a favorable backdrop to increase the recovery of plastic waste with better infrastructure, higher recycling rates, and supportive policies.

Please turn to Slide 12, as we review the performance of our Olefins & Polyolefins Europe, Asia, and International segment. In the first quarter, higher volumes from near-shoring, combined with increased demand from restocking, drove improved results in Europe and Asia, resulting in EBITDA of $14 million.

Additionally, throughout the quarter, logistical challenges in the Red Sea proved beneficial for local European producers, resulting in increased volumes and fixed cost recovery. In Europe, variable margins benefited from modest price increases that were mostly offset by higher feedstock costs.

As we progress through the second quarter, we expect European Olefins and Polymers results to improve due to firm pricing, lower energy costs and improved seasonal demand. In addition, we continue to monitor the slow and gradual return of Chinese demand.

Finally, we are staying true to our commitment to grow and upgrade our core businesses. Our acquisition of the Saudi Arabian NATPET joint venture is expected to close in the coming months. The NATPET acquisition is an excellent example of LyondellBasell's strategy to drive long-term growth with advantaged assets.

In line with our sustainability goals, we signed another renewable power purchase agreement of 208 megawatts of generation capacity in Germany. With this new agreement, LyondellBasell is rapidly moving towards our 2030 target to supply at least half of our electricity from renewable sources. We now have more than 90% of our 2030 target sourced through agreements for wind and solar electricity capacity.

Now, let's turn to Slide 13 and discuss the results for the Refining segment. First quarter EBITDA was $71 million. Fourth quarter 2023 results were impacted by LIFO charges of approximately $40 million. Improvement in the gasoline crack spread was partially offset by lower volumes related to planned and unplanned downtime.

As previously mentioned, we have implemented a hedging program for a portion of our distillate production to mitigate risk, throughout 2024. During the first quarter, distillate cracks outperformed expectations, and our results include a mark-to-market losses for the program.

In the near-term, we expect seasonally stronger demand for gasoline amid rising crude oil prices. We intend to maximize crude throughput at the refinery and operate at approximately 95% of capacity in the second quarter.

Looking ahead, we remain committed to the safe and reliable operation of these assets. We will continue to target high operating rates, until ramp-down begins in the first quarter of 2025. Our team is evaluating several new projects to transform the site in support of our Circular and Low-Carbon Solutions growth strategy.

With that, I will turn the call over to Aaron.

Aaron Ledet
Thank you, Kim, and thank you, Peter, for the kind introduction at the beginning of the call. Like Kim, I'm honored to have the opportunity to lead the Intermediate to Derivatives segment.

During my career at LyondellBasell, I have served in leadership roles touching on supply chain, APS, Europe, I&D, Refining and most recently, leading O&P in the Americas. I look forward to my new responsibilities to drive value creation and growth across the core businesses within Intermediates and Derivatives at LYB.

Please turn to Slide 14, as we look at the Intermediates and Derivatives segment. In the first quarter, segment EBITDA was $312 million. As a reminder, the fourth quarter results were impacted by LIFO charges of approximately $95 million.

Our European propylene oxide and derivatives business benefited from logistics disruptions in the Red Sea, leading to near-shoring of local demand that drove higher volumes and margins in the region, a dynamic which has continued into the second quarter.

In the first quarter, oxyfuels margins declined due to lower premiums for oxyfuels, relative to gasoline. Despite these headwinds, oxyfuels' margins remained more than double the level typically seen during the seasonally slow first quarter. Industry outages during the first quarter led to higher styrene margins that have since normalized in April.

Looking ahead, we anticipate seasonal improvements across all businesses in the segment, including benefits from the summer driving season and lower butane costs, providing support for continued strength in oxyfuels margins.

In line with our guidance from the beginning of the year, we have planned maintenance underway at one of our POSM assets in Channelview, Texas. We expect higher volumes across most of our business, following unplanned downtime in the first quarter.

Our team continues to do a fantastic job in running our new PO/TBA facility with high reliability and utilization, while ensuring superb product quality. After considering planned maintenance, we expect to operate at an average rate of about 80% of I&D capacity during the second quarter.

