Petronas Chemicals Group

Down, Not Out

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OUTPERFORM ↔

Price: **RM3.33**
Target Price: **RM4.10** ↓

PCHEM's FY25 core loss was below our and consensus forecasts due to sustained losses from PPC and unfavourable forex impact. YoY, its FY25 results posted a loss against a profit a year ago as PPC overhead costs were fully recognised coupled with weak polyolefin prices albeit partially offset by higher F&M product prices. Near-term earnings outlook remains weak as polyolefin prices remained depressed, but we still believe that the global plant closures and higher-than-expected plant turnarounds will lift prices in the coming quarters. We cut FY26F earnings as we assume lower USD/MYR and sustaining losses from specialty. We cut our TP to RM4.10 (from RM4.70) after downgrading target FY26F PBV to 0.9x (from 1.0x), which puts it at -0.5SD of 2-year average. Maintain OUTPERFORM.

PCHEM reported 4QFY25 core loss of RM305m, after excluding EI of RM1.1b unrealised forex loss, RM76m inventory write-back and impairment of RM431m, bringing FY25 core loss to RM305m. This was below our and consensus forecasts due to sustained losses from Pengerang Petrochemical Company (PPC) and specialty division, and further dragged by stronger-than-expected MYR strengthening against USD. DPS of RM0.04/share were declared, bringing full-year DPS to RM0.07/share, higher than our expectation.

YoY, FY25 revenue dipped 10% due to lower product prices, lower PPC revenue as well as strengthening MYR against USD. This was partially offset by stronger F&M division product prices. Overall plant utilisation was lower at 88% (compared to 91% last year) due to utility supply disruption in Kertih earlier in FY25. PCHEM went into a loss of RM630m from RM1.3b profit YoY as depreciation costs from PPC dragged earnings upon full recognition as well as on higher finance costs.

QoQ, revenue was largely unchanged, declining by 2.8% due to lower product prices, but this was partially offset by stronger overall plant utilisation (96% vs. 90%). Core losses were also similar sequentially

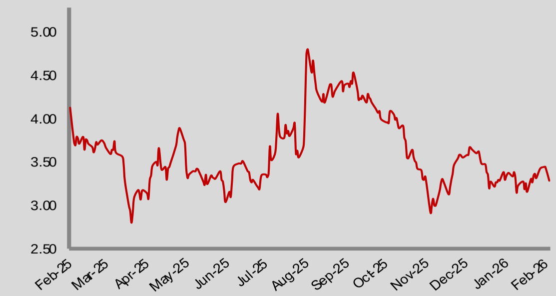
The key takeaways from PCHEM's analysts briefing are as follows:

1. PPC reported a LBITDA of RM50m in 4QFY25 (vs. RM95m in 3QFY25) after excluding forex movements as the group decided to shut down one of the sub plants due to negative spreads. PPC utilisation rate in 4QFY25 stood at 70-80%. That aside, the unrealised forex loss attributable to PPC was at c.RM250m.

2. PCHEM is scheduled to begin a plant turn-around of ASEAN Bintulu Fertiliser (ABF) in April 2026 (later than earlier guided of 1QFY26) and a major Kertih Complex plant turnaround will also commence in April 2026, indicating a weaker plant utilisation outlook in 2QFY26. In 3Q26, PC Fertiliser Kedah and Methanol Labuan will undergo plant turnaround, affecting the F&M division utilisation.

3. The specialty division continued to be dragged by the weakening product margins due to strong Asian competition in personal care and coating solution with product prices under pressure. That aside, silicone selling prices were also weaker in the quarter which was further weakened by lower sales volume. Hence, we believe the recovery in specialty division profitability will take a longer time than we earlier expected.

Share Price Performance



KLCI	1,757.98
YTD KLCI chg	4.6%
YTD stock price chg	-9.4%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	PCHEM MK Equity
Market Cap (RM m)	26,320.0
Shares Outstanding	8,000.0
52-week range (H)	4.84
52-week range (L)	2.75
3-mth avg daily vol:	5,120,219
Free Float	26%
Beta	1.6

Major Shareholders

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

Summary Earnings Table

FYE Dec (RM m)	2025A	2026F	2027F
Revenue	27480	30121	30356
EBIT	610	891	793
PBT	-1892	417	419
Net Profit (NP)	**-2142**	**323**	**325**
Core NP (CNP)	**-630**	**323**	**325**
Consensus (CNP)	-	682	951
Earning Revision (%)	-	-61.8	-
EPS (sen)	-26.8	4.0	4.0
EPS Growth (%)	-282.3	-115.1	0.5
DPS (sen)	7.0	2.0	2.0
BV/share (RM)	4.5	4.5	4.5
PER (x)	-12.4	82.4	82.4
PBV (x)	0.7	0.7	0.7
Net Gearing (x)	-0.2	-0.2	-0.2
Div. Yield (%)	2.1	0.6	0.6

