



## Company report

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# PETRONAS CHEMICALS GROUP

(PCHEM MK EQUITY, PCGB.KL)

23 Nov 2021

*Higher product prices amid slower Pengerang start-up*

## BUY

(Maintained)

**Rationale for report: Company update**

Price	RM8.30
Fair Value	RM10.90
52-week High/Low	RM9.05/RM6.42

### Key Changes

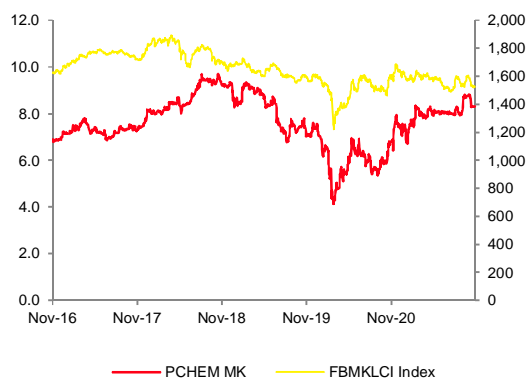
Fair value	↔
EPS	↔

YE to Dec	FY20	FY21F	FY22F	FY23F
Revenue (RM mil)	14,362.0	21,524.0	21,545.0	21,568.1
Core net profit (RM mil)	1,860.0	7,097.6	6,368.5	6,808.7
FD Core EPS (sen)	23.3	88.7	79.6	85.1
FD Core EPS growth (%)	(35.8)	281.6	(10.3)	6.9
Consensus Net Profit (RM mil)	-	5,561.9	4,718.5	4,922.0
DPS (sen)	12.0	52.3	46.9	50.2
PE (x)	35.7	9.4	10.4	9.8
EV/EBITDA (x)	16.2	6.4	6.5	6.3
Div yield (%)	-	-	-	-
ROE (%)	5.4	22.2	18.4	18.2
Net Gearing (%)	nm	nm	nm	nm

### Stock and Financial Data

Shares Outstanding (million)	8,000.0
Market Cap (RM mil)	66,480.0
Book Value (RM/share)	3.81
P/BV (x)	2.2
ROE (%)	5.4
Net Gearing (%)	-
Major Shareholders	Petroliam Nasional Bhd (64.4%) EPF (6.5%)
Free Float	16.1
Avg Daily Value (RM mil)	58.1

Price performance	3mth	6mth	12mth
Absolute (%)	4.7	5.2	22.2
Relative (%)	4.1	7.7	27.7



### Investment Highlights

- We reiterate our BUY call on Petronas Chemicals Group (PChem) with an unchanged fair value of RM10.90/share, pegged to FY22F EV/EBITDA of 8.5x and a premium of 3% for our ESG rating of 4 stars. This is at parity to PChem's 2-year EV/EBITDA average against the backdrop of oil prices trading at US\$80/barrel currently.

- Our forecasts are maintained following the analyst briefing yesterday. These are the salient highlights:

- Management expects a softer 4QFY21 after registering a record 3QFY21 net profit of RM1,964mil (+4.2x YoY) given potentially a lower group plant utilisation rate (PU) from turnaround activities for the 63.5%-owned ASEAN Bintulu Fertilizer plant which could stretch to 40 days.

- Recall that 3QFY21 still registered stronger earnings from higher product prices despite a 3%-point PU decline to 94%, mainly from turnaround activities at PC Fertiliser Kedah which caused a 4%-point drop in fertilizer & methanol (F&M) PU to 92%.

Meanwhile, the olefin & derivative (O&D) segment secured a stable 3QFY21 PU of 98% during pitstop activities at PC ethylene and polyethylene plants in Kerteh.

- The 9MFY21 PU of 94% (vs. 95% in 9MFY20) is comfortably within management's earlier FY21F guidance of 94%–95%. For FY22F, management is still guiding for PU of over 90% despite turnaround activities at 4 plants – ethylene, derivatives, methanol and aromatic lines.

Repair & maintenance costs next year are expected to be similar to FY21F as the number of turnaround projects are comparable.

- For the 2022 prosperity tax, management indicated a 4%–5% increase in tax based on the lower taxable income of FY20, which registered an effective tax rate of 15%. This is likely to be lower than our more conservative FY22F effective tax rate of 20%.

