

21 February 2018 | 4QFY17 Results Review

## Petronas Chemicals Group Berhad

*Strong earnings delivered as expected*

**Maintain BUY**

**Revised Target Price (TP): RM8.72**  
(previously RM8.18)

### INVESTMENT HIGHLIGHTS

- **Petronas Chemicals Group Bhd's (PChem) 4QFY17 earnings expanded by +1.8%yoy to RM1b**
- **4QFY17 PUR at 93% as guided due to heavy turnaround activities in PC Methanol Labuan**
- **Average product prices increased on strengthening global crude oil prices**
- **Overall group FY17 plant utilisation rate at 91%**
- **FY17 dividend declared 27sen – highest ever**
- **Maintain BUY with revised TP of RM8.72 per share**

**Higher ASP and volume buoyed earnings.** PChems' 4QFY17 earnings increased by +1.8%yoy to RM1.0b. The commendable profit is premised on strong revenue growth of +20.1%yoy to RM4.7b – highest ever achieved in a quarter. The upbeat sales figures are a result of: (i) strong sales volume growth of +11%yoy (boosted by SAMUR) and; (ii) higher average selling prices (ASP). The growth in revenue was however undeterred by weaker USD. Sales volume grew by +11%yoy to 10,136MT for FY17 compared with 9,165MT in FY16.

**Earnings within estimates.** Cumulative FY17 earnings of RM4.2b came in within our estimates accounting for 101.1% of our FY17 earnings forecasts, but exceeded consensus estimates by a variance of more than +6.5%. Overall PATAMI margin expanded by +2.8ppts to 24.0%.

**Olefins & derivatives.** FY17 segment revenue and profit increased by +16.4%yoy and by +28.3%yoy respectively. This is despite the company recording lower segment PUR of 94% compared with that of FY16 at 100% due to higher turnaround activity at the derivatives and MTBE plants. ASPs were firmer due to sustainably strong global crude oil prices. O&D derivatives market is expected to remain upbeat in the near term from higher feedstock prices, owing to supply limitations and robust demand. FY17 segment profit margin expanded by +2.3%ppts to 24.4%.

**Fertilisers & Methanol.** Similar to the O&D segment, both revenue and profit staged commendable growths of +45.9%yoy and +61.1%yoy respectively. The growth in sales volume is largely due to the commencement of SAMUR.

RETURN STATS	
Price (20 February 2018)	RM8.10
Target Price	RM8.72
Expected Share Price Return	+7.7%
Expected Dividend Yield	+3.3%
<b>Expected Total Return</b>	<b>+11.0%</b>

STOCK INFO	
KLCI	1,855.99
Bursa / Bloomberg	5183 / PCHEM MK
Board / Sector	Main / Trading Services
Syariah Compliant	Yes
Issued shares (mil)	8,000.0
Market cap. (RM'm)	64,800.0
Price over NA	2.1x
52-wk price Range	RM6.74 – RM8.19
Beta (against KLCI)	0.89
3-mth Avg Daily Vol	9.5m
3-mth Avg Daily Value	RM72.5m
Major Shareholders (%)	
Petroleum Nasional Berhad	64.35
Employees Provident Fund	7.34
Kumpulan Wang Persaraan Diperbadankan	3.06

FY17 segment PUR is also lower at 90% compared with 93% in FY16 due to the higher level of maintenance activities at the methanol and ammonia plants. Overall ASPs however strengthened due to global supply constraints. FY17 segment profit margin expanded by +2.5%ppts to 26.1%.

**Commendable PUR despite turnaround activities.** Management guided that FY18 will be another year with heavy turnaround activities. Despite this, the average PUR for the group is expected to remain above 90%. The bulk of the heavy turnaround will happen in 2HFY18 where PUR is expected to be below 90% while PUR for 1HFY18 is expected to remain high.

**Impact on earnings.** No changes to earnings estimates.


**Remain sanguine on company.** Moving forward, the O&D segment is expected to sustain its upbeat momentum owing to limited product supply, regional turnarounds, healthy demand and higher feedstock prices. The F&M segment is also expected to coast on an uptrend as fertiliser supply from Middle East is expected to be limited, strong demand in Asia, healthy downstream demand and tight supply of methanol in China.

