

22 May 2026

Petronas Chemicals Group

Recovery Priced to Perfection

By Lim Sin Kiat, CFA [/lmsk@kenanga.com.my](mailto:lmsk@kenanga.com.my)

PCHEM's 1QFY26 core earnings were above our expectations but largely within consensus as we expect stronger 2QFY26 and 3QFY26 amid surge in product prices due to the US-Iran war. F&M and specialty divisions' improved revenue and spreads lifted 1QFY26 numbers. In the coming quarters, we expect stronger numbers as product prices across divisions are expected to trend higher amid the blockade in the Straits of Hormuz. We raise FY26F earnings on higher product price assumption and maintain FY27F earnings as we believe supply could normalise by then in the petrochemical market. Our 2-stage valuation is raised to RM5.40 from RM4.90. We believe that its FY26F outlook is priced to perfection and at this juncture are not convinced that the chemicals market is on a multiyear structural uptrend. Downgrade to MARKET PERFROM from OUTPERFORM.

PCHEM reported 1QFY26 core profit of RM257m (after excluding EI of RM144m reversal of inventory write down, RM15m gain on disposal of investment in associate and RM48m gain in disposal of subsidiary), was deemed above our forecast (21%) but deemed largely within consensus (13%) as we expect 2QFY26 and 3QFY26 to be even stronger as product prices surged due to the Middle East conflict. No DPS was declared as expected.

YoY, 1QFY26 topline declined slightly by 8%, largely dragged by lower contribution from olefins & derivatives (O&D) division, due to lower PPC revenue contribution as capacity was ramped down. On the other hand, fertilisers & methanol (F&M) revenue improved 6% due to higher plant utilisation (103% vs. 98%). The group's core profit jumped 225% as its cost of sales have declined and on better specialty division performance propped up by income from sale of emission rights and lower opex.

QoQ, revenue improved 6% as both O&D and F&M divisions recorded stronger top line due to higher overall product prices. The group turned into loss from profit, however, due to better sequential product spreads for F&M and specialty divisions.

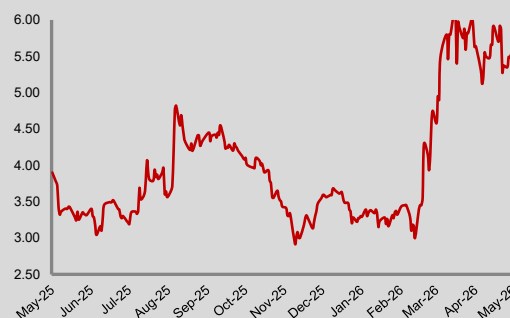
The key takeaways from PCHEM's analysts briefing are as follows:

1. The group has guided for 80% plant utilisation in 2QFY26 due to planned turnaround in ASEAN Bintulu Fertiliser (ABF) and other related facilities. Nevertheless, we believe that the stronger QoQ movement in product prices will more than offset the expected production decline of the plants as per proven historically. In 4QFY18 when utilisation was at 79%, the group recorded RM1.3b core PAT.
2. The upcoming planned shutdowns in 2H26: Methanol Plant 2 (3Q) and Fertiliser Sabah 4Q26 (quick pitstop instead of a full plant turnaround).
3. The specialty division recorded a RM160m gain in emission right in 1QFY26, the majority of the emission gain is guided to be recurring; hence, we did not remove this income from our core profit calculation. That aside, specialty division profits also gained become of volume gain, indicating early recovery in demand.

MARKET PERFORM ↓

Price: **RM5.45**
Target Price: **RM5.40** ↑

Share Price Performance



KLCI 1,708.36
YTD KLCI chg 1.7%
YTD stock price chg 50.1%

Stock Information

Sariah Compliant	Yes
Bloomberg Ticker	PCHEM MK Equity
Market Cap (RM m)	43,600.0
Shares Outstanding	8,000.0
52-week range (H)	6.16
52-week range (L)	2.83
3-mth avg daily vol:	20,673,870
Free Float	26%
Beta	1.6

