



Company report

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PETRONAS CHEMICALS GROUP

(PCHEM MK EQUITY, PCGB.KL)

15 Sep 2020

Oxyalkylate investment supports long-term growth

BUY

(Maintained)

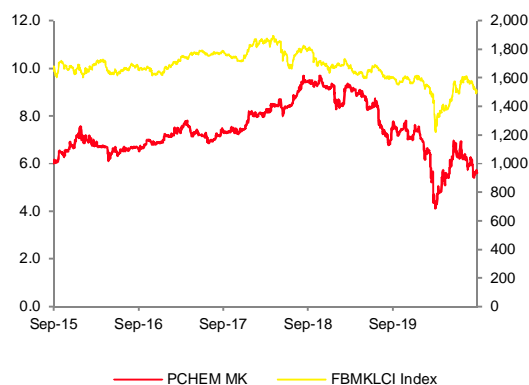
Rationale for report: Company update

Price	RM5.60			
Fair Value	RM7.05			
52-week High/Low	RM7.80/RM4.00			
Key Changes				
Fair value	↔			
EPS	↔			
YE to Dec				
	FY19	FY20F	FY21F	FY22F
Revenue (RM mil)	16,370.0	16,151.7	17,188.8	17,895.7
Core net profit (RM mil)	2,811.0	1,663.6	2,592.9	3,084.0
FD Core EPS (sen)	35.1	20.8	32.4	38.5
FD Core EPS growth (%)	(41.3)	(40.8)	55.9	18.9
Consensus Net Profit (RM mil)	-	1,625.5	2,478.1	3,199.1
DPS (sen)	18.0	11.1	17.3	20.6
PE (x)	15.9	26.9	17.3	14.5
EV/EBITDA (x)	8.8	10.5	8.0	7.3
Div yield (%)	3.3	2.0	3.2	3.8
ROE (%)	9.4	5.5	8.3	9.5
Net Gearing (%)	nm	nm	nm	nm

Stock and Financial Data

Shares Outstanding (million)	8,000.0
Market Cap (RM mil)	44,800.0
Book Value (RM/share)	3.74
P/BV (x)	1.5
ROE (%)	9.4
Net Gearing (%)	-
Major Shareholders	Petroleum Nasional Bhd (64.4%) EPF (8.8%)
Free Float	16.1
Avg Daily Value (RM mil)	19.1

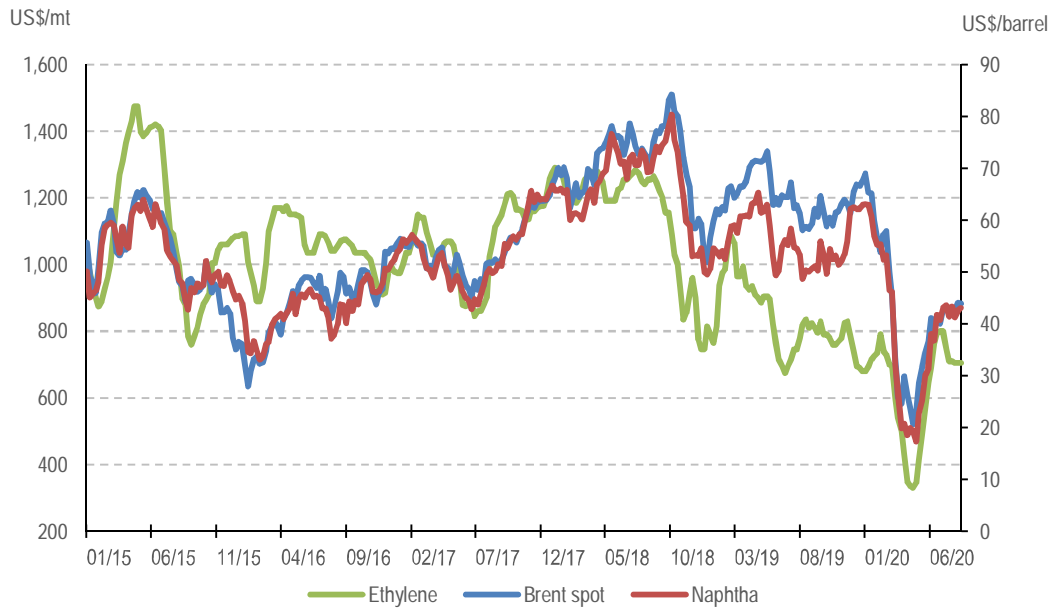
Price performance	3mth	6mth	12mth
Absolute (%)	(18.5)	27.9	(24.4)
Relative (%)	(16.6)	13.8	(19.9)



