

Petronas Chemicals Group

Buoyed by Strong Product Prices

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PCHEM's 9MFY22 results met expectations, as the lower plant utilisation was more than offset by improved product prices amidst higher crude oil prices. Going forward, product prices may see mild tapering, albeit still far elevated compared to 2020-2021 levels. Maintain our forecasts, **OUTPERFORM** call and TP of RM11.00.

9MFY22 within expectations. PCHEM's 9MFY22 core net profit of RM5.5b came in within expectations at 79% and 72% of our full-year forecast and the full-year consensus estimate, respectively.

Slightly improved earnings. YoY, 9MFY22 core earnings grew 7%. While overall plant utilisation was lower (85% vs. 94%) from higher plant statutory turnaround and maintenance activities, this was more than offset by the higher product prices in tandem with the improved crude oil prices.

Briefing's highlights. The key takeaways from its analyst briefing are as follows:

- Product prices may see mild tapering.** With the dampening of downstream demand amidst inflationary pressures and recessionary concerns, coupled with more capacities resuming operations, especially from China, we see a possible moderation of petroleum product prices in the near-to-mid-term. That said, we firmly believe that product prices will remain elevated as compared to 2020-2021 levels.
- Perstorp expected to start earnings contributions next quarter.** Having fully completed its acquisition on Swedish specialty chemicals player Perstorp Holdings, we expect its earnings contributions to kick-in as soon as next quarter – which could lift its earnings by ~RM100-200m per quarter, based on our estimates. PCHEM is still keen on diversifying its portfolio further into specialty chemicals, which typically yields more stable margins than conventional petrochemicals, and has set a long-term aim of ~20-25% of its earnings portfolio to come from specialty chemicals in the next ~5 years (from ~5-10% currently).
- PIC still under shutdown.** The Pengerang Integrated Complex (PIC) remains under shutdown after a fire and explosion incident last month. Although the incident was not within the petrochemical facilities in which PCHEM has 50% direct equity, given the integrated nature of the complex, a temporary shutdown is required to ensure the safety and well-being of its employees and surrounding communities. We believe this shutdown will likely result in further delays for its commercialisation, which was expected to be early-2023. Do note that the products from the Pengerang plant will be naphtha-based, and hence, may introduce an element of volatility to PCHEM's earnings. Given the current low polymers-naphtha margins spread, we believe that a delayed commercialisation may actually not be an entirely bad thing.

Forecasts. Unchanged.

OUTPERFORM ↔

Price: RM9.08
Target Price: RM11.00 ↔

Share Price Performance



KLCI 1,486.54
YTD KLCI chg -5.2%
YTD stock price chg 1.8%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	PCHEM MK Equity
Market Cap (RM m)	72,640.0
Shares Outstanding	8,000.0
52-week range (H)	11.08
52-week range (L)	7.87
3-mth avg daily vol:	6,949,256
Free Float	18%
Beta	1.1

Major Shareholders

Petroleum Nasional Bhd	64.4%
Employees Provident Fund	8.5%
Amanah Saham Nasional	5.2%

Summary Earnings Table

FYE Dec (RM m)	2021A	2022F	2023F
Revenue	23,025	26,794	24,115
EBIT	7,010	7,956	6,283
PBT	7,710	7,926	6,253
Net Profit (NP)	7,345	6,975	5,503
Core NP (CNP)	7,261	6,975	5,503
Consensus (CNP)		7,578	6,780
Earning Revision (%)		-	-
EPS (sen)	90.8	87.2	68.8
EPS growth (%)	282.0	-3.9	-21.1
DPS (sen)	56.0	43.6	34.4
BV/share (RM)	4.4	4.8	5.2
PER (x)	10.0	10.4	13.2
PBV (x)	2.1	1.9	1.8
Net Gearing (x)	N.Cash	N.Cash	N.Cash
Div. Yield (%)	6.2	4.8	3.8

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Maintain OUTPERFORM, with unchanged TP of RM11.00 – pegged to 11x PER on FY23F, in line with large petrochemical players in the region. There is no change to our TP based on ESG given a 3-star rating as appraised by us (see Page 4).