Major Shareholders

Petroleum 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	33386	31475
EBIT	610	3330	1666
PBT	-1892	2856	1291
Net Profit (NP)	-2142	2363	1054
Core NP (CNP)	-630	2363	1054
Consensus (CNP)	-	2010	905
Earning Revision (%)	-	+96.6	-
EPS (sen)	-26.8	29.5	13.2
EPS Growth (%)	-282.3	-210.3	-55.4
DPS (sen)	7.0	14.8	6.6
BV/share (RM)	4.5	4.6	4.6
PER (x)	-20.4	18.5	41.4
PBV (x)	1.2	1.2	1.2
Net Gearing (x)	-0.2	-0.2	-0.3
Div. Yield (%)	1.3	2.7	1.2

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Outlook. The group's FY26F earnings outlook remains highly bullish as O&D and F&M divisions' product prices are expected to remain elevated throughout 2026 due to the blockade of the Straits of Hormuz. Our base case assumes that the blockade could be partially reopened sometime in 2H26F and a gradual return to normalcy in petrochemical supply is expected. At this juncture, permanent loss in petrochemical production capacity in Middle East will take time to recover even when the blockade is lifted. However, China's capacity addition in 2026 is expected to reach 10m MT (PE and PP) could offset the damaged capacity in the Middle East due to the war (Iran's capacity loss: 5m MT PE/PP capacity per year and 5m MT loss from UAE and Qatar which were not permanent damage but gas supply restoration could bring it back online in 2027). However, this is predicated on the fact that crude oil can start flowing through the Straits of Hormuz at least partially for the Chinese capacity to manufacture polyolefins. Hence, we expect FY27F polyolefin prices to be weaker YoY compared to FY26 boom and possibly a return to surplus market by end of FY27.

Forecasts. We raise FY26F earnings by 97% after imputing higher product price assumptions: (i) PE price from USD1,300/MT to USD1,400/MT (ii) urea price from USD320/MT to USD450MT and (iii) methanol price from USD310/MT to USD400/MT in view of longer disruption in downstream supply. However, we kept our FY27F earnings.

Valuations. Our 2-stage PBV-based valuation is raised to **RM5.40** from RM4.90 as we raise our blue sky scenario valuation PBV target multiple to 1.4x (backed by expected ROE of 6.4% which is similar to FY23 (4%) of which the stock traded at c. 1.4x PBV on average) from 1.2x (50% weightage) which results in a peak value of RM6.60 while maintaining our low case of RM4.2/share (remaining 50% weightage). 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) the surge in polyolefin and urea prices which will benefit FY26F earnings as its feedstock costs are fixed and lower than market, (ii) specialty chemicals division spreads improving as well, and (iii) largely low feedstock risk due to the Middle East war as majority of its feedstock is from its parent. However, we do not expect a multiyear structural uptrend in product prices as China is still expanding capacity for petrochemical aggressively into FY29 as long as they are able to secure their naphtha feedstock. Downgrade to **MARKET PERFORM** from 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.

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Result Highlights

FYE Dec (RM m)	1Q FY26	4Q FY25	Q-o-Q Chg	1Q FY25	Y-o-Y Chg
Revenue	7,015.0	6,600.0	6.3%	7,656.0	-8.4%
Cost of revenue	-5,863.0	-6,086.0	-3.7%	-6,602.0	-11.2%
Gross profit	1,152.0	514.0	124.1%	1,054.0	9.3%
Selling and distribution expenses	-500.0	-540.0	-7.4%	-519.0	-3.7%
Administration expenses	-311.0	-328.0	-5.2%	-265.0	17.4%
Other expenses	-27.0	-346.0	-92.2%	-192.0	-85.9%
Other income	336.0	204.0	64.7%	125.0	168.8%
Operating profit	650.0	-496.0	-231.0%	203.0	220.2%
Financing costs	-80.0	-89.0	-10.1%	-88.0	-9.1%
Joint ventures and associates	-5.0	-50.0	-90.0%	-28.0	-82.1%
Profit before taxation	565.0	-635.0	-189.0%	87.0	549.4%
Tax expense	-138.0	-95.0	45.3%	-69.0	100.0%
Non-controlling interests	-26.0	-24.0	8.3%	-36.0	-27.8%
Net profit	401.0	-754.0	-153.2%	-18.0	-2327.8%
EI	-144.0	449.0	-132.1%	97.0	-248.5%
Core Net profit	257.0	-305.0	-184.3%	79.0	225.3%
Core EPS	3.2	-3.8	-184.3%	1.0	225.3%
DPS	0.0	4.0	-100.0%	0.0	#DIV/0!
Gross margin	16.4%	7.8%		13.8%	
Operating margin	9.3%	-7.5%		2.7%	
PBT margin	8.1%	-9.6%		1.1%	
Net margin	5.7%	-11.4%		-0.2%	
Core net margin	3.7%	-4.6%		1.0%	
Effective tax rate	24.4%	-15.0%		79.3%	