The process to complete the sale of our ethylene oxide and derivatives businesses to INEOS is well underway, and we expect to finalize the transaction in the second quarter. We anticipate a book gain on sale of $275 million, which will be reflected as an identified item, during the second quarter.

With that, I will turn the call over to Torkel.

Torkel Rhenman
Thank you, Aaron. Let's review the first quarter results for the Advanced Polymer Solutions segment on Slide 15. First quarter EBITDA was $35 million. Volumes increased 12% across our portfolio, driven by improving seasonal demand and the lack of typical fourth quarter customers' downtime.

Variable margins increased due to higher pricing and product mix improvements. This was offset by fixed cost investments during the quarter, as we moved forward on our APS transformation.

In the second quarter, we expect volumes will continue to show modest improvement benefiting from both, seasonally higher demand and our growing pipeline of new business. We continue to see good momentum as we expand our growth funnel, with our team highly focused on winning projects with both, new and existing customers.

Utilizing both our recently acquired Mepol assets as well as our existing asset base, we are providing customers with innovative and sustainable solutions. We believe that our APS transformation, coupled with market recovery, will deliver results to reach the goals we laid out at our Capital Markets Day, last year.

With that, I will return the call back to Peter.

Peter Vanacker
Thank you, Torkel. And please turn to Slide 16, and I will discuss the results for the Technology segment on behalf of Jim Seward. First quarter EBITDA of $118 million reflected higher licensing revenue and improved catalyst margins.

In the second quarter, we expect that revenue associated with licensing milestones will decrease, matching fourth quarter 2023 levels, but will be slightly offset by an increased catalyst volumes. As a result, we estimate that second quarter Technology segment results will be similar or perhaps slightly better than fourth quarter results.

Please turn to Slide 17 as we discuss the near-term market outlook by regions and end markets. As you heard from our business leaders, we expect to see typical increases in seasonal demand, along with some moderate improvements in markets, throughout the year.

In the Americas, improving export demand for polyethylene is expected to further tighten domestic markets. And additionally, low ethane costs should continue to strengthen integrated polyethylene margins.

As we move through the year, we expect European markets will begin to see modest improvements. Industrial activity in the region is increasing, and we expect demand will continue to recover as low energy costs gradually improve confidence. The Red Sea logistics disruptions that bolstered first quarter demand continued to influence local purchasing decisions.

China markets are exhibiting very slow, but steady improvement. We're encouraged by China's targeted stimulus efforts and remain watchful for indications that these measures will deliver meaningful improvements in demand for LYB's products.

For the packaging sector, demand for non-durables has been consistent. Given that destocking across the packaging value chain seems to be complete, we look forward to the potential for restocking, ahead.

In building and construction, we expect to see some benefits from moderating and perhaps falling interest rates and the inevitable recovery in demand for durable goods. In the U.S., stimulus funding from the Bipartisan Infrastructure Law will begin to support improving demand for commercial construction with growing benefits expected, as the year unfolds.

In the automotive sector, global production is expected to modestly improve from first quarter levels, throughout 2024. Moreover, our APS segment is committed to strategic initiatives focused on winning back customers and growing the business.

And in Oxyfuels and Refining, gasoline crack spreads are improving from the lows we saw at the end of the fourth quarter of last year.

U.S. vehicle miles traveled have returned to pre-pandemic levels and the value for octane from our oxyfuels is strong. At LYB, we continue to optimize our assets on a global scale by aligning our operating rates to meet market demand and maximize cash generation.

Now, let me summarize the first quarter, our outlook, and our long-term strategy for the company with Slide 18. As we move into the summer months, we anticipate seasonal improvements across our businesses in the second quarter. Moving through the year, we expect improvement in the second half, driven by stable to lower interest rates and modestly higher demand.

LYB's U.S. and Middle East production should continue to benefit from advantaged natural gas-based feedstock and energy costs, compared to oil-based peers. Red Sea logistic disruptions were beneficial to our European businesses in the first quarter of 2024, and the time it will take for these tailwinds to fade is uncertain.

As we mentioned in our fourth quarter earnings call, we are committed to delivering $600 million of recurring annual EBITDA by the end of 2024, through our value enhancement program.

