

10 August 2015 | 2QFY15 Results review

## Petronas Chemicals Group Berhad

*Product prices stay depressed*

**Downgrade to SELL**  
(previously NEUTRAL)

**Revised Target Price (TP): RM4.77**  
(previously RM5.04)

### INVESTMENT HIGHLIGHTS

- **Petronas Chemicals Group Bhd's (PChem) 2Q15 reported earnings remained flat at RM557m compared to 2Q14**
- **Drag in revenue and sales attributable to lower product average selling prices (ASP) despite higher volume sold**
- **Pressure on ASPs persists in tandem with drop in crude oil and feedstock prices**
- **Downgrade to SELL with revised TP of RM4.77 per share**

**Earnings hampered by low product prices.** PChem's 2Q15 earnings remained flat at RM557m compared to 2Q14. On a quarterly sequential basis, the company's quarterly profit dropped by -7.9%yoy compared to RM605 achieved in 1Q15. Cumulative 6M15 earnings slumped by -10.9%yoy, accounting for only 41% and 43% of ours and consensus full year estimates. The drop in earnings is in tandem with the drop in 6M15 revenue of -9.8%yoy. The lacklustre numbers were largely due to lower ASPs despite achieving better volume sold, production and plant utilisation rates.

**Plant utilisation rate.** PChem's group plant utilisation rate (PUR) in 2Q15 declined to 78% compared to 90% achieved in 1Q15. The dip in PUR was attributable to a statutory plant turnaround at its Gurun urea facility and planned maintenance at its glycols and derivatives facilities. Excluding these plant maintenance activities 2Q15 PUR would have still come in below what was achieved in the prior quarter at 89%.


**Olefins & derivatives.** Cumulative segment revenue and profit declined by -12.9%yoy and -17.8%yoy to RM4,444m and RM769m respectively. This was largely caused by lower product average selling prices (ASP) despite an increase in volume sold. In addition, profit spread was also hampered due to downward pressure on product demand. Profit margin contracted by -1ppts to 17.3%. Segment plant utilisation rate however improved to 89% from 81% during 6M14 due to lower statutory turnaround and higher ethane supply.

**Fertilisers & Methanol.** 6M15 segment revenue declined by -2.4%yoy to RM1,979m but profitability increased by a modest +2.2%yoy to RM512m. Profit margin subsequently expanded by +1.2ppts to 25.9%. The slight rise in profitability was due to lower tax expenses.

RETURN STATS	
Price (7 August 2015)	RM6.28
Target Price	RM4.77
Expected Share Price Return	-24.0%
Expected Dividend Yield	+2.5%
<b>Expected Total Return</b>	<b>-21.5%</b>

STOCK INFO	
KLCI	1,682.65
Bursa / Bloomberg	5183 / PCHEM MK
Board / Sector	Main / Trading Services
Syariah Compliant	Yes
Issued shares (mil)	8,000.0
Par Value (RM)	0.10
Market cap. (RM'm)	50,240.0
Price over NA	2.2x
52-wk price Range	RM4.69 – RM6.70
Beta (against KLCI)	1.31
3-mth Avg Daily Vol	2.9m
3-mth Avg Daily Value	RM18.5m
Major Shareholders (%)	
Petroleum Nasional Berhad	64.35
Employees Provident Fund	10.76
Permodalan Nasional Bhd	4.44

**Impact on earnings.** We are adjusting our FY15 and FY16 earnings forecasts downwards by -10% and -5.1% respectively. Apart from the revision in profitability margins, we are also revising our ASPs lower to reflect tougher ASPs in the coming months.

**Downgrade to SELL.** We are downgrading PChem to **SELL** from Neutral with a revised target price of **RM4.77** per share from RM5.07 previously. Our target price is premised on PER16 of 14x pegged to EPS of 34.1sen. We turn negative on PChem as the company is not performing in terms of profitability despite the softening crude oil and feedstock prices. ASPs are weakening in tandem with the drop in global crude oil prices as demand remains volatile due to the uncertainties surrounding the broader economy. 

**Table 1: Expected product price movements in 2H15**

Product	Expected price movement	Remarks
Ethylene	Downward	Softer prices on recovery in supply
Polymer	Downward	Softer price on ample supply
Aromatics	Stable	Tighter supply anticipated – supply disruption
MEG	Downward	Declining feedstock prices and lower polyester production rate
Urea	Stable	Stable prices anticipated due to supply shortage from Middle East
Ammonia	Upward	Firmer prices anticipated as demand from applications improved
Methanol	Stable	Stable prices expected as supply and demand reaches equilibrium

