

24 February 2023

Energy & Petrochemicals | Downstream Products

Petronas Chemicals (PCHEM MK)

Neutral (Maintained)

Unexciting Outlook

- **Keep NEUTRAL, with new MYR8.18 TP from MYR9.40, 5% upside.** China's re-opening is expected to provide support in the near term to the overall petrochemical market while specialty chemicals outlook is likely to remain challenging in 1H23. Near-term catalyst, in our view, is lacking, especially when the upcoming ethane feedstock supply agreement renewal is due in mid-2023, coupled with the commercial operation date (COD) of the petrochemical plants in Pengerang being further delayed to 3Q23.
- **Within our, but miss consensus expectations.** FY22 core earnings of MYR6.5bn (-11% YoY) came in within our, but missed consensus expectations, at 95% and 87% of our and Street full-year estimates. A second interim DPS of 16 sen was declared, bringing FY22 DPS to 41 sen (FY21: 56 sen).
- **4Q22 revenue increased by 24% QoQ** on the back of stronger production and sales volume amidst higher plant utilisation of 100% (from 3Q22's 94%), coupled with the Perstrop contribution. However, core earnings plunged 46% QoQ on compressed margins (mainly olefins and derivatives (O&D) led) to MYR954m as well as lower JV & associate contribution. Cumulatively, FY22 core earnings declined by 11% YoY, mainly on weaker O&D contribution (-24%, lower sales volume), masking the stronger fertilisers & methanol (F&M) numbers (+12%, higher product prices).
- **Outlook.** A new reportable segment "Specialties" has commenced effective 4Q22 following the completion of Perstrop in October last year. Management guided that the COD of petrochemical plants in Pengerang is further delayed to 3Q23 with the ongoing testing process. Meanwhile, we expect the average ex-PIC plant utilisation rate for 2023 to be higher at 90-91% (FY22: 89%). Overall, China's re-opening is likely to provide modest support to O&D prices, with F&M prices to remain soft on oversupply amid the off-planting season. Specialty chemicals outlook is likely to remain challenging in 1H23 but is guided to have some improvement in 2H23. Being one of the key feedstocks, PCHEM's ethane supply agreement with Petronas is up for renewal by this year. Note that the other ethane supply contract was renewed for another 20 years from end of 2016 till 2036.
- **We cut our FY23F-24F earnings by 14% on weaker margins** while incorporating Perstrop numbers. Our TP is lowered to MYR8.18, pegged to an unchanged 7x FY23F EV/EBITDA, ie -1SD from its 5-year mean. We have also incorporated a 2% ESG premium, based on an ESG score of 3.1. Downside risks: Weaker-than-expected petrochemical prices and plant utilisation rates.

Target Price (Return): MYR8.18 (+5%)
Price (Market Cap): MYR7.80 (USD14,041m)
ESG score: 3.10 (out of 4)
Avg Daily Turnover (MYR/USD) 44.3m/9.78m

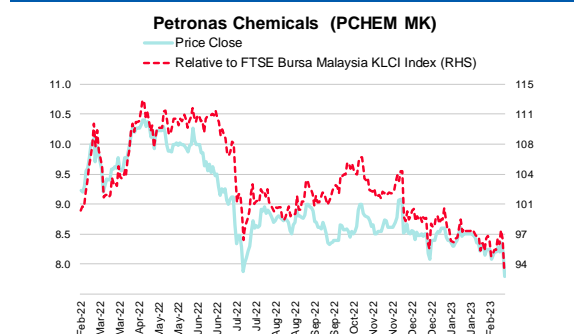
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Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(9.3)	(8.2)	(11.2)	(8.9)	(15.5)
Relative	(6.8)	(5.3)	(12.2)	(7.2)	(7.4)
52-wk Price low/high (MYR)	7.80 – 10.4				



Source: Bloomberg

Overall ESG Score: 3.10 (out of 4)

E: MODERATE

As a chemical producer, PCHEM's operations are considered strenuous to the environment. However, the company has done well to mitigate this with impactful initiatives that tackle climate change, pollution & waste, and natural resource preservation. In line with net zero target by 2050, PCHEM also set new carbon-reduction targets – a 20% reduction by 2030, and another 60% by 2040.