We continue to see enthusiastic support for the program across the company, as it becomes an evergreen part of our culture. Our team will continue to remain focused on advancing value creation through the three pillars of our long-term strategy.

Progress continues on growing and upgrading our core businesses. In the coming months, we expect to close on the acquisition of our NATPET propylene and polypropylene joint venture in Saudi Arabia. Our divestiture of ethylene oxide and derivatives business to INEOS is expected to occur during the second quarter.

As we discussed today, LYB continues to build a comprehensive business model to support a profitable Circular and Low-Carbon Solutions business. LyondellBasell is making smart investments to build capabilities across every step of the value chain with a global scale in mind.

With construction already underway for our first MoReTec advanced recycling asset in Germany, we're building on this momentum with FID for our second larger unit in Houston planned for 2025. Our actions demonstrate LYB's commitment to capture value with Circular and Low-Carbon Solutions.

Our value enhancement program continues to grow and is a key element of our company culture. Currently, the program is on track to add up to $1 billion of incremental recurring annual EBITDA by the end of 2025, significantly surpassing our original goals. We're laser focused on our target to deliver a more profitable and sustainable growth engine for LyondellBasell.

Now with that, we're pleased to take your questions.

Operator
Thank you. Ladies and gentlemen, at this time, we'll begin the question-and-answer session. As a reminder, if you have a question, please press the “star”, followed by the “1” on your touchtone phone. If you would like to withdraw your question, please press the “star”, followed by the “2”. We do ask you to limit to one question.

Our first question comes from the line of Steve Byrne with Bank of America. Please proceed with your question.

Steve Byrne
Yes, thank you. I'm interested in the level of demand that you're hearing from your downstream polyethylene customers for your renewable products whether it’s the Renew or the Revive. Are they willing to sign a long-term contract in order for you to build a larger MoReTec plant presumably in Houston. Will you have long-term contracts before you reach FID and do you expect these to be cost plus ,given how hydrogen requirements to convert the

pyrolysis oil in your cracker feedstock (inaudible) if you think this would be cost plus? Thank you.

Peter Vanacker
Hi Steve, I mean, thanks for your question. This is Peter. It was a bit difficult, I mean, to understand, the line was breaking up. But you were asking for our level of demand on the renewable side of polyethylene, as well as if it is cost plus or not.

Well, we continue to see very good traction in that market. You saw from our presentation that, last year, we doubled approximately the volumes of our Circulen family, so the mechanical recycled, the advanced recycled and as well, the non-plastic waste renewables, so biowaste recycled products. We have continued to see very good demand in that regard. We see also that regulation is advancing, particularly in Europe.

With regards to the contract structures, if we take our first investments in the advanced recycling technology, our MoReTec technology in the Cologne hub in Wesseling, then we have a big part of the capacity already contracted.

We, on purpose, do not contract the entire capacity because we believe there will be value that we can capture for that part that is not contracted, once we start up the facility.

We are not contracting on a cost-plus basis; I said that multiple times. This market will have its own supply and demand, and that is actually what we currently are seeing.

That means that pricing for renewable, recycled polyethylene, but also polypropylene, has its own price point that is being set in the marketplace. And all that we see is still very much aligned, even ahead of what we had said in March last year at the Capital Markets Day.

Operator
Thank you. Our next question comes from the line of Patrick Cunningham with Citi. Please proceed with your question.

Patrick Cunningham
Hi, good morning. So, O&P EAI seems to be seeing some nice benefits from volume trends and firmer prices, particularly in Europe. How do you expect prices to trend into the second quarter and throughout the year? And do you get any sense we may see some reversal in this near-shoring and restocking trends that you've highlighted?

Peter Vanacker
Good question, Patrick. And of course, we are very pleased that we see that the situation is changing in Europe. Of course, as you alluded to and as we said in the prepared remarks, helped by discontinuity because of the issues in the Red Sea.

Generally spoken, and then I will hand over to Kim, generally spoken, we see that situation not changing very rapidly because the behavior of our customers has changed, that they are buying more locally than eventually relying on cheap imports.

So therefore, we expect, as we alluded to in the prepared remarks, I mean, to see further advancement in our profitability in that particular region in the second quarter. Kim, you want to add something to that?