Investment Highlights

- We maintain our BUY recommendation on Petronas Chemicals Group (PChem) with an unchanged fair value of RM7.05/share, pegged to an FY21F EV/EBITDA of 10x, 1 standard deviation above its 2-year EV/EBITDA average of 8.5x.
- PChem plans to buy a 50% stake in PCC Oxyalkylates Malaysia Sdn Bhd (PCCOM) for an undisclosed sum from PCC SE. PCCOM is building an oxyalkylate facility within the Kertih Integrated Petrochemical Complex, Terengganu to produce ethoxylates and polyether polyols.
- Ethoxylates are used to produce detergent, home care and personal care products while polyether polyols are used in foam mattresses and upholstery applications.
- PCCOM was set up in 2017 with the intention of expanding into the Asian region. Construction of the plant is scheduled to start next year with production commencing in FY23F.
- While the announcement did not reveal the specific capex for this plant, we understand that it could already be included in the total capex allocation of US\$200mil–US\$250mil (RM834mil–RM1bil), as guided by management during the 2QFY20 analyst briefing.
- This capex is expected to be spent over 3 years for 3 new specialty chemical projects – a silicone blending plant in Gebeng, a butadiene derivative facility in Pengerang Integrated Complex, and the Kertih operations. We have not incorporated any contributions from these investments yet as the commencement dates lie beyond our current projections.
- Nevertheless, we are positive on the group's longer term prospects as these developments indicate management's confidence in the growth in demand for specialty chemicals in the region. We estimate that a 10% return on investment translates to a substantive 6% of FY20F earnings.
- PCC SE, headquartered in Duisburg, Germany, is an international chemicals, logistics and energy corporation. The unlisted group is a global surfactant manufacturer with an established know-how gained over several decades in the development and production of surfactants and polyols.
- In the near term, the group's FY20F plant utilisation rate (PU) is expected to be in the mid-90% level as the deferral of turnaround activities for Gebeng plant in 1Q20 to 4QFY20 could slightly moderate PChem's operations. For FY21F, the group still expects PU levels of over 90% with 4 minor turnaround activities scheduled for methanol plants in Labuan and Gebeng as well as Asean Bintulu Fertilizer and Petronas Fertilizer Kedah.
- PChem currently trades at a fair FY21F EV/EBITDA of 8x vs. its 2-year average of 8.5x, while its dividend yields are attractive at 3% vs. the current low interest rate regime.

