

30 October 2018 | Corporate Update

## Petronas Chemicals Group Berhad

*Firm demand to support earnings*

**Upgrade to BUY**

**Revised Target Price (TP): RM10.23**  
(previously RM8.90)

### INVESTMENT HIGHLIGHTS

- **China imposes a five-years anti-dumping duty on import of ethanolamines**
- **Earnings impact from anti-dumping duty negligible**
- **Product demand in Asia remains robust despite ample supply**
- **Earnings to remain resilient due to stable feedstock**
- **Upgrade to BUY with a revised TP of RM10.23 per share**

**China imposes anti-dumping duty on import of ethanolamines.** China announced yesterday that it will be imposing an anti-dumping duty for five-years on imports of a specific chemical compound called ethanolamines. The anti-dumping duty which will be effective from today (Tuesday) onwards will be imposed on imports of ethanolamines from US, Saudi Arabia, Malaysia and Thailand. The duty charged will differ from one country to another with the US being slapped with the highest rate. Refer to Table 1 for the specific rates charged to each countries.

**Earnings impact negligible.** We opine that the imposition of the anti-dumping duty has a negligible impact on PChem's earnings as the chemical compound ethanolamines; although very niche, is also a very specific chemical that only a few companies has the expertise of producing. Therefore, we believe that the demand for such product would not wane.

**Product demand remains robust despite ample supply.** Despite the anti-dumping duties, demand for petrochemical products is expected to remain firm in the coming months. In 2HFY18, ethylene and propylene demands are expected to increase as more steam crackers will undergo maintenance. The demand will also receive a boost due to the US-China trade war and India's anticipated higher public spending ahead of its General Election next year which will boost demand for PVC.

**Earnings to remain resilient due to stable feedstock.** Additionally, PChem continues to enjoy the stable LNG feedstock supply at a preferential rate from its parent company Petrolia Nasional Berhad (PETRONAS). This has enabled PChem to benefit in terms of having a more favourable price spread for all its products and to benefit further in the current high crude oil price environment.

RETURN STATS	
Price (29 October 2018)	RM9.31
Target Price	RM10.23
Expected Share Price Return	+9.9%
Expected Dividend Yield	+2.9%
<b>Expected Total Return</b>	<b>+12.8%</b>

STOCK INFO	
KLCI	1,683.73
Bursa / Bloomberg	5183 / PCHEM MK
Board / Sector	Main / Trading Services
Syariah Compliant	Yes
Issued shares (mil)	8,000.0
Market cap. (RM'm)	74,480
Price over NA	2.6x
52-wk price Range	RM7.22 – RM10.0
Beta (against KLCI)	0.75
3-mth Avg Daily Vol	8.71m
3-mth Avg Daily Value	RM81.2m
Major Shareholders (%)	
Petrolia Nasional Berhad	64.35
Employees Provident Fund	7.42
Permodalan Nasional Bhd	3.94

**Table 1: China's anti-dumping duty charges**

Countries	Rates (%)
United States (including Dow Chemicals)	76.0 - 97.1
Saudi Arabia	10.1 – 27.9
Malaysia	18.3 – 20.3
Thailand	37.6

Source: China's Ministry of Commerce, MIDFR

**Impact on earnings.** No changes to earnings estimates as we are expecting 3QFY18 earnings for PChem to come in within our expectations which is at about RM1,089m despite the heavy TA activities that is taking place this year.

**Table 2: Expected turnaround activities forecasted in FY18**

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

Source: MIDFR, Company

**Recommendation.** All factors considered, we are upgrading our recommendation on PChem to **BUY** (from *Neutral previously*) with a revised target price of **RM10.23** per share (from RM8.90 previously). Our target price is derived from a revised PER19 of 18.4x - which is PChem's five-year average PER, pegged to an unchanged EPS19 of 55.6sen. We are taking this opportunity to revise our PER19 attached to PChem as we believe that the fundamentals will support the new price discovery. Our increased PER19 of 18.4x is in line with the valuation of regional petrochemical players such as: PTT Global Chemicals (PTTGC TB, NR) from Thailand and Formosa Petrochemical Corporation (6505 TT, NR) from Taiwan which have also increased in the past three years despite having lower PER when compared against PChem.

