

23 November 2021

Petronas Chemicals Group

9MFY21 Results Beat Expectations

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

PCHEM continued to beat expectations, with sterling 9MFY21 results, as overall product prices remained stable. While 3QFY21 saw mildly weaker O&D product spreads, this was offset by the stable spreads in F&M. Going forward, we believe some O&D products could see mild normalisation, thus leading to slightly weaker earnings in coming quarters. Maintain MP with higher TP of RM8.75.

9MFY21 beats expectations. 9MFY21 core net profit of RM5,138m came in above expectations at 86%/92% of our/consensus full-year forecasts, due to the stronger fertiliser and methanol (F&M), coupled with lower-than-forecasted effective taxes. Additionally, the group had also announced a special dividend of 10.0 sen per share – which came in as a positive surprise, bringing YTD dividends to 33.0 sen.

Overall, a good set of results. YTD, 9MFY21 earnings more than quadrupled YoY, due to stronger product prices and margin spreads for olefins and derivatives (O&D), and F&M. As for 3QFY21, the quarter saw marginal earnings growth of 4% QoQ. While O&D suffered from a slight deterioration in margin spreads, this was offset by stronger F&M as product margins remained stable.

Expecting gradual normalisation of prices. Going forward from 4QFY21 and further into 2022, we are expecting some O&D products to see mild pull-back in prices, given the normalisation of supply after the disruptions suffered in 1HFY21 coupled with new waves of capacity additions in the market. Meanwhile, prices for its F&M products are largely expected to remain stable amidst higher natural gas prices and tightening of supply in China. The group's Pengerang Integrated Complex (PIC) is expected to start up in 1QFY22 (slight delay from 4QFY21, as earlier expected), with a targeted average utilisation of 60-70% during the initial years. While the additional capacity can be a welcomed positive, we do note that given its naphtha feedstock base, this could introduce some margins volatility to the group moving forward.

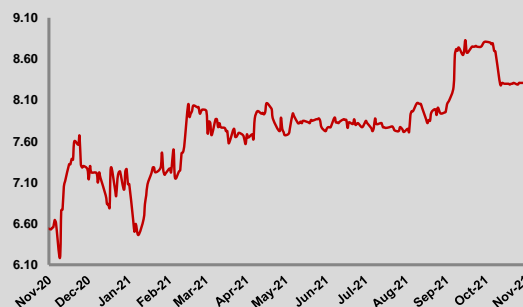
Maintain MARKET PERFORM, with higher TP of RM8.75 (from RM8.55 previously) – pegged to unchanged valuations of 16x PER on FY22E EPS, broadly in-line with the stock's mean valuations. Post-results, we raised FY21E/FY22E earnings by 12%/2% to account adjustments to our F&M margin spread and effective tax assumptions.

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

MARKET PERFORM ↔

Price: RM8.30
Target Price: RM8.75 ↑

Share Price Performance



KLCI	1,526.87
YTD KLCI chg	-6.2%
YTD stock price chg	11.7%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	PCHEM MK Equity
Market Cap (RM m)	66,400.0
Shares Outstanding	8,000.0
52-week range (H)	9.05
52-week range (L)	6.42
3-mth avg daily vol:	7,072,003
Free Float	23%
Beta	1.6

Major Shareholders

Petroleum Nasional Bhd	64.4%
Employees Provident Fund	6.5%
Amanah Saham Nasional	6.1%

Summary Earnings Table

FYE Dec (RM m)	2020A	2021E	2022E
Revenue	14,362	21,274	19,553
EBIT	1,853	6,560	4,595
PBT	1,857	7,230	5,065
Net Profit (NP)	1,628	6,660	4,368
Core NP (CNP)	1,919	6,660	4,368
Consensus (CNP)		5,562	4,719
Earning Revision (%)		11.6	2.2
EPS (sen)	24.0	83.3	54.6
EPS growth (%)	-33.8	247.1	-34.4
DPS (sen)	12.0	41.6	27.3
BV/share (RM)	3.8	4.2	4.5
PER (x)	34.6	10.0	15.2
PBV (x)	2.2	2.0	1.8
Net Gearing (x)	N.Cash	N.Cash	N.Cash
Div. Yield (%)	1.4	5.0	3.3