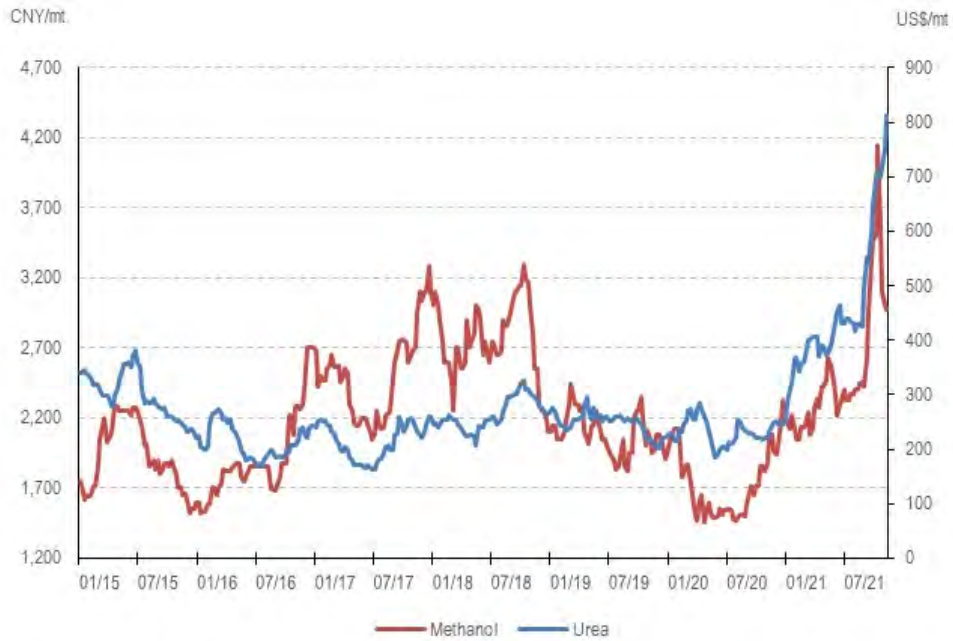
Even so, we retain our tax assumption given that higher product prices have boosted FY22F pretax profit currently to 4.1x FY20.

- The group's 50%-owned petrochemical operations at the Pengerang Integrated Complex (PIC), which was earlier expected to start commercial operations in 4QFY21, now appears to begin in 1QFY22 given the need to slowly ramp up activities given that Petronas' integrated assets have been idle for over a year.

For now, we maintain an average FY22F PIC PU of 60%–70%, which is likely to reach breakeven for the group.

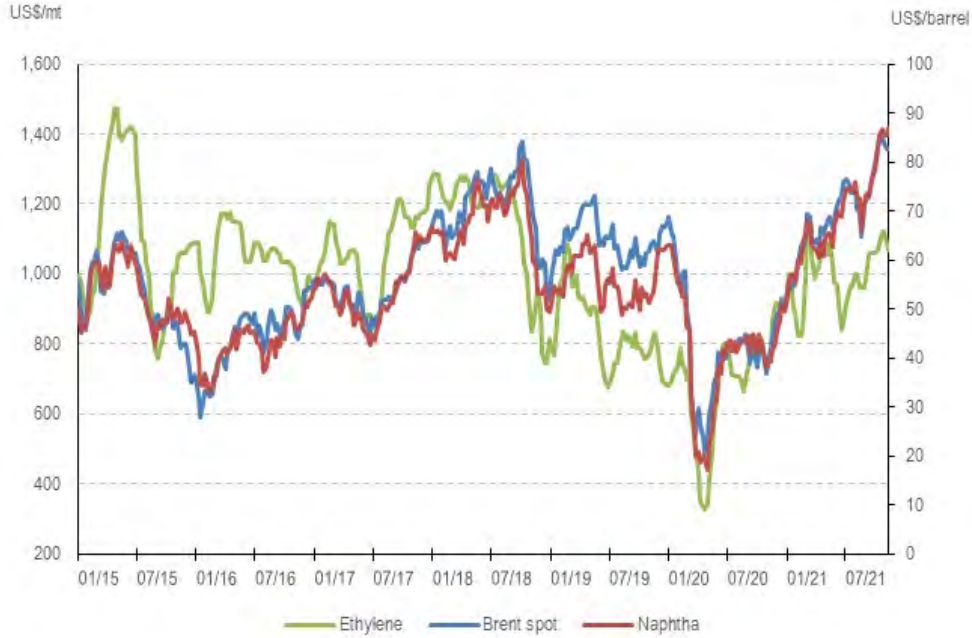
- All in, we remain bullish on PChem’s earnings prospects given the strong correlation to its share price as firmer naphtha costs will support petrochemical product prices. Hence, we expect steady near-term earnings as Brent crude oil prices has recently traded at or above the US\$80/barrel threshold vs. a 3Q2021 average of US\$68/barrel
- Given the improving earnings prospects of the group’s PIC operation in tandem with improved petrochemical price prospects, PChem currently trades at an attractive FY22F EV/EBITDA of 6.2x, below its 2-year average of 8.8x.