Source: Company, Kenanga Research

Segmental Breakdown

FYE Dec (RM m)	1Q FY26	4Q FY25	Q-o-Q Chg	1Q FY24	Y-o-Y Chg
Revenue					
Olefins and Derivatives	2,944.0	2,813.0	4.7%	3,513	-16.2%
Fertilisers and Methanol	2,649.0	2,573.0	3.0%	2,498	6.0%
Specialty	1,405.0	1,201.0	17.0%	1,632	-13.9%
PAT					
Olefins and Derivatives	-401.0	-840.0	-52.3%	-356	12.6%
Fertilisers and Methanol	794.0	454.0	74.9%	627	26.6%
Specialty	121.0	-31.0	-490.3%	-142	-185.2%
PAT Margins					
Olefins and Derivatives	-13.6%	-29.9%		-10.1%	
Fertilisers and Methanol	30.0%	17.6%		25.1%	
Specialty	8.6%	-2.6%		-8.7%	

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.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.
Stocks Under Coverage																	
BUMI ARMADA BHD	MP	0.335	0.36	7.5%	1,985.9	Y	12/2026	4.7	4.5	-14.8%	-3.7%	7.2	7.5	0.4	6.1%	95.0	283.6%
DAYANG ENTERPRISE HLDGS BHD	OP	1.80	2.45	36.1%	2,084.0	Y	12/2026	16.1	18.8	7.8%	17.0%	11.2	9.6	1.1	9.8%	11.0	6.1%
DIALOG GROUP BHD	OP	2.05	2.63	28.3%	11,567.5	Y	06/2026	10.4	11.8	31.4%	12.8%	19.7	17.4	1.9	9.9%	5.0	2.4%
LIANSON FLEET GROUP BHG	OP	1.71	2.40	40.4%	1,992.9	Y	12/2026	20.6	27.3	142.4%	32.3%	8.3	6.3	1.1	13.2%	400.0	233.9%
KEYFIELD INTERNATIONAL	OP	1.59	2.00	25.8%	1,284.1	Y	12/2026	10.2	18.0	-25.6%	76.1%	15.6	8.8	1.6	10.5%	6.0	3.8%
MISC BHD	OP	8.20	8.60	4.9%	36,602.7	Y	12/2026	47.3	49.5	-0.4%	4.6%	17.3	16.6	1.1	6.2%	36.0	4.4%
PETRONAS CHEMICALS GROUP	OP	5.45	5.40	-0.9%	43,600.0	Y	12/2026	29.5	13.2	-48.7%	0.6%	18.5	41.4	1.2	0.9%	2.0	0.4%
PETRONAS DAGANGAN BHD	MP	18.80	21.20	12.8%	18,676.9	Y	12/2026	116.9	116.5	5.7%	-0.4%	16.1	16.1	3.0	19.1%	94.0	5.0%
UZMA BHD	OP	0.430	0.700	62.8%	259.6	Y	06/2026	14.8	15.9	6.9%	7.5%	2.9	2.7	0.2	8.5%	0.0	0.0%
VELESTO ENERGY BHD	MP	0.315	0.320	1.6%	2,603.7	Y	12/2026	1.7	2.1	-18.7%	19.3%	18.3	15.3	1.1	6.0%	3.0	9.5%
WASCO BHD	OP	0.840	1.45	57.1%	650.4	Y	12/2026	1.4	1.7	-37.5%	23.1%	61.5	50.0	5.0	8.5%	6.0	7.1%
YINSON HOLDINGS BHD	OP	1.95	2.84	45.6%	5,698.6	N	01/2027	16.6	20.4	20.3%	22.3%	11.7	9.6	1.2	10.1%	6.0	3.1%
SECTOR AGGREGATE					127,006.3					24.9%	8.0%	22.1	20.5	1.6	9.1%		46.6%

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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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

