

24 February 2021

Petronas Chemicals Group

4QFY20 Continues Recovery Trend

By Steven Chan / steven.chan@kenanga.com.my

4QFY20 continues PCHEM's recovery trend, with earnings lifted by stronger production volumes amidst higher plant utilisation, as well as elevated product prices. Moving forward for the immediate-term, in tandem with the rebound in crude oil prices, petrochemical prices have also managed to hold steady, and thus, we continue to expect its upcoming 1QFY21 quarter to show another stable set of results. Maintain MP, with higher TP of RM7.70.

FY20 above expectations. As highlighted in our previous report, this quarter saw a one-off cost on the associates line of USD56m (RM232m) arising from the group's disposal of its 40% stake in Butanediol Complex as part of its portfolio realignment efforts. Stripping this off, plus other non-core items e.g. forex, inventories write-downs, FY20 would have reported a core net profit of RM1,919m, coming in 27% above our, and 14% above consensus, full-year forecast. This was mainly due to higher-than-assumed fertilisers and methanol product prices. The group also announced an interim dividend of 7.0 sen per share – bringing full-year dividends to 12.0 sen, also above expectations.

4QFY20 continued with the recovery trajectory. Sequentially, 4QFY20 core net profit of RM809m continued with its current recovery trajectory growing 45% QoQ. Apart from the higher plant utilisation (94% vs 90%) resulting in higher production volumes (+5%), the quarter also benefitted from steeper product prices. Cumulatively for FY20, despite the Covid-19 pandemic, the group saw its highest annual production at 10.7m MT on higher plant utilisation (94% vs 92%). However, core profit was still weaker by 34% YoY, dragged by poorer product prices, especially in 1HFY20.

Petrochemical prices to stay firm. In tandem with the rebound of crude oil prices, petrochemical prices have managed to hold steady of late, further helped by global supply shortages, and export limitations on high freight costs. As such, we continue to expect its upcoming 1QFY21 quarter to remain at least as strong (barring no unexpected plant shutdowns). While PCHEM is now going into a new 3-year heavy turnaround cycle, management reassured that annual plant utilisation will remain above 90%, and hence, we will see little impact from here. Meanwhile, its Pengerang plant is expected to start commercialisation in 2HFY21, which upon commercialisation, the group will have to start recognising fixed depreciation and finance costs of ~RM600m/year. Given the gestation period, we believe the plant may take >12 months to see positive EBITDA contributions. Nevertheless, bottom-line impact from this could be mitigated by higher product prices from current productions.

Maintain MARKET PERFORM, with higher TP of RM7.70. Post full-year results, we roll forward our valuation base year to FY22E, pegged to unchanged valuations of 21x PER at +0.5SD above its mean. Our FY21E earnings were raised by 2% following higher product price assumptions, while we also introduce new FY22E numbers.

Risks to our call include: (i) fluctuations in petrochemical product prices, and (ii) unexpected lower plant utilisation/maintenance.

MARKET PERFORM ↔

Price: RM7.50
Target Price: RM7.70 ↑

Share Price Performance



KLCI 1,565.05
YTD KLCI chg -3.8%
YTD stock price chg 0.9%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	PCHEM MK Equity
Market Cap (RM m)	60,000.0
Shares Outstanding	8,000.0
52-week range (H)	7.96
52-week range (L)	4.00
3-mth avg daily vol:	3,296,753
Free Float	20%
Beta	1.6

Major Shareholders

Petroleum Nasional Bhd	64.4%
Employees Provident Fund	8.5%
Skim Amanah Saham Bumiputera	7.1%

