

30 May 2024

Petronas Chemicals Group

Tepid Recovery

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PCHEM's 1QFY24 results disappointed due to low plant utilisation and urea prices. Its 1QFY24 core net profit declined 12% YoY, weighed down by higher cost and tax. We expect stable polyolefin and urea prices over the immediate term. We cut our FY24-25F net profit forecasts by 22% and 9%, respectively, reduce our TP by 9% to RM6.28 (from RM6.88) but maintain our MARKET PERFORM call.

Its 1QFY24 core profit of RM534m (after excluding forex translation gain from Pengerang loans) disappointed, coming in at only 15% and 20% of our full-year forecast and the full-year consensus estimate, respectively. The variance against our forecast came largely from lower-than-expected plant utilisation and urea prices. The company did not declare any dividends for the quarter as expected.

YoY, its 1QFY24 revenue was flattish as higher sales volumes at the olefin & derivatives (O&D) division, were offset by low utilisation at the fertiliser & methanol (F&M) division, while revenue from the specialty chemicals division was flat. Its core profit declined 12% due to higher cost and tax.

QoQ, its revenue increased by 4% primarily driven by improved utilisation at the O&D division and increased sales volume from the specialty chemicals division. Its core profit more than doubled thanks to lower cost and favourable forex movements.

The key takeaways from PCHEM's analysts briefing are as follows:

1. The recent unplanned shutdown at the F&M division's Bintulu plant was due to ageing equipment that has since been replaced.
2. It reiterated its guidance for an overall 90% plant utilisation in FY24 despite hectic scheduled maintenance including the PC Methanol plant in 2QFY24, PC Ethylene and Polyethylene Kertih plants in 3QFY24, and the ASEAN Bintulu fertilizer plant in 4QFY24.
3. PCHEM has seen early signs of recovery in the specialty division, with clients resuming restocking specialty chemicals. This division also reported improved EBIT margin in 1QFY24 thanks to more favorable product spreads.

Outlook. Polyolefin prices have begun to recover, currently hovering above USD1,000/MT. However, there are no strong indications of further improvement in the near term due to a tepid global demand outlook for polyolefins. On the other hand, urea prices have softened back to USD300/MT on increased global supply as urea exports from China rise coupled with lower natural gas prices. All in, we believe the group, at best, is only in early stages of recovery.

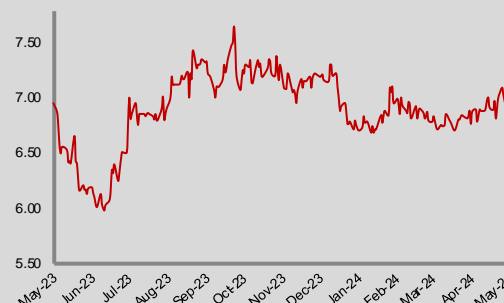
Forecasts. We cut FY24-25F earnings forecasts by 22% and 9%, respectively, having reflected a lower plant utilisation rate of 89% in FY24 (from 91%) and a reduced urea price assumption of USD330/MT (from USD350/MT).

Valuations. We reduce our TP by 9% to RM6.28 from RM6.88 pegged to an unchanged 15x FY25F PER, in line with the valuations of its Asian peers (e.g. PTT Chem, LG Chem, Formosa, LCTITAN). There is no change to our ESG rating (3-star rating) as appraised by us (see Page 5).

MARKET PERFORM ↔

Price: RM6.73
Target Price: RM6.28 ↓

Share Price Performance



KLCI 1,605.35
YTD KLCI chg 10.4%
YTD stock price chg -6.0%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	PCHEM MK Equity
Market Cap (RM m)	53,840.0
Shares Outstanding	8,000.0
52-week range (H)	7.65
52-week range (L)	5.84
3-mth avg. daily vol.	3,146,411
Free Float	16%
Beta	1.3

Major Shareholders

Petroleum Nasional Bhd	64.4%
Employees Provident Fund	11.8%
Amanah Saham Nasional	3.6%

Summary Earnings Table

FYE Dec (RM m)	2023A	2024F	2025F
Revenue	28667	26662	28185
EBIT	2807	3122	3797
PBT	2110	3308	3984
Net Profit (NP)	1696	2786	3351
Core NP (CNP)	1627	2786	3351
Consensus (CNP)	-	2707	3225
Earning Revision (%)	-	-22.4	-8.7
EPS (sen)	21.2	34.8	41.9
EPS Growth (%)	-73.2	64.3	20.3
DPS (sen)	14.8	17.4	20.9
BV/share (RM)	5.1	5.2	5.4
PER (x)	31.7	19.3	16.1
PBV (x)	1.3	1.3	1.2
Net Gearing (x)	-0.2	-0.2	-0.2
Div. Yield (%)	2.2	2.6	3.1

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Investment case. We like the company due to: (i) signs of recovery of polyolefin prices supported by firm crude oil prices, (ii) specialty chemicals division potentially having seen trough earnings in FY23 and is poised for a gradual recovery in FY24, and (iii) its superior margins vs. its peers due to a favourable cost structure. However, the upside to its earnings and hence share price is capped by the limited upside to its product prices amidst a tepid global economic outlook particularly in China. Maintain **MARKET PERFORM**.

Risks to our call include: (i) worse-than-expected economic growth globally leading to weaker petrochemical prices, (ii) Pengerang Integrated Complex (PIC) costs exceeding estimates due to operational issues, and (iii) worse-than-expected oversupply in specialty chemicals particularly in European region.