Kim Foley
I think the only thing that I would add, Peter, is we continue to see strength in packaging, which you alluded to in our prepared remarks. And none of us can predict what's going to happen with the supply chains. And so long as that threat is out there, I think we'll continue to see more near-shoring.

Peter Vanacker
And another topic that I want to point out is everybody has noticed that now in Europe, there is consolidation announcements in the market. So, if you do the back-of-the-envelope calculation of, in total, now the three announcements that have been made, then we're talking about approximately 1.5 million tons of ethylene capacity that in, let's say, relatively short-term should disappear in the market.

Another point that I want to allude to is that the average age of crackers in Europe is about 45 years, whereby in the United States, it's less than 30 years. There are about 40 crackers in Europe. Close to half of them have a capacity that is lower than 500,000 tons per year.

So, you see that restructuring is actually starting to happen in Europe. And if these announcements are being made, then we would expect also that that is being taken into consideration in the value chain. That means our customers and customers of our customers, in where they want to secure their products.

Having said that, we do not see yet in Europe that there is restocking. So, what Kim was alluding to is mainly based upon higher demand because of higher consumption downstream of products being produced. So, it's not yet restocking.

Operator
Thank you. Our next question comes from the line of Frank Mitsch with Fermium Research. Please proceed with your question.

Frank Mitsch
Good morning and congrats, Kim, on the new role. Why don't we stay with Europe for a minute or two? First off, you indicated that global O&P operates, you expect that 85% in the second quarter. Curious what the split might be, Americas versus Europe. But it does seem that the

business is catching a break with the Red Sea issues. And to your point, Peter, you also indicated that you were starting to see some rationalizations, and so forth.

You have already taken some actions. Is there more that we should be expecting to happen in Europe? Theoretically, the threat in the Red Sea will be neutralized, and then we'll start to see the global trade flows again, and that will obviously appear to catalyze some actions. So, any color there would be very helpful. Thank you.

Peter Vanacker
Let me take the latter part of your question. Very good question, as usual, Frank. The latter part, I mean, around our assets, you rightfully said we took a very early step when the industry was not undertaking any steps yet, by rationalizing our polypropylene facility to one line in the southern part of Italy, in Brindisi.

Of course, we've always said that we continue to look at all the different assets that we have in Europe. Taking into consideration that we have flexible assets in Europe, compared to some other assets that are still there in the industry that are not flexible, that are subscale that are dealing with high costs, we have a quite good position with our assets, if you look at the cash cost curve in Europe. But nevertheless, as we said before, we continue to, strategically, evaluate our positions in Europe.

As I alluded to before, we are quite positive by the dynamics around new regulation that supports the demand for recycled products. And therefore, we've also said, I mean, our Cologne assets were very strategic in that regard.

We're building up our Cologne hub around, I mean, renewable polyolefins, around advanced recycling with the MoReTec investments. So that will continue to get a lot of focus, as we move forward. On the short-term question with the Red Sea, anything that we can add, I mean, Kim?

Kim Foley
I think I want to go back to the first part of Frank's question, just so I answer that. As many of you saw in the prepared remarks in the releases this morning, our first quarter North American olefins and polyolefins would operate at our crackers at about 75%.

So, you asked the question about operating rates for global OPAM. I would say OPAM, our global O&P Americas as well as global, Europe, Asia and International are both at 85% in the second half--or the second quarter of the year.

Operator
Thank you. Our next question comes from the line of Matthew Blair with Tudor, Pickering, Holt. Please proceed with your question.

Matthew Blair

Hey, good morning. Could you go into your outlook for PE pricing in the second quarter, as well as the back half of the year? Is it fair to say that the export demand, right now, is stronger than domestic demand for PE? And then also, could you talk a little bit about just overall inventory levels? Thanks.

Peter Vanacker
Thank you, Matthew. Before I hand over to Kim, let me point out that we are, of course, very pleased to see that domestic demand in the United States has improved by 5% versus Q4, last year. And reminding everybody that this is the strongest quarter, since Q3 2022.

