

04 November 2015 | 3QFY15 Results Review

## Petronas Chemicals Group Berhad

***Expect largely better product prices***

***Upgrade to NEUTRAL***

***(previously Sell)***

***Revised Target Price (TP): RM5.49***

***(previously RM4.77)***

### INVESTMENT HIGHLIGHTS

- **Petronas Chemicals Group Bhd's (PChem) 3Q15 earnings surged by +65%yoy to RM916m**
- **Commendable quarterly earnings were boosted by the olefins and derivatives segment**
- **Group plant utilisation rate at 88%**
- **Expect largely better product prices in 4Q15**
- **Upgrade to NEUTRAL with revised TP of RM5.49 per share**

**Earnings boost from strong plant utilisation rates.** PChem's 3Q15 earnings rose by +65%yoy to RM916m. The commendable boost in earnings was largely due to improved utilisation rates coupled with favourable foreign exchange rates. Cumulative 9M15 earnings largely kept pace albeit at the higher end of ours and consensus estimates, accounting for 80% and 79% of full year earnings estimates respectively.

**Olefins & derivatives.** Cumulative 9M15 segment revenue and profit declined by -9.9%yoy and -5.4%yoy to RM7,058m and RM1,415m respectively. This was largely caused by lower product average selling prices (ASP) despite a 93% plant utilisation rate. The lower profits were due to lower share of profits from JVs and higher taxes. Despite the challenging environment, we believe that product prices will improve in the latter part of 2015 (*refer table below*).


**Fertilisers & Methanol.** Contrary to the O&D segment, the F&M segment posted commendable results as quarterly revenue and profit rose by +5.8%yoy and +26.4%yoy respectively. The rise in figures was premised on favourable exchange rates despite lower ASPs.

**Plant utilisation rate.** PChem's group plant utilisation rate (PUR) in 3Q15 improved to 88% from 78% in 2Q15. This is above the world-class performance threshold of +85%. Segment-wise, the olefins and derivatives PUR was 99% whereas the fertilisers and methanol division chalked a PUR of 79% in the quarter.

**Impact on earnings.** Taking into account the strong PUR and management's confidence in achieving an average PUR or 90% in 2016, we are increasing our FY15 and FY16 earnings forecasts by +6.5% and +8.9% respectively. In addition, management guided that there will be similar levels of turnaround activities in FY16 as was seen in FY15.

RETURN STATS	
Price (3 November 2015)	RM6.50
Target Price	RM5.49
Expected Share Price Return	-15.5%
Expected Dividend Yield	+3.5%
<b>Expected Total Return</b>	<b>-12.0%</b>

STOCK INFO	
KLCI	1,677.56
Bursa / Bloomberg	5183 / PCHEM MK
Board / Sector	Main / Trading Services
Syariah Compliant	Yes
Issued shares (mil)	8,000.0
Par Value (RM)	1.00
Market cap. (RM'm)	52,000.0
Price over NA	2.0x
52-wk price Range	RM4.65 – RM6.70
Beta (against KLCI)	1.26
3-mth Avg Daily Vol	4.6m
3-mth Avg Daily Value	RM28.4m
Major Shareholders (%)	
Petroleum Nasional Berhad	64.35
Employees Provident Fund	10.80
Permodalan Nasional Bhd	7.17

**Recommendation.** We are upgrading PChem to **NEUTRAL** with a revised target price of **RM5.49** per share as we believe that the outlook and fundamentals of the stock has improved. Our target price is premised on a revised target PER16 of 14x (previously 10x) pegged to EPS16 of 36sen. Our target PER16 is a 1-standard deviation discount to the company's average rolling 4-quarter historical PER of 17x. However, PChem's valuation is still a premium to its global peers' average of 12x PER due to its relatively cheaper feedstock advantage. 