EXHIBIT 1 : SPOT PRICES FOR ETHYLENE, CRUDE OIL & NAPHTHA



Source: Bloomberg

EXHIBIT 2 : SPOT PRICES FOR POLYPROPYLENE, BENZENE & NAPHTHA



Source: Bloomberg

EXHIBIT 3: SPOT PRICES FOR METHANOL & UREA



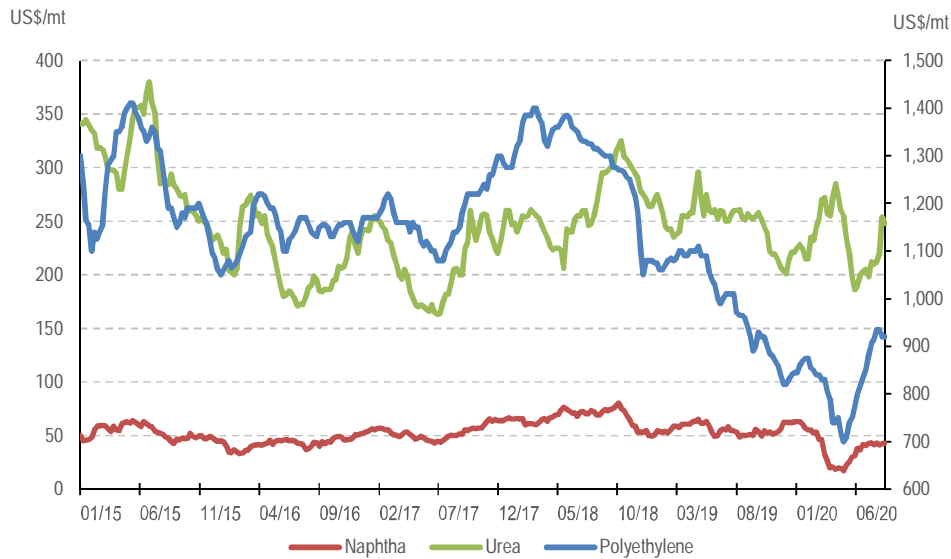
Source: Bloomberg

EXHIBIT 4 : SPOT PRICES FOR PARAXYLENE & NAPHTHA



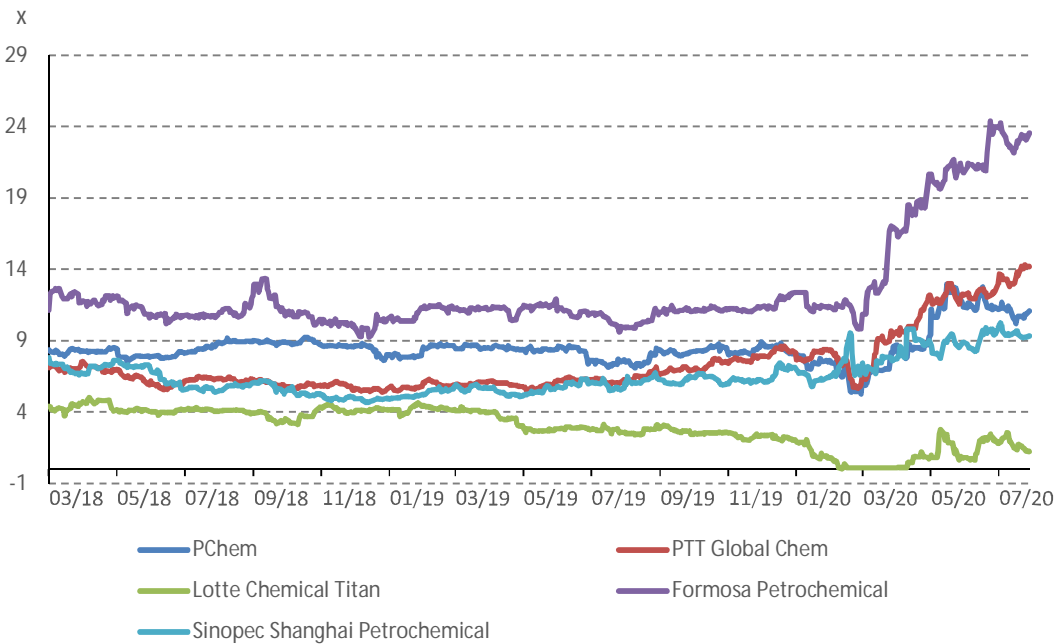
Source: Bloomberg

EXHIBIT 5 : SPOT PRICES FOR NAPHTHA, POLYETHYLENE & UREA



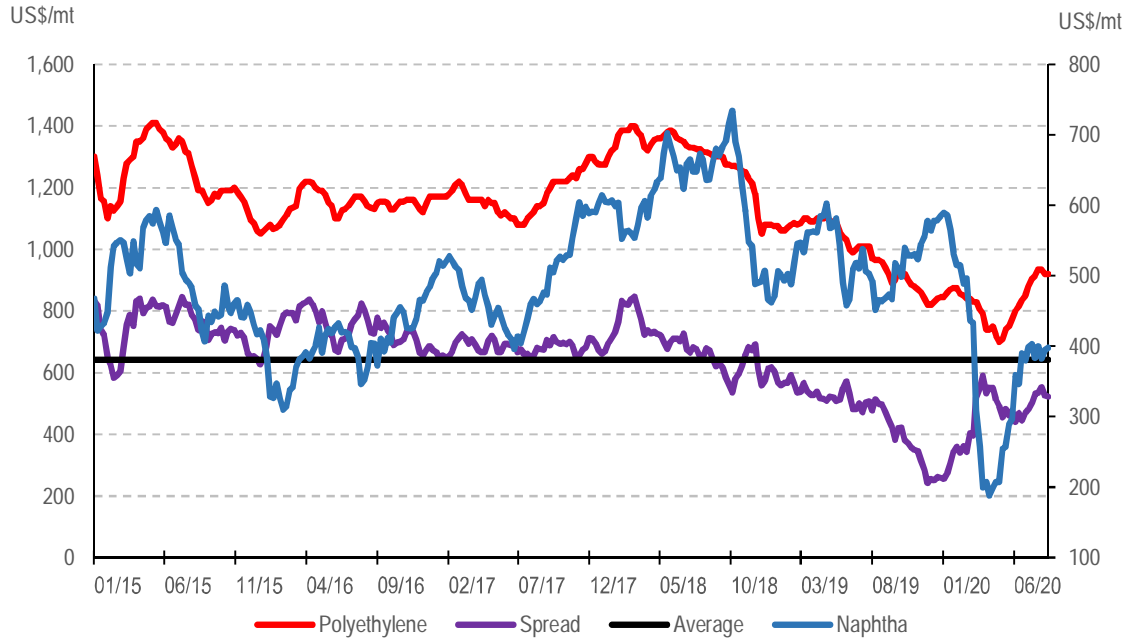
Source: Bloomberg

EXHIBIT 6: REGIONAL PETROCHEMICAL EV/EBITDA



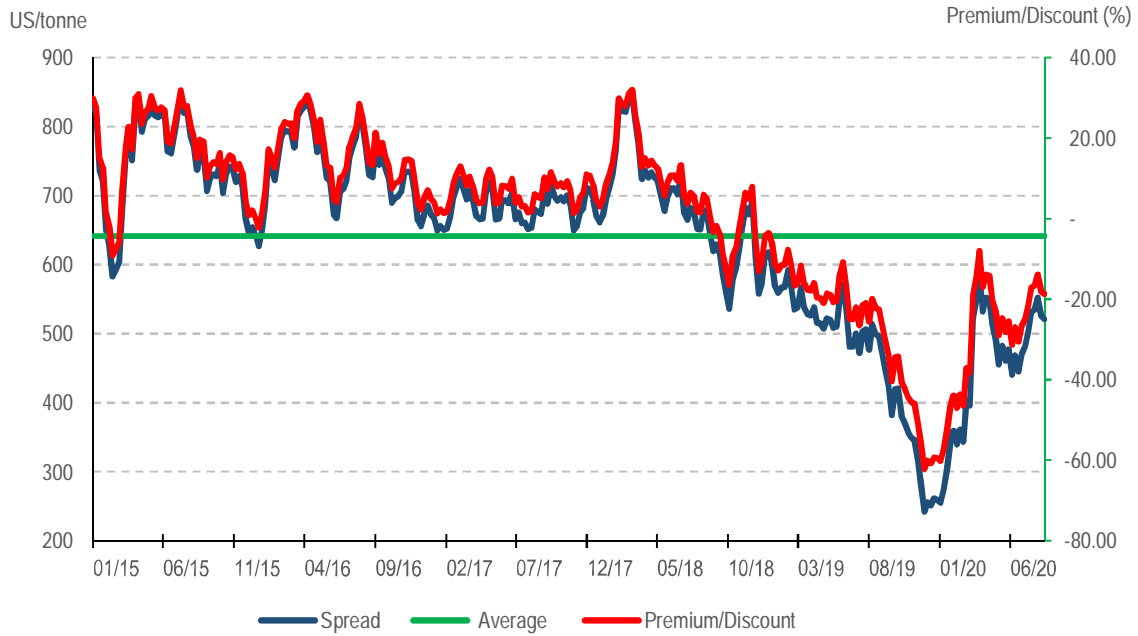
Source: Bloomberg

EXHIBIT 7: POLYETHYLENE-NAPHTHA SPREAD



Source: Bloomberg

EXHIBIT 8: PREMIUM/DISCOUNT TO 5-YEAR POLYETHYLENE-NAPHTHA SPREAD



Source: Bloomberg

EXHIBIT 9: PB BAND CHART

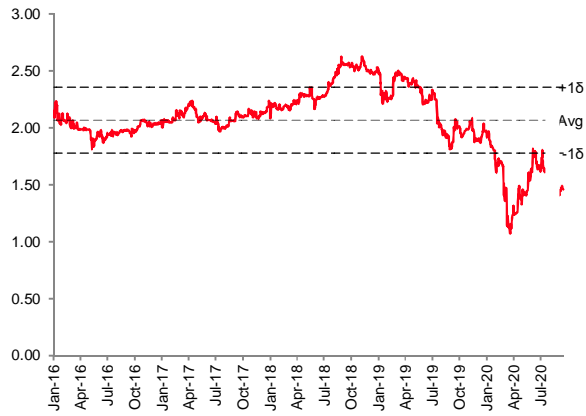


EXHIBIT 10: PE BAND CHART

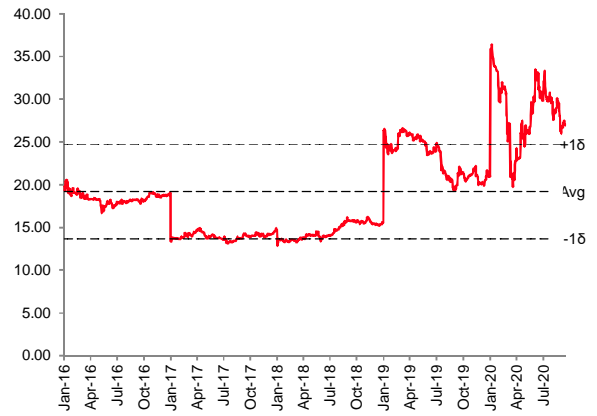


EXHIBIT 11: FINANCIAL DATA

Income Statement (RMmil, YE 31 Dec)	FY18	FY19	FY20F	FY21F	FY22F
Revenue	19,576.0	16,370.0	16,151.7	17,188.8	17,895.7
EBITDA	6,572.0	3,937.0	3,303.9	4,176.2	4,429.7
