midf RESEARCH

16 August 2018 | 2QFY18 Results Review

Petronas Chemicals Group Berhad

Commendable earnings despite heavy turnaround

***Maintain* NEUTRAL**

***Unchanged* Target Price (TP): RM8.90**

INVESTMENT HIGHLIGHTS

- **Petronas Chemicals Group Bhd's (PChem) 2QFY18 earnings expanded by +34.1%yoy to RM1.37b**
- **2QFY18 PUR at 95% due to good feedstock and asset reliability**
- **Product volume growth of +7%yoy**
- **Average product prices increased on strengthening global crude oil prices**
- **Declared an interim dividend of 14sen**
- **Maintain NEUTRAL with unchanged TP of RM8.90 per share**

95% PUR from better plant performance. PChems' 2QFY18 earnings increased by +34.1%yoy to RM1.37b. The commendable profit is premised on strong revenue growth of +19.6%yoy to RM4.73b. The upbeat sales figures are a result of: (i) Plant utilisation rate (PUR) of 95%; and (ii) higher average selling prices (ASP). Product volume grew by +7%yoy to 2,689MT for 2QFY18 compared with 2,514MT in 2QFY17. Annual production volume is forecasted to be above 10,000MT per annum for FY18.

Earnings within estimates. 6MFY18 normalised earnings (excluding loss of partial divestment of subsidiary and forex losses) met our and consensus expectations at 56% and 58% of FY18 full year earnings estimates respectively. Overall PATAMI margin sustained at a healthy level of 29% for the quarter.

Olefins & derivatives. 2QFY18 segment revenue and profit grew by +8.8%yoy and +9.6%yoy respectively. Segment PUR was at 95% while average product prices increased by +10% in-line with strong crude oil prices. Ethylene production for the quarter was at 229kMT (-11.6%yoy) due to maintenance works conducted at PC Olefin.

Fertilisers & Methanol. Both segment revenue and profit surged by +45.1%yoy and by +70.1%yoy due to (i) PUR 99%; (ii) higher average product prices from strong crude oil prices; and (iii) strong sales volume. The surge in revenue and profit is attributable to both increased contribution from PC Fertiliser Sabah (SAMUR). Urea production was at 646kMT (+20.9%yoy) while methanol production was at 549kMT (-3.2%yoy).

RETURN STATS	
Price (15 August 2018)	RM9.30
Target Price	RM8.90
Expected Share Price Return	-4.3%
Expected Dividend Yield	+2.9%
Expected Total Return	**-1.4%**

STOCK INFO	
KLCI	1,785.94
Bursa / Bloomberg	5183 / PCHEM MK
Board / Sector	Main / Trading Services
Syariah Compliant	Yes
Issued shares (mil)	8,000.0
Market cap. (RM'm)	74,400
Price over NA	2.6x
52-wk price Range	RM7.08 – RM9.51
Beta (against KLCI)	0.75
3-mth Avg Daily Vol	7.62m
3-mth Avg Daily Value	RM65.3m
Major Shareholders (%)	
Petroliam Nasional Berhad	64.35
Employees Provident Fund	6.88
Permodalan Nasional Bhd	3.94

Commendable PUR despite turnaround activities. Management guided that FY18 will be another year with heavy turnaround activities (TA). Despite this, the average PUR for the group is expected to remain above 90%, similar to that of FY17. The bulk of the heavy turnaround will happen in 3QFY18 where PUR is expected to be below 90% while PUR for 2HFY18 is expected to drop to 85% (PUR for 2QFY18 is currently at 95%). In 3QFY18, TA has been completed on its ethylene cracker while in 4QFY18, TA will be conducted on its fertiliser and megamethanol Plant 2 facilities. Management guided that for FY18, CAPEX to be spent on TA will be similar to that of FY17 and going forward into FY19, the CAPEX will be 50-60% of its FY18 CAPEX.

Impact on earnings. No changes to earnings estimates.

Remain sanguine on company. Moving forward into the year, the group's overall PUR will be under stress owing to heavy turnaround activities. Nonetheless, management still expects total product volume output to be above 10kMT, comparable with that of FY17. In addition, management also expects profits to be on par with FY17 premised on strong demand, strong asset reliability albeit softening product prices.