We continue to like PCHEM as a beneficiary of the elevated crude oil price environment. Given its arrangement with Petronas, PCHEM benefits a more favourable feed-cost structure, while peers may be hampered by the volatile input costs. Additionally, PCHEM also enjoys dominant market share regionally, which will be further cemented by PIC – increasing its capacity by ~15% when it eventually starts commercial operations.

Risks to our call include: (i) volatile fluctuations in petrochemical product prices, and (ii) unscheduled plant maintenance, hurting utilisation.

Income Statement

Y/E : Dec (RM'm)	3Q FY22	2Q FY22	Q-o-Q Chg	3Q FY21	Y-o-Y Chg	9M FY22	9M FY21	Y-o-Y Chg
Revenue	7,032	6,583	6.8%	5,766	22.0%	20,249	16,049	26.2%
Cost of revenue	(4,942)	(4,471)	10.5%	(3,637)	35.9%	(13,570)	(9,962)	36.2%
Gross profit	2,090	2,112	-1.0%	2,129	-1.8%	6,679	6,087	9.7%
Selling and distribution	(340)	(278)	22.3%	(260)	30.8%	(897)	(759)	18.2%
Administration expenses	(219)	(262)	-16.4%	(181)	21.0%	(664)	(597)	11.2%
Other expenses	0	(11)	-100.0%	(7)	-100.0%	(1)	(26)	-96.2%
Other income	509	315	61.6%	100	409.0%	897	335	167.8%
Operating profit	2,040	1,876	8.7%	1,781	14.5%	6,014	5,040	19.3%
Financing costs	(19)	(8)	137.5%	(7)	171.4%	(34)	(20)	70.0%
JV and associates	(1)	70	-101.4%	255	-100.4%	192	556	-65.5%
Profit before taxation	2,020	1,938	4.2%	2,029	-0.4%	6,172	5,576	10.7%
Tax expense	(122)	(66)	84.8%	(66)	84.8%	(329)	(291)	13.1%
Non-controlling interests	(3)	(3)	0.0%	1	-400.0%	(2)	0	N.M.
Net profit	1,895	1,869	1.4%	1,964	-3.5%	5,841	5,285	10.5%
Core Net profit	1,755	1,706	2.9%	1,942	-9.6%	5,486	5,138	6.8%
Gross margin	29.7%	32.1%		36.9%		33.0%	37.9%	
Operating margin	29.0%	28.5%		30.9%		29.7%	31.4%	
PBT margin	28.7%	29.4%		35.2%		30.5%	34.7%	
Net margin	26.9%	28.4%		34.1%		28.8%	32.9%	
Core net margin	25.0%	25.9%		33.7%		27.1%	32.0%	
Effective tax rate	6.0%	3.4%		3.3%		5.3%	5.2%	

Source: Company, Kenanga Research

Segmental Breakdown

Y/E : Dec (RM'm)	3Q FY22	2Q FY22	Q-o-Q Chg	3Q FY21	Y-o-Y Chg	9M FY22	9M FY21	Y-o-Y Chg
Revenue								
Olefins and Derivatives	3,419	3,276	4.4%	3,155	8.4%	9,438	9,071	4.0%
Fertilisers and Methanol	3,187	2,826	12.8%	2,271	40.3%	9,317	6,073	53.4%
PAT								
Olefins and Derivatives	843	954	-11.6%	955	-11.7%	2,531	2,779	-8.9%
Fertilisers and Methanol	994	792	25.5%	983	1.1%	2,958	2,423	22.1%
PAT Margins								
Olefins and Derivatives	24.7%	29.1%		30.3%		26.8%	30.6%	
Fertilisers and Methanol	31.2%	28.0%		43.3%		31.7%	39.9%	