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Income Statement								
Y/E : Dec (RM m)	3Q FY21	2Q FY21	Q-o-Q Chg	3Q FY20	Y-o-Y Chg	9M FY21	9M FY20	Y-o-Y Chg
Revenue	5,766	5,608	2.8%	3,457	66.8%	16,049	10,526	52.5%
Cost of revenue	(3,637)	(3,349)	8.6%	(2,574)	41.3%	(9,962)	(8,170)	21.9%
Gross profit	2,129	2,259	-5.8%	883	141.1%	6,087	2,356	158.4%
Selling and distribution expenses	(260)	(270)	-3.7%	(227)	14.5%	(759)	(717)	5.9%
Administration expenses	(181)	(231)	-21.6%	(166)	9.0%	(597)	(537)	11.2%
Other expenses	(7)	(11)	-36.4%	(95)	-92.6%	(26)	(8)	225.0%
Other income	100	69	44.9%	78	28.2%	335	310	8.1%
Operating profit	1,781	1,816	-1.9%	473	276.5%	5,040	1,404	259.0%
Financing costs	(7)	(6)	16.7%	(6)	16.7%	(20)	(16)	25.0%
JV and associates	255	167	52.7%	12	2025.0%	556	(50)	N.A.
Profit before taxation	2,029	1,977	2.6%	479	323.6%	5,576	1,338	316.7%
Tax expense	(66)	(121)	-45.5%	(27)	144.4%	(291)	(208)	39.9%
Non-controlling interests	1	4	-75.0%	19	-94.7%	0	32	N.A.
Net profit	1,964	1,860	5.6%	471	317.0%	5,285	1,162	354.8%
Core Net profit	1,942	1,868	4.0%	560	246.8%	5,138	1,112	362.1%
Gross margin	36.9%	40.3%		25.5%		37.9%	22.4%	
Operating margin	30.9%	32.4%		13.7%		31.4%	13.3%	
PBT margin	35.2%	35.3%		13.9%		34.7%	12.7%	
Net margin	34.1%	33.2%		13.6%		32.9%	11.0%	
Core net margin	33.7%	33.3%		16.2%		32.0%	10.6%	
Effective tax rate	3.3%	6.1%		5.6%		5.2%	15.5%	

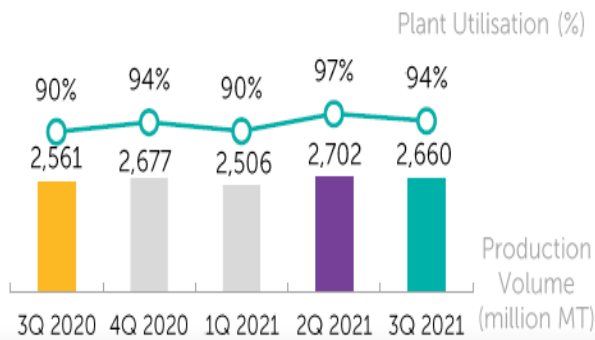
Source: Company, Kenanga Research

Segmental Breakdown								
Y/E : Dec (RM m)	3Q FY21	2Q FY21	Q-o-Q Chg	3Q FY20	Y-o-Y Chg	9M FY21	9M FY20	Y-o-Y Chg
Revenue								
Olefins and Derivatives	3,155	3,063	3.0%	2,006	57.3%	9,071	6,071	49.4%
Fertilisers and Methanol	2,271	2,237	1.5%	1,243	82.7%	6,073	3,820	59.0%
EBITDA								
Olefins and Derivatives	952	1,071	-11.1%	414	130.0%	3,028	918	229.8%
Fertilisers and Methanol	1,142	1,094	4.4%	519	120.0%	2,936	1,516	93.7%
PAT								
Olefins and Derivatives	955	958	-0.3%	258	270.2%	2,779	273	917.9%
Fertilisers and Methanol	983	912	7.8%	323	204.3%	2,423	880	175.3%
EBITDA Margins								
Olefins and Derivatives	30.2%	35.0%		20.6%		33.4%	15.1%	
Fertilisers and Methanol	50.3%	48.9%		41.8%		48.3%	39.7%	
PAT Margins								
Olefins and Derivatives	30.3%	31.3%		12.9%		30.6%	4.5%	
Fertilisers and Methanol	43.3%	40.8%		26.0%		39.9%	23.0%	

