

26 December 2024

Petronas Chemicals Group

Approaching Inflection Point

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With 2023 and 2024 behind us, we believe that 2025 could be a year where the global business cycle (manufacturing, particularly) picks up again with the US ISM PMI looking to recover after bottoming. That aside, global plant turnaround activities are expected to rise in 2025 as more ageing plants need to be shut down for maintenance. Also, at this level, we believe that the share price has priced in the worst-case scenario for PIC loss. We lift our forecast and TP to RM5.47 (from RM5.00) and upgrade our call to **OUTPERFORM** from **MARKET PERFORM**.

Petrochemical prices appear to run in 3-to-4-year cycles. Historical price trends of LLDPE and HDPE (polyolefins) reveal a recurring 3-year boom-and-bust cycle. For instance, prices entered a bearish phase in 2019–2020, falling to approximately USD700/mt during the Covid-induced economic recession. However, by 2021, prices surged to a peak of USD1,380/mt. Similarly, polyolefin prices experienced a 2-year downturn in 2016–2017, followed by a significant spike in 2018. This cyclical pattern highlights the industry's sensitivity to macroeconomic trends and supply-demand dynamics and will typically fare better in the third year of the market cycle.

Where are we in the cycle now assuming a similar pattern will follow? Based on historical trends, 2025 marks the third year of the polyolefin price cycle, suggesting a potential uptrend. Adding to this, the US ISM Purchasing Managers Index (PMI) has been in a downtrend since 2022, consistently hovering below the 50 level during 2023 and 2024, indicating prolonged contraction in industrial activity. In Exhibit 2, the positive PMI trend has been moving in tandem with the YoY improvement in polyolefin prices, hence we believe investors should look out for a potential inflection point in 2025.

PIC bear case priced in. We believe that the share price (-33% since May 2024) has priced in the bear case scenario for PIC loss which we assume at an estimated RM780m due to weak polyolefin-olefin spreads, implying an EBITDA breakeven scenario at 80% utilisation for FY15F. That aside, we hold a slightly more bullish outlook on its olefin & derivatives division with a price assumption of USD1,150/mt on the back of the business cycle thesis, arriving at a FY25F PER of 12.9x, significantly below its 5-year average (15.7x).

Forecast. We revise our FY25F core profit by 10% to reflect higher polyolefin price assumptions (USD1,150/mt from USD1,000/mt earlier) and higher specialty division profit.

Valuations. We raise our TP to RM5.47 (from RM5.00) pegged to unchanged 15x FY25F PER, in line with the valuations of Asian peers, i.e. PTT Chem, LG Chem, Formosa and **LCTITAN (Not Rated)**.

Investment case. We like the company due to: (i) signs of bottoming of polyolefin prices being supported as the global business cycle bottoms, (ii) specialty chemicals division potentially seeing trough earnings in FY23 with FY24 a year of expected gradual recovery, and (iii) its superior margins vs. its peers due to a favourable cost structure. Upgrade to **OUTPERFORM** from **MARKET PERFORM**.

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

OUTPERFORM ↑

Price: RM4.80
Target Price: RM5.47 ↑

Share Price Performance



KLCI 1,602.99
YTD KLCI chg 10.2%
YTD stock price chg -34.1%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	PCHEM MK Equity
Market Cap (RM m)	37,760.0
Shares Outstanding	8,000.0
52-week range (H)	7.36
52-week range (L)	4.50
3-mth avg. daily vol.	4,843,880
Free Float	28%
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	29532	31735
EBIT	2807	2509	3702
PBT	2110	2415	3488
Net Profit (NP)	1696	2007	2916
Core NP (CNP)	1627	2007	2916
Consensus (CNP)		1887	2177
Earning Revision (%)		-	10.3
EPS (sen)	21.2	25.1	36.5
EPS Growth (%)	-73.2	18.4	45.3
DPS (sen)	14.8	12.5	18.2
BV/share (RM)	5.1	5.2	5.4
PER (x)	22.2	18.7	12.9
PBV (x)	0.9	0.9	0.9
Net Gearing (x)	-0.2	-0.2	-0.2
Div. Yield (%)	3.2	2.7	3.9

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Industry players have become cautious on their producing capacities amid the downturn. With the exception of China, multiple major players have announced plant shutdowns or review on existing capacities due to the negative economics generated by their older plants amid the petrochemical price downcycle since 2023. Exxonmobil Chemical France will shutter the steam cracker and close chemical production at Gravenchon by end-2024 according to *Reuters*. It also reported that Formosa Petrochemical, which is operating one out of three crackers for 2024, is not looking to make any new investments in the near term due to challenging market conditions. This could help to partially ease the additional supply pressure from China in the coming years. This is also an indication that among global industry players, the appetite to expand capacity is reaching a low point with the exception of China, which has been well expected since 2018.