In addition to that, as you rightfully said, I mean, the export sales continue to grow, actually breaking records for the fourth consecutive quarter, which is not so much a surprise if you see at the cost base and if you see the differential between oil and gas. So, these are very good dynamics that we see in the marketplace for PE and for producers like ourselves with a very low cost basis in the Gulf. Kim.

Kim Foley
So, Peter, I think what I would add to that, and it's hinted throughout our messaging today, is that domestic demand, as you mentioned, is up, export demand is up. Just to put numbers to your comment around year-on-year. Year-on-year PE exports out of North America are up 27%. So, the new capacity that's now online is absolutely being exported, around the world. Those channels to market are open; we're involved in all of those.

And we're very optimistic now that we have our cracker back up in Corpus Christi, that we're going to be able to fulfill all those channels. So, yes, as you think about it, we've got a high oil to gas ratio, we've got low energy. The U.S. is set with a very competitive advantage to meet the demands of the world.

Peter Vanacker
And a couple of points that I also want to outline here, if you look at days on hand in PE, it went down from Q4 to Q1, I mean, from 42 to 40. So, you see there, as well, domestic demand going up, export sales, the topics, I mean, also that Kim highlighted.

So, we saw, also, that the capacity utilization industry despite, I mean, that we saw a lot of additional capacity being brought online, and we believe that most of that capacity is now producing, maybe a couple of exemptions there with some technical issues, but there is not a lot of major capacities in the United States that still need to come online. So, we saw capacity utilization actually moving up to around 90% in PE in the United States.

Operator
Thank you. Our next question comes from the line of Jeff Zekauskas with JPMorgan. Please proceed with your question.

Jeff Zekauskas
Thanks very much. I have a two-part question. Is the real break on polyethylene prices the overcapacity situation in China? And do you think that what the market needs is either a tighter supply/demand balance in China or something moving China prices up in order for prices to really be affected, positively, in the other jurisdiction?

The second part is, on Slide 11, under the "Our Actions" and talking about Olefins and Polyolefins America, you say "Balancing domestic demand with disciplined capacity utilization". What does that exactly mean?

Peter Vanacker
Let me go to your first question, Jeff. Indeed, as you rightfully pointed out, even if we have seen a little bit of an uptick in demand in China, I would make the case that everybody is bleeding. Margins are not where they need to be. Naphtha is expensive.

And then the question is how long will that last? Because there may be newer facilities, of course, that can hold on longer, but there is also quite a lot of subscale capacities in China. And I'm sure after, how much, 12, 18 months of bleeding, even 24 months of bleeding, how long will that then last until we will see some actions being undertaken?

But nevertheless, despite the fact, I mean, the China supply and demand is not where it should be, you see these exports from the United States into other parts of the world reaching breaking records.

So, the material finds its way then into other markets, markets where maybe also, again, older facilities, not backward integrated, not flexible, fully dependent on naphtha, these are the facilities, of course, that have been very difficult to be competitive.

As a consequence, we continue to believe. You have seen them in the price increases. At the beginning of the year. You saw the two rounds of price increases in the United States last year, at the end of last year.

We have these price increases out in the market, for April and May. And there's a very strong case, if you look at everything that is happening, for those price increases, I mean, to stick. If I turn to Kim on the second question.

Kim Foley
Second question, I think the easiest way to explain that is it's an optimization. You're going to look at what margin you have on your domestic demand, you're going to look at your incremental cost of production to export, and you're going to make the right optimization, across our assets.

Operator

Thank you. Our next question comes from the line of Josh Spector with UBS. Please proceed with your question.

Josh Spector
Yes, hi. Good morning. I want to ask on the cost side of the equation. So, I mean, you continue to make good progress on your value enhancement plan. But at the same time, you're investing to stand up a new business in CLCS. I think, correct me if I'm wrong, that's probably a big driver about why your SG&A continues to increase, up about $100 million over the last couple of years.

So, I'm wondering if you could kind of break the pieces apart in terms of the benefit from VEP you see yourself getting, the costs that you're adding for that new business maybe over the next couple of years that don't have the EBITDA to match that at this point, and maybe inflation, so we can maybe better model over ‘24 and ’25, what the actual drop-through was of the savings versus cost versus new businesses? Thank you.