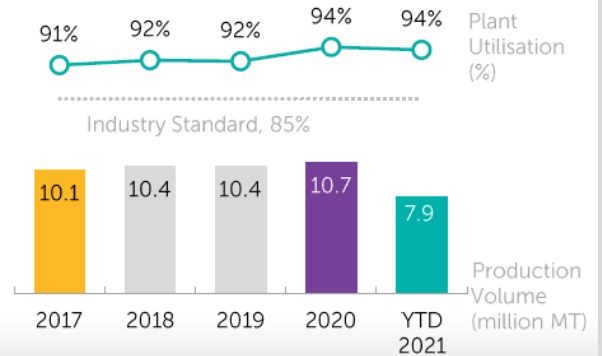
Source: Company, Kenanga Research

PCHEM's Plant Utilisation and Total Production Volumes

Quarterly Group Performance

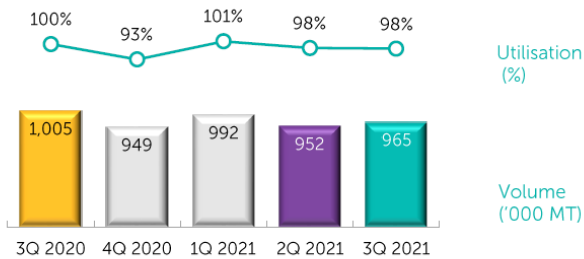


Annual Group Performance

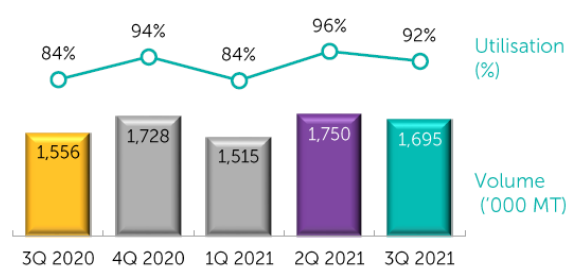


Source: Company

Olefins and Derivatives – Plant Utilisation and Volumes



Fertiliser and Methanol – Plant Utilisation and Volumes



Source: Company

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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	0.485	2,864.9	N	12/2021	4.7%	-0.4%	35.9%	-13.2%	6.0	4.4	5.1	0.9	0.7	18.6%	0.0%	0.570	OP
DAYANG ENTERPRISE HLDGS BHD	0.935	1,082.5	Y	12/2021	-14.5%	20.0%	-18.9%	50.9%	16.2	20.0	13.2	0.7	0.6	3.3%	0.0%	1.20	OP
DIALOG GROUP BHD	2.70	15,234.9	Y	06/2022	-38.1%	28.1%	-7.9%	15.4%	25.3	27.5	23.8	3.7	3.4	12.8%	1.1%	3.50	OP
MISC BHD	6.90	30,799.8	Y	12/2021	7.8%	14.2%	-10.0%	1.4%	14.3	15.8	15.6	1.0	0.9	5.7%	4.8%	8.05	OP
PETRONAS CHEMICALS GROUP BHD	8.30	66,400.0	Y	12/2021	48.1%	-8.1%	247.1%	-34.4%	34.6	10.0	15.2	2.2	2.0	20.7%	5.0%	8.75	MP
PETRONAS DAGANGAN BHD	19.90	19,769.7	Y	12/2021	10.2%	10.2%	113.3%	18.9%	69.4	32.5	27.3	3.5	3.5	10.8%	3.1%	18.90	MP
SAPURA ENERGY BHD	0.095	1,518.0	Y	01/2022	11.9%	-40.6%	-879.6%	-118.9%	N.A.	N.A.	N.A.	0.2	0.2	-30.4%	0.0%	0.070	UP
SERBA DINAMIK HOLDINGS	0.350	1,298.4	Y	06/2022	-31.6%	10.0%	-38.2%	6.2%	1.7	2.7	2.6	0.3	0.3	11.5%	0.0%	UR	UR
UZMA BHD	0.575	202.4	Y	06/2022	15.2%	15.0%	27.6%	27.4%	8.5	6.6	5.2	0.4	0.4	6.0%	0.0%	0.750	OP
VELESTO ENERGY BHD	0.140	1,150.2	Y	12/2021	-38.2%	33.9%	-304.1%	-118.9%	N.A.	N.A.	N.A.	0.5	0.5	-3.8%	0.0%	0.130	UP
WAH SEONG CORP BHD	0.735	569.1	Y	12/2021	-14.8%	41.7%	-132.8%	-20.6%	N.A.	N.A.	39.8	0.8	0.8	-2.6%	0.0%	0.630	UP
YINSON HOLDINGS BHD	5.89	6,272.5	Y	01/2022	-6.6%	-15.5%	-20.3%	-18.1%	10.1	12.7	15.5	3.5	2.8	24.7%	1.0%	7.35	OP
Simple Average					-3.8%	9.0%	-82.3%	-17.0%	20.7	14.7	16.3	1.5	1.3	6.4%	1.2%		

Source: Bloomberg, Kenanga Research

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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.**

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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

