



Petronas Chemicals Group Berhad

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

Maintain NEUTRAL

Maintenance on Plants Affected Production in FY23

Revised Target Price: RM7.18
(Previously RM7.16)

KEY INVESTMENT HIGHLIGHTS

- **Maintain NEUTRAL with a revised target price of RM7.18**
- **4Q23 earnings down -77%yoy, impacted by lower product spread, lower sales volume; came in below expectations**
- **FY23 financial performance came in below expectation due to lower plant utilisation rate in view of higher maintenance works**
- **Headwinds remain for petrochemicals in CY24**

Maintain NEUTRAL, revised TP: RM7.18. Petronas Chemicals Group (PCG)'s FY23 earnings came in below our expectation at 78% of ours and consensus' full year estimates. Given the continuously challenging outlook for the petrochemicals industry, we maintain our **NEUTRAL** call on PCG with a slight revision in higher target price to **RM7.18** (previously RM7.16) as we factored in the FY23 results.

Earnings down -77%yoy. PCG's 4QFY23 earnings down by -76.7%yoy to RM112m. The lower earnings were mainly caused by lower products spreads and lower sales volume.

Revenue down -17%yoy. 4QFY23 revenue slipped -17.1%yoy to RM7.2b, due to lower product prices and sales volumes. This was partially offset by revenue contribution from Perstorp. Overall plant utilisation rate in FY23 was lower at 85% (FY22: 89%) due to higher plant maintenance activities during the year which resulted in lower production volume.

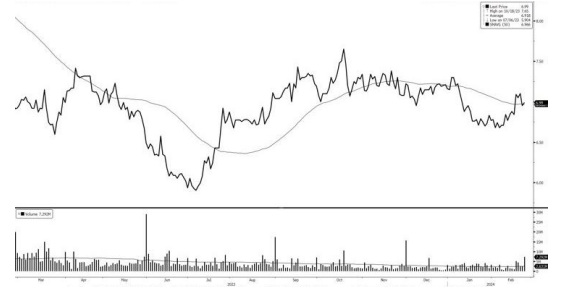
Olefins & Derivatives (O&D). O&D's 4QFY23 earnings slipped into a deficit of -RM289 from RM47m in 4QFY22. 4QFY23 revenue was down -8.1%yoy to RM3.2b due to: (i) higher statutory turnaround and plant maintenance activities, (ii) lower production volume and product spreads, and (iii) higher energy and utilities costs. Meanwhile, revenue was impacted by lower product price and sales volume, offset by higher sales volume by a joint operation entity. Plant utilisation rate was lower at 85% (FY22: 91%) due to higher plant maintenance and subsequent lower production volume.

Fertilisers & Methanol (F&M). F&M's 4QFY23 earnings dropped -74.3%yoy to RM286m. 4QFY23 revenue dropped -31.8%yoy to RM2.4b. The decrease in earnings was due to lower product spreads, while lower revenue was attributed to lower product prices and sales volume. Plant utilisation rate in FY23 was lower at 84% (FY22: 88%) due to higher plant maintenance activities resulting in lower production volume.

RETURN STATISTICS

Price @ 26 th February 2024 (RM)	6.99
Expected share price return (%)	+2.7
Expected dividend yield (%)	+2.1
Expected total return (%)	+4.8

SHARE PRICE CHART



Price performance (%)	Absolute	Relative
1 month	4.3	1.5
3 months	-2.4	-7.7
12 months	-2.2	-8.1

INVESTMENT STATISTICS

FYE Dec	2024E	2025F	2026F
Revenue	26,147	27,066	27,085
Operating Profit	2,307	2,566	3,544
Profit Before Tax	2,370	2,661	3,726
Core PATAMI	2,120	2,391	3,426
Core EPS	26.5	29.9	42.8
DPS	15.0	18.0	22.0
Dividend Yield	2.1	2.5	3.1

KEY STATISTICS

FBM KLCI	1,547.60
Issue shares (m)	8,000.0
Estimated free float (%)	16.24
Market Capitalisation (RM'm)	55,920.0
52-wk price range	RM5.84-RM7.65
3-mth average daily volume (m)	2.64
3-mth average daily value (RM'm)	18.43
Top Shareholders (%)	
Petroleum Nasional Bhd	64.35
Employees Provident Fund	11.81
Amanah Saham Nasional Bhd	3.62

Specialties. Specialties’ earnings slipped into a deficit of -RM53m in 4QFY23 from RM113m in 4QFY22. Revenue in 4QFY23 was lower by -49.4%yoy to RM1.6b. The slip in earnings and revenue contributed by compressed margin largely attributable to price competition.

