



AmInvestment Bank

Company report

PETRONAS CHEMICALS GROUP

(PCHEM MK EQUITY, PCGB.KL)

10 Jan 2023

Divesting 25% stake in PC Fertiliser Sabah

BUY

(Maintained)

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03-2036 2025

Rationale for report: Company update

Price	RM8.35
Fair Value	RM9.94
52-week High/Low	RM11.08/RM7.87

Key Changes

Fair value	↔
EPS	↔

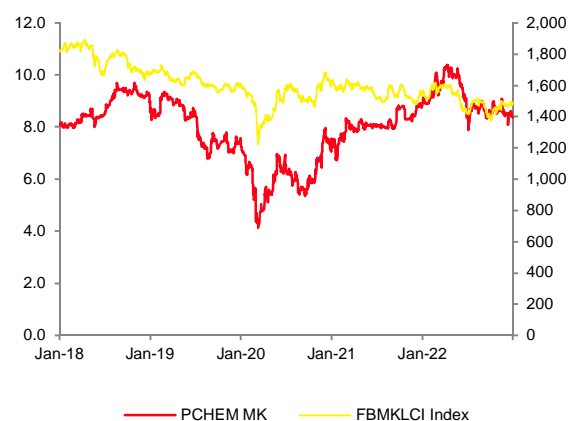
YE to Dec	FY21	FY22F	FY23F	FY24F
Revenue (RM mil)	23,025.0	25,507.6	30,490.7	29,902.3
Core net profit (RM mil)	7,223.0	7,642.6	7,001.1	6,386.0
FD Core EPS (sen)	90.3	95.5	87.5	79.8
FD Core EPS growth (%)	288.3	5.8	(8.4)	(8.8)
Consensus Net Profit (RM mil)	-	7,659.2	6,900.1	6,672.3
DPS (sen)	56.0	51.6	47.3	43.1
PE (x)	9.2	8.7	9.5	10.5
EV/EBITDA (x)	6.5	6.3	6.7	7.2
Div yield (%)	6.2	5.7	5.2	4.7
ROE (%)	22.4	20.8	17.4	14.8
Net Gearing (%)	nm	nm	nm	nm

Stock and Financial Data

Shares Outstanding (million)	8,000.0
Market Cap (RM mil)	66,800.0
Book Value (RM/share)	4.38
P/BV (x)	1.9
ROE (%)	22.4
Net Gearing (%)	-

Major Shareholders	Petroleum Nasional (64.4%) EPF (8.4%) ASNB (5.2%)
Free Float	22.0
Avg Daily Value (RM mil)	54.1

Price performance	3mth	6mth	12mth
Absolute (%)	(2.6)	(1.4)	(5.0)
Relative (%)	(8.3)	(5.9)	(1.8)



Investment Highlights

- We maintain BUY on Petronas Chemicals Group (PChem) with an unchanged fair value of RM9.94/share, pegged to an FY23F EV/EBITDA of 8x (at parity to its 2-year average) and a premium of 3% for our 4-star ESG rating.
- PChem entered into a heads of agreement to divest a 25% equity interest in its 100%-owned Petronas Chemicals Fertiliser Sabah (PCFS) to SMJ, wholly-owned by the Sabah state government. The divestment is expected to be completed in 2023. Pending further information from management, we maintain our FY23F-24F earnings.
- Established in 2011, PCFS owns and operates an integrated ammonia and urea production complex located in Sipitang Oil and Gas Industrial Park (SOGIP) in Sabah. With a designed production capacity of 1.9 mil metric tonnes per annum (equivalent to 15% of group's total production capacity of 12.7mil tonnes), PCFS' facility is the largest single-train ammonia and urea plant in Southeast Asia and the third largest urea plant in Asia Pacific.
- The acquisition comes after the recent acquisition of Petronas' downstream gas pipeline assets and supply of natural gas contracts by the Sabah state government via Sabah Energy Corporation. Moreover, Sabah chief minister Datuk Seri Hajiji Noor also said earlier that Petronas has agreed to divest stakes in some other projects in Sabah, which may potentially include liquefied natural gas and Sabah Ammonia Urea (SAMUR) projects in SOGIP.
- Despite the lack of clarity at this juncture, we estimate the divestment of a 25% stake in PCFS may result in a slight decline in our FY23F-FY24F earnings by 2-3%. While the divestment price is not revealed yet, we expect it to slightly improve the group's balance sheet from the disposal proceed to be realised from the corporate exercise.
- Outlook-wise, we expect near-term earnings weakness to persist from a downswing in petrochemical prices in tandem with the decline in oil prices, notwithstanding our expectations of higher plant utilisation rates of above 95% in 4Q22 vs 85% in 9M22 given the absence of plant turnarounds and heavy maintenance.
- On a positive note, the incremental contributions from Perstorp Holding AB coupled with the gradual start-up of Pengerang Integrated Complex (PIC) would also partially cushion subdued petrochemical product prices currently.
- PChem currently trades at an attractive FY23F EV/EBITDA of 7x, below its 2-year average of 8x and offers compelling dividend yields of 5%.