Expected turnaround activities and forecasted in FY18

FY18	Activities	Expected PUR
3QFY18	- Ethylene cracker	> 90%
4QFY18	- MegaMethanol Plant 2 - ASEAN Bintulu Fertiliser	85%

Source: MIDFR, Company

Recommendation. We are maintaining our **NEUTRAL** recommendation with an unchanged target price of **RM8.90** per share. Despite the overall stable outlook, we opine that earnings growth is limited for FY18 and going into FY19 due to the heavy TA and lower PUR albeit >90% as production volume is expected to remain constrained. We are expecting earnings to remain relatively flat year-over-year due to this. Our target price is derived from PER19 of 16x pegged to EPS19 of 55.6sen.

Product price outlook for 3QFY18

No.	Product	Outlook
1	Ethylene	ASP expected to **soften** owing to stable crude prices coupled with supply recovery from NEA. Softer demand is also expected for EVA and VCM.
2	Polymers	ASP expected to also remain **stable** due to supply disruption in SEA and Iran coupled with restocking activities prior to China Golden Week.
3	MEG	ASP expected to **soften** attributable to ample supply in SEA and NEA. That said, stable demand is expected from polyester market.
4	Aromatics	ASP also expected to be **stable** due to short supply in SEA and strong PET and PTA demand.
5	Urea	ASP expected to remain **stable** due to the short supply from ME in early Q3 however, supply resume to normal thereafter. In addition, anticipated demand recovery for year end planting season in SEA.
6	Ammonia	ASP expected to be **stable** owing to stable supply, firm demand in Asia and issuance of new India tender.
7	Methanol	ASP expected to be **stable** from tight supply with upcoming TA in SEA and improved demand from MTO and downstream.

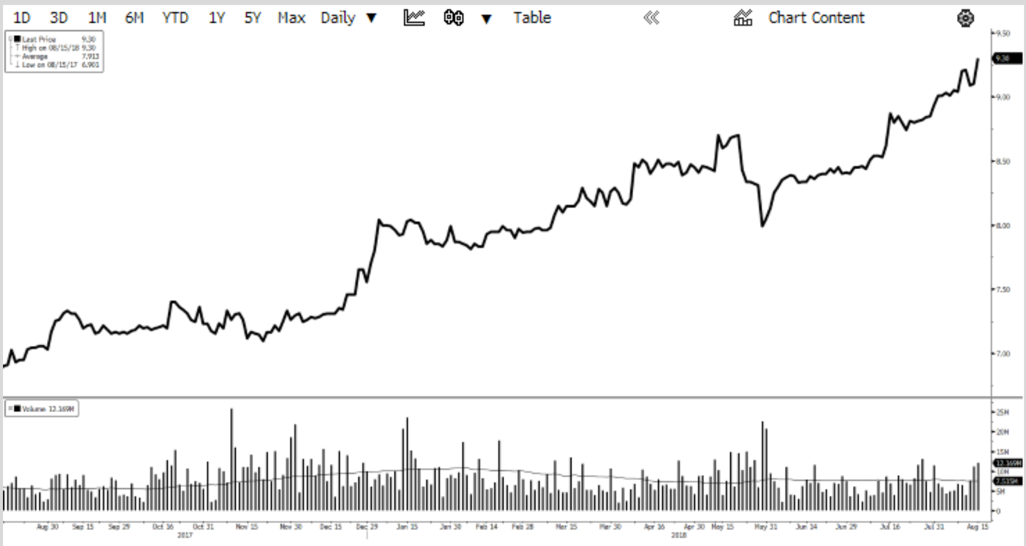
Source: MIDFR, Company

INVESTMENT STATISTICS

FYE Dec	FY15	FY16	FY17	FY18F	FY19F
Revenue (RM'm)	13,536	13,860	17,407	17,442	17,810
EBIT (RM'm)	3,757	4,046	5,240	5,306	5,418
Pretax Profit (RM'm)	3,833	4,110	5,236	5,564	5,684
Net Profit (RM'm)	2,782	2,932	4,177	4,356	4,450
EPS (sen)	35	37	52	54.5	55.6
EPS (%)	13	6	41	5	2
PER (x)	24.9	23.5	16.7	16.0	15.6
Net Dividend (sen)	18	19	27	27	27
Net Dividend (%)	2.1	2.2	3.1	2.9	2.9