Depreciation/Amortisation	(1,619.0)	(1,659.0)	(2,106.4)	(2,314.3)	(2,543.0)
Operating income (EBIT)	4,953.0	2,278.0	1,197.5	1,861.9	1,886.6
Other income & associates	505.0	469.0	497.2	948.0	1,483.0
Net interest	298.0	408.0	305.1	307.2	337.8
Exceptional items	-	-	-	-	-
Pretax profit	5,756.0	3,155.0	1,999.9	3,117.1	3,707.5
Taxation	(882.0)	(360.0)	(306.4)	(477.6)	(568.1)
Minorities/pref dividends	(86.0)	16.0	(29.9)	(46.6)	(55.4)
Net profit	4,788.0	2,811.0	1,663.6	2,592.9	3,084.0
Core net profit	4,788.0	2,811.0	1,663.6	2,592.9	3,084.0
Balance Sheet (RMmil, YE 31 Dec)	FY18	FY19	FY20F	FY21F	FY22F
Fixed assets	19,080.0	20,482.0	20,575.6	20,461.3	20,118.3
Intangible assets	-	584.0	584.0	584.0	584.0
Other long-term assets	1,526.0	2,029.0	2,053.3	2,414.1	3,174.8
Total non-current assets	20,606.0	23,095.0	23,212.9	23,459.4	23,877.1
Cash & equivalent	12,329.0	12,045.0	11,738.7	12,460.7	13,445.5
Stock	1,698.0	1,658.0	1,548.8	1,648.2	1,716.0
Trade debtors	2,668.0	1,994.0	2,433.8	2,590.1	2,696.6
Other current assets	64.0	71.0	74.6	78.3	82.2
Total current assets	16,759.0	15,768.0	15,795.8	16,777.3	17,940.4
