



# Petronas Chemicals Group Berhad

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

**Maintain NEUTRAL**

## Demand Recovery Expected Amid Headwinds

**Revised Target Price: RM7.34**  
(Previously RM7.18)

### KEY INVESTMENT HIGHLIGHTS

- **1QFY24 earnings gained +26%yoy to RM668.0m which came in slightly above expectations**
- **Revenue down marginally by -1%yoy due to lower product prices and sales volume in view of plant maintenance**
- **Headwinds remain for petrochemicals in 1HCY24 despite expected demand recovery from automotive and consumer sectors**
- **Maintain NEUTRAL with a revised target price of RM7.34**

**Maintain NEUTRAL, revised TP: RM7.34.** Petronas Chemicals Group (PCG)'s 1QFY24 earnings came in above our expectation at 32% and within consensus at 25%. We revised our earnings forecast upwards as we factored in the higher earnings with the anticipation of product prices stabilizing in tandem with the relatively stable Brent crude oil price in 2HCY24. However, demand recovery remains uncertain, adding to the challenging outlook for petrochemicals in the near term from unfavourable forex and economic volatility. As such, we maintain our **NEUTRAL** call on PCG with a revised target price to **RM7.34** (previously RM7.18).

**1QFY24 revenue marginally down -1%yoy.** PCG's 1QFY24 revenue declined by a marginal -0.8%yoy to RM7.5b. The slightly lower revenue saw was due to lower average product prices and sales volumes. Overall plant utilisation rate in 1QFY24 was lower at 87% (1QFY23: 96%) due to higher statutory turnaround and plant maintenance activities; resulting in lower production and sales volumes.

**1QFY24 normalised earnings up +26%yoy.** PCG's 1QFY24 earnings gained 25.6%yoy RM668m. The higher earnings were due to weakening of MYR against USD during 1QCY24, as well lower energy & utilities costs, partially offset by lower average product spreads.

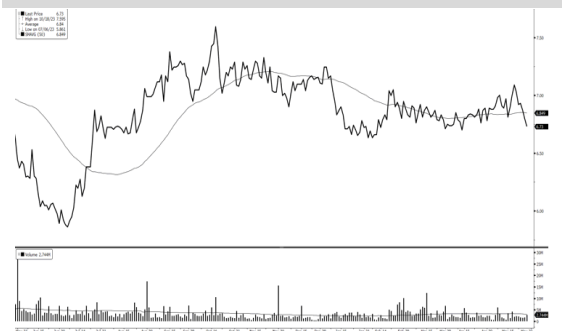
**Olefins & Derivatives (O&D).** O&D's 1QFY24 revenue climbed +10.4%yoy to RM3.7b, while earnings added +40%yoy to RM238m. O&D recorded lower plant utilisation rate of 87% (1QFY23: 94%) in the mainly due to higher plant maintenance activities resulting in lower production volume. Revenue and earnings were higher due to: (i) weakening of MYR against USD, (ii) revenue contribution from JV, and (iii) lower energy & utilities costs.

**Fertilisers & Methanol (F&M).** F&M's 1QFY24 revenue slipped -17.2%yoy to RM2.0b, while earnings declined by -13.3%yoy to RM462m. F&M recorded lower plant utilisation rate of 86% (1QFY23: 97%) due to higher statutory turnaround and plant maintenance activities resulting in lower production and sales volumes. Similarly, lower revenue and earnings were due to: (i) lower sales volume, (ii) lower product prices, and (iii) lower product spreads.

### RETURN STATISTICS

Price @ 29 <sup>th</sup> May 2024 (RM)	6.80
Expected share price return (%)	+7.9
Expected dividend yield (%)	+2.0
<b>Expected total return (%)</b>	<b>+9.9</b>

### SHARE PRICE CHART



Price performance (%)	Absolute	Relative
1 month	-2.3	-3.7
3 months	0.3	-7.1
12 months	-2.0	-14.3

### INVESTMENT STATISTICS

FYE Dec	2024E	2025F	2026F
Revenue	29,097	30,841	32,025
Operating Profit	2,657	2,957	3,265
Profit Before Tax	2,632	2,942	3,260
Core PATAMI	2,352	2,642	2,930
Core EPS	29.4	33.0	36.6
DPS	15.0	18.0	22.0
Dividend Yield	2.0%	2.5%	3.0%

### KEY STATISTICS

FBM KLCI	1605.35
Issue shares (m)	8000.00
Estimated free float (%)	16.35
Market Capitalisation (RM'm)	53,840
52-wk price range	RM5.84 - RM7.65
3-mth average daily volume (m)	3.15
3-mth average daily value (RM'm)	21.62
Top Shareholders (%)	
Petroleum Nasional Bhd	64.35
Employees Provident Fund	11.7
Amanah Saham Nasional Bhd	3.62

**Specialties.** Specialties' 1QFY24 revenue dropped marginally -0.2%yoy to RM1.7b, while earnings gained over 3-fold to RM71m from a deficit of RM29m in 1QFY23. Despite lower product prices, revenue was comparable, partially offset by higher sales volume following supply demand dynamics. The surge in earnings was due to higher sales volume and lower raw material costs.