EXHIBIT 1: SPOT PRICES FOR METHANOL & UREA



Source: Bloomberg

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



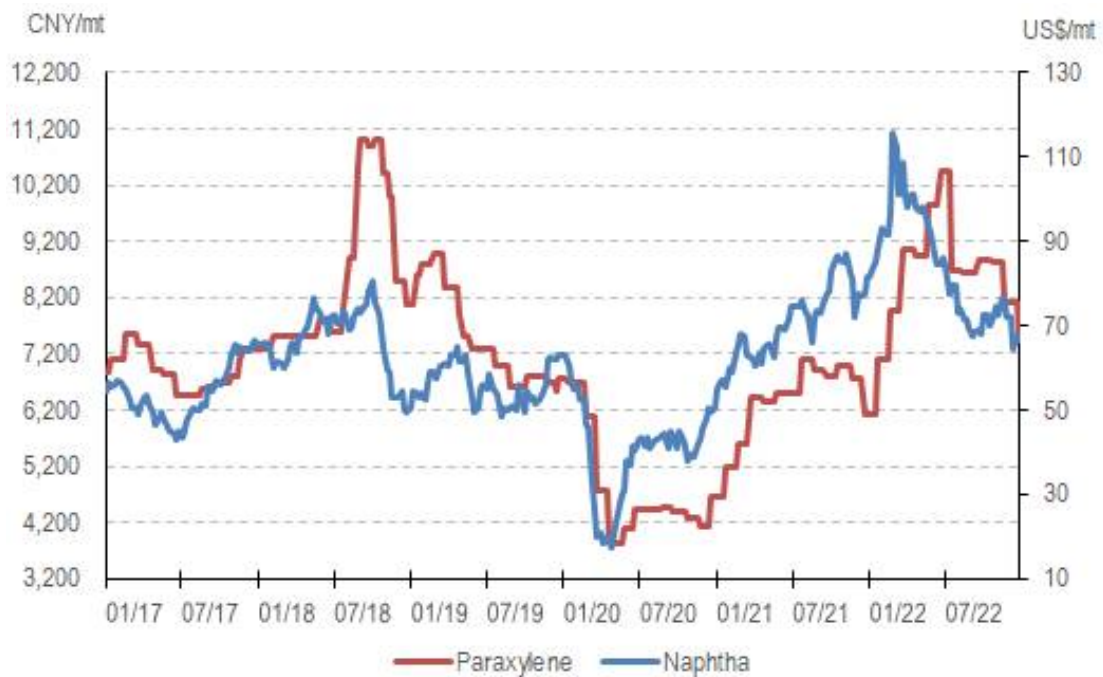
Source: Bloomberg

EXHIBIT 3: SPOT PRICES FOR POLYPROPYLENE, BENZENE & NAPHTHA



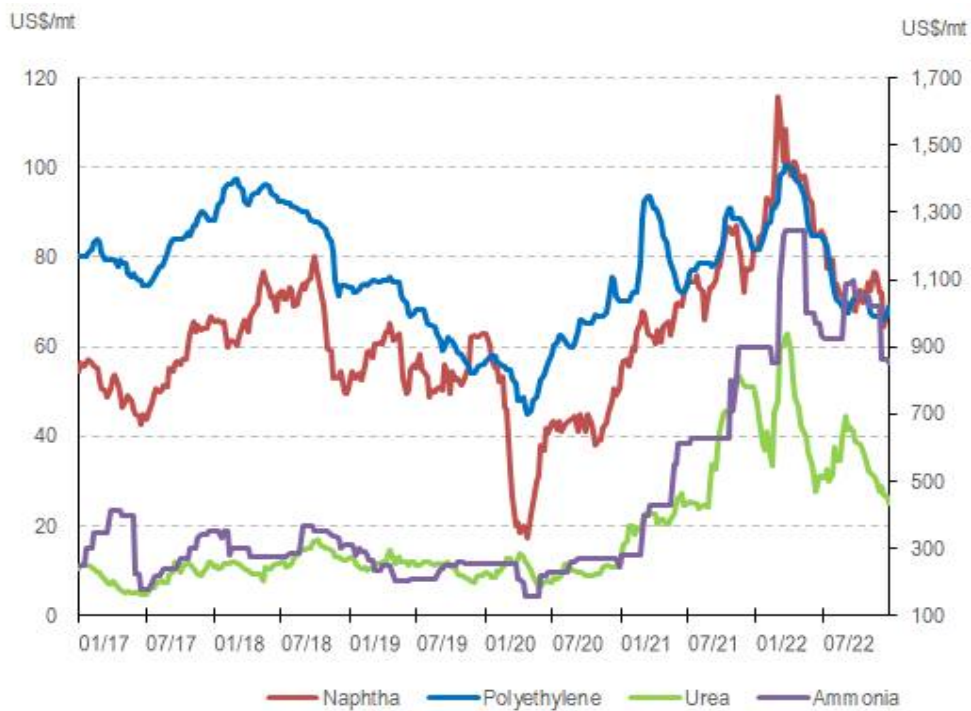
Source: Bloomberg

EXHIBIT 4: SPOT PRICES FOR PARAXYLENE & NAPHTHA



Source: Bloomberg

EXHIBIT 5: SPOT PRICES FOR NAPHTHA, POLYETHYLENE, AMMONIA & 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

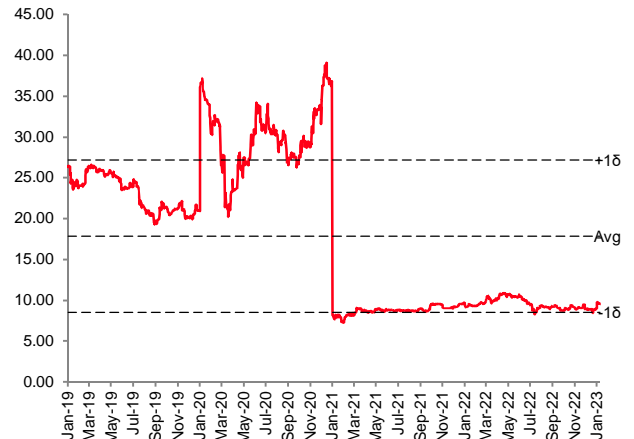


EXHIBIT 11: ESG RATING

Overall	★	★	★	★	
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

Income Statement (RMmil, YE 31 Dec)	FY20	FY21	FY22F	FY23F	FY24F
Revenue	14,362.0	23,025.0	25,507.6	30,490.7	29,902.3
EBITDA	3,450.0	8,116.0	8,325.5	7,466.1	6,664.7
Depreciation/Amortisation	(1,670.0)	(1,650.0)	(1,794.0)	(1,812.0)	(1,830.1)
Operating income (EBIT)	1,780.0	6,466.0	6,531.5	5,654.2	4,834.6
Other income & associates	112.0	1,151.0	1,191.7	1,371.1	1,466.2
Net interest	197.0	(29.0)	420.1	434.5	503.5
Exceptional items	(232.0)	122.0	-	-	-
Pretax profit	1,857.0	7,710.0	8,143.3	7,459.8	6,804.3
Taxation	(271.0)	(391.0)	(423.4)	(387.9)	(353.8)
Minorities/pref dividends	42.0	26.0	(77.2)	(70.7)	(64.5)
Net profit	1,628.0	7,345.0	7,642.6	7,001.1	6,386.0
Core net profit	1,860.0	7,223.0	7,642.6	7,001.1	6,386.0