**Table 1: Expected product price movements in 4Q15**

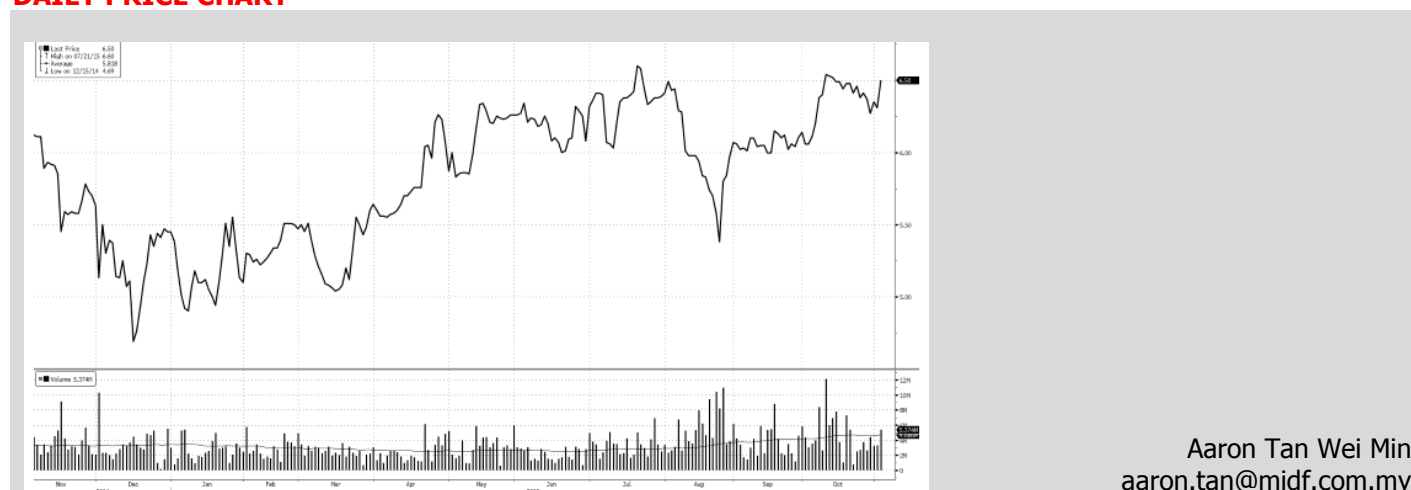
Product	Expected price movement	Remarks
Ethylene	Upward	Strengthening ethylene prices due to limited supply. Several turnaround activities expected in Asia Pacific and Middle East.
Polymer	Upward	Firmer prices on tight supply and increasing feedstock. Seasonal demand up to Lunar New Year
Aromatics	Stable	Stable demand-supply climate but supply to expected to pick up
MEG	Upward	Firmer prices amidst supply constraint – turnaround activities expected
Urea	Downward	Softening prices due to ample supply
Ammonia	Upward	Increasing ammonia prices due to limited supply availability
Methanol	Downward	Declining prices in tandem with weak crude oil prices – formaldehyde demand weaken

## INVESTMENT STATISTICS

FYE Dec	FY12	FY13	FY14	FY15F	FY16F
Revenue (RM'm)	16,599	15,202	14,597	14,206	14,707
EBIT (RM'm)	4,346	4,334	3,431	3,657	4,015
Pretax Profit (RM'm)	4,550	4,547	3,551	3,958	4,295
Net Profit (RM'm)	3,518	3,504	2,465	2,743	2,976
EPS (sen)	44	39	31	34.3	37.2
EPS (%)	-6.4	-11.4	-20.5	10.6	8.5
PER (x)	14.8	16.7	21	19	17.5
Net Dividend (sen)	22	22	22	22	23
Net Dividend (%)	3.4	3.4	3.4	3.4	3.5

Source: MIDFR

## DAILY PRICE CHART



Source: MIDFR, Company

## 3QFY15 RESULTS SUMMARY

FYE Dec (RM m)	Quarterly Results			Cumulative			Comments
	3Q15	QoQ (%)	YoY (%)	9M14	9M15	YoY (%)	
Revenue	3642	16.0	9.0	10696	10087	-5.7	Lower ASP
COGS	-2193	4.0	-10.4	-7505	-6561	-12.6	
Gross Profit	1449	40.4	62.1	3191	3526	10.5	
Selling & Dist Expenses	-168	15.1	12.8	-4443	-463	-89.6	
Admin Expenses	-148	34.5	8.0	-417	-401	-3.8	
Other Expenses	-257	-14.6	3112.5	-65	-464	613.8	
Other Income	324	-7.4	118.9	378	661	74.9	
Operating Profit	1200	45.5	60.4	2644	2859	8.1	
Financing Costs	-6	-14.3	50.0	-12	-11	-	
Associates	31	24.0	-18.4	140	73	-47.9	
PBT	1225	45.3	56.6	2772	2921	5.4	
Tax	-235	37.4	19.3	-617	-621	0.6	
PATAMI	916	51.4	65.0	1964	2078	5.8	Favourable exchange rates
Segments:							
<i>Revenue</i>							
- Olefins & Derivatives	2614	25.1	16.4	7833	7058	-9.9	PUR at 99%
- Fertilisers & Methanol	1016	-2.1	-6.5	2832	2995	5.8	PUR at 79%
- Others	12	0.0	33.3	31	34	9.7	
Total	3642	16.0	9.0	10696	10087	-5.7	
<i>Profit</i>							
- Olefins & Derivatives	646	77.5	86.7	1496	1415	-5.4	
- Fertilisers & Methanol	302	4.1	16.6	644	814	26.4	
- Others	42	133.3	-310.0	15	71	-373.3	
Total	990	47.3	69.2	2155	2300	6.7	

Source: MIDFR

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### MIDF AMANAH INVESTMENT BANK : GUIDE TO RECOMMENDATIONS

#### STOCK RECOMMENDATIONS

BUY	Total return is expected to be >15% over the next 12 months.
TRADING BUY	Stock price is expected to <i>rise</i> by >15% within 3-months after a Trading Buy rating has been assigned due to positive newsflow.
NEUTRAL	Total return is expected to be between -15% and +15% over the next 12 months.
SELL	Total return is expected to be <-15% over the next 12 months.
TRADING SELL	Stock price is expected to <i>fall</i> by >15% 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.