

05 April 2018 | Corporate Update

Petronas Chemicals Group Berhad

Escalating trade war to benefit chemical producers

Maintain BUY

Unchanged Target Price (TP): RM8.72

INVESTMENT HIGHLIGHTS

- **Trade war between U.S. and China to benefit regional chemical producers**
- **Additional tariff to be imposed on 106 items from U.S.**
- **44 of 106 listed items are industrial and chemical raw materials**
- **Positive impact on Petronas Chemicals**
- **Maintain BUY with unchanged TP of RM8.72 per share**

Escalating trader war. The escalating trade war between the United States of America and China could potentially benefit regional chemical producers. China on 4th April 2018 has announced a list of products from U.S. that could be subjected to additional tariff increase by 25% - more than 40 of which constitute chemical-based products or chemical raw materials.

Regional chemical producers to benefit. Malaysia's chemical and chemical products are the third major export (approximately 8%) for the Malaysia, after electrical and electronic products and petroleum products. In particular, exports of chemical and chemical products constitute between 15-20% of total exports to China alone.

Opportunity of Petronas Chemicals. The additional tariff on U.S. chemical and chemical products is positive for Petronas Chemicals. This trade war could potentially: (i) cause a **price increase** in a broad range of chemical and chemical products; (ii) provide opportunities for Petronas Chemicals to **increase product exports** to China; (iii) provide opportunities for Petronas Chemicals to **produce new products** for the Chinese market.

Impact on earnings. No change to earnings estimates at this juncture.

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.

RETURN STATS

Price (04 April 2018)	RM8.17
Target Price	RM8.72
Expected Share Price Return	+6.7%
Expected Dividend Yield	+3.3%
Expected Total Return	+10.0%

STOCK INFO


KLCI	1,815.94
Bursa / Bloomberg	5183 / PCHEM MK
Board / Sector	Main / Trading Services
Syariah Compliant	Yes
Issued shares (mil)	8,000.0
Market cap. (RM'm)	65,360.0
Price over NA	2.1x
52-wk price Range	RM6.61 – RM8.29
Beta (against KLCI)	0.84
3-mth Avg Daily Vol	67.6m
3-mth Avg Daily Value	RM540.8m
Major Shareholders (%)	
Petroleum Nasional Berhad	64.35
Employees Provident Fund	7.04
Kumpulan Wang Persaraan Diperbadankan	3.06

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.

Expected turnaround activities and forecasted in FY18

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

Source: MIDFR, Company

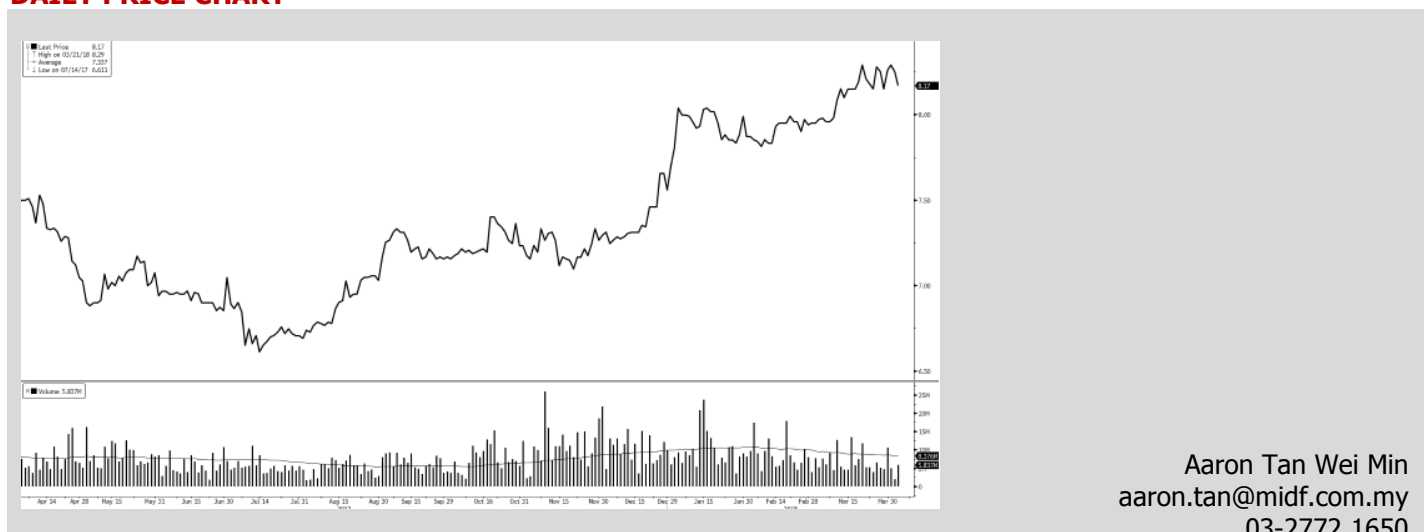
Recommendation. We are maintaining our **BUY** recommendation on PChem with an unchanged target price of **RM8.72** per share. Our target price is derived from PER18 of 16x pegged to EPS18 of 54.5sen. We revised our target PER from 15x to 16x, reflecting PChem's average PER over two years. 