Outlook. While China's anti-involution policy has only showed early signs of cuts and the sectors involved were indirect investments in fixed assets, product prices for O&D division remains weak hovering at c.USD900/MT level indicating the impact of anti-involution volume has not reached a tipping point for supply from China. Polyolefin-olefin spreads remain unfavourable for PPC hence we believe that it will still be in the red in FY26, albeit lower losses YoY as we believe spreads could still improve gradually throughout 2026 (if petrochemical prices improve). Nevertheless, we still think that there is a scenario where polyolefin prices will be stronger YoY in FY26 as plants turnaround season starts to kick in globally. In addition, Brent crude prices are also showing some strength recently, reaching USD70/bbl recently from USD60/bbl earlier this year, providing support for petrochemical prices.

Forecasts. We cut FY26F earnings by 62% after adjusting for lower USD/MYR (3.95 from 4.20 previously) as well as similar losses YoY for specialty chemicals (previously expected an improvement of RM100m).

Valuations. Our TP is cut by 13% to RM4.10 (from RM4.70) as we reduce our FY26F PBV target multiple from 1.0x to 0.9x (-0.5SD to 2-year mean) in view of longer than earlier expected weakness in the product price outlook. There is no change to our ESG rating (3-star rating) as appraised by us (see Page 5).

Investment case. We like the company due to: (i) signs of bottoming of polyolefin prices as plant closures and potentially higher-than-average plant turnaround activities globally could result in higher polyolefin prices, (ii) specialty chemicals division potentially seeing trough earnings in FY25 followed by a year of expected gradual recovery, and (iii) its superior margins vs. its peers due to a favourable cost structure. Maintain **OUTPERFORM**.

Risks to our call include: (i) worse-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.

Result Highlights

FYE Dec (RM m)	4Q FY25	3Q FY25	Q-o-Q Chg	4Q FY24	Y-o-Y Chg	FY25	FY24	Y-o-Y Chg
Revenue	6,600.0	6,787.0	-2.8%	7,458.0	-11.5%	27,480.0	30,671.0	-10.4%
Cost of revenue	-6,086.0	-6,107.0	-0.3%	-6,877.0	-11.5%	-24,552.0	-25,965.0	-5.4%
Gross profit	**514.0**	**680.0**	**-24.4%**	**581.0**	**-11.5%**	**2,928.0**	**4,706.0**	**-37.8%**
Selling and distribution expenses	-540.0	-524.0	3.1%	-572.0	-5.6%	-2,077.0	-2,144.0	-3.1%
Administration expenses	-328.0	-389.0	-15.7%	-420.0	-21.9%	-1,330.0	-1,526.0	-12.8%
Other expenses	-346.0	-88.0	293.2%	-	-	-1,649.0	-1,214.0	35.8%
Other income	204.0	175.0	16.6%	1,151.0	-82.3%	756.0	2,235.0	-66.2%
Operating profit	**-496.0**	**-146.0**	**239.7%**	**740.0**	**-167.0%**	**-1,372.0**	**2,057.0**	**-166.7%**
Financing costs	-89.0	-81.0	9.9%	-95.0	-6.3%	-346.0	-260.0	33.1%
Joint ventures and associates	-50.0	-69.0	-27.5%	-43.0	16.3%	-174.0	-107.0	62.6%
Profit before taxation	**-635.0**	**-296.0**	**114.5%**	**602.0**	**-205.5%**	**-635.0**	**602.0**	**-205.5%**
Tax expense	-95.0	5.0	-2000.0%	-63.0	50.8%	-158.0	-401.0	-60.6%
Non-controlling interests	-24.0	-2.0	nm	-20.0	20.0%	-96.0	-114.0	-15.8%
Net profit	**-754.0**	**-293.0**	**157.3%**	**519.0**	**-245.3%**	**-2,146.0**	**1,175.0**	**-282.6%**
EI	**449.0**	**-6.0**	**nm**	**-759.0**	**-159.2%**	**1,516.0**	**88.0**	**nm**
Core Net profit	**-305.0**	**-299.0**	**2.0%**	**-240.0**	**27.1%**	**-630.0**	**1,263.0**	**-149.9%**
Core EPS	-3.8	-3.7	2.0%	-3.0	27.1%	-7.9	15.8	-149.9%
DPS	4.0	0.0	-	3.0	33.3%	7.0	13.0	-46.2%
Gross margin	7.8%	10.0%		7.8%		10.7%	15.3%	
Operating margin	-7.5%	-2.2%		9.9%		-5.0%	6.7%	
PBT margin	-9.6%	-4.4%		8.1%		-2.3%	2.0%	
Net margin	-11.4%	-4.3%		7.0%		-7.8%	3.8%	
Core net margin	-4.6%	-4.4%		-3.2%		-2.3%	4.1%	
Effective tax rate	-15.0%	1.7%		10.5%		-24.9%	66.6%	

