



Petronas Chemicals Group Berhad

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

Challenges Remain for Petrochemicals until End-Year

Downgrade to NEUTRAL*(Previously BUY)***Revised Target Price: RM7.16***(Previously RM7.61)*

KEY INVESTMENT HIGHLIGHTS

- **Downgrade to NEUTRAL, revised TP: RM7.16**
- **3Q23 earnings contracted more-than-expected by -78%yoy due to lower product spread, and higher energy cost**
- **3Q23 revenue down -4%yoy from lower product prices and lower sales volume**
- **Slower demand recovery and inflationary pressures remain a challenge**

Maintain NEUTRAL, revised TP: RM7.16. Petronas Chemicals Group (PCG)'s 9MFY23 earnings came in below our expectation at 59% of full year FY23 earnings estimates. Given the continuously challenging outlook for the petrochemicals industry, we downgrade our call to NEUTRAL on PCG with a lower target price of RM7.16 (previously RM7.61).

Earnings down -78%yoy. PCG's 3QFY23 earnings down by -77.6%yoy to RM424m. The lower earnings were due to lower products spreads, as well as higher energy cost.

Revenue down -4%yoy. 3QFY23 revenue slipped -3.5%yoy to RM6.78b, lower product prices and sales volumes, partially offset by revenue contribution from Perstorp. Overall plant utilisation rate in 3QFY23 was lower at 77% (3QFY22: 97%) due to higher statutory turnaround and plant maintenance activities resulting in lower production and sales volumes.

Olefins & Derivatives (O&D). O&D's 3QFY23 earnings down -52.1%yoy to RM404m. 3QFY23 revenue was up +2.3%yoy to RM3.5b. Lower earnings were due to: (i) higher plant maintenance activities and cost, (ii) lower production volume and product spreads, and (iii) higher energy and utilities costs. Meanwhile, revenue was higher due to higher revenue contribution from a joint operation entity and weakening of MYR against USD. Plant utilisation rate was higher at 79% (3QFY22: 97%) due to higher plant maintenance and subsequent lower production volume.

Fertilisers & Methanol (F&M). F&M's 3QFY23 earnings dropped -39.5%yoy to RM601m. 3QFY23 revenue however gained -43.2%yoy to RM1.81b. The decrease in earnings and revenue was attributed to lower product prices and lower product spreads. partially offset by weakening of MYR against USD. Plant utilisation rate was lower at 76% (3QFY22: 94%) due to higher statutory turnaround and plant maintenance activities resulting in lower production and sales volumes.

Specialties. Specialties gained profit to RM48m in 3QFY23 from a loss of RM164m in 2QFY23. 3QFY23 revenue was lower by -7.8%qoq to RM1.47b. The higher earnings were largely contributed by the inclusion of Perstorp.

RETURN STATISTICS

Price @ 28 th November 2023 (RM)	7.08
Expected share price return (%)	+1.1
Expected dividend yield (%)	+5.7
Expected total return (%)	+6.8

SHARE PRICE CHART



Price performance (%)	Absolute	Relative
1 month	-3.0	-3.4
3 months	-1.5	0.9
12 months	-22.0	-20.0

INVESTMENT STATISTICS

FYE Mar	2023E	2024F	2025F
Revenue	25,877	27,333	28,509
Operating Profit	2,491	3,488	3,803
Profit Before Tax	2,490	3,503	3,845
Core PATAMI	2,170	3,183	3,525
Core EPS	27.1	39.8	44.1
DPS	40.0	41.0	42.0
Dividend Yield	5.6%	5.7%	5.9%

KEY STATISTICS

FBM KLCI	1,448.02
Issue shares (m)	8,000.0
Estimated free float (%)	16.39
Market Capitalisation (RM'm)	56,640.0
52-wk price range	RM5.84-RM9.05
3-mth average daily volume (m)	3.04
3-mth average daily value (RM'm)	21.96
Top Shareholders (%)	
Petroliam Nasional Bhd	64.35
Employees Provident Fund	11.66
Amanah Saham Nasional Bhd	3.62

Headwinds continue to blow on downstream demand. PCG’s production facilities relies on: (i) plant maintenance activities, (ii) availability of sufficient feedstock, and (iii) supply of power and utilities. Despite the lower utilization rate in its O&D and F&M divisions in 3QFY23, we opine that PCG will continue to monitor and sustain its plant utilization level above the industry threshold, while continue to uphold operational excellence and good management on supplier relationship. We are also expecting the softening in product prices for O&D towards the end-year due to lower downstream demand. However, for F&M, prices expected to stabilize amid a short supply in the region. As for specialties, weaker sales and earnings are anticipated due to sluggish industrial growth impacting demand.