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)	23.3	22.1	15.7	15.0	14.7
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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List of Chemical and Chemical products to be imposed additional tariffs

HS code	Product description
27111200	Liquid propane
39074000	Primary shape polycarbonate
38151200	Supported catalysts with noble metals and their compounds as actives
38220010	Diagnostic or experimental reagents attached to the backing, except those under tariff code of 32.02,32.06
38249999	Other chemicals and chemical products that are not listed in other tariff codes
38248700	products listed in Note 3 of this Chapter's sub-chapter containing perfluorooctane sulfonic acid and its salts, perfluorooctyl sulfonamide or perfluorooctane sulfonyl chloride
38248800	products listed in Note 3 of this Chapter containing four, five, six, seven or octabromodiphenyl ethers
38248500	Contains 1,2,3,4,5,6-HCH (6,6,6) (ISO), including lindane (ISO, INN)
38249100	Mainly from dimethyl (5-ethyl-2-methyl-2-oxo-1,3,2-dioxaphosphorin-5-yl)methylphosphonate and double [(5-ethyl- Mixtures and products of 2-methyl-2-oxo-1,3,2-dioxaphosphorin-5-yl)methyl]methylphosphonate (FRC-1)
38248600	products listed in Note 3 of this Chapter containing PeCB (ISO) or Hexachlorobenzene (ISO)
38248400	Contains aldrin (ISO), toxaphene (ISO), chlordane (ISO), chlordecone (ISO), DDT (ISO) [Diptrix (INN), 1,1,1-trichloro-2,2 - Bis(4-chlorophenyl)ethane], Dieldrin (ISO, INN), Endosulfan (ISO), Endrin (ISO), Heptachlor (ISO), or Mirex (ISO), products listed in Note 3 of this Chapter
38151900	Other carrier catalysts
39079999	Other polyester
38159000	Other unrepresented reaction initiators, accelerators
39011000	Polyethylene with a primary shape specific gravity < 0.94
29261000	Acrylonitrile
34039900	Lubricants (exclude petroleum or oil extracted from bituminous minerals)
38220090	Whether or not attached to a diagnostic or experimental formulation reagent on the backing, except items under tariff code 32.02,32.06
38112900	Lubricating oil additive without oil or oil extracted from bituminous minerals
39073000	Primary shape epoxy
39206200	Polyethylene terephthalate sheet foil flat strip
39199090	Other self-adhesive plastic plates, sheets, films and other materials
39209990	Other plastic non-foam plastic sheets
39269090	Other plastic products
39019090	Other primary shape ethylene polymers
39014090	Other ethylene- α -olefin copolymers, specific gravity less than 0.94
39069090	Other primary shape acrylic polymers
39041090	Other primary shapes of pure polyvinyl chloride
39100000	Primary polysiloxane
39119000	Other primary polysulfides, polysulfones, and other new products not specified in other code in Note 3 to Chapter 39
39219090	Unlisted Plastic Plates, Sheets, Films, Foil and Strips
29031500	1,2-dichloroethane (ISO)

40023990	Halogenated butyl rubber sheet, sheet, tape
29349990	Other heterocyclic compounds
35069190	Adhesives based on other rubber or plastics
39081011	Polyamide-6,6 slices
39072090	Other primary-shaped polyethers
39121100	Primary-shaped, unplasticized cellulose acetate
39089010	Aromatic polyamides and their copolymers
39089020	Semi-aromatic polyamides and their copolymers
39089090	Primary polyamides of other shapes
39201090	Other vinyl polymer plates, sheets, tapes
34021300	Non-ionic organic surfactants
34031900	Lubricants (containing oil or oil extracted from bituminous minerals and <70% by weight)

Sources: Media sources, google translate, MIDFR

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(Bank Pelaburan)

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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.