Challenging environment for petrochemicals in CY24. The group’s operational outcomes are primarily affected not only by global economic conditions, but also: (i) petrochemical product prices which are closely linked to crude oil prices, (ii) utilization rate of production facilities and, (iii) movements in foreign exchange rates. PCG’s production activities relies on regular maintenance and repair operations, as well as sufficient feedstock and utility supply. O&D is expected to see stabilization in its product prices in the near term, while F&M may see a decrease in pricing due to off-planting season and abundant methanol supply. Specialties is expected to recover on demand improvement, although the end market for specialty chemicals remain volatile.

Key challenges. All in all, we are expecting a slower growth for petrochemicals coming into CY24. This is in consideration of the risks to the sector, which includes: (i) volatile crude oil and feedstock prices, (ii) global economic uncertainty that could affect demand, (iii) changes in governmental regulations and subsidies, and (iv) shift to greener products and processes. On a positive note, we are expecting a better performance for PCG in 2HCY24, following an expected improvement in local and regional consumer spending for petrochemical products and the increased demand for specialty chemicals.

Revised earnings estimates. In consideration that FY23 earnings came in below our expectations, we revised our FY24 and FY25 earnings estimates downwards by -33% and -32% respectively. We make the adjustments by incorporating FY23 results. Additionally, we expect the challenges on petrochemical sector to remain in CY24, pending a favourable Brent price movement and demand recovery for petrochemicals locally and regionally.

Revised target price. Accordingly, we **revised our target price to RM7.18** (previously RM7.16). Our new target price is based on pegging a PER of 21.7x to a revised EPS24 of 26.5sen. We based our PER from industrial average to PCG’s 3-year PER, given that we are expecting similar headwinds for the petrochemicals market in the near future. The risk of inflationary pressures, volatile prices and tight competition with other chemical producers could impact PCG’s sales and plant utilization. That said, we continue our conservative stance for PCG in the near term. We are anticipating a better performance for PCG, following a better forecasted economy in the coming quarters and a more stabilized oil price in CY24.

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		
	4QFY22	3QFY23	4QFY23	QoQ (%)	YoY (%)	FY22	FY23	YoY (%)
Revenue	8,704.0	6,784.0	7,213.0	6.3	-17.1	28,953.0	28,667.0	-1.0
Cost of revenue	(6,707.0)	(5,556.0)	(6,236.0)	12.2	-7.0	(20,277.0)	(23,882.0)	17.8
Gross Profit	1,997.0	1,228.0	977.0	-20.4	-51.1	8,676.0	4,785.0	-44.8
Selling & Dist Expenses	(539.0)	(470.0)	(472.0)	0.4	-12.4	(1,436.0)	(1,906.0)	32.7
Admin Expenses	(493.0)	(394.0)	(384.0)	-2.5	-22.1	(1,157.0)	(1,394.0)	20.5
Other Expenses	(428.0)	(2.0)	(152.0)	7500.0	-64.5	(429.0)	(226.0)	-47.3
Other Income	83.0	244.0	287.0	17.6	245.8	989.0	897.0	-9.3
Operating Profit	620.0	606.0	256.0	-57.8	-58.7	6,643.0	2,156.0	-67.5
Net Financing Costs	(32.0)	(33.0)	(44.0)	33.3	37.5	(66.0)	(139.0)	-
Associates	(27.0)	13.0	28.0	115.4	-203.7	165.0	93.0	-43.6
Profit Before Tax	561.0	586.0	240.0	-59.0	-57.2	6,742.0	2,110.0	-68.7
Tax expense	(77.0)	(147.0)	(98.0)	-33.3	27.3	(406.0)	(360.0)	-11.3
Profit After Tax	484.0	439.0	142.0	-67.7	-70.7	6,336.0	1,750.0	-72.4
Minority Interests	(3.0)	(15.0)	(30.0)	100.0	900.0	(13.0)	(54.0)	315.4
PATAMI	481.0	424.0	112.0	-73.6	-76.7	6,323.0	1,696.0	-73.2
				<i>+ / (-) pts</i>				<i>+ / (-) pts</i>
Gross margin (%)	22.9	18.1	13.5	-4.6	-9.4	30.0	16.7	-13.3
Operating profit margin (%)	7.1	8.9	3.5	-5.4	-3.6	22.9	7.5	-15.4
PBT margin (%)	6.4	8.6	3.3	-5.3	-3.1	23.3	7.4	-15.9
PATAMI margin (%)	5.5	6.3	1.6	-4.7	-4.0	21.8	5.9	-15.9
Tax rate (%)	13.7	25.1	40.8	15.7	27.1	6.0	17.1	11.0
Segmental:								
<i>Revenue</i>								
- Olefins & Derivatives	3,494.0	3,496.0	3,210.0	-8.2	-8.1	12,932.0	13,732.0	6.2
- Fertilisers & Methanol	3,533.0	1,809.0	2,411.0	33.3	-31.8	12,850.0	8,501.0	-33.8
- Specialties	3,125.0	1,467.0	1,582.0	7.8	-49.4	3,125.0	6,385.0	104.3
<i>Profit After Tax</i>								
- Olefins & Derivatives	47.0	404.0	(289.0)	-171.5	-714.9	2,577.0	707.0	-72.6
- Fertilisers & Methanol	1,112.0	601.0	286.0	-52.4	-74.3	4,070.0	1,661.0	-59.2
- Specialties	113.0	48.0	(53.0)	-210.4	-146.9	113.0	(198.0)	-275.2