EXHIBIT 1: SPOT PRICES FOR METHANOL & UREA



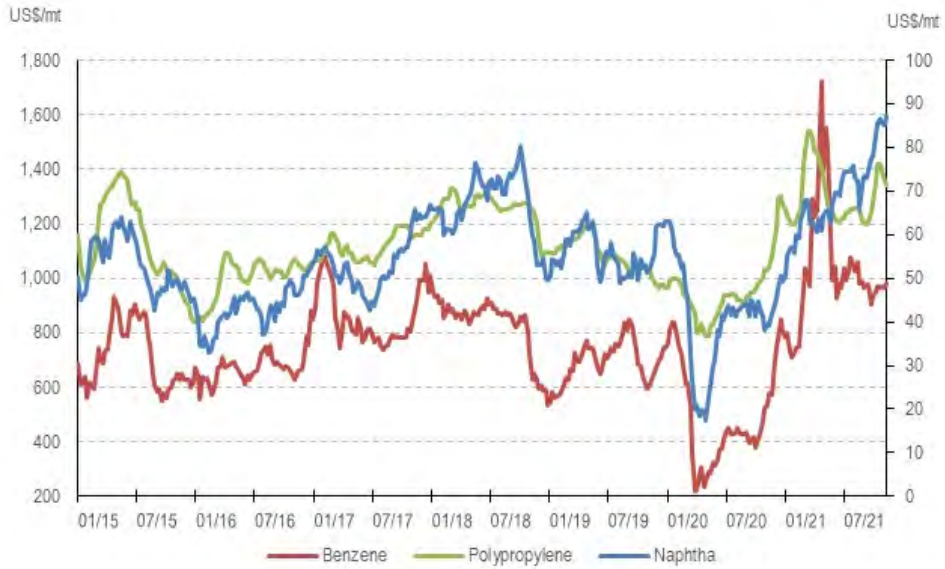
Source: Bloomberg

**EXHIBIT 2: SPOT PRICES FOR ETHYLENE, CRUDE OIL & NAPHTHA**



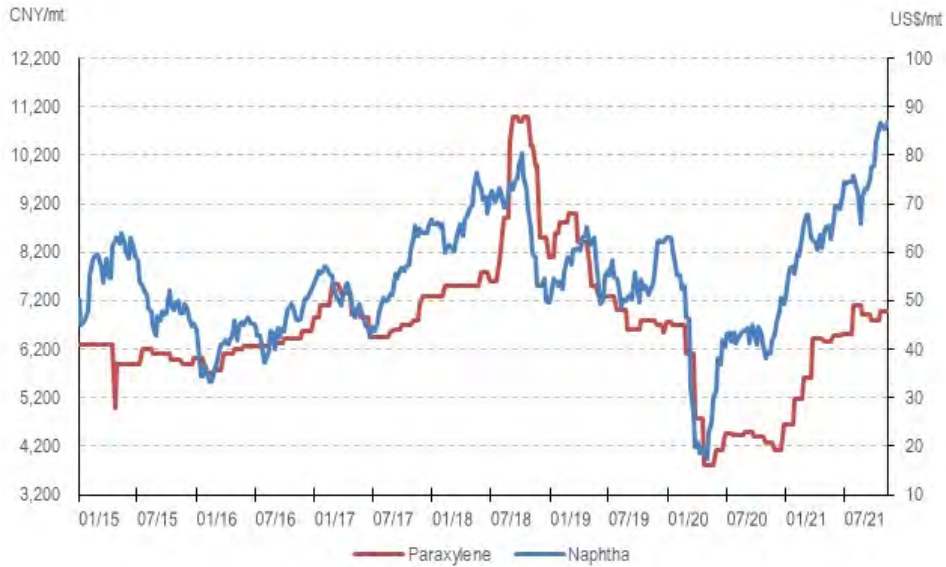
Source: Bloomberg

**EXHIBIT 3: SPOT PRICES FOR POLYPROPYLENE, BENZENE & NAPHTHA**



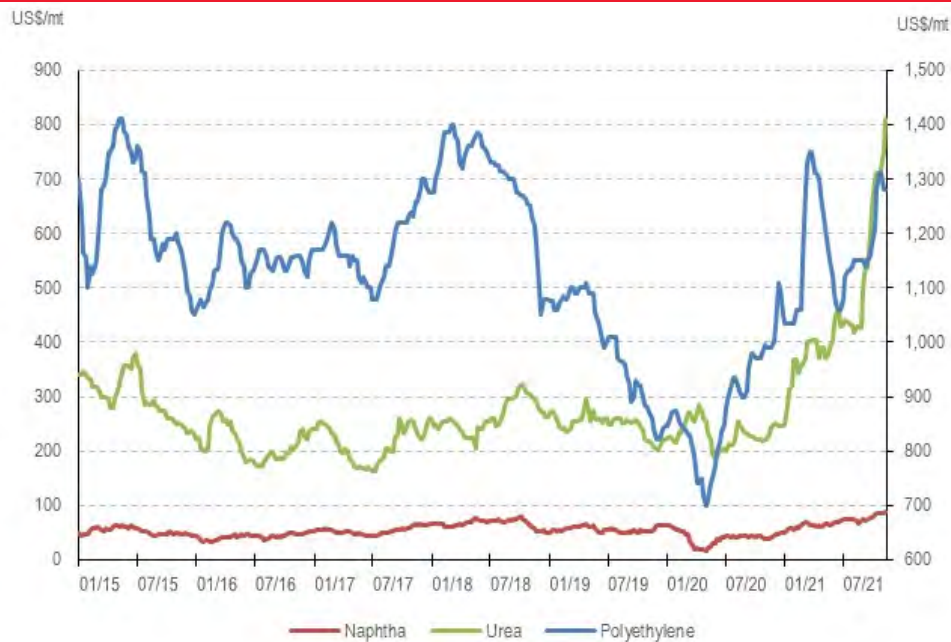
Source: Bloomberg

EXHIBIT 4: SPOT PRICES FOR PARAXYLENE & NAPHTHA



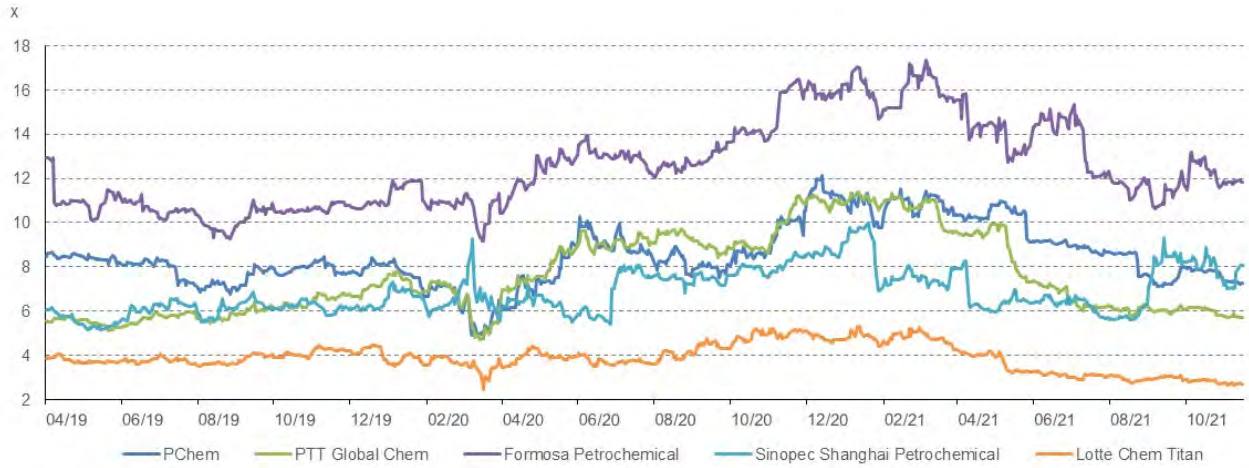
Source: Bloomberg

EXHIBIT 5: SPOT PRICES FOR NAPHTHA, POLYETHYLENE & UREA



Source: Bloomberg

**EXHIBIT 6: REGIONAL PETROCHEMICAL EV/EBITDA**



Source: Bloomberg

**EXHIBIT 7: PREMIUM/DISCOUNT TO 5-YEAR POLYETHYLENE-NAPHTHA SPREAD**



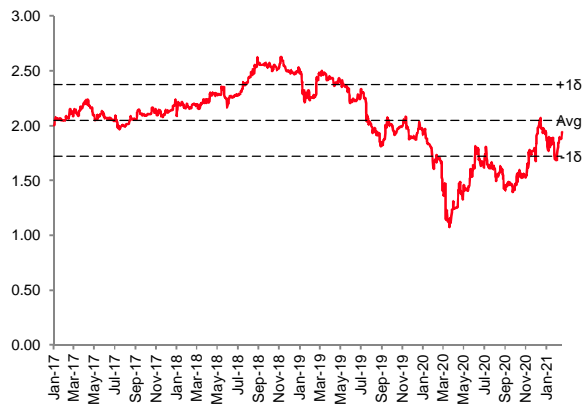
Source: Bloomberg

EXHIBIT 8: POLYETHYLENE-NAPHTHA SPREAD



Source: Bloomberg

**EXHIBIT 9: PB BAND CHART**



**EXHIBIT 10: PE BAND CHART**



**EXHIBIT 11: ESG RATING**

<b>Overall</b>	★	★	★	★	
Zero-carbon initiatives	★	★	★	★	
Health & safety compliance	★	★	★	★	★
Shareholder accountability	★	★	★	★	
Social responsibility	★	★	★	★	
Pollution control	★	★	★	★	
Supply chain auditing	★	★	★	★	
Corruption-free pledge	★	★	★	★	
Accessibility & transparency	★	★	★	★	

We accord a discount/premium of -6%, -3%, 0%, +3% and +6% on fundamental fair value based on the overall ESG rating as appraised by us, from 1-star to 5-star

