

Petronas Chemicals Group Berhad

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

Maintain NEUTRAL


PCG signed MOU for blue ammonia plant in Sarawak

Target Price: RM7.16

DEVELOPMENT

- Petronas Chemicals (PCG) inks Memorandum of Understanding (MoU) with Sarawak Petchem Sdn Bhd (SPSB) for a joint feasibility study to develop a low-carbon ammonia and urea plant in Bintulu, Sarawak.
- This is a follow-up to the consideration of a joint venture between PETRONAS and Sarawak state for a large-scale blue ammonia worth approximately RM4.8b.

OUR VIEW

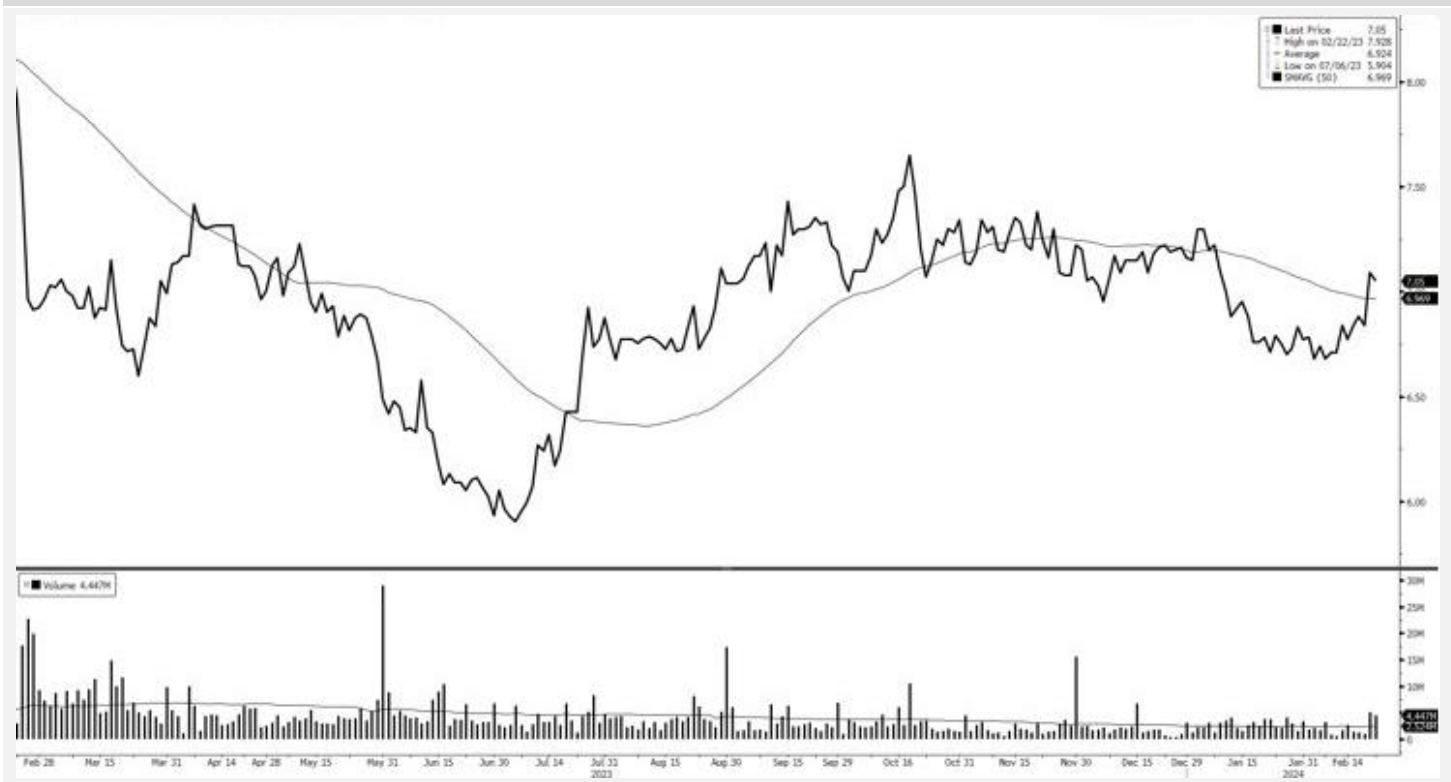
- **Feasibility study on technicality, commercial value.** The preliminary joint venture is a response to the rising demand for cleaner solutions for ammonia and urea, as well as to tap into the renewable energy aspirations of the Borneo region. The plant is expected to produce ammonia with very low carbon footprint under optimised cost.
- **Catalyst to Sarawak's economic development.** The joint initiative is part of the economic development in Sarawak, as it is in line with Sarawak Post Covid-19 Development Strategy 2030, which aligns with its two of its key economic sectors (manufacturing and agriculture).
- **Boosting Bintulu's socio-economy.** Bintulu serves as a petrochemical and trade hub for Sarawak's downstream chemicals and petroleum products, as well as a home to several oil and gas players and palm oil plantation companies. We believe that, should this joint venture materialise into a low-carbon ammonia and urea plant, employment within the coastal town will increase, subsequently giving the area a socio-economic boost.
- **Benefits to many other sectors in Sarawak.** Aside from agricultural fertilisers, low-carbon ammonia can also be used for clean power generation via co-firing, as well as fuel for dual-engine shipping vessels and feedstock for chemical processes. Considering that Sarawak had begun its initiative in hydrogen fuel, ammonia can be used as a carrier, storage medium and source of the hydrogen molecules used for this fuel, further escalating Sarawak's renewable and clean energy initiatives for both local use and regional trade.
- All in all, we commended this collaboration, in consideration that this is a progressive step to sustain not only Sarawak's petrochemical trade, but also to continuously support Sarawak's efforts to add low-carbon fuel and hydrogen fuel as part of its initiatives to provide cleaner energy sources to the local and international customers. Pending the potential headwinds of the volatile oil market and uncertainties on petrochemical demand in the long run, we maintain positive on PCG's ESG prospects and operational excellence in its low-carbon gambit.
- Pending the 4QFY23 results and noting the preliminary stage of the MoU, we make no changes to our earnings estimates and maintain our **NEUTRAL** call on PCG with a **target price of RM7.16**. Our target price pegs on a PER of 18x to an EPS24 of 39.8sen. 

INVESTMENT STATISTICS

Financial year ending 31st Dec (in RM'm unless stated otherwise)	2021A	2022A	2023E	2024F	2025F
Revenue	23,025	28,953	25,877	27,333	28,509
EBIT	7,010	6,643	2,491	3,488	3,803
Pretax Profit	7,710	6,742	2,490	3,503	3,845
Net Profit	7,319	6,323	2,170	3,183	3,525
EPS (sen)	92.0	79.0	27.1	39.8	44.1
EPS growth (%)	360.0%	-14.1%	-65.7%	46.7%	10.7%
PER (x)	7.8	9.1	26.4	18.0	16.3
Dividend per share (sen)	33.0	39.0	40.0	41.0	42.0
Dividend yield (%)	4.6%	5.4%	5.6%	5.7%	5.9%

Source: Company, MIDFR

SHARE PRICE CHART



Source: Company, 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