Balance Sheet (RMmil, YE 31 Dec)	FY20	FY21	FY22F	FY23F	FY24F
Fixed assets	20,987.0	22,195.0	22,601.0	22,989.0	23,359.0
Intangible assets	744.0	684.0	684.0	684.0	684.0
Other long-term assets	1,601.0	2,303.0	2,918.2	3,666.9	4,485.9
Total non-current assets	23,332.0	25,182.0	26,203.2	27,340.0	28,528.9
Cash & equivalent	12,707.0	16,390.0	16,462.2	18,443.3	20,382.7
Stock	1,806.0	2,214.0	2,445.9	2,923.8	2,867.3
Trade debtors	1,938.0	2,737.0	3,843.6	4,594.5	4,505.8
Other current assets	46.0	85.0	89.3	93.7	98.4
Total current assets	16,497.0	21,426.0	22,841.0	26,055.3	27,854.2
Trade creditors	2,973.0	4,451.0	3,482.1	4,678.0	4,717.0
Short-term borrowings	198.0	232.0	255.2	280.7	308.8
Other current liabilities	73.0	270.0	292.4	267.9	244.3
Total current liabilities	3,244.0	4,953.0	4,029.7	5,226.6	5,270.1
Long-term borrowings	1,994.0	2,156.0	1,724.8	1,379.8	1,103.9
Other long-term liabilities	3,582.0	3,959.0	4,157.0	4,364.8	4,583.0
Total long-term liabilities	5,576.0	6,115.0	5,881.8	5,744.6	5,686.9
Shareholders' funds	30,446.0	35,005.0	38,520.6	41,741.1	44,678.7
Minority interests	563.0	535.0	612.2	682.9	747.4
BV/share (RM)	3.81	4.38	4.82	5.22	5.58
Cash Flow (RMmil, YE 31 Dec)	FY20	FY21	FY22F	FY23F	FY24F
Pretax profit	1,857.0	7,710.0	8,143.3	7,459.8	6,804.3
Depreciation/Amortisation	1,670.0	1,650.0	1,794.0	1,812.0	1,830.1
