

# Petronas Chemicals Group Berhad

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

## Battered but with chance of recovery

### KEY INVESTMENT HIGHLIGHTS

- **Petronas Chemicals Group Bhd's 1QFY20 core profit of RM506.0m came in below expectations**
- **Revenue and earnings impacted by weak product prices and pullback in demand from China arising from the Covid19**
- **Gradual recovery in ASPs and demand expected in FY20**
- **Differentiated and specialized products to cushion the impact from subdued product prices**
- **FY20-21F earnings revised down by -28.2% and -21.1%**
- **Downgrade to NEUTRAL with a lower TP of RM5.85/share**

**PChem's 1QFY20 earnings impacted by low product prices and pullback in demand.** Petronas Chemicals Group Bhd's (PChem) 1QFY20 earnings came in at RM506.0m which was below our and consensus' expectations at 14% and 13% respectively. Comparing against 1QFY19, revenue and earnings during the quarter contracted by -5.8%yoy and -36.9%yoy primarily due to the pullback in demand following the worldwide Covid19 health crisis coupled with soft product prices. Meanwhile on a quarterly basis, revenue dipped by -8.1%qoq mainly due to weak product prices whilst earnings climbed by +48.8%qoq due to better PUR vs 4QFY19 where there were several unplanned TA that took place. Average blended product prices were down by -5.8%yoy and -12.5%qoq during the quarter.

**Overall commendable PUR of 94% recorded in 1QFY20.** Overall plant utilisation rate (PUR) of 94% was recorded in 1QFY20, which was comparable to 1QFY19's PUR of 95%. This was despite the several turnaround (TA) maintenance activities that took place during the quarter mainly at PC Fertiliser in Bintulu and Labuan. Furthermore, PC Fertiliser Kedah as well as; PC Methanol 2 have also completed their respective TA in 1QFY20.

**Olefins and Derivatives.** The segment reported a 100% PUR during the quarter which was similar to 1QFY19. During the quarter, revenue was lower by -12.8%yoy and segment result was in the negative due to the persistently weak product prices despite commendable sales volume recorded during the quarter of 1,008,000MT. This was mainly due to compressed margin arising from the weak global product prices. During the quarter, the segment's blended ASP dipped by -13.5%yoy and -8.5%qoq due to the market being amply supplied and weak movement of the crude oil price. In addition, we understand that the segment's revenue had also incorporated a RM146m worth of revenue from the sales of excess molecules produced by refineries at Pengerang during the commissioning stage. The sales of these excess molecules make up about 6.0% of O&D's revenue and 3.75% of PChem's overall revenue. We understand that the sales of these excess molecules will be a recurring income for PChem going forward with the commissioning of PIC but at a lower rate as some will be used for petrochemical productions.

## Downgrade to NEUTRAL

(Previously Buy)

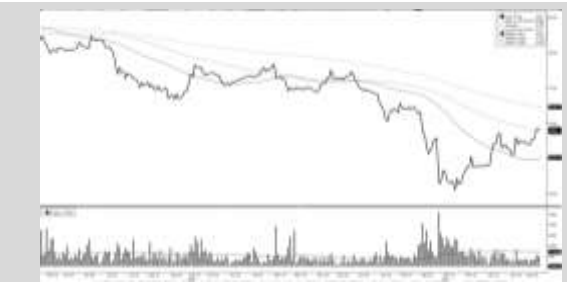
### Revised Target Price: RM5.85

(Previously RM6.75)

#### RETURN STATISTICS

Price @ 20 <sup>th</sup> May 2020 (RM)	5.84
Expected share price return (%)	+0.1
Expected dividend yield (%)	+6.5
<b>Expected total return (%)</b>	<b>+6.6</b>

#### SHARE PRICE CHART



Share price performance (%)	Absolute	Relative
1 month	10.0	5.6
3 months	15.4	-3.8
12 months	-33.9	-26.3