Source: MIDFR, Company

## 2Q15 RESULTS SUMMARY

FYE Dec (RM m)	Quarterly Results			Cumulative		
	2Q15	QoQ (%)	YoY (%)	6M14	6M15	YoY (%)
Revenue	3305	5.3	-1.1	7147	6445	-9.8
COGS	-2260	7.2	-7.6	-4999	-4368	-12.6
Gross Profit	1045	1.3	16.9	2148	2077	-3.3
Selling & Dist Expenses	-149	2.1	0.0	-293	-295	0.7
Admin Expenses	-143	30.0	4.4	-278	-253	-9.0
Other Expenses	-88	-70.8	1000.0	-53	-389	634.0
Other Income	179	-48.9	20.9	271	529	95.2
Operating Profit	844	2.3	12.8	1795	1669	-7.0
Financing Costs	-8	14.3	100.0	-8	-15	-
Associates	17	-32.0	-55.3	87	42	-51.7
PBT	853	1.2	9.1	1874	1696	-9.5
Tax	-215	25.7	9.1	-450	-386	-14.2
PATAMI	557	-7.9	0.4	1304	1162	-10.9
<i>Revenue</i>						
- Olefins & Derivatives	2354	12.6	4.9	5101	4444	-12.9
- Fertilisers & Methanol	941	-9.3	-13.4	2027	1979	-2.4
- Others	10	-16.7	11.1	19	22	15.8
<i>Profit</i>						
- Olefins & Derivatives	405	11.3	17.1	935	769	-17.8
- Fertilisers & Methanol	222	-23.4	-14.3	501	512	2.2
- Others	11	-38.9	-155.0	-12	29	341.7

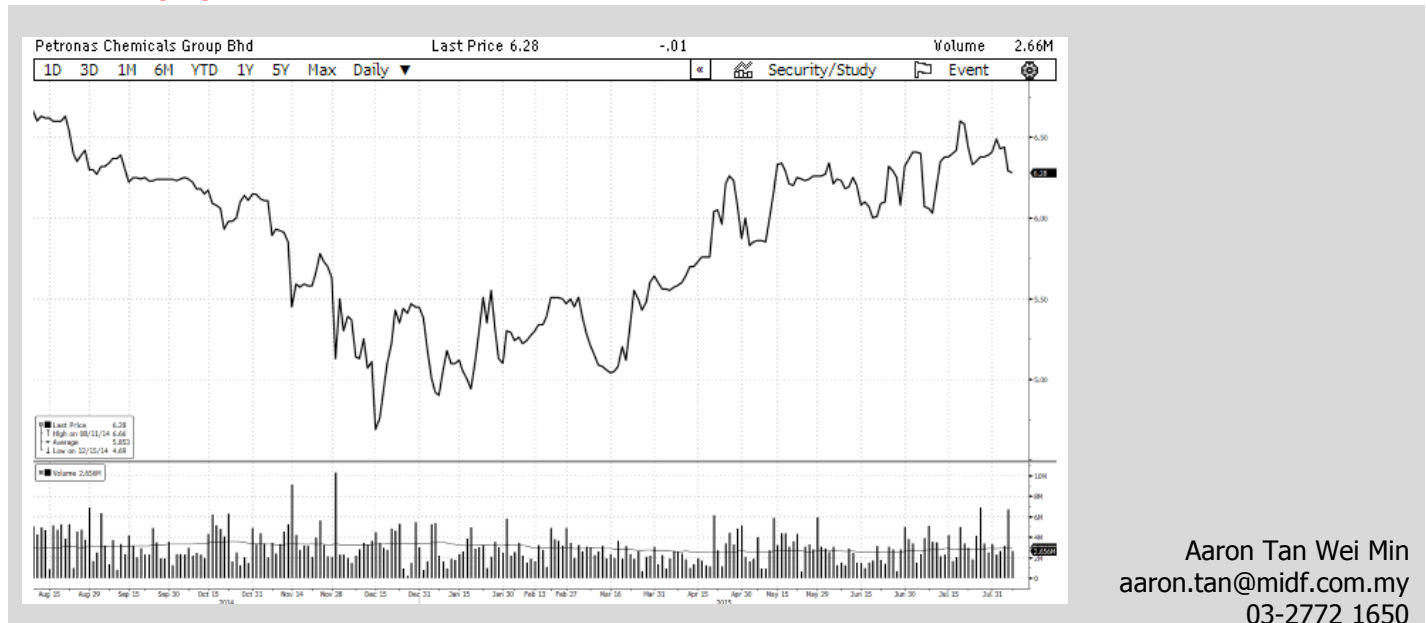
Source: MIDFR, Company

## INVESTMENT STATISTICS

FYE Dec	FY12	FY13	FY14	FY15F	FY16F
Revenue (RM'm)	16,599	15,202	14,597	13,259	13,414
EBIT (RM'm)	4,346	4,334	3,431	3,413	3,662
Pretax Profit (RM'm)	4,550	4,547	3,551	3,714	3,942
Net Profit (RM'm)	3,518	3,504	2,465	2,574	2,732
EPS (sen)	44.0	39.0	31.0	32.2	34.1
EPS (%)	-6.4	-11.4	-20.5	3.8	6.1
PER (x)	14.3	16.1	20.3	19.5	18.4
Net Dividend (sen)	22.0	22.0	16.0	16.0	16.0
Net Dividend (%)	3.5	3.5	2.5	2.5	2.5

Source: MIDFR

## DAILY PRICE CHART



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Source: MIDFR, Company

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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.