Summary Earnings Table

FYE Dec (RM m)	2020A	2021E	2022E
Revenue	14,362	15,698	17,318
EBIT	1,853	2,834	3,305
PBT	1,857	2,910	3,389
Net Profit (NP)	1,628	2,510	2,922
Core NP (CNP)	1,919	2,510	2,922
Consensus (CNP)		2,638	3,161
Earning Revision (%)		2.4	NEW
EPS (sen)	24.0	31.4	36.5
EPS growth (%)	-33.8	30.8	16.5
DPS (sen)	12.0	15.7	18.3
BV/share (RM)	3.8	4.0	4.1
PER (x)	31.3	23.9	20.5
PBV (x)	2.0	1.9	1.8
Net Gearing (x)	N.Cash	N.Cash	N.Cash
Div. Yield (%)	1.6	2.1	2.4

24 February 2021

Income Statement

Y/E : Dec (RM m)	4Q FY20	3Q FY20	Q-o-Q Chg	4Q FY19	Y-o-Y Chg	12M FY20	12M FY19	Y-o-Y Chg
Revenue	3,836	3,457	11.0%	4,234	-9.4%	14,362	16,370	-12.3%
Cost of revenue	(2,666)	(2,574)	3.6%	(3,464)	-23.0%	(10,837)	(11,914)	-9.0%
Gross profit	1,170	883	32.5%	770	51.9%	3,525	4,456	-20.9%
Selling and distribution expenses	(251)	(227)	10.6%	(232)	8.2%	(967)	(878)	10.1%
Administration expenses	(181)	(166)	9.0%	(224)	-19.2%	(718)	(754)	-4.8%
Other expenses	(102)	(95)	7.4%	(90)	13.3%	(68)	(107)	-36.4%
Other income	160	78	105.1%	153	4.6%	428	523	-18.2%
Operating profit	796	473	68.3%	377	111.1%	2,200	3,240	-32.1%
Financing costs	(11)	(6)	83.3%	(13)	-15.4%	(27)	(31)	-12.9%
Joint ventures and associates	(266)	12	-2316.7%	5	-5420.0%	(316)	(54)	485.2%
Profit before taxation	519	479	8.4%	369	40.7%	1,857	3,155	-41.1%
Tax expense	(63)	(27)	133.3%	(57)	10.5%	(271)	(360)	-24.7%
Non-controlling interests	10	19	-47.4%	28	-64.3%	42	16	162.5%
Net profit	466	471	-1.1%	340	37.1%	1,628	2,811	-42.1%
Core Net profit	809	560	44.5%	350	131.1%	1,919	2,897	-33.8%
Gross margin	30.5%	25.5%		18.2%		24.5%	27.2%	
Operating margin	20.8%	13.7%		8.9%		15.3%	19.8%	
PBT margin	13.5%	13.9%		8.7%		12.9%	19.3%	
Net margin	12.1%	13.6%		8.0%		11.3%	17.2%	
Core net margin	21.1%	16.2%		8.3%		13.4%	17.7%	
Effective tax rate	12.1%	5.6%		15.4%		14.6%	11.4%	