Trade creditors	3,001.0	3,141.0	2,707.6	2,776.2	2,908.9
Short-term borrowings	2,072.0	-	-	-	-
Other current liabilities	141.0	77.0	65.5	102.2	121.5
Total current liabilities	5,214.0	3,218.0	2,773.2	2,878.4	3,030.5
Long-term borrowings	-	1,875.0	1,500.0	1,200.0	960.0
Other long-term liabilities	1,903.0	3,232.0	3,393.6	3,563.3	3,741.4
Total long-term liabilities	1,903.0	5,107.0	4,893.6	4,763.3	4,701.4
Shareholders' funds	29,564.0	29,933.0	30,707.1	31,913.6	33,348.7
Minority interests	684.0	605.0	634.9	681.5	736.8
BV/share (RM)	3.70	3.74	3.84	3.99	4.17
Cash Flow (RMmil, YE 31 Dec)	FY18	FY19	FY20F	FY21F	FY22F
Pretax profit	5,756.0	3,155.0	1,999.9	3,117.1	3,707.5
Depreciation/Amortisation	1,619.0	1,659.0	2,106.4	2,314.3	2,543.0
Net change in working capital	(484.0)	783.0	(779.0)	(154.2)	(26.2)
Others	(928.0)	(676.8)	(591.8)	(1,020.1)	(1,572.4)
Cash flow from operations	5,963.0	4,920.2	2,735.5	4,257.1	4,651.9
Capital expenditure	(2,957.0)	(3,061.0)	(2,200.0)	(2,200.0)	(2,200.0)
Net investments & sale of fixed assets	969.0	-	-	-	-
Others	-	-	-	-	-