**Challenging environment to persist until 2HFY24.** PCG's financial performance remains susceptible to: (i) global economic conditions, (ii) petrochemical product prices (in which is correlated with Brent crude oil prices), (iii) utilization rate of production facilities, and (iv) foreign exchange rate movements. The utilization of production facilities continues to be dependent on plant maintenance activities and the availability of feedstock and utilities. We opine that PCG will continue to sustain utilization levels above industry benchmarks through operational excellence and supplier relationship management.

**Nevertheless, demand is expected to grow.** Moving forward, US and China demand for petrochemical is gradually improving in 1QCY24, despite the weakness in building and construction sector. We also expect the demand from consumer and automotive sectors to grow as well. Prices for O&D are expected to stabilize due to steady demand and sufficient supply after regional plant turnaround activities. Conversely, F&M is expected to be subdued due to lower fertilizer demand caused by a delayed planting season and ample methanol supply in the region. For Specialties, PCG is expecting a modest recovery in certain end markets, contingent on overall macroeconomic and supply-demand dynamics.

**Revised earnings estimates.** Considering the higher earnings in 1QFY24, in line with the improved performance in O&D and Specialties, we raised our earnings forecasts for FY24 and FY25 by +11% to +10% respectively. We believe that, while headwinds would continue on the back of global disruptions (geopolitical tensions in the Middle East and Europe, supply chain disruptions, unfavourable forex), we expect demand is set to grow in line with better manufacturing activities. All in all, we anticipate that PCG will see higher recovery in 2HCY24.

**Revised target price.** Accordingly, we **revised our target price to RM7.34** (previously RM7.18). Our new target price is based on pegging a PER of 25x to a revised EPS24 of 29.4sen. We based the PER on the sector's 5 year PER, as to reflect the global environment of petrochemicals in the coming terms.



**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		
	1QFY23	4QFY23	1QFY24	QoQ (%)	YoY (%)	3MFY23	3MFY24	YoY (%)
<b>Revenue</b>	<b>7,557.0</b>	<b>7,213.0</b>	<b>7,499.0</b>	<b>4.0</b>	<b>-0.8</b>	<b>7,557.0</b>	<b>7,499.0</b>	<b>-0.8</b>
Cost of revenue	(6,167.0)	(6,236.0)	(6,128.0)	-1.7	-0.6	(6,167.0)	(6,128.0)	-0.6
<b>Gross Profit</b>	<b>1,390.0</b>	<b>977.0</b>	<b>1,371.0</b>	<b>40.3</b>	<b>-1.4</b>	<b>1,390.0</b>	<b>1,371.0</b>	<b>-1.4</b>
Selling & Dist Expenses	(496.0)	(472.0)	(507.0)	7.4	2.2	(496.0)	(507.0)	2.2
Admin Expenses	(337.0)	(384.0)	(366.0)	-4.7	8.6	(337.0)	(366.0)	8.6
Other Expenses	(72.0)	(152.0)	(49.0)	-67.8	-31.9	(72.0)	(49.0)	-31.9
Other Income	107.0	287.0	398.0	38.7	272.0	107.0	398.0	272.0
<b>Operating Profit</b>	<b>592.0</b>	<b>256.0</b>	<b>847.0</b>	<b>230.9</b>	<b>43.1</b>	<b>592.0</b>	<b>847.0</b>	<b>43.1</b>
Net Financing Costs	(40.0)	(44.0)	(43.0)	-2.3	7.5	(40.0)	(43.0)	7.5
Associates	38.0	28.0	1.0	-96.4	-97.4	38.0	1.0	-97.4
<b>Profit Before Tax</b>	<b>590.0</b>	<b>240.0</b>	<b>805.0</b>	<b>235.4</b>	<b>36.4</b>	<b>590.0</b>	<b>805.0</b>	<b>36.4</b>
Tax expense	(54.0)	(98.0)	(102.0)	4.1	88.9	(54.0)	(102.0)	88.9
<b>Profit After Tax</b>	<b>536.0</b>	<b>142.0</b>	<b>703.0</b>	<b>395.1</b>	<b>31.2</b>	<b>536.0</b>	<b>703.0</b>	<b>31.2</b>
Minority Interests	(4.0)	(30.0)	(35.0)	16.7	775.0	(4.0)	(35.0)	775.0
<b>PATAMI</b>	<b>532.0</b>	<b>112.0</b>	<b>668.0</b>	<b>496.4</b>	<b>25.6</b>	<b>532.0</b>	<b>668.0</b>	<b>25.6</b>
				<i>+ / (-) ppts</i>				<i>+ / (-) ppts</i>
Gross margin (%)	18.4	13.5	18.3	4.7	-0.1	18.4	18.3	-0.1
Operating profit margin (%)	7.8	3.5	11.3	7.7	3.5	7.8	11.3	3.5
PBT margin (%)	7.8	3.3	10.7	7.4	2.9	7.8	10.7	2.9
PATAMI margin (%)	7.0	1.6	8.9	7.4	1.9	7.0	8.9	1.9
Tax rate (%)	9.2	40.8	12.7	-28.2	3.5	9.2	12.7	3.5
<b>Segmental:</b>								
<i>Revenue</i>								
- Olefins & Derivatives	3,393.0	3,210.0	3,745.0	16.7	10.4	3,393.0	3,745.0	10.4
- Fertilisers & Methanol	2,407.0	2,411.0	1,994.0	-17.3	-17.2	2,407.0	1,994.0	-17.2
- Specialties	1,745.0	1,582.0	1,742.0	10.1	-0.2	1,745.0	1,742.0	-0.2
<i>Profit After Tax</i>								
- Olefins & Derivatives	170.0	(289.0)	238.0	-182.4	40.0	170.0	238.0	40.0
- Fertilisers & Methanol	533.0	286.0	462.0	61.5	-13.3	533.0	462.0	-13.3
- Specialties	(29.0)	(53.0)	71.0	-234.0	-344.8	(29.0)	71.0	-344.8