#### KEY STATISTICS

FBM KLCI	1435.12
Syariah compliant	Yes
Issue shares (m)	8000.00
Estimated free float (%)	16.52
Market Capitalisation (RM'm)	46640.00
52-wk price range	RM4 - RM8.88
Beta vs FBM KLCI (x)	1.47
Monthly velocity (%)	0.00
Monthly volatility (%)	14.33
3-mth average daily volume (m)	7.15
3-mth average daily value (RM'm)	36.36
Top Shareholders (%)	
Petroleum Nasional Bhd	64.35
Employees Provident Fund	8.95
Skim Amanah Saham Bumiputera	5.68

#### Analyst(s)


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**Fertilisers and Methanol.** The segment recorded a lower PUR of 90% during the quarter vs 92% in the same period last year mainly due to TAs undertaken at several of its plants notably at its PC Methanol Plant 2, PC Fertiliser Bintulu, Labuan and Kedah. This had resulted in lower production during the quarter. However, sales volume was higher due to product drawdown from inventory. Furthermore, the higher sales volume was negated also by the subdued product prices with revenue and earnings registering a decline of -7.8%oyoy and -6.0%oyoy respectively during the quarter.

**FY20-21F earnings revised downwards.** After assessing the impact from: (i) demand pullback due to the Covid19 health crisis; (ii) the potential continued weak movement of the crude oil price; (iii) turnaround at its PC Methanol Plant 1 and MTBE Gebeng plant to be undertaken in 4QFY20 which will reduce sales volume as well as; (iv) slow recovery in product prices; we are reducing our FY20-21F earnings by -28.2% and -21.1% to RM2,581m and RM3,117m respectively (from RM3,597m and RM3,950m previously). We have also taken into account a three-months average depreciation cost relating to the gradual commissioning of the petrochemical plants at Pengerang Integrated Complex (PIC) in FY20.

**Target Price revised lower to RM5.85.** Post earnings revision and rolling forward our valuation base year to FY21, we are revising our target price lower to **RM5.85** (from RM6.75 previously). Our valuation is derived from pegging PER21 of 15x to a lower EPS21 of 39.0sen.

**Downgrade to NEUTRAL with POSITIVE bias.** Following the revision in our TP, we are downgrading our recommendation on PChem to **NEUTRAL** (from BUY previously). Despite the downgrade, we have a positive bias on the company given that its fundamentals remain intact and we foresee some form of recovery in product prices given the recent performance of the crude oil price and the return of demand from refineries in China. In addition, several countries have started easing their respective Covid19 measures which we expect will translate to improved demand going forward.

Furthermore, with the full-commissioning of RAPID Pengerang in 2HFY20, we are expecting PChem to start moving towards producing more differentiated and specialized products starting with the commissioning of PC Isononanol in Pengerang. Furthermore, with the completion of its statutory TA activities, production volumes will be restored to pre-TA period and further ramp-up from Pengerang – which will be able to produce a wider product range (C2-C6) compared to Kerteh and Gebeng combined, will assist in arresting the impact from the subdued product prices if it lingers into next year. Dividend yield remains attractive at 6.5% FY21F as of yesterday's closing price. 

## INVESTMENT STATISTICS

Financial year ending 31st Dec (in RM'm unless stated otherwise)	2018A	2019A	2020E	2021F	2022F
Revenue	19,576	16,370	14,561	14,562	15,146
EBIT	5,559	3,214	3,029	3,713	3,965
Pretax Profit	5,650	3,155	3,297	3,981	4,233
Net Profit	4,979	2,815	2,581	3,117	3,315
EPS (sen)	62.0	35.2	32.3	39.0	41.4
EPS growth (%)	19.2%	-43.2%	-8.3%	20.8%	6.3%
PER (x)	9.4	16.6	18.1	15.0	14.1
Dividend per share (sen)	32.0	18.0	37.0	38.0	39.0
Dividend yield (%)	5.5%	3.1%	6.3%	6.5%	6.7%