Peter Vanacker
Yes, let me go first, and then I hand over to Michael. Of course, I mean, we continue to be very pleased with our VEP program, the acceptance in the organization, the value that we have been able to create last year that we continue to see being created, this year. We are very well on track, I said, to reach or exceed our targets on the VEP for this year.

I give you an example, I mean, because last year, mid-cycle margin value creation at the end of the year was slightly above $400 million. Bottom line, with effective margins and effective products being sold, for the year was around, I mean, $300 million.

Well, a part of that $300 million, that's how the three pillars work, have been reinvested in building up the second pillar, and that is the business unit Circular and Low-Carbon Solutions. Not the complete amounts we have invested, but a substantial amount of that $300 million has been reinvested to build up that pillar and as such, also more (inaudible).

That of course, also leads--remember, we have bought out joint venture partners, we have done a number of bolt-on acquisitions. So of course with that, of course, you get higher SG&A on your balance sheet. But all that is where it works together, I mean, the pillars in our strategy.

Michael McMurray
Yeah, Josh, and maybe just a few more comments in regards to cost. I think we have a pretty good reputation for operating lean, which we think actually gives us an advantage versus others. When times are good, we actually continue to be disciplined.

Quite frankly, in 2023, I think underlying cost control was strong. SG&A as a percent of sales totaled 3.8%, despite revenue and cost headwinds. We also made investments in our footprint when we started up PO/TBA in circularity, as you noted, and VEP, and some capability building, across the enterprise. And clearly, inflation was a significant headwind, last year.

And as we've moved into 2024, we continue to make some targeted investments, for example, in our CLCS business and our VEP program, where we will invest about $270 million, this year. A fourth of that is OpEx, three quarters of that is CapEx.

But again, we're managing well, and driving actions this year, both in CapEx and in OpEx. And so, I'd say, overall, cost control is strong, and we are making targeted investments, and you can continue to expect us to manage costs well, going forward.

Peter Vanacker
And our portfolio management, of course, helps with that. I mean, as you know, we're almost, I mean, at the point of closing the divestiture of ethylene oxide and derivatives.

And we're almost closed at closing our NATPET joint venture, and that triggers then, of course, also soon after that, a final investment decision to expand with an additional line with newer technology. So, these things all work together, is what I wanted to highlight.

Operator
Thank you. Our next question comes from the line of Hassan Ahmed with Alembic Global. Please proceed with your question.

Hassan Ahmed
Morning Peter. Peter, you obviously mentioned a couple of the joint ventures and you recently did, obviously, the NATPET sort of venture out in Saudi Arabia, as well. Would love to hear your latest and greatest thoughts about where you guys stand in terms of potentially maybe consolidating the Sasol joint venture?

Peter Vanacker
Thank you, Hassan. Good question. As you alluded to, I mean, in Saudi Arabia, we have lots of activities ongoing, not just with the existing joint ventures but then, of course, also with the NATPET joint venture and then the next steps with the investment.

We are happy and actually, that deal was done before my time, so I'm even super happy with the fact that we have entered in that joint venture with Sasol. I would say, generally spoken, operation is running well in that joint venture.

We're pleased, I mean, with our position that we have in there. And of course, we continue, as we have said multiple times, to always look at opportunities in the marketplace where we can grow and upgrade the core.

So, we are not focusing now on just one thing, but we are continuing to look at growing and upgrading the core. Having said that, we have multiple times outlined that we will be extremely disciplined in our M&A activities. Michael.

Michael McMurray
Yeah, and maybe, Hassan, I'd say a couple more things. I think clearly, just looking back upon the last two years, we've been much more active from a portfolio management perspective, both on bringing things in, but also jettisoning things where there are better owners. But I don't think it's appropriate for us to comment on a specific transaction.

Operator
Thank you. Our next question comes from the line of Kevin McCarthy with Vertical Research Partners. Please proceed with your question.

Kevin McCarthy
Yes, thank you and good morning. Peter, last March, or March of ’23, I should say, you unveiled some financial goals around your CLCS initiatives, $0.5 billion in EBITDA by 2027, en route to $1 billion in 2030.