Source: AmInvestment Bank

**EXHIBIT 12: FINANCIAL DATA**

<b>Income Statement (RMmil, YE 31 Dec)</b>	<b>FY19</b>	<b>FY20</b>	<b>FY21F</b>	<b>FY22F</b>	<b>FY23F</b>
Revenue	16,370.0	14,362.0	20,726.0	20,747.0	20,770.1
EBITDA	4,546.0	3,878.0	8,177.1	8,233.6	8,207.2
Depreciation	(1,659.0)	(1,670.0)	(1,703.4)	(1,794.0)	(1,812.0)
<b>Operating income (EBIT)</b>	<b>2,887.0</b>	<b>2,208.0</b>	<b>6,473.7</b>	<b>6,439.6</b>	<b>6,395.3</b>
Net int inc/(exp)	408.0	197.0	315.5	321.9	382.3
Other income & associates	(54.0)	(316.0)	161.6	342.5	493.3
Exceptional items	(86.0)	(232.0)	-	-	-
<b>Pre-tax profit</b>	<b>3,155.0</b>	<b>1,857.0</b>	<b>6,950.7</b>	<b>7,104.0</b>	<b>7,270.9</b>
Tax	(360.0)	(271.0)	(1,065.1)	(1,088.6)	(1,114.1)
Minority interest	16.0	42.0	(103.9)	(106.1)	(108.6)
<b>Net profit</b>	<b>2,811.0</b>	<b>1,628.0</b>	<b>5,781.8</b>	<b>5,909.3</b>	<b>6,048.1</b>
<b>Core net profit</b>	<b>2,897.0</b>	<b>1,860.0</b>	<b>5,781.8</b>	<b>5,909.3</b>	<b>6,048.1</b>
Turnover growth (%)	(16.4)	(12.3)	44.3	0.1	0.1
EBITDA growth (%)	(36.2)	(14.7)	110.9	0.7	(0.3)
Pre-tax profit growth (%)	(45.2)	(41.1)	274.3	2.2	2.3
Net profit growth (%)	(41.3)	(42.1)	255.1	2.2	2.3
EBIT margin (%)	17.6	15.4	31.2	31.0	30.8
EBITDA margin (%)	27.8	27.0	39.5	39.7	39.5
Pretax margin (%)	19.3	12.9	33.5	34.2	35.0
Net margin (%)	17.2	11.3	27.9	28.5	29.1
<b>Balance Sheet (RMmil, YE 31 Dec)</b>	<b>FY19</b>	<b>FY20</b>	<b>FY21F</b>	<b>FY22F</b>	<b>FY23F</b>
Fixed assets	20,482.0	20,987.0	21,783.6	22,189.6	22,577.6
Intangible assets	584.0	744.0	744.0	744.0	744.0
Other long-term assets	2,029.0	1,601.0	1,766.1	2,069.1	2,487.5
<b>Total non-current assets</b>	<b>23,095.0</b>	<b>23,332.0</b>	<b>24,293.7</b>	<b>25,002.7</b>	<b>25,809.2</b>
Cash & equivalent	12,045.0	12,707.0	12,543.2	14,259.4	16,015.4
Stock	1,658.0	1,806.0	1,987.4	1,989.4	1,991.7
Trade debtors	1,994.0	1,938.0	3,123.1	3,126.3	3,129.7
Other current assets	71.0	46.0	48.3	50.7	53.3
<b>Total current assets</b>	<b>15,768.0</b>	<b>16,497.0</b>	<b>17,702.0</b>	<b>19,425.9</b>	<b>21,190.0</b>
Trade creditors	3,141.0	2,973.0	2,649.5	2,654.4	2,661.6
Short-term borrowings	-	198.0	217.8	239.6	263.5
Other current liabilities	77.0	73.0	286.9	293.2	300.1