Key challenges. PCG’s performance is tied to: (i) the global economic climate in terms of rate hikes and inflationary pressures, (ii) petrochemical product prices in correlation with Brent crude oil prices, (iii) utilization rate of production facilities, and (iv) fluctuations in foreign exchange rates. All in all, we are expecting a slower growth for petrochemicals coming into CY24. On the upside, we should be expecting a better performance for PCG in 2HCY24, following an expected improvement in local and regional consumer spending and the increased demand for specialty chemicals.

Revised earnings estimates. In consideration that 9MFY23 earnings coming below our expectations, we again revised our FY23 and FY24 earnings estimates downwards by -24% and -6% respectively. We expect the headwinds on petrochemical sector to remain until the end-year, pending a favourable Brent price movement and demand recovery for petrochemicals locally and regionally.

Revised target price. Accordingly, we **revised our target price to RM7.16** (previously RM7.61). The petrochemicals market's uncertainty in local and regional demand may remain affected by inflationary pressures and competition from other petrochemical producers. A downward price pressure is also expected for certain petrochemical products, impacting profits and lowering plant usage. Nonetheless, we maintain a conservative stance on our perspective for PCG, on the back of a higher Brent crude price and supply-demand balance, as well as PCG’s commitment to operational and commercial excellence, in the near term. We are anticipating a better performance for PCG, following a better forecasted economy in the coming quarters. Our new target price is based on pegging a PER of 18x to a revised EPS24 of 39.8sen.

FORWARD BAND



Source: Bloomberg, MIDFR

Table 1: Petronas Chemicals's quarterly earnings review

Financial year ending 31st Dec (in RM'm unless stated otherwise)	Quarterly results					Cumulative results		
	3QFY22	2QFY23	3QFY23	QoQ (%)	YoY (%)	9MFY22	9MFY23	YoY (%)
Revenue	7,032.0	7,113.0	6,784.0	-4.6	-3.5	20,249.0	21,454.0	6.0
Cost of revenue	(4,942.0)	(5,923.0)	(5,556.0)	-6.2	12.4	(13,570.0)	(17,646.0)	30.0
Gross Profit	2,090.0	1,190.0	1,228.0	3.2	-41.2	6,679.0	3,808.0	-43.0
Selling & Dist Expenses	(340.0)	(468.0)	(470.0)	0.4	38.2	(897.0)	(1,434.0)	59.9
Admin Expenses	(219.0)	(279.0)	(394.0)	41.2	79.9	(664.0)	(1,010.0)	52.1
Other Expenses	-	-	(2.0)	-	-	(1.0)	(74.0)	7300.0
Other Income	509.0	259.0	244.0	-5.8	-52.1	906.0	610.0	-32.7
Operating Profit	2,040.0	702.0	606.0	-13.7	-70.3	6,023.0	1,900.0	-68.5
Net Financing Costs	(19.0)	(22.0)	(33.0)	50.0	73.7	(34.0)	(95.0)	-
Associates	(1.0)	14.0	13.0	-7.1	-1400.0	192.0	65.0	-66.1
Profit Before Tax	2,020.0	694.0	586.0	-15.6	-71.0	6,181.0	1,870.0	-69.7
Tax expense	(122.0)	(61.0)	(147.0)	141.0	20.5	(329.0)	(262.0)	-20.4
Profit After Tax	1,898.0	633.0	439.0	-30.6	-76.9	5,852.0	1,608.0	-72.5
Minority Interests	(3.0)	(5.0)	(15.0)	200.0	400.0	(10.0)	(24.0)	140.0
PATAMI	1,895.0	628.0	424.0	-32.5	-77.6	5,842.0	1,584.0	-72.9
				<i>+ / (-) ppts</i>				<i>+ / (-) ppts</i>
Gross margin (%)	29.7	16.7	18.1	1.4	-11.6	33.0	17.7	-15.2
Operating profit margin (%)	29.0	9.9	8.9	-0.9	-20.1	29.7	8.9	-20.9
PBT margin (%)	28.7	9.8	8.6	-1.1	-20.1	30.5	8.7	-21.8
PATAMI margin (%)	26.9	8.8	6.3	-2.6	-20.7	28.9	7.4	-21.5
Tax rate (%)	6.0	8.8	25.1	16.3	19.0	5.3	14.0	8.7
Segmental:								
<i>Revenue</i>								
- Olefins & Derivatives	3,419.0	3,633.0	3,496.0	-3.8	2.3	9,438.0	10,522.0	11.5
- Fertilisers & Methanol	3,187.0	1,874.0	1,809.0	-3.5	-43.2	9,317.0	6,090.0	-34.6
- Specialties	-	1,591.0	1,467.0	-7.8	-	-	4,803.0	#DIV/0!
<i>Profit After Tax</i>								
- Olefins & Derivatives	844.0	422.0	404.0	-4.3	-52.1	2,531.0	996.0	-60.6
- Fertilisers & Methanol	994.0	241.0	601.0	149.4	-39.5	2,958.0	1,375.0	-53.5
- Specialties	-	(164.0)	48.0	-129.3	-	-	(145.0)	-

