

19 November 2018 | 3QFY18 Results Review

## Petronas Chemicals Group Berhad

*Resilient earnings despite heavy turnaround*

**Maintain BUY**

**Unchanged Target Price (TP): RM10.23**

### INVESTMENT HIGHLIGHTS

- **Petronas Chemicals Group Bhd's (PChem) 3QFY18 earnings expanded by +37.7%yoy to RM1.26b**
- **9MFY18 PUR sustained at 91% due to good feedstock and asset reliability**
- **Product volume growth of +5%yoy**
- **Average product prices increased on strengthening global crude oil prices**
- **Maintain BUY with unchanged TP of RM10.23 per share**

#### Sustained 9MFY18 PUR at 91% despite turnaround activities.

PChem's 3QFY18 earnings expanded by +37.7%yoy to RM1.26b. The commendable profit is premised on strong revenue growth of +20.4%yoy to RM4.83b. The upbeat sales figures are a result of: (i) stronger crude oil price and; (ii) higher average selling prices (ASP). Product volume declined by -8.8%yoy to 2,249MT for 3QFY18 compared with 2,466MT in 3QFY17 due to the turnaround (TA) activities. However, annual production volume is forecasted to be above 10,000MT per annum for FY18.

**Earnings within estimates.** 9MFY18 normalised earnings (excluding loss of partial divestment of subsidiary and forex losses) met our and consensus expectations at 86% and 85% of FY18 full year earnings estimates respectively. Overall PATAMI margin sustained at a healthy level of 26% for the quarter.

**Olefins & derivatives.** 3QFY18 segment revenue and profit grew by +21.1%yoy and +13.3%yoy respectively. Segment PUR was at 96% while average product prices increased by +20% in-line with strong crude oil prices. Ethylene production for the quarter was at 225kMT (flat yoy) due to maintenance works conducted at PC Olefin.

**Fertilisers & Methanol.** Both segment revenue and profit grew by +13.2%yoy and by +14.7%yoy respectively due to (i) higher average product prices from higher crude oil prices and; (ii) stronger MYR against USD during the quarter. However, plant utilisation was lower at 69% during the quarter due to planned turnaround activity undertaken at both its urea and methanol plants. Hence, urea production dipped to 421kMT (-27.7%yoy) while methanol production declined to 356kMT (-38.4%yoy).

#### RETURN STATS

Price (16 November 2018)	RM9.40
Target Price	RM10.23
Expected Share Price Return	+8.8%
Expected Dividend Yield	+2.9%
<b>Expected Total Return</b>	<b>+11.7%</b>

#### STOCK INFO

KLCI	1,706.38
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 (%)	
Petroliaam Nasional Berhad	64.35
Employees Provident Fund	6.88
Permodalan Nasional Bhd	3.94

**Commendable PUR despite turnaround activities.** Management continues to guide that despite the heavy TA activities, the average PUR for the group is expected to remain above 90% for FY18, similar to that of FY17. The bulk of the heavy turnaround was completed in 3QFY18 while PUR for 2HFY18 is expected to drop to 85% (PUR for 3QFY18 is currently at 79%). Its 9MFY18 PUR is currently at 91%. In 3QFY18, TA has been completed on its ethylene cracker and methanol plant 2 while in 4QFY18, TA will be conducted on its fertiliser facility. Furthermore, Management also guided that going forward into FY19, its growth CAPEX will be RM2.5b which is 50% lower than that of FY18 due to its JV with Saudi Aramco. Meanwhile, its operational CAPEX is to remain in the range of RM750-850m for FY19.

**Impact on earnings.** No change to earnings estimates as we are expecting product pricing to be under pressure due to the drop in crude oil price. Furthermore, the demand for olefins and derivatives segment products is expected to soften given ample supply coming from the Middle East and North Asia.

