

Petronas Chemicals Group

More Turbulence Before Clear Skies

By *Lim Sin Kiat, CFA* / limsk@kenanga.com.my

PCHEM is poised for a challenging 1QFY25 as overall plant utilisation is projected to fall below 90% from a quarter before due to unplanned plant downtimes. Urea prices are stronger than our projections due to high gas prices and if China does not lift export restrictions in the coming months, there could be upside risk to our fertiliser & methanol division forecasts. Operational challenges come as a negative surprise although we have modelled in our forecast for a normalisation of 20% for FY25, following which we expect its PBV at least for the legacy assets to rerate closer towards -1SD levels. As a result, our SoP valuation is lower at RM4.70 (from RM5.07), and we maintain our **OUTPERFORM** rating.

We came away from a virtual meeting with PCHEM taking note of its near-term challenges amid weak macro and operational challenges. The key takeaways are as follows:

Downtime is expected at Pengerang Petrochemical Company (PPC). Since February 2025, PPC has become idle due to the downtime at Petronas Refinery and Petrochemical Corporation (PRPC), its feedstock supplier. As a result, we anticipate PPC's utilisation rate to fall below 50% in 1QFY25, indicating that PPC will likely sustain its losses. Additionally, the age of its older facilities may increase the risk of unplanned shutdowns. Consequently, we expect PCHEM's overall plant utilisation for 2025 to decline, revising our assumption to 89%, compared to our earlier estimate of 91%, which only assumes a partial shutdown in PPC and a potential shutdown in one of the complexes in its O&D division. To illustrate, every month additional outage in the whole O&D plant portfolio may lower our overall utilisation by 3%, which will reduce our net profit forecast by 13%.

Urea prices are stronger than expected but expected to normalise. Urea prices have exceeded expectations but are likely to moderate. Since early 2025, urea prices climbed to USD394/MT at their peak, supported by robust fertiliser demand from India. PCHEM anticipates that prices will stabilize starting April 2025 if China relaxes its urea export restrictions. We maintain our conservative forecast of USD290/MT, though continued strong fertiliser demand may pose upside risks.

Meanwhile, natural gas, urea's key feedstock has seen significant price increases. Henry Hub natural gas recently reached USD4.1/mmbtu, up sharply from USD3.5/mmbtu in January 2025. Back in 2024, prices have ranged from USD1.6/mmbtu to 3.2/mmbtu, suggesting that average gas prices are likely to be higher YoY. This could further support urea prices, as high feedstock costs may lead some gas-based producers to scale back output.

Forecast. We revise our FY25F core profit down by 20% to reflect lower plant utilisation (91% to 89%) and lower polyolefin price assumption (USD1100/MT from USD1170/MT).

Valuations. We revise our target price downward by 7% to RM4.70 (from RM5.07), adopting a SoP-driven PBV valuation method. This approach accounts for near-term earnings risks tied to temporary plant downtimes, while acknowledging that the company's legacy assets could revert closer to -1SD PBV valuation, assuming a recovery in global petrochemical demand.

OUTPERFORM ↔

Price: **RM3.71**
Target Price: **RM4.70** ↓

Share Price Performance



KLCI 1,512.15
YTD KLCI chg -7.9%
YTD stock price chg -28.2%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	PCHEM MK Equity
Market Cap (RM m)	29,680.0
Shares Outstanding	8,000.0
52-week range (H)	7.09
52-week range (L)	3.57
3-mth avg. daily vol.	4,768,856
Free Float	28%
Beta	1.2

Major Shareholders

Petroleum Nasional Bhd	64.4%
Employees Provident Fund	11.6%
Amanah Saham Nasional	3.6%

Summary Earnings Table

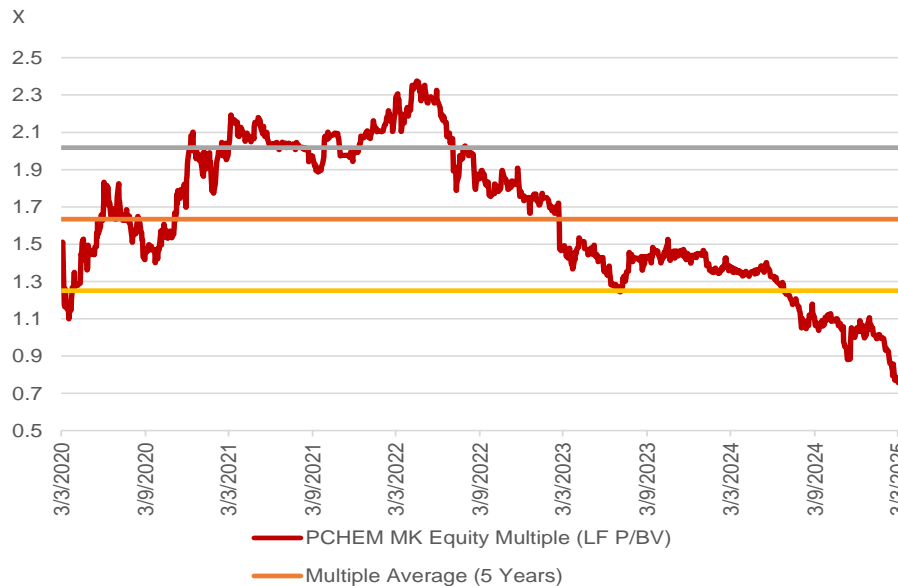
FYE Dec (RM m)	2024A	2025F	2026F
Revenue	30671	31117	32719
EBIT	2418	2875	3978
PBT	1690	2593	3765
Net Profit (NP)	1175	2168	3147
Core NP (CNP)	1175	2168	3147
Consensus (CNP)	-	2383	2613
Earning Revision (%)	-	-19.8	-
EPS (sen)	14.7	27.1	39.3
EPS Growth (%)	-30.7	84.5	45.2
DPS (sen)	7.3	13.5	19.7
BV/share (RM)	4.8	5.0	5.2
PER (x)	25.2	13.7	9.4
PBV (x)	0.8	0.7	0.7
Net Gearing (x)	-0.2	-0.2	-0.3
Div. Yield (%)	2.0	3.7	5.3