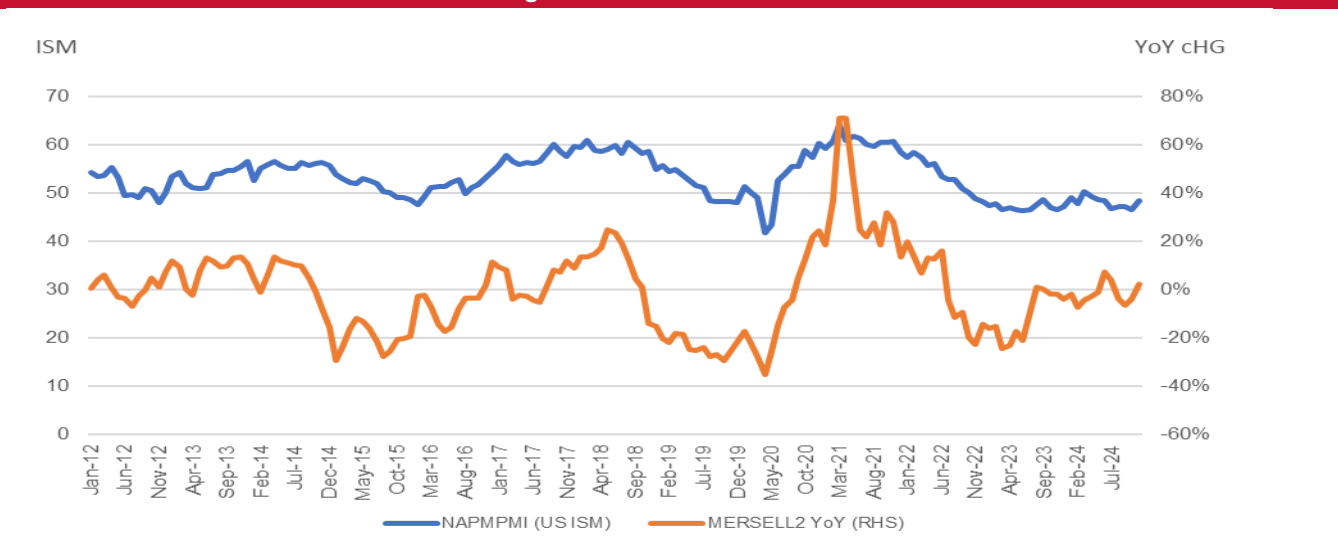
Exhibit 1: US ISM PMI experiencing a 2-year downturn



Source: Company

A brief look into 2018. Historically, market sentiment towards PCHEM tends to deteriorate when high plant turnaround activities (two cracker turnaround) are expected, as seen in 2018. Despite this, the group achieved record earnings of RM4.9b that year, supported by surging polyolefin prices, which reached USD1,400/mt, driven by heightened global plant maintenance activities. Notably, concerns over China's domestic petrochemical capacity expansions to achieve self-sufficiency were already prominent in 2018. This reinforces the notion that while heavy plant turnarounds may impact PCHEM's production volumes, the higher average selling prices (ASP) of petrochemical products often offset this impact, underscoring ASP movements as a more significant earnings driver than production volumes.

