



## Petronas Chemicals Group Berhad

(5183 | PCHEM MK) Industrial Products & Services | Chemicals

### Pushing Towards a Circular Plastic Economy

#### KEY INVESTMENT HIGHLIGHTS

- **Upgrade BUY, revised TP: RM7.61 (previously RM6.72)**
- **Final investment decision to construct chemical recycling plant in Pengerang with capacity 33kTpa, operational by CY26**
- **Recycled product to be reused as chemical feedstock**
- **In line with Plastic Sustainability Roadmap 2021-2030**
- **Revised FY24-25 earnings up by 13% and 6%**


**Largest advanced chemical recycling plant.** Petronas Chemicals Group (PCG) has made a final decision to invest in the construction of the largest advanced chemical recycling facility in Asia, located in Pengerang, Johor. This plant will have a capacity of 33 kTpa and is expected to be operational by 2026. This plant is a key component of PCG's initiative in supporting the shift towards a circular economy and foster a sustainable plastics ecosystem.

**Collaboration with Plastic Energy and Mutiara Etnik.** The investment decision involved a technology license agreement between PCG's subsidiary and Plastic Energy Ltd., and its procurement, and construction (EPC) contract was awarded to Mutiara Etnik Sdn Bhd. Plastic Energy will provide the chemical recycling technology for the plant, utilizing its patented TAC process.

**Recycling product to serve as feedstock.** The plant's primary purpose is to facilitate chemical recycling of plastic waste in Malaysia by converting end-of-life plastics into pyrolysis oil (TACOIL), which can then serve as a chemical feedstock for the production of environmentally friendly plastics of food-grade. This will also support the reduced dependency of feedstock imports for the process of certain petrochemical products in the future.

**In line with MPSR aspirations.** The plant's construction aligns with Malaysia's Plastic Sustainability Roadmap 2021-2030 and the country's ambition to reduce single-use plastic. Additionally, it addresses the increasing demand from major brands for sustainable packaging. We also believe this is the right step in reducing plastic pollution in Asia by increasing plastic waste recycling and expanding recycling infrastructure in the region.

**Changes to earnings estimates.** In consideration of this update and the possible prospect of a better climate for the petrochemical market in CY24 in regards of the elevated Brent crude prices, we upgrade our earnings estimates for FY25 and FY26 up by 13% and 6% respectively.

**Upgrade to BUY.** Given the earnings upgrade, we also revise our **target price to RM7.61** from RM 6.72, and upgrade our call from NEUTRAL to **BUY**. Our target price is based on pegging a PER of 18x to a revised EPS24 of 42.4sen. 

## Upgrade to BUY

(Previously NEUTRAL)

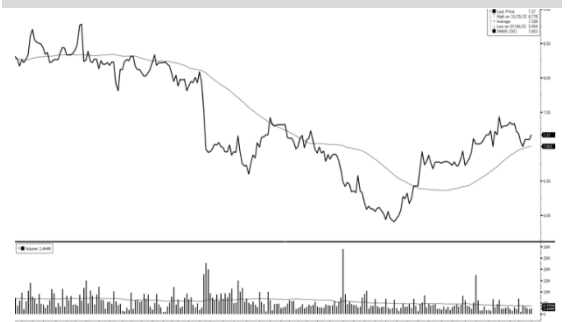
**Revised Target Price: RM7.61**

(Previously RM6.72)

#### RETURN STATISTICS

Price @ 9 <sup>th</sup> October 2023 (RM)	7.17
Expected share price return (%)	+6.1
Expected dividend yield (%)	+5.4
<b>Expected total return (%)</b>	<b>+11.5</b>

#### SHARE PRICE CHART



Price performance (%)	Absolute	Relative
1 month	0.0	2.7
3 months	-0.3	15.5
12 months	-16.3	-17.0

#### INVESTMENT STATISTICS

FYE Mar	2023E	2024F	2025F
Revenue	25,461	26,619	27,727
Operating Profit	3,075	3,555	3,671
Profit Before Tax	3,074	3,570	3,713
Core PATAMI	2,872	3,388	3,550
Core EPS	35.9	42.4	44.4
DPS	40.0	41.0	42.0
Dividend Yield	5.3%	5.4%	5.5%

#### KEY STATISTICS

FBM KLCI	1,417.26
Issue shares (m)	8,000.0
Estimated free float (%)	16.4
Market Capitalisation (RM'm)	54,360.0
52-wk price range	RM5.84-RM9.18
3-mth average daily volume (m)	3.70
3-mth average daily value (RM'm)	25.58
Top Shareholders (%)	
Petroleum Nasional Bhd	64.35
Employees Provident Fund	11.64
Amanah Saham Nasional Bhd	3.64