S: EXCELLENT

On the health and safety category for the year 2020, PCHEM recorded zero fatalities in all its operations. Unfortunately, there were three lost time injury cases reported (an increase from two in 2019). The company provides good support & benefits for its employees. It also has outreach programmes to various communities (SHOC4School, Covid-19 relief programme, etc.).

G: EXCELLENT

PCHEM has done well to fulfil criteria set by Bursa Malaysia. The size of the board is within Bursa's guidelines, and board independence is maintained. Transparency and disclosure of information are at an adequate level, which allows stakeholders to make fair assessments on the firm. Shareholder rights are also well protected.

Forecasts and Valuation	Dec-21	Dec-22	Dec-23F	Dec-24F	Dec-25F
Total turnover (MYRm)	23,026	28,953	30,708	32,887	32,661
Recurring net profit (MYRm)	7,302	6,494	5,188	5,603	5,827
Recurring net profit growth (%)	280.1	(11.1)	(20.1)	8.0	4.0
Recurring P/E (x)	8.55	9.61	12.03	11.14	10.71
P/B (x)	1.8	1.6	1.5	1.4	1.3
P/CF (x)	7.62	7.75	9.64	7.79	7.42
Dividend Yield (%)	7.2	5.3	4.2	4.5	4.7
EV/EBITDA (x)	5.34	6.58	6.44	5.82	5.36
Return on average equity (%)	22.5	17.1	12.9	13.0	12.7
Net debt to equity (%)	net cash	net cash	net cash	net cash	net cash

Source: Company data, RHB

See important disclosures at the end of this report

Market Dateline / PP 19489/05/2019 (035080)