Exhibit 2: US ISM moves in tandem with change in ISM



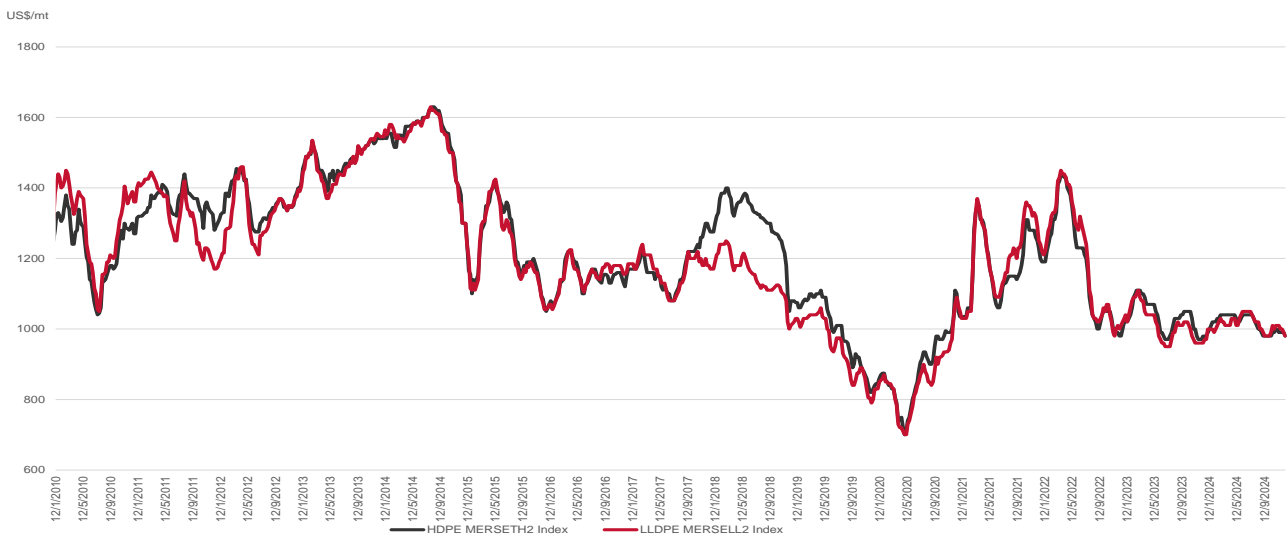
Source: Company

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Petrochemical capacity could tighten slightly in 2025. We see a potential parallel to 2018 emerging in 2025, particularly for PCHEM, which is set to undergo a major turnaround for its PC olefins cracker. Globally, plant turnaround activities are expected to increase compared to 2023–2024 levels, driven by deferred maintenance and ageing infrastructure. Notably, 40–50% of global petrochemical capacity is sourced from plants over 20 years old, with Europe and North America accounting for a significant proportion due to their earlier industrial maturation. While this ageing capacity remains below the historical peak of 60–70% seen in the 1990s, and exact maintenance schedules are opaque for competitive reasons, the market could face tighter supply conditions in 2025. This would be driven by increased maintenance needs and a higher likelihood of unplanned shutdowns, potentially tightening the supply-demand dynamics more than anticipated. After considering the sustaining increase in supply from China, we have taken a more conservative approach and believe that in 2025 poly olefin prices will generally improve to USD1,150/mt levels instead of USD1,400/mt.

Petrochemical plant turnarounds are also cyclical. Global petrochemical plant turnaround activities tend to be cyclical, alternating between years of lower and higher maintenance levels. This is primarily driven by the operational requirement for major maintenance cycles, typically occurring in the 3rd or 5th year of a plant's operation. During years when a significant number of plants reach these intervals, maintenance activities spike. With the capacity expansion wave from 2018 to 2022, particularly in China and the Middle East, this means many plants commissioned during that period are now approaching their first or second major maintenance cycles. Concurrently, regions like the US and Europe, where a large portion of petrochemical capacity was built in the 1980s and 1990s, are dealing with ageing plants requiring more frequent maintenance. Combined, these factors point to a potential surge in plant turnaround activities in 2025.

Exhibit 3: Polyolefin prices oscillate cyclically



Source: Company

Specialty chemical division is due for a better 2025. PCHEM's specialty chemicals division, formerly known as Perstop, faced significant challenges throughout 2023–2024 as the European manufacturing and construction sectors experienced a severe slowdown, compounded by an influx of additional supply from China. Consequently, the division reported a full-year loss of RM198m in FY23. However, 9MFY24 showed early signs of recovery, with a cumulative profit of RM69m, though still far from its peak profit of RM421.2m in FY22. Moving into FY25F, we expect sustained recovery in margins and volumes, driven by a gradual recovery in the European economy, supported by initial rate cuts by central banks. Additionally, China's plans for accommodative economic measures, while vague, could further bolster demand for specialty chemicals. Reflecting this improved outlook, we revise our FY25F profit forecast for PCHEM's specialty division to RM165.1m, up from the earlier assumption of RM30m.