Cash flow from investing	(1,988.0)	(3,061.0)	(2,200.0)	(2,200.0)	(2,200.0)
Debt raised/(repaid)	2,081.0	-	-	1.0	2.0
Equity raised/(repaid)	-	-	-	-	-
Dividends paid	(2,560.0)	(1,440.0)	(889.5)	(1,386.3)	(1,648.9)
Others	298.0	408.0	305.1	307.2	337.8
Cash flow from financing	(181.0)	(1,032.0)	(584.4)	(1,078.2)	(1,309.1)
Net cash flow	3,794.0	827.2	(48.9)	978.9	1,142.8
Net cash/(debt) b/f	6,674.0	10,468.0	11,295.2	11,246.3	12,225.3
Net cash/(debt) c/f	10,468.0	11,295.2	11,246.3	12,225.3	13,368.1
Key Ratios (YE 31 Dec)	FY18	FY19	FY20F	FY21F	FY22F
Revenue growth (%)	12.5	(16.4)	(1.3)	6.4	4.1
EBITDA growth (%)	3.1	(40.1)	(16.1)	26.4	6.1
Pretax margin (%)	29.4	19.3	12.4	18.1	20.7
Net profit margin (%)	24.5	17.2	10.3	15.1	17.2
Interest cover (x)	nm	nm	nm	nm	nm
Effective tax rate (%)	15.3	11.4	15.3	15.3	15.3
Dividend payout (%)	53.5	51.2	53.5	53.5	53.5
Debtors turnover (days)	47	52	50	53	54
Stock turnover (days)	32	37	36	34	34
Creditors turnover (days)	58	68	66	58	58

Source: Company, AmInvestment Bank Bhd estimates

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