### Expected turnaround activities and forecasted in FY18

FY18	Activities	Expected PUR
4QFY18	- ASEAN Bintulu Fertiliser	85%

Source: MIDFR, Company

**Recommendation.** We are maintaining our **BUY** recommendation with an unchanged target price of **RM10.23** per share. Despite the heavy TA and lower PUR albeit >90% for FY18, we remain upbeat on PChem due to the continued resilient demand for its product and consistent production volume which is expected to record >10,000MT this year. Additionally, our **BUY** recommendation also reflects the premium that PChem has over its peers in terms of a stable feedstock supply and favourable rates received from its parent company Petroliam Nasional Berhad (PETRONAS) - which positions PChem at an advantage to benefit from the market in the current high crude oil price environment. Furthermore, its dividend yield remains stable at 2.9% FY19F.

### Product price outlook for 4QFY18

No.	Product	Outlook
1	Ethylene	ASP expected to <b>soften</b> owing to ample supply from ME. Softer demand is also expected following regional TA.
2	Polymers	ASP expected to <b>soften</b> due to lower feedstock price, diversion of US cargoes and weak demand towards year-end.
3	MEG	ASP expected to <b>soften</b> attributable to the softening in ethylene price as well as; lacklustre downstream demand.
4	Aromatics	ASP also expected to be <b>stable</b> as supply in SEA resumed and weak PET and PTA demand.
5	Urea	ASP expected to remain <b>stable</b> due to the expected increase in demand from Indian tender, tight supply in ME, SEA and China as well as; anticipation of demand from Brazil.
6	Ammonia	ASP expected to be <b>stable</b> owing to stable supply, Iran sanction and stable demand from industrial application.
7	Methanol	ASP expected to be <b>stable</b> from stable supply with weakening demand in MTO.

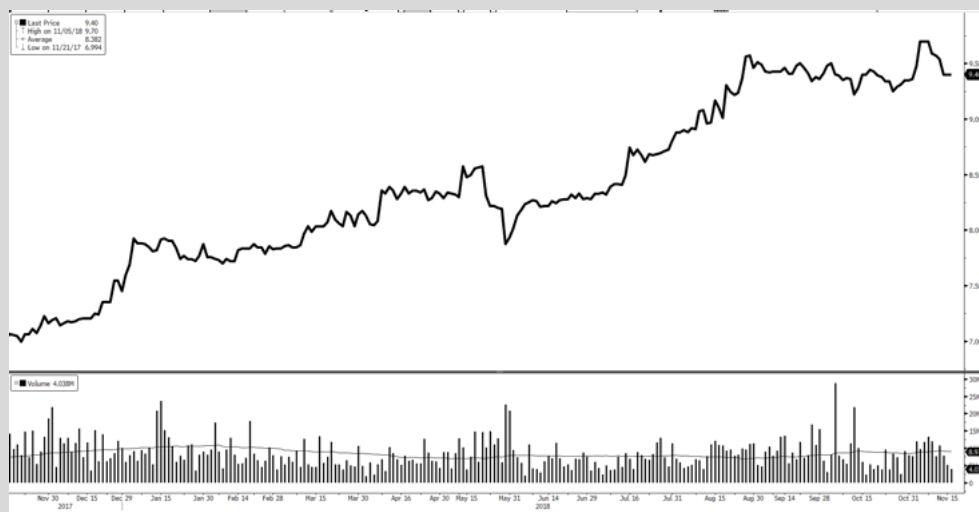
Source: MIDFR, Company

## INVESTMENT STATISTICS

FYE Dec	FY15	FY16	FY17	FY18F	FY19F
Revenue (RM'm)	13,536	13,860	17,407	17,966	18,346
EBIT (RM'm)	3,757	4,046	5,240	5,465	5,581
Pretax Profit (RM'm)	3,833	4,110	5,236	5,730	5,854
Net Profit (RM'm)	2,782	2,932	4,177	4,487	4,584
EPS (sen)	35.0	37.0	52.0	56.1	57.3
EPS (%)	12.9%	5.7%	40.5%	7.9%	2.2%
PER (x)	26.9	25.4	18.1	16.8	16.4
Net Dividend (sen)	18.0	19.0	27.0	27.0	27.0
Net Dividend (%)	1.9%	2.0%	2.9%	2.9%	2.9%