As the product prices are expecting to remain stable and firm in the near term coupled with stronger PUR moving forward, we remain sanguine on the company whilst expecting FY18 to perform on par or exceed that of FY17.

### Expected turnaround activities and forecasted in FY18

FY18	Activities	Expected PUR
1 <sup>st</sup> Half	- PC MTBE	High 90s%
2 <sup>nd</sup> Half	- PC Methanol - ASEAN Bintulu Fertiliser	<90%

Source: MIDFR, Company

**Recommendation.** We are maintaining our **BUY** recommendation on PChem with a revised target price of **RM8.72** per share. Our target price is derived from PER18 of 16x pegged to EPS18 of 54.5sen. We revised our target PER from 15x to 16x, reflecting PChem's average PER over two years. 

### Product price outlook for 1QFY18

No.	Product	Outlook
1	Ethylene	ASP expected to remain <b>firmer</b> as there will be less supply in NEA and ME due to turnaround activities and also firming crude oil prices. January was a strong month pre-CNY and demand will pick up post-March
2	Polymers	ASP expected to <b>firm up</b> due to supply limitations in SEA and firming ethylene prices. Buying interest strong
3	MEG	ASP expected to continue to be <b>firmer</b> from tight supply conditions and strong downstream demand
4	Aromatics	ASP also expected to be <b>firmer</b> due supply limitation in China and strong demand from PTA sector
5	Urea	ASP expected to be <b>be stable</b> from reduced demand from China and new issuance of tenders from Bangladesh and Africa.
6	Ammonia	ASP expected to also <b>be stable</b> as supply in Latin America remains tight and limited availability in ME. Supply expected to remain high in SEA as additional capacity comes onstream
7	Methanol	ASP expected to be <b>firmer</b> from supply shortage in China and ME. Derivative demand remains steady in far East China

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)	23.1	21.9	15.6	14.9	14.6
Net Dividend (sen)	18	19	27	27	27
Net Dividend (%)	2.2	2.3	3.3	3.3	3.3

Source: MIDFR

## DAILY PRICE CHART



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## 4QFY17 RESULTS SUMMARY

FYE Dec (RM m)	Quarterly Results			Cumulative			Comments
	4Q17	QoQ (%)	YoY (%)	FY16	FY17	YoY (%)	
Revenue	4740	18.1	20.1	13860	17407	25.6	Volume growth 11%
COGS	-3083	15.5	30.7	-8536	-11021	29.1	
Gross Profit	1657	23.4	4.3	5324	6386	19.9	
Selling & Dist Expenses	-201	5.8	2.6	-704	-764	8.5	
Admin Expenses	-163	18.1	-28.8	-667	-615	-7.8	
Other Expenses	3	-160.0	-107.1	-196	-9	-95.4	
Other Income	74	34.5	-8.6	289	242	-16.3	
Operating Profit	1370	28.6	13.9	4046	5240	29.5	
Financing Costs	-5	0.0	-44.4	47	20	-	
Associates	-43	-176.8	104.8	17	16	-5.9	
PBT	1322	18.5	12.7	4110	5236	27.4	
Tax	-273	76.1	95.0	-888	-822	-7.4	
PATAMI	1005	10.1	1.8	2932	4177	42.5	
Segments:							
<i>Revenue</i>							
- Olefins & Derivatives	2969	12.8	4.9	9757	11362	16.4	3.8MTPA produced
- Fertilisers & Methanol	1813	29.2	58.1	4228	6168	45.9	6.4MTPA produced
<i>Profit</i>							
- Olefins & Derivatives	637	8.7	-40.4	2159	2771	28.3	
- Fertilisers & Methanol	391	6.0	18.1	999	1609	61.1	
- Others	21	250.0	na	64	34	46.9	
Total	1049	9.2	-25.0	3222	4414	37.0	

Source: 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.