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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’s gradual recovery, and (iii) its superior margins vs. its peers due to a favorable cost structure. Maintain OUTPERFORM.

Risks to our call include: (i) economic recession risk globally leading to weaker petrochemical prices, leading to potential impairment risks in PPC and specialty chemicals, (ii) PPC costs exceeding estimates due to operational issues, and (iii) worse-than-expected oversupply in specialty chemicals.

Exhibit 1: PBV Re-rated to New Lows



Source: Company

Why do we think that PCHEM deserves to trade at 1x PBV? Since 2024, PCHEM’s price-to-book value (PBV) ratio has dropped to -2 standard deviations below its mean, reflecting market concerns over recent projects - namely PPC and the specialty chemicals division (Perstop) which was evident in the derating since 2023. However, we believe this discount is unwarranted. Breaking down the book value, we estimate that RM8b is tied to PPC investments, while RM8.9b relates to intangible assets from the Perstop acquisition. Together, these projects account for 44% of the company’s book value based on FY24 results, which makes the remaining legacy assets of PCHEM at 56% of its book value.

Exhibit 2: PBV scenario analysis

	Legacy assets	Perstop & PPC	TP (RM/share)
FY25F Book value per share (RM)	2.8	2.3	
PBV multiple			
-1.0sd (base case)	1.3	0.5	4.70
-0.5sd	1.4	0.5	5.13
mean	1.6	0.5	5.67
+0.5sd	1.8	0.5	6.20
+1.0sd	2.0	0.5	6.73

Source: Company

Changing valuation base to PBV . For now, given the expected petrochemical price weakness in the first half of 2025, we see a conservative 1.3x PBV target on PCHEM’s FY25F book value for its legacy assets, which is already at -1SD level given the near-term petrochemical price weakness. That aside, we assume 0.5x PBV value for Perstop and PPC estimated book values to account for potential impairment risks due to the ongoing operational challenges. All in all, this brings our fair value to **RM4.70**.

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Exhibit 3: Sum-of-Parts Valuation

	<u>RM m</u>	<u>Valuation Metric</u>
Legacy assets	3.58	Pegged to 1.3x FY25F PBV
PPC & specialty chemical	1.13	Pegged to 0.5x FY25F PBV
SoP value per share (RM)	4.70	

Source: Company

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Income Statement

FY Dec (RM m)	2022A	2023A	2024A	2025F	2026F
Revenue	28953.0	28667.0	30671.0	31116.8	32719.2
EBIT	7087.0	2807.0	2418.0	2874.6	3978.2
Interest Exp	315.0	-57.0	-125.0	-281.5	-213.3
Associate	165.0	100.0	-107.0	0.0	0.0
PBT	6733.0	2110.0	1690.0	2593.1	3764.9
Taxation	-406.0	-360.0	-401.0	-311.2	-451.8
NCI	5.0	-54.0	-114.0	-114.1	-165.7
Net Profit	6322.0	1696.0	1175.0	2167.9	3147.5
Core Profit	6333.0	1627.0	1175.0	2167.9	3147.5

Balance Sheet

FY Dec (RM m)	2022A	2023A	2024A	2025F	2026F
Fixed Assets	27213.0	29437.0	29338.0	28756.2	28232.6
Intangible	9364.0	10253.0	8898.0	8898.0	8898.0
Other It assets	2835.0	3578.0	3025.0	3025.0	3025.0
Inventories	3465.0	3767.0	4086.0	4145.4	4358.9
Receivables	3619.0	3857.0	4705.0	4773.4	5019.2
Other CA	46.0	46.0	37.0	37.0	37.0
Cash	8888.0	9268.0	9931.0	11729.2	14058.2
Total Assets	55430.0	60206.0	60020.0	61364.2	63628.9
Payables	5914.0	8042.0	10054.0	10200.1	10725.4
ST Borrowings	229.0	500.0	795.0	795.0	795.0
Other ST Liability	359.0	407.0	342.0	342.0	342.0
LT Borrowings	2489.0	2473.0	2419.0	2419.0	2419.0
Other LT Liability	6706.0	6710.0	6431.0	6431.0	6431.0
Minorities Int.	655.0	1659.0	1422.0	1536.1	1701.8
Perpetual	0.0	0.0	0.0	0.0	0.0
Net Assets	39078.0	40415.0	38557.0	39640.9	41214.7
Share Capital	8871.0	8871.0	8871.0	8871.0	8871.0
Reserves	30207.0	31544.0	29686.0	30769.9	32343.7
Equity	39078.0	40415.0	38557.0	39640.9	41214.7