Financial Exhibits

Asia	Financial summary (MYR)	Dec-21	Dec-22	Dec-23F	Dec-24F	Dec-25F
Malaysia	Recurring EPS	0.91	0.81	0.65	0.70	0.73
Energy & Petrochemicals	DPS	0.56	0.41	0.32	0.35	0.36
Petronas Chemicals	BVPS	4.36	4.88	5.21	5.56	5.92
PCHEM MK	Return on average equity (%)	22.5	17.1	12.9	13.0	12.7
Neutral						
	Valuation metrics	Dec-21	Dec-22	Dec-23F	Dec-24F	Dec-25F
	Recurring P/E (x)	8.55	9.61	12.03	11.14	10.71
	P/B (x)	1.8	1.6	1.5	1.4	1.3
	FCF Yield (%)	10.7	9.9	6.2	8.6	9.1
	Dividend Yield (%)	7.2	5.3	4.2	4.5	4.7
	EV/EBITDA (x)	5.34	6.58	6.44	5.82	5.36
	EV/EBIT (x)	6.60	8.15	9.58	8.44	7.68
Valuation basis						
FY23F EV/EBITDA						
Key drivers						
i. Stronger petrochemical price;						
ii. Expansion into specialty chemicals						
Key risks						
i. Weaker petrochemical prices;						
ii. Delay in PIC commercialisation.						
Company Profile						
Petronas Chemicals offers a diversified range of petrochemical product such as olefins, polymers, fertilisers, methanol and etc.						
	Income statement (MYRm)	Dec-21	Dec-22	Dec-23F	Dec-24F	Dec-25F
	Total turnover	23,026	28,953	30,708	32,887	32,661
	Gross profit	8,579	8,676	8,128	8,608	8,808
	EBITDA	8,661	8,223	8,195	8,638	8,867
	Depreciation and amortisation	(1,650)	(1,589)	(2,683)	(2,681)	(2,683)
	Operating profit	7,011	6,634	5,512	5,958	6,184
	Net interest	(29)	(66)	(37)	(35)	(32)
	Pre-tax profit	7,711	6,733	5,607	6,055	6,297
	Taxation	(391)	(406)	(392)	(424)	(441)
	Reported net profit	7,346	6,322	5,188	5,603	5,827
	Recurring net profit	7,302	6,494	5,188	5,603	5,827
	Cash flow (MYRm)	Dec-21	Dec-22	Dec-23F	Dec-24F	Dec-25F
	Change in working capital	198	(597)	(1,291)	(175)	18
	Cash flow from operations	8,186	8,049	6,475	8,005	8,412
	Capex	(1,539)	(1,881)	(2,601)	(2,653)	(2,706)
	Cash flow from investing activities	(1,355)	(12,845)	(2,601)	(2,653)	(2,706)
	Dividends paid	(2,059)	(2,471)	(2,594)	(2,802)	(2,913)
	Cash flow from financing activities	(3,120)	(3,698)	(1,851)	(3,018)	(3,132)
	Cash at beginning of period	12,707	16,390	8,888	10,911	13,245
	Net change in cash	3,711	(8,494)	2,023	2,334	2,573
	Ending balance cash	16,390	8,888	10,911	13,245	15,818
	Balance sheet (MYRm)	Dec-21	Dec-22	Dec-23F	Dec-24F	Dec-25F
	Total cash and equivalents	16,390	8,888	10,911	13,245	15,818
	Tangible fixed assets	21,810	22,147	22,064	22,037	22,060
	Total investments	1,480	1,753	1,885	2,017	2,162
	Total assets	46,454	55,430	57,086	59,998	62,691
	Short-term debt	232	229	0	0	0
	Total long-term debt	2,156	2,489	3,462	3,245	3,026
	Total liabilities	11,068	15,697	14,733	14,815	14,565
	Total equity	35,386	39,733	42,353	45,183	48,126
	Total liabilities & equity	46,454	55,430	57,086	59,998	62,691
	Key metrics	Dec-21	Dec-22	Dec-23F	Dec-24F	Dec-25F
	Revenue growth (%)	60.3	25.7	6.1	7.1	(0.7)
	Recurrent EPS growth (%)	280.1	(11.1)	(20.1)	8.0	4.0
	Gross margin (%)	37.3	30.0	26.5	26.2	27.0
	Operating EBITDA margin (%)	37.6	28.4	26.7	26.3	27.1
	Net profit margin (%)	31.9	21.8	16.9	17.0	17.8
	Dividend payout ratio (%)	61.0	51.9	50.0	50.0	50.0
	Capex/sales (%)	6.7	6.5	8.5	8.1	8.3
	Interest cover (x)	242	101	150	172	191

Source: Company data, RHB

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Figure 1: Results review

FYE Dec (MYRm)	4Q21	3Q22	4Q22	QoQ (%)	YoY (%)	FY21	FY22	YoY (%)	Comment
Turnover	6977	7032	8704	24%	25%	23026	28953	26%	
EBITDA	2326	1960	1740	(11%)	(25%)	8288	8145	(2%)	
Depreciation	(429)	(354)	(487)	38%	14%	(1650)	(1589)	(4%)	
EBIT	1861	1531	537	(65%)	(71%)	6563	5644	(14%)	
Interest expense	(9)	(19)	(32)	68%	256%	(29)	(66)	128%	
Associates	173	(1)	(27)	2600%	(116%)	728	165	(77%)	
Pretax profit	2135	2020	561	(72%)	(74%)	7710	6732	(13%)	
Taxation	(100)	(122)	(77)	(37%)	(23%)	(390)	(406)	4%	
Profit after tax	2035	1898	484	(74%)	(76%)	7320	6326	(14%)	
Minority interest	26	(3)	(3)	0%	(112%)	26	(5)	(119%)	
Net profit	2061	1895	481	(75%)	(77%)	7346	6321	(14%)	
Core net profit	2164	1755	954	(46%)	(56%)	7302	6494	(11%)	4Q22 core profit derived after stripping off a MYR412m FX loss and MY60m inventory write-off
EPS (sen)	27.1	21.9	11.9	(46%)	(56%)	91.3	81.2	(11%)	
EBITDA margin	33%	28%	20%			36%	28%		
EBIT margin	27%	22%	6%			29%	19%		
Pretax margin	31%	29%	6%			33%	23%		
Core PATAMI margins	31%	25%	11%			32%	22%		