Source: Company, MIDFR

## PETRONAS CHEMICALS BERHAD: 1QFY20 RESULTS SUMMARY

Financial year ending 31st Dec (in RM'm unless stated otherwise)	Quarterly results				
	1QFY19	4QFY19	1QFY20	QoQ (%)	YoY (%)
<b>Revenue</b>	<b>4,130.0</b>	<b>4,234.0</b>	<b>3,891.0</b>	<b>-8.1</b>	<b>-5.8</b>
Cost of revenue	(2,859.0)	(3,464.0)	(3,138.0)	-9.4	9.8
<b>Gross Profit</b>	<b>1,271.0</b>	<b>770.0</b>	<b>753.0</b>	<b>-2.2</b>	<b>-40.8</b>
Selling & Dist Expenses	(217.0)	(232.0)	(244.0)	5.2	12.4
Admin Expenses	(196.0)	(224.0)	(187.0)	-16.5	-4.6
Other Expenses	(32.0)	(90.0)	(1.0)	-98.9	-96.9
Other Income	100.0	153.0	285.0	86.3	185.0
<b>Operating Profit</b>	<b>926.0</b>	<b>377.0</b>	<b>606.0</b>	<b>60.7</b>	<b>-34.6</b>
Net Financing Costs	(9.0)	(13.0)	(6.0)	-53.8	-33.3
Associates	(24.0)	5.0	(32.0)	-740.0	33.3
<b>Profit Before Tax</b>	<b>893.0</b>	<b>369.0</b>	<b>568.0</b>	<b>53.9</b>	<b>-36.4</b>
Tax expense	(80.0)	(57.0)	(75.0)	31.6	-6.3
<b>Profit After Tax</b>	<b>813.0</b>	<b>312.0</b>	<b>493.0</b>	<b>58.0</b>	<b>-39.4</b>
Minority Interests	11.0	(28.0)	(13.0)	-53.6	-218.2
<b>PATAMI</b>	<b>802.0</b>	<b>340.0</b>	<b>506.0</b>	<b>48.8</b>	<b>-36.9</b>
				<i>+ / (-) pts</i>	
Gross margin (%)	30.8	18.2	19.4	1.2	-11.4
Operating profit margin (%)	22.4	8.9	15.6	6.7	-6.8
PBT margin (%)	21.6	8.7	14.6	5.9	-7.0
PATAMI margin (%)	19.4	8.0	13.0	5.0	-6.4
Tax rate (%)	9.0	15.4	13.2	-2.2	4.2
<b>Segmental:</b>					
<i>Revenue</i>					
- Olefins & Derivatives	2,749.0	2,576.0	2,396.0	-7.0	-12.8
- Fertilisers & Methanol	1,367.0	1,441.0	1,261.0	-12.5	-7.8
<i>Profit After Tax</i>					
- Olefins & Derivatives	461.0	45.0	(17.0)	-137.8	-103.7
- Fertilisers & Methanol	382.0	329.0	359.0	9.1	-6.0

Source: Company, MIDFR

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### MIDF AMANAH INVESTMENT BANK : GUIDE TO RECOMMENDATIONS

#### STOCK RECOMMENDATIONS

<b>BUY</b>	Total return is expected to be >10% over the next 12 months.
<b>TRADING BUY</b>	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.
<b>NEUTRAL</b>	Total return is expected to be between -10% and +10% over the next 12 months.
<b>SELL</b>	Total return is expected to be <10% over the next 12 months.
<b>TRADING SELL</b>	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

<b>POSITIVE</b>	The sector is expected to outperform the overall market over the next 12 months.
<b>NEUTRAL</b>	The sector is to perform in line with the overall market over the next 12 months.
<b>NEGATIVE</b>	The sector is expected to underperform the overall market over the next 12 months.