Source: Company, Kenanga Research

Segmental Breakdown

FYE Dec (RM m)	4Q FY25	3Q FY25	Q-o-Q Chg	4Q FY24	Y-o-Y Chg	FY25	FY24	Y-o-Y Chg
<u>**Revenue**</u>								
Olefins and Derivatives	2,813.0	3,206.0	-12.3%	3,659	-23.1%	12,177.0	15,502.0	-21.4%
Fertilisers and Methanol	2,573.0	2,219.0	16.0%	2,417	6.5%	9,553.0	8,667.0	10.2%
Specialty	1,201.0	1,345.0	-10.7%	1,371	-12.4%	5,692.0	6,542.0	-13.0%
<u>**PAT**</u>								
Olefins and Derivatives	-840.0	-471.0	78.3%	-86	876.7%	- 2,338.0	117.0	nm
Fertilisers and Methanol	454.0	335.0	35.5%	492	-7.7%	1,723.0	1,763.0	-2.3%
Specialty	-31.0	-87.0	-64.4%	-23	34.8%	- 562.0	46.0	nm
<u>**PAT Margins**</u>								
Olefins and Derivatives	-29.9%	-14.7%		-2.4%		-19.2%	0.8%	
Fertilisers and Methanol	17.6%	15.1%		20.4%		18.0%	20.3%	
Specialty	-2.6%	-6.5%		-1.7%		-9.9%	0.7%	

Source: Company, Kenanga Research

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	0.320	0.450	40.6%	1,896.9	Y	12/2025	6.1	5.4	-45.7%	-10.9%	5.3	5.9	0.4	7.6%	0.0	0.0%
DAYANG ENTERPRISE HLDGS BHD	MP	1.92	1.60	-16.7%	2,222.9	Y	12/2026	13.6	16.0	-42.3%	17.4%	14.1	12.0	1.2	8.3%	10.0	5.2%
DIALOG GROUP BHD	OP	1.79	2.28	27.4%	10,100.4	Y	06/2026	10.4	11.4	31.4%	9.7%	17.2	15.7	1.6	9.9%	5.0	2.8%
KEYFIELD INTERNATIONAL	OP	2.02	2.40	18.8%	2,354.7	Y	12/2025	8.7	10.3	0.0%	18.7%	23.3	19.7	2.2	11.9%	0.0	0.0%
LIANSON FLEET GROUP BHG	MP	1.53	1.57	2.6%	1,235.0	Y	12/2025	14.0	17.5	-49.6%	24.3%	10.9	8.8	1.6	15.6%	6.0	3.9%
MISC BHD	OP	8.26	8.65	4.7%	36,870.5	Y	12/2025	50.1	52.1	2.9%	4.0%	16.5	15.9	1.0	5.9%	36.0	4.4%
PETRONAS CHEMICALS GROUP	OP	3.29	4.70	42.9%	26,320.0	Y	12/2026	(6.1)	10.3	-	70.4%	N.A.	31.9	0.7	-1.3%	5.0	1.5%
PETRONAS DAGANGAN BHD	MP	20.98	21.20	1.0%	20,842.7	Y	12/2025	110.4	113.0	-0.8%	2.3%	19.0	18.6	3.4	18.0%	88.0	4.2%
VELESTO ENERGY BHD	MP	0.310	0.320	3.2%	2,546.8	Y	12/2025	2.0	2.1	-21.5%	7.3%	15.6	14.6	0.9	6.1%	3.0	9.7%
WASCO BHD	OP	0.955	1.17	22.5%	739.5	Y	12/2025	1.5	1.7	-41.5%	9.4%	62.6	57.2	6.0	10.1%	5.0	5.2%
YINSON HOLDINGS BHD	OP	2.36	2.84	20.3%	6,896.8	N	01/2026	16.6	20.4	20.3%	22.3%	14.2	11.6	1.4	10.1%	6.0	2.5%
SECTOR AGGREGATE					**112,264.4**					**-29.4%**	**32.2%**	**22.1**	**16.7**	**1.7**	**9.3%**		**3.3%**

Source: 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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