Source: Company, MIDFR

FINANCIAL SUMMARY

Income Statement (RM'm)	2021A	2022A	2023E	2024F	2025F
Revenue	23,025	28,953	25,877	27,333	28,509
EBITDA	7,010	6,643	2,491	3,488	3,803
D&A	1,650	1,589	1,637	1,641	1,647
Profit before tax	7,710	6,742	2,490	3,503	3,845
Tax	-391	-406	-300	-300	-300
Core PATAMI	7,319	6,323	2,170	3,183	3,525

Balance Sheet (RM'm)	2021A	2022A	2023E	2024F	2025F
Fixed assets	22,041	27,213	28,961	30,437	31,928
Intangible assets	684	9,364	11,275	11,030	11,619
Others	2,303	2,835	2,508	2,640	2,000
Non-current assets	25,028	39,412	42,744	44,107	45,547
Cash	16,390	8,888	12,472	12,500	12,591
Trade debtors	2,737	3,619	3,591	3,726	4,022
Current assets	21,426	16,018	16,063	16,226	16,614
Trade creditors	4,378	5,914	7,829	8,315	8,866
Short-term debt	232	229	546	491	339
Current liabilities	4,953	6,502	8,375	8,806	9,205
Long-term debt	2,156	2,489	2,503	2,953	3,119
Non-current liabilities	6,115	9,195	9,474	9,574	9,698
Share capital	8,871	8,871	8,871	8,871	8,871
Retained earnings	25,980	30,207	29,086	30,082	31,386
Equity	35,386	39,733	40,957	41,953	43,257

Cash Flow (RM'm)	2021A	2022A	2023E	2024F	2025F
PBT	7,710	6,742	2,490	3,503	3,845
Depreciation & amortisation	1,650	1,589	1,637	1,641	1,647
Changes in working capital	-188	910	192	275	328
Operating cash flow	8,186	8,049	6,368	6,280	6,435
Capital expenditure	-1,539	-1,881	-2,041	-1,858	-1,759
Investing cash flow	-1,557	-12,951	-2,041	-1,858	-1,759
Debt raised/(repaid)	321	352	1,350	843	633
Dividends paid	-3,206	-3,844	-2,544	-2,589	-2,630
Financing cash flow	-3,184	-3,806	-1,894	-1,886	-2,165
Net cash flow	3,456	-8,238	2,433	2,537	2,511
Beginning cash flow	12,707	16,390	8,888	9,075	8,167
Ending cash flow	16,390	8,888	12,472	12,500	12,591

--Profitability Margins	2021A	2022A	2023E	2024F	2025F
EBITDA margin	30.4%	22.9%	9.6%	12.8%	13.3%
PBT margin	33.5%	23.3%	9.6%	12.8%	13.5%
Core PAT margin	31.8%	21.8%	8.4%	11.6%	12.4%

Source: Bloomberg, MIDFR

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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.

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