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Income Statement

FY Dec (RM m)	2021A	2022A	2023A	2024F	2025F
Revenue	23025.0	28953.0	28667.0	29532.0	31734.6
EBIT	6928.0	7087.0	2807.0	2509.0	3701.7
Interest Exp	88.0	315.0	-57.0	6.0	-213.7
Associate	729.0	165.0	100.0	-100.0	0.0
PBT	7710.0	6733.0	2110.0	2414.9	3488.1
Taxation	-391.0	-406.0	-360.0	-301.8	-418.6
NCI	26.0	5.0	-54.0	-105.7	-153.5
Net Profit	7345.0	6322.0	1696.0	2007.5	2916.0
Core Profit	7226.0	6333.0	1627.0	2007.5	2916.0

Balance Sheet

FY Dec (RM m)	2021A	2022A	2023A	2024F	2025F
Fixed Assets	22195.0	27213.0	29437.0	29492.9	28895.6
Intangible	684.0	9364.0	10253.0	10253.0	10253.0
Other It assets	2303.0	2835.0	3578.0	3478.0	3478.0
Inventories	2214.0	3465.0	3767.0	3880.7	4170.1
Receivables	2737.0	3619.0	3857.0	3973.4	4269.7
Other CA	85.0	46.0	46.0	46.0	46.0
Cash	16390.0	8888.0	9268.0	10434.1	12675.0
Total Assets	46608.0	55430.0	60206.0	61558.0	63787.5
Payables	4378.0	5914.0	8042.0	8284.7	8902.6
ST Borrowings	232.0	229.0	500.0	500.0	500.0
Other ST Liability	343.0	359.0	407.0	407.0	407.0
LT Borrowings	2156.0	2489.0	2473.0	2473.0	2473.0
Other LT Liability	3959.0	6706.0	6710.0	6710.0	6710.0
Minorities Int.	535.0	655.0	1659.0	1764.7	1918.1
Perpetual	0.0	0.0	0.0	0.0	0.0
Net Assets	35005.0	39078.0	40415.0	41418.7	42876.8
Share Capital	8871.0	8871.0	8871.0	8871.0	8871.0
Reserves	26134.0	30207.0	31544.0	32547.7	34005.8
Equity	35005.0	39078.0	40415.0	41418.7	42876.8

Cashflow Statement

FY Dec (RM m)	2021A	2022A	2023A	2024F	2025F
Operating CF	8185.0	8049.0	5119.0	4598.7	6348.2
Investing CF	-1556.0	-12951.0	-2593.0	-2352.0	-2352.0
Financing CF	-3173.0	-3806.0	-2175.0	-1080.6	-1755.3

Financial Data & Ratios

FY Dec (RM m)	2021A	2022A	2023A	2024F	2025F
Growth (%)					
Revenue	60.32	25.75	-0.99	3.02	7.46
EBIT	250.61	2.30	-60.39	-10.62	47.54
PBT	315.19	-12.67	-68.66	14.45	44.44
Net Profit	319.71	-12.36	-74.31	23.39	45.26
Profitability (%)					
EBIT Margin	30.1	24.5	9.8	8.5	11.7
PBT Margin	33.5	23.3	7.4	8.2	11.0
Net Margin	31.4	21.9	5.7	6.8	9.2
Effective Tax Rate	5.1	6.0	17.1	12.5	12.0
ROA	12.81	15.50	11.43	3.09	15.5
ROE	20.6	16.2	4.0	4.8	6.8
DuPont Analysis					
Net Margin (%)	31.4	21.9	5.7	6.8	9.2
Assets Turnover (x)	0.5	0.5	0.5	0.5	0.5
Leverage Factor (x)	1.3	1.4	1.5	1.5	1.5
ROE (%)	20.6	16.2	4.0	4.8	6.8
Leverage					
Debt/Asset (x)	0.1	0.0	0.0	0.0	0.0
Debt/Equity (x)	0.1	0.1	0.1	0.1	0.1
N. Debt/(Cash	-14002	-6170	-6295	-7461	-9702
Net Debt/Equity (x)	-0.4	-0.2	-0.2	-0.2	-0.2
Valuations					
EPS (sen)	91.8	79.0	21.2	25.1	36.5
DPS (sen)	56.0	41.0	14.8	12.5	18.2
BVPS (RM)	4.4	4.9	5.1	5.2	5.4
PER (x)	5.1	5.9	22.2	18.7	12.9
Div. Yield (%)	11.9	8.7	3.2	2.7	3.9
P/BV (x)	1.1	1.0	0.9	0.9	0.9