Source: Company data, RHB

Figure 2: Breakdown of 4Q22 performance by segment

FYE Dec (MYRm)	4Q21	3Q22	4Q22	QoQ (%)	YoY (%)	FY21	FY22	YoY (%)
Turnover								
Olefins & Derivatives	3403	3419	3494	2%	3%	12465	12929	4%
Fertilisers & Methanol	3268	3187	3533	11%	8%	9341	12850	38%
Specialties			1664				3125	
Group Turnover	6977	7032	8691	24%	25%	23026	28940	26%
Segmental EBITDA								
Olefins & Derivatives	732	697	372	(47%)	(49%)	3759	2866	(24%)
Fertilisers & Methanol	1623	1263	1428	13%	(12%)	4559	5088	12%
Specialties			7				382	
Group EBITDA	2326	1960	1740	(11%)	(25%)	8288	8145	(2%)
EBITDA Margin								
Olefins & Derivatives	22%	20%	11%			30%	22%	
Fertilisers & Methanol	50%	40%	40%			49%	40%	
Group EBITDA Margin	33%	28%	20%			36%	28%	

Source: Company data, RHB

Recommendation Chart

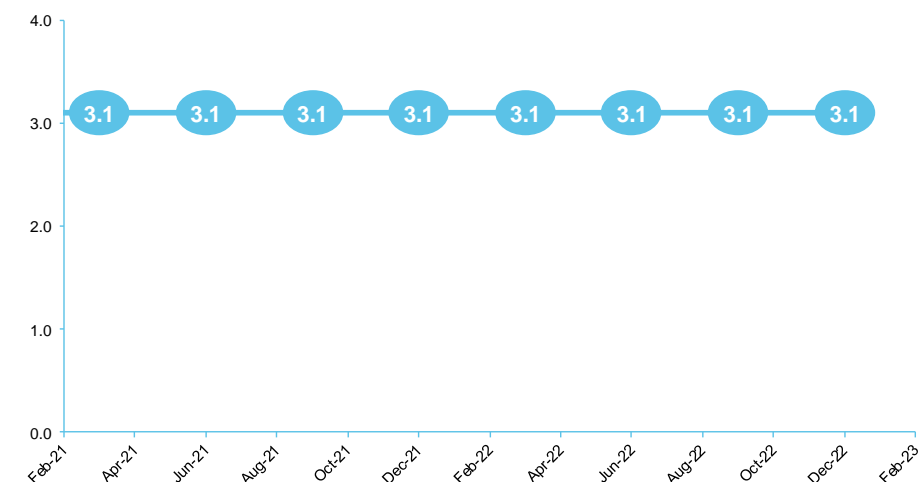


Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2022-11-28	Neutral	9.3	9.1
2022-08-22	Neutral	9.3	8.7
2022-05-08	Buy	12.2	10.2
2022-02-25	Buy	10.9	9.3
2021-11-22	Buy	9.9	8.3
2021-10-05	Buy	9.9	8.7
2021-08-26	Buy	9.1	8.2
2021-05-27	Buy	9.1	8.2
2021-02-24	Buy	8.3	7.7
2020-12-17	Neutral	7.9	7.6
2020-08-20	Sell	4.8	6.2
2020-05-21	Sell	4.8	6.2
2020-03-17	Neutral	4.4	4.3
2019-11-14	Neutral	7.0	7.4
2019-10-04	Neutral	8.0	7.3

Source: RHB, Bloomberg

ESG Rating History



Source: RHB

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Trading Buy:	Share price may exceed 15% over the next 3 months, however longer-term outlook remains uncertain
Neutral:	Share price may fall within the range of +/- 10% over the next 12 months
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Not Rated:	Stock is not within regular research coverage

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