Source: Company, MIDFR

FINANCIAL SUMMARY

Income Statement (RM'm)	2022A	2023A	2024E	2025F	2026F
Revenue	28,953	28,667	26,147	27,066	27,085
EBITDA	6,643	2,156	2,307	2,566	3,544
D&A	1,589	1,978	1,709	1,697	1,648
Profit before tax	6,742	2,110	2,370	2,661	3,726
Tax	-406	-360	-230	-250	-280
Core PATAMI	6,323	1,696	2,120	2,391	3,426
Balance Sheet (RM'm)	2022A	2023A	2024E	2025F	2026F
Fixed assets	27,213	29,437	30,532	32,042	34,253
Intangible assets	9,364	10,253	10,326	8,897	7,996
Others	2,835	3,578	1,727	1,861	2,089
Non-current assets	39,412	43,268	42,585	42,800	44,337
Cash	8,888	9,268	10,101	10,775	11,806
Trade debtors	3,619	8,042	8,399	8,925	10,132
Current assets	16,018	16,938	17,312	18,798	20,584
Trade creditors	5,914	8,042	8,399	8,925	10,132
Short-term debt	229	500	491	330	356
Current liabilities	6,502	8,949	8,890	9,255	10,488
Long-term debt	2,489	2,473	2,947	3,112	3,335
Non-current liabilities	9,195	9,183	9,074	9,598	9,579
Share capital	8,871	8,871	8,871	8,871	8,871
Retained earnings	30,207	31,544	31,312	32,124	34,233
Equity	39,733	40,415	40,183	40,995	43,104
Cash Flow (RM'm)	2022A	2023A	2024E	2025F	2026F
PBT	6,733	2,110	2,370	2,661	3,726
Depreciation & amortisation	1,589	1,978	1,709	1,697	1,648
Changes in working capital	910	1,335	503	402	592
Operating cash flow	8,049	5,119	6,038	6,144	6,774
Capital expenditure	-1,881	-2,352	-1,920	-1,834	-1,905
Investing cash flow	-12,951	-2,593	-1,920	-1,834	-1,905
Debt raised/(repaid)	352	0	573	309	311
Dividends paid	-3,844	-1,920	-1,929	-1,973	-2,074
Financing cash flow	-3,806	-2,175	-3,285	-3,636	-3,838
Net cash flow	-8,708	351	833	674	1,031
Beginning cash flow	16,390	8,888	9,268	10,101	10,775
Ending cash flow	8,888	9,268	10,101	10,775	11,806
--Profitability Margins	2022A	2023A	2024E	2025F	2026F
EBITDA margin	22.9%	7.5%	8.8%	9.5%	13.1%
PBT margin	23.3%	7.4%	9.1%	9.8%	13.8%
Core PAT margin	21.8%	5.9%	8.1%	8.8%	12.6%

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