Source: Company, Kenanga Research

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Peer Table Comparison

Name	Rating	Last Price (RM)	Target Price (RM)	Upside (%)	Market Cap (RM'm)	Shariah Compliant	Current FYE	Core EPS (sen)		Core EPS Growth		PER (x) - Core Earnings		PBV (x)	ROE (%)	Net Div. (sen)	Net Div Yld (%)
								1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.
Stocks Under Coverage																	
BUMI ARMADA BHD	OP	0.435	0.630	44.83%	2,574.4	N	12/2022	12.4	11.7	7.9%	-5.1%	3.5	3.7	0.5	16.8%	0.0	0.0%
DAYANG ENTERPRISE HLDGS BHD	OP	1.36	1.70	25.00%	1,574.6	Y	12/2022	10.2	11.2	170.1%	10.1%	13.3	12.1	1.1	8.6%	0.0	0.0%
DIALOG GROUP BHD	OP	2.20	3.10	40.91%	12,413.7	Y	06/2023	9.5	9.9	5.1%	4.8%	23.2	22.2	2.3	10.2%	2.8	1.3%
MISC BHD	MP	7.25	7.30	0.69%	32,362.2	Y	12/2022	43.1	33.8	1.9%	-21.6%	16.8	21.4	0.9	5.6%	33.0	4.6%
PETRONAS CHEMICALS GROUP BHD	OP	9.08	11.00	21.15%	72,640.0	Y	12/2022	87.2	68.8	-3.9%	-21.1%	10.4	13.2	1.9	19.0%	43.6	4.8%
PETRONAS DAGANGAN BHD	MP	22.08	22.25	0.77%	21,935.5	Y	12/2022	54.2	68.5	-1.8%	26.6%	40.8	32.2	3.9	9.6%	54.2	2.5%
SAPURA ENERGY BHD	MP	4.48	4.65	3.79%	1,209.6	Y	12/2022	161.1	98.1	82.8%	-39.1%	2.8	4.6	0.5	20.1%	16.0	3.6%
UZMA BHD	OP	0.415	0.640	54.22%	146.1	Y	06/2023	5.3	7.1	28.6%	32.2%	7.8	5.9	0.3	3.5%	0.0	0.0%
VELESTO ENERGY BHD	OP	0.145	0.160	10.34%	1,191.3	Y	12/2022	(0.7)	1.1	-135.6%	41.3%	N.A.	13.8	0.5	-2.8%	0.0	0.0%
WAH SEONG CORP BHD	OP	0.610	0.800	31.15%	472.3	Y	12/2022	6.2	8.8	101.7%	43.1%	9.9	6.9	0.7	7.8%	0.0	0.0%
YINSON HOLDINGS BHD	OP	2.35	3.15	34.04%	6,809.2	N	01/2023	21.9	24.1	16.3%	10.3%	10.7	9.7	1.8	18.3%	6.0	2.6%
Simple Average								37.3	31.2	24.8%	7.4%	13.9	13.2	1.3	10.6%		1.7%

Source: Kenanga Research

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Stock ESG Ratings:

	Criterion	Rating				
GENERAL	Earnings Sustainability & Quality	★	★	★		
	Corporate Social Responsibility	★	★	★	★	
	Management/Workforce Diversity	★	★	★		
	Accessibility & Transparency	★	★	★		
	Corruption-Free Pledge	★	★	★	★	
	Carbon-Neutral Initiatives	★	★	★	★	
SPECIFIC	Diversification from pure O&G	★	★	★		
	Emission Targets and Climate Goals	★	★	★	★	
	Occupational Health and Safety	★	★	★	★	
	Pollution control	★	★	★		
	Supply chain auditing	★	★	★		
	Energy efficiency	★	★	★		
OVERALL		★	★	★		

☆ denotes half-star
 ★ -10% discount to TP
 ★★ -5% discount to TP
 ★★★ TP unchanged
 ★★★★ +5% premium to TP
 ★★★★★ +10% premium to TP

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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