Net change in working capital	(239.0)	429.0	(2,289.3)	(61.8)	155.9
Others	192.0	887.2	(840.7)	(928.8)	(954.6)
Cash flow from operations	3,480.0	10,676.2	6,807.3	8,281.1	7,835.7
Capital expenditure	(2,175.0)	(2,858.0)	(2,200.0)	(2,200.0)	(2,200.0)
Net investments & sale of fixed assets	-	-	-	-	-
Others	-	-	-	-	-
Cash flow from investing	(2,175.0)	(2,858.0)	(2,200.0)	(2,200.0)	(2,200.0)
Debt raised/(repaid)	-	-	-	-	-
Equity raised/(repaid)	-	-	-	-	-
Dividends paid	(960.0)	(4,480.0)	(4,127.0)	(3,780.6)	(3,448.4)
Others	-	(29.0)	-	-	-
Cash flow from financing	(960.0)	(4,509.0)	(4,127.0)	(3,780.6)	(3,448.4)
Net cash flow	345.0	3,309.2	480.3	2,300.5	2,187.2
Net cash/(debt) b/f	10,170.0	10,515.0	13,853.2	14,333.5	16,634.0
Net cash/(debt) c/f	10,515.0	13,824.2	14,333.5	16,634.0	18,821.2
Key Ratios (YE 31 Dec)	FY20	FY21	FY22F	FY23F	FY24F
Revenue growth (%)	(12.3)	60.3	10.8	19.5	(1.9)
EBITDA growth (%)	(14.2)	135.2	2.6	(10.3)	(10.7)
Pretax margin (%)	12.9	33.5	31.9	24.5	22.8
Net profit margin (%)	11.3	31.9	30.0	23.0	21.4
Interest cover (x)	nm	223.0	nm	nm	nm
Effective tax rate (%)	14.6	5.1	5.2	5.2	5.2
Dividend payout (%)	59.0	61.0	54.0	54.0	54.0
Debtors turnover (days)	50	37	47	51	56
Stock turnover (days)	44	32	33	32	35
Creditors turnover (days)	78	59	57	49	57

Source: Company, AmlInvestment Bank Bhd estimates

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