## FINANCIAL SUMMARY

Income Statement (RM'm)	2021A	2022A	2023E	2024F	2025F
Revenue	23,025	28,953	25,461	26,619	27,727
EBITDA	7,010	6,643	3,075	3,555	3,671
D&A	1,650	1,589	1,637	1,641	1,647
Profit before tax	7,710	6,742	2,872	3,388	3,550
Tax	-391	-406	-184	-164	-145
Core PATAMI	7,319	6,323	2,872	3,388	3,550
Balance Sheet (RM'm)	2021A	2022A	2023E	2024F	2025F
Fixed assets	22,041	27,213	21,961	22,537	22,948
Intangible assets	684	9,364	2,275	2,730	3,159
Others	2,303	2,835	10,000	9,469	9,129
<b>Non-current assets</b>	<b>25,028</b>	<b>39,412</b>	<b>34,236</b>	<b>34,736</b>	<b>35,236</b>
Cash	16,390	8,888	9,075	8,167	7,926
Trade debtors	2,737	3,619	2,591	2,576	2,692
Others	2,299	3,511	5,575	7,327	8,246
<b>Current assets</b>	<b>21,426</b>	<b>16,018</b>	<b>17,241</b>	<b>18,070</b>	<b>18,864</b>
Trade creditors	4,378	5,914	3,829	4,265	4,156
Short-term debt	232	229	546	491	339
<b>Current liabilities</b>	<b>4,953</b>	<b>6,502</b>	<b>4,375</b>	<b>4,756</b>	<b>4,495</b>
Long-term debt	2,156	2,489	1,703	2,043	2,077
Others	3,959	6,706	7,771	7,531	7,417
<b>Non-current liabilities</b>	<b>6,115</b>	<b>9,195</b>	<b>9,474</b>	<b>9,574</b>	<b>9,494</b>
Share capital	8,871	8,871	8,871	8,871	8,871
Retained earnings	25,980	30,207	24,086	24,582	25,286
Others	535	655	4,670	5,023	5,953
<b>Equity</b>	<b>35,386</b>	<b>39,733</b>	<b>37,627</b>	<b>38,476</b>	<b>40,110</b>
Cash Flow (RM'm)	2021A	2022A	2023E	2024F	2025F
PBT	7,710	6,742	2,872	3,388	3,550
Depreciation & amortisation	1,650	1,589	1,637	1,641	1,647
Changes in working capital	-188	910	192	275	328
<b>Operating cash flow</b>	<b>8,186</b>	<b>8,049</b>	<b>6,292</b>	<b>6,217</b>	<b>6,252</b>
Capital expenditure	-1,539	-1,881	-2,041	-1,858	-1,759
<b>Investing cash flow</b>	<b>-1,557</b>	<b>-12,951</b>	<b>-4,172</b>	<b>-4,630</b>	<b>-4,751</b>
Debt raised/(repaid)	321	352	1,350	843	633
Dividends paid	-3,206	-3,844	-2,544	-2,589	-2,630
<b>Financing cash flow</b>	<b>-3,184</b>	<b>-3,806</b>	<b>-1,933</b>	<b>-2,495</b>	<b>-2,442</b>
<b>Net cash flow</b>	<b>3,456</b>	<b>-8,238</b>	<b>187</b>	<b>-908</b>	<b>-1,241</b>
<b>Beginning cash flow</b>	<b>12,707</b>	<b>16,390</b>	<b>8,888</b>	<b>9,075</b>	<b>8,167</b>
<b>Ending cash flow</b>	<b>16,390</b>	<b>8,888</b>	<b>9,075</b>	<b>8,167</b>	<b>7,926</b>
--Profitability Margins	2021A	2022A	2023E	2024F	2025F
EBITDA margin	30.4%	22.9%	12.1%	13.4%	13.2%
PBT margin	33.5%	23.3%	12.1%	13.4%	13.4%
Core PAT margin	31.8%	21.8%	11.3%	12.7%	12.8%

Source: Bloomberg, MIDFR

MIDF RESEARCH is part of MIDF Amanah Investment Bank Berhad (197501002077 (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 (197501002077 (23878 – X)) for distribution to and use by its clients to the extent permitted by applicable law or regulation.

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 MIDF Investment believes are reliable at the time of publication. All information, opinions and estimates contained in this report are subject to change at any time without notice. Any update to this report will be solely at the discretion of MIDF Investment.

MIDF Investment 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. MIDF Investment and its affiliates and related BNM and each of their respective directors, officers, employees, connected parties, associates and agents (collectively, "Representatives") shall not be liable for any direct, indirect or consequential loss, loss of profits and/or damages arising from the use or reliance by anyone upon this report and/or further communications given in relation to this report.

This report is not, and should not at any time be construed as, an offer, invitation or solicitation to buy or sell any securities, investments or financial instruments. The price or value of such securities, investments or financial instruments may rise or fall. Further, the analyses contained herein are based on numerous assumptions. This report does not take into account the specific investment objectives, the financial situation, risk profile and the particular needs of any person who may receive or read this report. You should therefore independently evaluate the information contained in this report and seek financial, legal and other advice regarding the appropriateness of any transaction in securities, investments or financial instruments mentioned or the strategies discussed or recommended in this report.

The Representatives may have interest in any of the securities, investments or financial instruments and may provide services or products to any company and affiliates of such BNM mentioned herein and may benefit from the information herein.

This document may not be reproduced, copied, distributed or republished in whole or in part in any form or for any purpose without MIDF Investment's prior written consent. This report is not directed or intended for distribution to or use by any person or entity where such distribution or use would be contrary to any applicable law or regulation in any jurisdiction concerning the person or entity.

### 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.

#### ESG RECOMMENDATIONS\* - source Bursa Malaysia and FTSE Russell

☆☆☆☆	Top 25% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆☆☆	Top 26-50% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆☆	Top 51%- 75% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆	Bottom 25% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell

\* ESG Ratings of PLCs in FBM EMAS that have been assessed by FTSE Russell in accordance with FTSE Russell ESG Ratings Methodology