Source: MIDFR

DAILY PRICE CHART



Aaron Tan Wei Min
aaron.tan@midf.com.my
03-2772 1650

2QFY18 RESULTS SUMMARY0

FYE Dec (RM m)	Quarterly Results			Cumulative		
	2Q18	QoQ (%)	YoY (%)	6M17	6M18	YoY (%)
Revenue	4,733.0	-4.4	19.6	8,654.0	9,684.0	11.9
COGS	(2,980.0)	-3.9	18.0	(5,268.0)	(6,080.0)	15.4
Gross Profit	1,753.0	-5.3	22.3	3,386.0	3,604.0	6.4
Selling & Dist Expenses	(200.0)	-2.0	5.8	(373.0)	(404.0)	8.3
Admin Expenses	(157.0)	-24.5	14.6	(314.0)	(365.0)	16.2
Other Expenses	(1.0)	-99.4	-80.0	(17.0)	(180.0)	nm
Other Income	96.0	52.4	50.0	123.0	159.0	29.3
Operating Profit	1,491.0	12.7	28.3	2,805.0	2,814.0	0.3
Financing Costs	(4.0)	0.0	0.0	(10.0)	(8.0)	-
Associates	8.0	-52.9	nm	3.0	25.0	nm
PBT	1,495.0	11.9	28.7	2,798.0	2,831.0	1.2
Tax	(115.0)	-49.8	-17.3	(394.0)	(344.0)	-12.7
PATAMI	1,372.0	28.8	34.1	2,404.0	2,487.0	3.5
Segments:						
Revenue						
- Olefins & Derivatives	2,758.0	-7.1	8.8	5,761.0	5,909.0	2.6
- Fertilisers & Methanol	2,046.0	12.9	45.1	2,952.0	3,833.0	29.8
- Others	39.0	na	200.0	46.0	52.0	13.0
Profit						
- Olefins & Derivatives	674.0	5.8	9.6	1,548.0	1,393.0	-10.0
- Fertilisers & Methanol	677.0	73.1	70.1	849.0	1,241.0	46.2
- Others	29.0	38.1	190.0	7.0	(147.0)	nm
Total	1,380.0	31.6	34.9	2,404.0	2,487.0	3.5

Source: MIDFR

DISCLOSURES AND DISCLAIMER

This report has been prepared by MIDF AMANAH INVESTMENT BANK BERHAD (23878-X). It is for distribution only under such circumstances as may be permitted by applicable law.

Readers should be fully aware that this report is for information purposes only. The opinions contained in this report are based on information obtained or derived from sources that we believe are reliable. MIDF AMANAH INVESTMENT BANK BERHAD makes no representation or warranty, expressed or implied, as to the accuracy, completeness or reliability of the information contained therein and it should not be relied upon as such.

This report is not, and should not be construed as, an offer to buy or sell any securities or other financial instruments. The analysis contained herein is based on numerous assumptions. Different assumptions could result in materially different results. All opinions and estimates are subject to change without notice. The research analysts will initiate, update and cease coverage solely at the discretion of MIDF AMANAH INVESTMENT BANK BERHAD.

The directors, employees and representatives of MIDF AMANAH INVESTMENT BANK BERHAD may have interest in any of the securities mentioned and may benefit from the information herein. Members of the MIDF Group and their affiliates may provide services to any company and affiliates of such companies whose securities are mentioned herein This document may not be reproduced, distributed or published in any form or for any purpose.

MIDF AMANAH INVESTMENT BANK : GUIDE TO RECOMMENDATIONS	
STOCK RECOMMENDATIONS	
BUY	Total return is expected to be >10% over the next 12 months.
TRADING BUY	Stock price is expected to *rise* by >10% within 3-months after a Trading Buy rating has been assigned due to positive newsflow.
NEUTRAL	Total return is expected to be between -10% and +10% over the next 12 months.
SELL	Total return is expected to be <-10% over the next 12 months.
TRADING SELL	Stock price is expected to *fall* by >10% within 3-months after a Trading Sell rating has been assigned due to negative newsflow.
SECTOR RECOMMENDATIONS	
POSITIVE	The sector is expected to outperform the overall market over the next 12 months.
NEUTRAL	The sector is to perform in line with the overall market over the next 12 months.
NEGATIVE	The sector is expected to underperform the overall market over the next 12 months.