Source: Company, MIDFR

## FINANCIAL SUMMARY

Income Statement (RM'm)	2022A	2023A	2024E	2025F	2026F
Revenue	28,953	28,667	29,097	30,841	32,025
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	2,632	2,942	3,260
Tax	-406	-360	-230	-250	-280
Core PATAMI	6,323	1,696	2,352	2,642	2,930
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
<b>Non-current assets</b>	<b>39,412</b>	<b>43,268</b>	<b>42,585</b>	<b>42,800</b>	<b>44,337</b>
Cash	8,888	9,268	10,101	10,775	11,806
Trade debtors	3,619	8,042	8,399	8,925	10,132
<b>Current assets</b>	<b>16,018</b>	<b>16,938</b>	<b>17,312</b>	<b>18,798</b>	<b>20,584</b>
Trade creditors	5,914	8,042	8,399	8,925	10,132
Short-term debt	229	500	491	330	356
<b>Current liabilities</b>	<b>6,502</b>	<b>8,949</b>	<b>8,890</b>	<b>9,255</b>	<b>10,488</b>
Long-term debt	2,489	2,473	2,947	3,112	3,335
<b>Non-current liabilities</b>	<b>9,195</b>	<b>9,183</b>	<b>9,074</b>	<b>9,598</b>	<b>9,579</b>
Share capital	8,871	8,871	8,871	8,871	8,871
Retained earnings	30,207	31,544	31,312	32,124	34,233
<b>Equity</b>	<b>39,733</b>	<b>40,415</b>	<b>41,933</b>	<b>42,745</b>	<b>44,854</b>
Cash Flow (RM'm)	2022A	2023A	2024E	2025F	2026F
PBT	6,733	2,110	2,632	2,942	3,260
Depreciation & amortisation	1,589	1,978	1,709	1,697	1,648
Changes in working capital	910	1,335	503	402	592
<b>Operating cash flow</b>	<b>8,049</b>	<b>5,119</b>	<b>6,038</b>	<b>6,144</b>	<b>6,774</b>
Capital expenditure	-1,881	-2,352	-1,920	-1,834	-1,905
<b>Investing cash flow</b>	<b>-12,951</b>	<b>-2,593</b>	<b>-1,920</b>	<b>-1,834</b>	<b>-1,905</b>
Debt raised/(repaid)	352	0	573	309	311
Dividends paid	-3,844	-1,920	-1,929	-1,973	-2,074
<b>Financing cash flow</b>	<b>-3,806</b>	<b>-2,175</b>	<b>-3,285</b>	<b>-3,636</b>	<b>-3,838</b>
<b>Net cash flow</b>	<b>-8,708</b>	<b>351</b>	<b>833</b>	<b>674</b>	<b>1,031</b>
<b>Beginning cash flow</b>	<b>16,390</b>	<b>8,888</b>	<b>9,268</b>	<b>10,101</b>	<b>10,775</b>
<b>Ending cash flow</b>	<b>8,888</b>	<b>9,268</b>	<b>10,101</b>	<b>10,775</b>	<b>11,806</b>
--Profitability Margins	2022A	2023A	2024E	2025F	2026F
EBITDA margin	22.9%	7.5%	7.9%	8.3%	11.1%
PBT margin	23.3%	7.4%	9.0%	9.5%	10.2%
Core PAT margin	21.8%	5.9%	8.1%	8.6%	9.1%

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