Source: Company, Kenanga Research

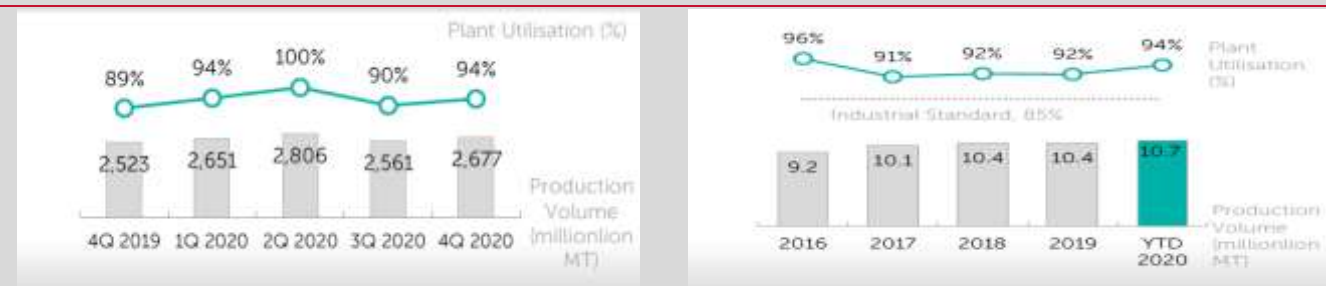
Segmental Breakdown

Y/E : Dec (RM m)	4Q FY20	3Q FY20	Q-o-Q Chg	4Q FY19	Y-o-Y Chg	12M FY20	12M FY19	Y-o-Y Chg
Revenue								
Olefins and Derivatives	2,137	2,006	6.5%	2,576	-17.0%	8,208	9,960	-17.6%
Fertilisers and Methanol	1,491	1,243	20.0%	1,441	3.5%	5,311	6,166	-13.9%
EBITDA								
Olefins and Derivatives	476	414	15.0%	296	60.8%	1,394	2,099	-33.6%
Fertilisers and Methanol	667	519	28.5%	475	40.4%	2,183	2,520	-13.4%
PAT								
Olefins and Derivatives	29	258	-88.8%	45	-35.6%	302	1,176	-74.3%
Fertilisers and Methanol	476	323	47.4%	329	44.7%	1,356	1,690	-19.8%
EBITDA Margins								
Olefins and Derivatives	22.3%	20.6%		11.5%		17.0%	21.1%	
Fertilisers and Methanol	44.7%	41.8%		33.0%		41.1%	40.9%	
PAT Margins								
Olefins and Derivatives	1.4%	12.9%		1.7%		3.7%	11.8%	
Fertilisers and Methanol	31.9%	26.0%		22.8%		25.5%	27.4%	