<b>Total current liabilities</b>	<b>3,218.0</b>	<b>3,244.0</b>	<b>3,154.2</b>	<b>3,187.2</b>	<b>3,225.3</b>
Long-term borrowings	1,875.0	1,994.0	1,595.2	1,276.2	1,020.9
Other long-term liabilities	3,232.0	3,582.0	3,761.1	3,949.2	4,146.6
Total long-term liabilities	5,107.0	5,576.0	5,356.3	5,225.3	5,167.5
<b>Shareholders' funds</b>	<b>29,933.0</b>	<b>30,446.0</b>	<b>32,818.4</b>	<b>35,243.1</b>	<b>37,724.7</b>
Minority interests	605.0	563.0	666.9	773.0	881.6
BV/share (RM)	3.37	3.43	3.70	3.97	4.25
<b>Cash Flow (RMmil, YE 31 Dec)</b>	<b>FY19</b>	<b>FY20</b>	<b>FY21F</b>	<b>FY22F</b>	<b>FY23F</b>
Pre-tax profit	3,155.0	1,857.0	6,950.7	7,104.0	7,270.9
Less tax	(360.0)	(271.0)	(1,065.1)	(1,088.6)	(1,114.1)
Associates	54.0	316.0	(161.6)	(342.5)	(493.3)
Depreciation	1,659.0	1,670.0	1,703.4	1,794.0	1,812.0
Net change in working capital	783.0	(239.0)	(1,478.4)	3.6	5.9
Others	(877.0)	147.0	175.5	227.6	272.3
<b>Cash flow from operations</b>	<b>4,414.0</b>	<b>3,480.0</b>	<b>6,124.6</b>	<b>7,698.1</b>	<b>7,753.6</b>
Capital expenditure	(3,061.0)	(2,175.0)	(2,500.0)	(2,200.0)	(2,200.0)
Net investments & sale of fixed assets	-	-	-	-	-
Others	-	-	-	-	-
<b>Cash flow from investing</b>	<b>(3,061.0)</b>	<b>(2,175.0)</b>	<b>(2,500.0)</b>	<b>(2,200.0)</b>	<b>(2,200.0)</b>
Debt raised/(repaid)	-	-	-	-	-
Equity raised/(repaid)	-	-	-	-	-
Dividends paid	(1,440.0)	(960.0)	(3,409.4)	(3,484.6)	(3,566.4)
<b>Cash flow from financing</b>	<b>(1,440.0)</b>	<b>(960.0)</b>	<b>(3,409.4)</b>	<b>(3,484.6)</b>	<b>(3,566.4)</b>
Net cash flow	(87.0)	345.0	215.2	2,013.6	1,987.2
Net cash b/f	10,257.0	10,170.0	10,515.0	10,730.2	12,743.7
Net cash c/f	10,170.0	10,515.0	10,730.2	12,743.7	14,730.9
<b>Key Ratios (YE Mar)</b>					
Revenue growth (%)	(16.4)	(12.3)	44.3	0.1	0.1
EBITDA growth (%)	(36.2)	(14.7)	110.9	0.7	(0.3)
Pre-tax margins (%)	19.3	12.9	33.5	34.2	35.0
Net profit margins (%)	17.2	11.3	27.9	28.5	29.1
Interest cover (%)	(6.7)	(8.4)	(21.0)	(21.1)	(18.0)
Effective tax rate (%)	11.4	14.6	15.3	15.3	15.3
Net dividend payout (%)	51	59	59	59	59
Debtors turnover (days)	55	55	55	55	55
Stock turnover (days)	35	35	35	35	35
Creditors turnover (days)	75	75	75	75	75



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