Cashflow Statement

FY Dec (RM m)	2022A	2023A	2024A	2025F	2026F
Operating CF	8049.0	5119.0	4626.0	5651.9	6672.6
Investing CF	12951.0	-2593.0	-2495.0	-2352.0	-2352.0
Financing CF	-3806.0	-2175.0	-1266.0	-1501.8	-1991.6

Financial Data & Ratios

FY Dec	2022A	2023A	2024A	2025F	2026F
Growth (%)					
Revenue	25.75	-0.99	6.99	1.45	5.15
EBIT	2.30	-60.39	-13.86	18.88	38.39
PBT	-12.67	-68.66	-19.91	53.44	45.19
Net Profit	-12.36	-74.31	-27.78	84.50	45.19
Profitability (%)					
EBIT Margin	24.5	9.8	7.9	9.2	12.2
PBT Margin	23.3	7.4	5.5	8.3	11.5
Net Margin	21.9	5.7	3.8	7.0	9.6
Effective Tax Rate	6.0	17.1	23.7	12.0	12.0
ROA	12.81	15.50	11.43	3.09	11.4
ROE	16.2	4.0	3.0	5.5	7.6
DuPont Analysis					
Net Margin (%)	21.9	5.7	3.8	7.0	9.6
Assets Turnover (x)	0.5	0.5	0.5	0.5	0.5
Leverage Factor (x)	1.4	1.5	1.6	1.5	1.5
ROE (%)	16.2	4.0	3.0	5.5	7.6
Leverage					
Debt/Asset (x)	0.0	0.0	0.1	0.1	0.1
Debt/Equity (x)	0.1	0.1	0.1	0.1	0.1
N. Debt/(Cash	-6170	-6295	-6717	-8515	-10844
Net Debt/Equity (x)	-0.2	-0.2	-0.2	-0.2	-0.3
Valuations					
EPS (sen)	79.0	21.2	14.7	27.1	39.3
DPS (sen)	41.0	14.8	7.3	13.5	19.7
BVPS (RM)	4.9	5.1	4.8	5.0	5.2
PER (x)	4.7	17.5	25.2	13.7	9.4
Div. Yield (%)	11.1	4.0	2.0	3.7	5.3
P/BV (x)	0.8	0.7	0.8	0.7	0.7

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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	0.540	0.600	11.1%	3,201.1	Y	12/2025	8.7	8.0	-22.3%	-7.6%	6.2	6.7	0.6	10.8%	0.0	0.0%
DAYANG ENTERPRISE HLDGS BHD	OP	1.71	3.39	98.2%	1,979.8	Y	12/2025	26.0	24.5	10.3%	-6.0%	6.6	7.0	0.9	15.2%	6.0	3.5%
DIALOG GROUP BHD	OP	1.47	1.94	32.0%	8,294.7	Y	06/2025	8.6	8.7	-19.9%	1.5%	17.1	16.8	1.3	8.0%	4.0	2.7%
KEYFIELD INTERNATIONAL	OP	1.88	3.18	69.1%	1,512.3	Y	12/2025	23.1	28.9	81.2%	25.0%	8.1	6.5	2.2	38.3%	5.0	2.7%
MISC BHD	MP	7.03	7.78	10.7%	31,380.1	Y	12/2025	50.1	47.0	2.9%	-6.2%	14.0	15.0	0.8	5.9%	36.0	5.1%
PETRONAS CHEMICALS GROUP	OP	3.71	4.70	26.7%	29,680.0	Y	12/2025	27.1	39.3	84.5%	45.2%	13.7	9.4	0.7	6.9%	17.0	4.6%
PETRONAS DAGANGAN BHD	OP	17.20	21.20	23.3%	17,087.4	Y	12/2025	110.4	113.0	-0.8%	2.3%	15.6	15.2	2.8	18.0%	88.0	5.1%
VELESTO ENERGY BHD	OP	0.160	0.210	31.3%	1,314.5	Y	12/2025	1.7	2.1	-32.4%	23.6%	9.4	7.6	0.5	5.3%	1.0	6.3%
WASCO BHD	OP	0.910	1.83	101.1%	704.6	Y	12/2025	2.3	2.3	-10.8%	-2.0%	39.1	39.9	6.4	17.8%	2.0	2.2%
YINSON HOLDINGS BHD	OP	2.24	3.87	72.8%	6,327.6	N	01/2025	16.6	20.3	38.1%	22.1%	13.5	11.1	1.3	9.7%	5.0	2.2%
SECTOR AGGREGATE					102,485.8					20.7%	6.0%	11.9	11.3	1.6	12.4%		2.9%

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

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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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Published 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