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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	OP	0.645	0.600	-7.0%	3,823.5	Y	12/2024	15.1	11.9	167.5%	-21.6%	4.3	5.4	0.6	14.5%	0.0	0.0%
DAYANG ENTERPRISE HLDGS BHD	OP	2.06	3.80	84.5%	2,385.0	Y	12/2024	25.9	29.1	37.1%	12.7%	8.0	7.1	1.3	17.0%	6.0	2.9%
DIALOG GROUP BHD	OP	1.83	3.37	84.2%	10,326.1	Y	06/2025	11.1	11.8	3.6%	5.6%	16.4	15.6	1.6	10.3%	5.0	2.7%
KEYFIELD INTERNATIONAL	OP	2.11	3.18	50.7%	1,694.6	Y	12/2024	23.1	28.9	81.2%	25.0%	9.1	7.3	2.5	38.3%	5.0	2.4%
MISC BHD	MP	7.42	7.78	4.9%	33,121.0	Y	12/2024	50.7	50.1	5.1%	-1.1%	14.6	14.8	0.8	5.7%	30.0	4.0%
PETRONAS CHEMICALS GROUP	MP	4.72	5.47	5.9%	37,760.0	Y	12/2024	25.1	36.5	23.4%	31.7%	18.8	12.9	0.9	4.9%	12.6	2.7%
PETRONAS DAGANGAN BHD	OP	19.38	21.20	9.4%	19,253.1	Y	12/2024	99.7	109.8	1.4%	10.1%	19.4	17.7	3.2	16.9%	80.0	4.1%
PETRON MALAYSIA REFINING	MP	4.20	4.15	-1.2%	1,134.0	Y	12/2024	65.6	87.4	-34.9%	33.3%	6.4	4.8	0.4	7.0%	20.0	4.8%
VELESTO ENERGY BHD	OP	0.150	0.210	40.0%	1,232.3	Y	12/2024	100.0	(72.4)	83.0%	-155.8%	0.2	N.A.	0.0	5.7%	0.0	0.0%
WASCO BHD	OP	1.01	1.83	81.2%	782.1	Y	12/2024	16.1	17.6	61.5%	9.5%	6.3	5.7	0.9	16.2%	2.0	2.0%
YINSON HOLDINGS BHD	OP	2.70	3.87	33.3%	7,919.8	N	01/2025	14.7	14.8	22.1%	1.1%	18.4	18.2	1.6	8.6%	4.0	1.5%
SECTOR AGGREGATE					120,374.3					20.4%	5.5%	14.5	13.8	1.2	12.2%		2.1%

Source: Kenanga Research

Regional Petrochemical Companies

Name	Last Price (USD)	Market Cap (mil)	Currency	Current FYE	Revenue Growth		Core Earnings Growth		PER (x) - Core Earnings			PBV (x)		ROE (%)	Net Div. Yld. (%)
					1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	Hist.	1-Yr. Fwd.	2-Yr. Fwd.	Hist.	1-Yr. Fwd.		
LOTTE CHEMICAL CORP	1803.4	2,634,965.8	KRW	1806.01	12/2024	4.7%	2.5%	60291%	-94%	NA	NA	NA	0.2	0.2	-0.3%
PTT GLOBAL CHEMICAL PCL	0.0	108,663.3	THB	3181.20	12/2024	1.9%	-2.9%	NM	-145%	NA	NA	NA	0.4	0.4	0.3%
LG CHEM LTD	7737.0	17,859,862.8	KRW	12241.17	12/2024	-11.9%	14.3%	1211%	279%	NA	39.4	11.1	0.5	0.6	3.8%
FORMOSA PLASTICS CORP	1.1	239,033.6	TWD	7309.89	12/2024	0.9%	1.6%	-99%	368%	NA	341.4	22.1	0.8	0.7	2.1%

Source: Bloomberg, Kenanga Research

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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