Source: Company, Kenanga Research

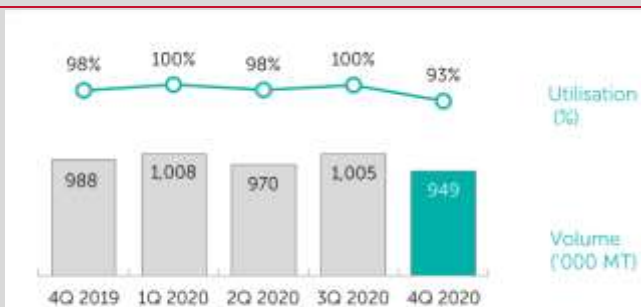
24 February 2021

PCHEM's Plant Utilisation and Production Volumes



Source: Company

Olefins and Derivatives – Plant Utilisation and Volumes



Fertiliser and Methanol – Plant Utilisation and Volumes



Source: Company

This space is intentionally left blank

24 February 2021

Peer Comparison

Name	Last Price	Market	Shariah	Current	Revenue Growth		Core Earnings Growth		PER (x) - Core Earnings			PBV (x)		ROE (%)	Net Div.Yld. (%)	Target	Rating
	(RM)	Cap (RM'm)	Compliant	FYE	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	Hist.	1-Yr. Fwd.	2-Yr. Fwd.	Hist.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	Price (RM)	
BUMI ARMADA BHD	0.390	2,295.5	N	12/2020	13.0%	4.3%	40.3%	10.3%	8.1	5.8	5.2	0.7	0.6	11.5%	0.0%	0.210	UP
DAYANG ENTERPRISE HLDGS BHD	1.54	1,783.0	Y	12/2020	-31.2%	15.5%	-71.2%	32.3%	7.6	26.4	19.9	1.1	1.1	4.2%	0.0%	1.20	MP
DIALOG GROUP BHD	3.21	18,111.1	Y	06/2021	-33.7%	26.3%	1.8%	11.5%	30.1	29.5	26.5	4.4	4.0	14.1%	0.9%	4.35	OP
MISC BHD	6.68	29,817.8	Y	12/2021	20.3%	7.3%	0.2%	1.0%	13.8	13.8	13.6	0.9	0.9	6.6%	4.9%	8.10	OP
PETRONAS CHEMICALS GROUP BHD	7.50	60,000.0	Y	12/2021	9.3%	10.3%	30.8%	16.4%	31.3	23.9	20.5	2.0	1.9	8.1%	2.1%	7.50	MP
PETRONAS DAGANGAN BHD	19.16	19,034.6	Y	12/2021	10.2%	10.2%	58.9%	48.3%	66.8	42.0	28.3	3.4	3.4	8.0%	2.4%	17.60	UP
SAPURA ENERGY BHD	0.150	2,396.9	Y	01/2021	-11.4%	8.7%	-112.1%	-242.4%	N.A.	N.A.	N.A.	0.3	0.3	-1.8%	0.0%	0.050	UP
SERBA DINAMIK HOLDINGS	1.69	6,269.3	Y	12/2020	15.0%	16.0%	9.6%	13.4%	12.6	11.5	10.1	2.6	2.0	19.5%	3.3%	2.50	OP
UZMA BHD	0.755	241.6	Y	06/2021	-6.8%	2.3%	851.9%	20.2%	89.5	9.4	7.8	0.5	0.5	5.5%	0.0%	0.800	OP
VELESTO ENERGY BHD	0.170	1,396.7	Y	12/2020	-15.8%	6.9%	-133.1%	-215.1%	43.6	N.A.	N.A.	0.5	0.5	-0.4%	0.0%	0.130	MP
WAH SEONG CORP BHD	0.730	565.2	Y	12/2021	34.8%	15.8%	-59.0%	203.6%	N.A.	25.1	8.3	0.8	0.8	3.1%	0.0%	0.720	MP
YINSON HOLDINGS BHD	5.32	5,667.2	Y	01/2021	92.4%	-0.4%	206.8%	-15.1%	26.4	8.6	10.1	3.6	2.6	34.8%	1.1%	6.95	OP
Simple Average					8.0%	10.3%	68.7%	-9.6%	33.0	19.6	15.1	1.7	1.5	9.4%	1.2%		

Source: Bloomberg, Kenanga Research

24 February 2021

Stock Ratings are defined as follows:

Stock Recommendations

OUTPERFORM	: A particular stock's Expected Total Return is MORE than 10%
MARKET PERFORM	: A particular stock's Expected Total Return is WITHIN the range of -5% to 10%
UNDERPERFORM	: A particular stock's Expected Total Return is LESS than -5%

Sector Recommendations***

OVERWEIGHT	: A particular sector's Expected Total Return is MORE than 10%
NEUTRAL	: A particular sector's Expected Total Return is WITHIN the range of -5% to 10%
UNDERWEIGHT	: A particular sector's Expected Total Return is LESS than -5%

*****Sector recommendations are defined based on market capitalisation weighted average expected total return for stocks under our coverage.**

This document has been prepared for general circulation based on information obtained from sources believed to be reliable but we do not make any representations as to its accuracy or completeness. Any recommendation contained in this document does not have regard to the specific investment objectives, financial situation and the particular needs of any specific person who may read this document. This document is for the information of addressees only and is not to be taken in substitution for the exercise of judgement by addressees. Kenanga Investment Bank Berhad accepts no liability whatsoever for any direct or consequential loss arising from any use of this document or any solicitations of an offer to buy or sell any securities. Kenanga Investment Bank Berhad and its associates, their directors, and/or employees may have positions in, and may effect transactions in securities mentioned herein from time to time in the open market or otherwise, and may receive brokerage fees or act as principal or agent in dealings with respect to these companies.

Published and printed by:

KENANGA INVESTMENT BANK BERHAD (15678-H)

Level 17, Kenanga Tower, 237, Jalan Tun Razak, 50400 Kuala Lumpur, Malaysia

Telephone: (603) 2172 0880 Website: www.kenanga.com.my E-mail: research@kenanga.com.my