Result Highlights

	1Q	4Q	Q-o-Q	1Q	Y-o-Y
FYE Dec (RM m)	FY24	FY23	Chg	FY23	Chg
Revenue	7,499.0	7,213.0	4.0%	7,557.0	-0.8%
Cost of revenue	-6,128.0	-6,236.0	-1.7%	-6,167.0	-0.6%
Gross profit	1,371.0	977.0	40.3%	1,390.0	-1.4%
Selling and distribution expenses	-507.0	-472.0	7.4%	-496.0	2.2%
Administration expenses	-366.0	-384.0	-4.7%	-337.0	8.6%
Other expenses	-49.0	-152.0	-67.8%	-72.0	-31.9%
Other income	398.0	287.0	38.7%	107.0	272.0%
Operating profit	847.0	256.0	230.9%	592.0	43.1%
Financing costs	-43.0	-44.0	-2.3%	-40.0	7.5%
Joint ventures and associates	1.0	28.0	-96.4%	38.0	-97.4%
Profit before taxation	805.0	240.0	235.4%	590.0	36.4%
Tax expense	-102.0	-98.0	4.1%	-54.0	88.9%
Non-controlling interests	-35.0	-30.0	16.7%	-4.0	775.0%
Net profit	668.0	112.0	496.4%	532.0	25.6%
EI	-134.0	149.0	-189.9%	72.0	-286.1%
Core Net profit	534.0	261.0	104.6%	604.0	-11.6%
Core EPS	8.4	1.4	496.4%	0.1	NM
DPS	0.0	5.0		0.0	
Gross margin	18.3%	13.5%		18.4%	
Operating margin	11.3%	3.5%		7.8%	
PBT margin	10.7%	3.3%		7.8%	
Net margin	8.9%	1.6%		7.0%	
Core net margin	7.1%	3.6%		8.0%	
Effective tax rate	12.7%	40.8%		9.2%	

Source: Company, Kenanga Research

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Segmental Breakdown					
FYE Dec (RM m)	1Q FY24	4Q FY23	Q-o-Q Chg	1Q FY21	Y-o-Y Chg
<u>Revenue</u>					
Olefins and Derivatives	3,845.0	3,210.0	19.8%	3,393	13.3%
Fertilisers and Methanol	1,994.0	2,410.0	-17.3%	3,304	-39.6%
Specialties	1,742.0	1,582.0	10.1%	1,745	-0.2%
<u>PAT</u>					
Olefins and Derivatives	238.0	-95.0	-350.5%	170	40.0%
Fertilisers and Methanol	462.0	527.0	-12.3%	533	-13.3%
Specialties	71.0	-49.0	-244.9%	-29	-344.8%
<u>PAT Margins</u>					
Olefins and Derivatives	6.2%	-3.0%		5.0%	
Fertilisers and Methanol	23.2%	21.9%		16.1%	
Specialties	4.1%	-3.1%		-1.7%	

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.				
Stocks Under Coverage																	
BUMI ARMADA BHD	MP	0.565	0.580	2.7%	3,349.2	N	12/2024	13.8	12.6	144.4%	-8.8%	4.1	4.5	0.5	13.4%	0.0	0.0%
DIALOG GROUP BHD	OP	2.54	3.18	25.2%	14,332.1	Y	06/2024	10.2	10.6	13.9%	4.1%	25.0	24.0	2.4	10.0%	4.3	1.7%
KEYFIELD INTERNATIONAL	OP	2.36	2.69	14.0%	1,896.0	N	12/2024	17.2	24.5	35.1%	42.3%	13.7	9.6	2.9	26.1%	3.0	1.4%
MISC BHD	MP	8.30	7.69	-7.3%	37,049.1	Y	12/2024	51.9	53.9	7.0%	3.9%	16.0	15.4	0.9	5.8%	30.0	3.6%
PETRONAS CHEMICALS GROUP	MP	6.73	6.28	-6.7%	53,840.0	Y	12/2024	34.8	41.9	64.3%	20.3%	19.3	16.1	1.3	8.7%	22.4	3.3%
PETRONAS DAGANGAN BHD	OP	19.50	23.70	21.5%	19,372.4	Y	12/2024	99.7	109.8	1.1%	10.1%	19.6	17.8	3.2	16.9%	79.8	4.1%
PETRON MALAYSIA REFINING	MP	5.01	4.74	-5.4%	1,352.7	Y	12/2024	99.6	89.6	-1.1%	-10.0%	5.0	5.6	0.5	10.6%	20.0	4.0%
VELESTO ENERGY BHD	OP	0.275	0.340	23.6%	2,259.3	Y	12/2024	1.8	2.3	46.6%	28.8%	15.5	12.0	0.9	5.7%	0.0	0.0%
WASCO BHD	OP	1.57	1.48	-5.7%	1,215.7	Y	12/2024	12.1	14.8	20.0%	22.6%	13.0	10.6	1.5	12.5%	0.0	0.0%
YINSON HOLDINGS BHD	OP	2.36	3.41	44.5%	7,143.9	N	01/2025	17.4	19.4	45.2%	11.0%	13.5	12.2	1.4	10.2%	5.0	2.1%
SECTOR AGGREGATE					145,981.6					42.8%	4.0%	15.1	14.5	1.5	10.9%		1.6%

Source: Kenanga Research

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Stock ESG Ratings:

	Criterion	Rating				
GENERAL	Earnings Sustainability & Quality	★	★	★		
	Community Investment	★	★	★	★	
	Workers Safety & Wellbeing	★	★	★		
	Corporate Governance	★	★	★		
	Anti-Corruption Policy	★	★	★	★	
	Emissions Management	★	★	★	★	
SPECIFIC	Transition to Low-Carbon Future	★	★	★		
	Conservation & Biodiversity	★	★	★	★	
	Effluent/Waste Management	★	★	★	★	
	Water Management	★	★	★		
	Supply Chain Management	★	★	★		
	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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