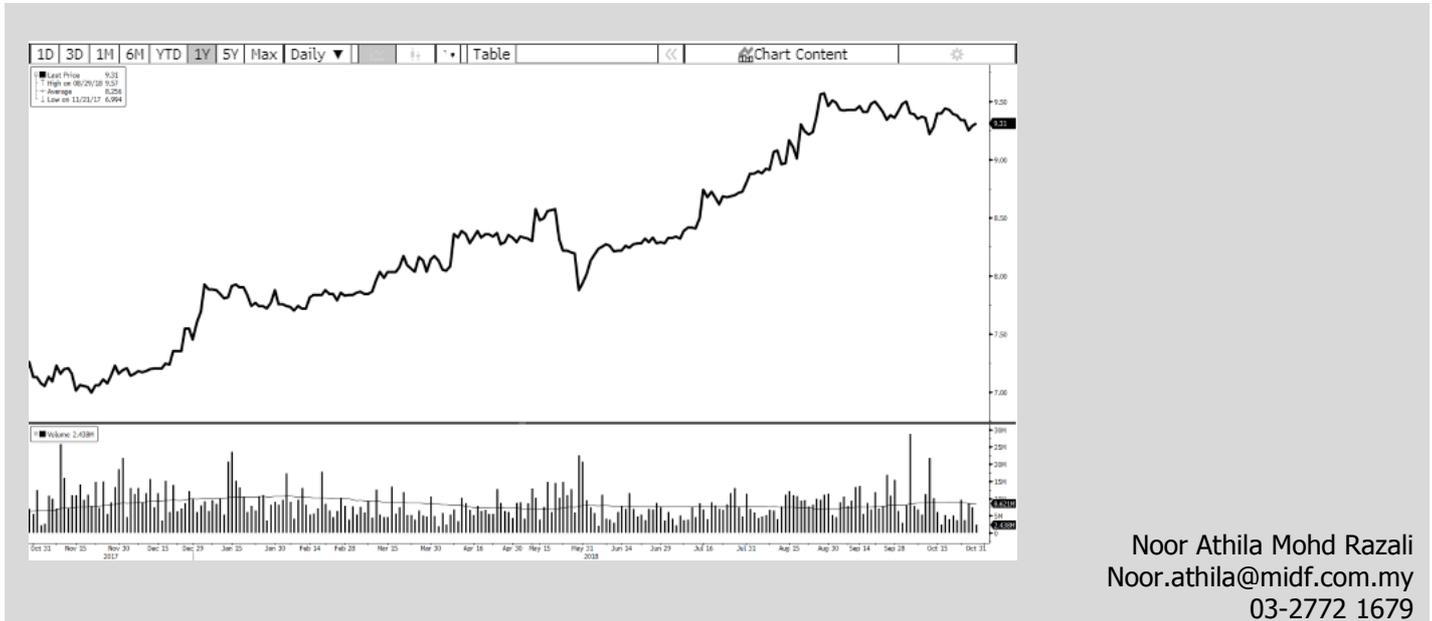
Additionally, our **BUY** recommendation also reflects the premium that PChem has over its peers in terms of a stable LNG feedstock supply and preferential rates received from its parent company Petroliam Nasional Berhad (PETRONAS) - which positions PChem at an advantage to benefit from the market in the current high crude oil price environment. Furthermore, its dividend yield remains stable at 2.9% FY19F.

## 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



Noor Athila Mohd Razali  
Noor.athila@midf.com.my  
03-2772 1679

MIDF RESEARCH is part of MIDF Amanah Investment Bank Berhad (23878 - X).  
 (Bank Pelaburan)  
 (A Participating Organisation of Bursa Malaysia Securities Berhad)

## 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 <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.