Source: MIDFR

## DAILY PRICE CHART



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**Table 1: Petronas Chemicals' quarterly earnings review**

FYE Dec (RM m)	Quarterly Results					Cumulative		
	3QFY17	2QFY18	3QFY18	QoQ (%)	YoY (%)	9MFY17	9MFY18	YoY (%)
<b>Revenue</b>	<b>4,013.0</b>	<b>4,733.0</b>	<b>4,830.0</b>	<b>2.0</b>	<b>20.4</b>	<b>12,667.0</b>	<b>14,514.0</b>	<b>14.6</b>
COGS	(2,670.0)	(2,980.0)	(3,267.0)	9.6	22.4	(7,938.0)	(9,347.0)	17.8
<b>Gross Profit</b>	<b>1,343.0</b>	<b>1,753.0</b>	<b>1,563.0</b>	<b>-10.8</b>	<b>16.4</b>	<b>4,729.0</b>	<b>5,167.0</b>	<b>9.3</b>
Selling & Dist Expenses	(190.0)	(200.0)	(194.0)	-3.0	2.1	(563.0)	(598.0)	6.2
Admin Expenses	(138.0)	(157.0)	(148.0)	-5.7	7.2	(452.0)	(513.0)	13.5
Other Expenses	(5.0)	(1.0)	(1.0)	0.0	-80.0	(22.0)	(181.0)	722.7
Other Income	55.0	96.0	86.0	-10.4	56.4	178.0	245.0	37.6
<b>Operating Profit</b>	<b>1,065.0</b>	<b>1,491.0</b>	<b>1,306.0</b>	<b>-12.4</b>	<b>22.6</b>	<b>3,870.0</b>	<b>4,120.0</b>	<b>6.5</b>
Financing Costs	(5.0)	(4.0)	(5.0)	25.0	0.0	(15.0)	(13.0)	-
Associates	56.0	8.0	41.0	412.5	-26.8	59.0	66.0	11.9
<b>PBT</b>	<b>1,116.0</b>	<b>1,495.0</b>	<b>1,342.0</b>	<b>-10.2</b>	<b>20.3</b>	<b>3,914.0</b>	<b>4,173.0</b>	<b>6.6</b>
Tax	(155.0)	(115.0)	(70.0)	-39.1	-54.8	(549.0)	(414.0)	-24.6
<b>PAT</b>	<b>961.0</b>	<b>1,380.0</b>	<b>1,272.0</b>	<b>-7.8</b>	<b>32.4</b>	<b>3,365.0</b>	<b>3,759.0</b>	<b>11.7</b>
Minority Interest	48.0	8.0	15.0	87.5	-68.8	193.0	65.0	-66.3
<b>PATAMI</b>	<b>913.0</b>	<b>1,372.0</b>	<b>1,257.0</b>	<b>-8.4</b>	<b>37.7</b>	<b>3,172.0</b>	<b>3,694.0</b>	<b>16.5</b>
Segments:								
<i>Revenue</i>								
- Olefins & Derivatives	2,633.0	5,424.0	3,163.0	-41.7	20.1	8,393.0	9,072.0	8.1
- Fertilisers & Methanol	1,403.0	2,542.0	1,686.0	-33.7	20.2	4,355.0	5,519.0	26.7
<i>Profit</i>								
- Olefins & Derivatives	852.0	1,497.0	965.0	-35.5	13.3	2,134.0	2,136.0	0.1
- Fertilisers & Methanol	600.0	827.0	688.0	-16.8	14.7	1,218.0	1,737.0	42.6

Source: Company, MIDFR

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### 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 <i>rise</i> 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 <i>fall</i> 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.