I was wondering if you could speak to your level of confidence in the march toward the first piece of that in 2027. And part of the reason I ask is it sounds like you may not take a final investment decision on MoReTec in Houston, until next year. I'm not sure exactly how long that might take to build out.

But maybe you could kind of speak to the timing and ramp of tonnage extending on what you show on Slide 6. How does that 123 kilotons maybe ramp over the next two or three years towards your medium- and long-term goals?

Peter Vanacker
Thank you, Kevin, for your very good question. Generally spoken, we continue to be very confident that we can reach what we have said a bit more than one year ago on C&LCS, but also on the overall targets that we had put out there, 0.5 billion on C&LCS 2027, in additional profitability.

We are making very good progress, I mean, with the entire family. You saw that one particular slide, I mean, doubling the volumes, very good margins that we are generating for the entire family.

We, as you know, Kevin, some of the parts go faster than other parts. So, it's clear that the Renew, Circulen Renew family goes faster because we have been in the market since a couple of years with the biowaste based polyolefins.

The network that we have built up and continue to build up on the mechanical recycled, remember all the deals, and it's also on the slide that we did in Europe, and then also starting in the United States, is ramping up very fast, as we had planned.

And the advanced recycling parts, yes, of course, we have the first investment decision taken for the capacity in the Cologne hub. It's on track. Work is underway. The team is on the ground. We look positively on the time line that we have there, I mean, to reach what we had said starting up, by the end of 2025.

And we are now looking at, of course, the concepts, as we have alluded to and as in the slides, to double that capacity, bring it, I mean, to Houston at the refinery site, do the necessary work on the upgrading, looking at that from a technical point of view by leveraging upon our hydro treaters that we have in the refining.

So that one, I would say, you're right. I mean, final investment decision not this year, but next year, and then it takes time to build.

But in the meantime, what we are also doing is we are working up as--remember, we always said we will be technology agnostic. So, we work together with different partners on the advanced recycling side. So, as an off-taker of plastic oil, that we can either upgrade or move directly into our steam crackers.

So, from that perspective, it gives us the possibility to continue to grow with the advanced recycling polyolefins in the marketplace. So, I have no indications that we would not be able to reach our targets. We continue to be very confident.

Operator
Thank you. Ladies and gentlemen, our final question, this morning, comes from the line of Vincent Andrews with Morgan Stanley. Please proceed with your question.

Vincent Andrews
Thanks and good morning, everyone. Can I just ask on the cash flow going forward, are we done with the working capital build, or is there probably a little bit more of that to come in the second quarter?

Michael McMurray
Hey Vincent, it's Michael. Yeah, well, I'd probably answer the question in two ways. I think for the second quarter, it should be relatively stable. But I hope things actually get better in the second half when we consume a bit. But that said, I don't expect us to consume anything that's material.

Operator

Thank you. Ladies and gentlemen, that concludes our question-and-answer session. I'll turn the floor back to Mr. Vanacker for any final comments.

Peter Vanacker
Yeah, thank you, everybody. Very good questions. But of course, I was missing a little bit questions around our Propylene Oxide business, our Oxyfuels business, and our APS business.
Now, let me highlight that the team is doing fantastic work in all of these businesses. We're making very good progress, and we're moving, I mean, to driving season which, as you know, is always good for an oxyfuels, I mean, from an oxyfuels point of view.

We continue to see early indications that durable goods demand is going up which is, of course, also good for our leadership position that we have in low-cost and low-carbon footprint propylene oxide.

And I'm also very pleased, as I said in the prepared remarks, by seeing how we are on track in the transformation of our APS business. Our win rates, our service level, these are things that we are looking at. And Torkel and his team are making fantastic progress.

So, also very pleased with that despite, of course, certain markets on a global basis, especially in durable goods, not being at the top level yet. So, it is very promising when those markets also continue back, I mean, to sustainable growth.

So, thank you all for the thoughtful questions. And of course, we look forward to sharing updates over the coming months, as we continue to make progress on our long-term strategy. We hope you all have a great weekend. Stay well and stay safe. Thank you.

Operator
Thank you. This concludes today's conference call. You may disconnect your lines at this time. Thank you for your participation.