

22 May 2018 | 1QFY18 Results Review

Petronas Chemicals Group Berhad

Strong PUR and sales volume growth

Downgrade to NEUTRAL

Revised Target Price (TP): RM8.90
(previously RM8.72)

INVESTMENT HIGHLIGHTS

- **Petronas Chemicals Group Bhd's (PChem) 1QFY18 earnings expanded by +6%qoq to RM1.1b**
- **1QFY18 PUR at 100% due to good feedstock and asset reliability**
- **Product volume growth of +11%yoy**
- **Average product prices increased on strengthening global crude oil prices**
- **Downgrade to NEUTRAL (upside bias) with revised TP of RM8.90 per share**

100% PUR from better plant performance. PChem's 1QFY18 earnings increased by +6%qoq to RM1.1b. The commendable profit is premised on strong revenue growth of +5.5%yoy and +4.5%qoq to RM4.95b – highest ever achieved so far. The upbeat sales figures are a result of: (i) PUR of 100% and; (ii) higher average selling prices (ASP). The growth in revenue was however undeterred by weaker USD. Product volume grew by +11%yoy to 2,798MT for 1QFY18 compared with 2,513MT in 1QFY17. Annual production volume is forecasted to be above 10,000MT per annum for FY18.

Earnings within estimates. 3MFY18 normalised earnings (excluding loss of partial divestment of subsidiary and forex losses) met our and consensus expectations at 25% and 26% of FY18 full year earnings estimates respectively. Overall PATAMI margin sustained at a healthy 22% for the quarter.

Olefins & derivatives. FY17 segment revenue and profit increased by +6.1%qoq and by +12.9%qoq respectively. Segment PUR was at 100% while average product prices increased by +10% in-line with strong crude oil prices. Ethylene production for the quarter was at 263kMT (+2.7%yoy).

Fertilisers & Methanol. Both segment revenue and profit surged by +22.0%yoy and by +25.1%yoy due to (i) PUR 99.5%; (ii) higher average product prices from strong crude oil prices and; (iii) strong sales volume. The surge in revenue and profit is attributable to PC Fertiliser Sabah (SAMUR). Urea production was at 643kMT (+78.6%yoy) while methanol production was at 540kMT (+6.9%yoy).

RETURN STATS	
Price (21 May 2018)	RM8.70
Target Price	RM8.90
Expected Share Price Return	+2.3%
Expected Dividend Yield	+3.1%
Expected Total Return	+5.4%

STOCK INFO	
KLCI	1,853.58
Bursa / Bloomberg	5183 / PCHEM MK
Board / Sector	Main / Trading Services
Syariah Compliant	Yes
Issued shares (mil)	8,000.0
Market cap. (RM'm)	69,600.0
Price over NA	2.1x
52-wk price Range	RM6.61 – RM8.70
Beta (against KLCI)	0.80
3-mth Avg Daily Vol	7.1m
3-mth Avg Daily Value	RM58.9m
Major Shareholders (%)	
Petroleum Nasional Berhad	64.35
Employees Provident Fund	7.17
Kumpulan Wang Persaraan Diperbadankan	3.06

Commendable PUR despite turnaround activities. Management guided that FY18 will be another year with heavy turnaround activities. Despite this, the average PUR for the group is expected to remain above 90%. The bulk of the heavy turnaround will happen in 3QFY18 where PUR is expected to be below 90% while PUR for 1HFY18 is expected to remain high (PUR for 2QFY18 is currently at 94%). For 3QFY18, TA will be conducted on its cracker, fertiliser and methanol facilities.

Impact on earnings. No changes to earnings estimates.

Remain sanguine on company. Moving forward into the year, the group's overall PUR will be under stress owing to heavy turnaround activities. Nonetheless, management still expects total product volume output to be above 10kMT, comparable with that of FY17. In addition, management also expects profits to be on par with FY17 premised on strong demand, strong asset reliability albeit softening product prices.

Expected turnaround activities and forecasted in FY18

FY18	Activities	Expected PUR
1 st Half	- PC MTBE	High 90s%
2 nd Half	- PC Methanol - ASEAN Bintulu Fertiliser	<90%

Source: MIDFR, Company

Recommendation. Year-to-date, Pchem's share price has appreciated by +13%, while valuations are currently at a two-year high. With heavy TA expected this year and earnings expected to remain relatively flat year-over-year, we are downgrading our recommendation to **NEUTRAL** with an upside bias. We roll forward our valuation base year to FY19 with a revised target price of **RM8.90** per share. Our target price is derived from PER19 of 16x pegged to EPS18 of 55.6sen.

Product price outlook for 2QFY18

No.	Product	Outlook
1	Ethylene	ASP expected to remain stable owing to firming crude prices coupled with TA in NEA and ME. Softer demand is seen in SEA and FEA.
2	Polymers	ASP expected to also remain stable due to ample supply in SEA and stable demand in China and SEA.
3	MEG	ASP expected to continue to be stable attributable to maintenance shutdown in NEA and ME. High inventory in China ports seen while anticipated restocking from polymer manufacturers.
4	Aromatics	ASP also expected to be stable due to ample supply in SEA and ME. Stable demand from downstream seen.
5	Urea	ASP expected to soften due to the end of purchasing season in US and Europe. Thailand is also recording high inventory levels.
6	Ammonia	ASP expected to also soften due to new capacity in steam in NEA. Low demand from downstream also expected due to TA.
7	Methanol	ASP expected to be stable form stable supply with high OR. Stable demand from downstream seen

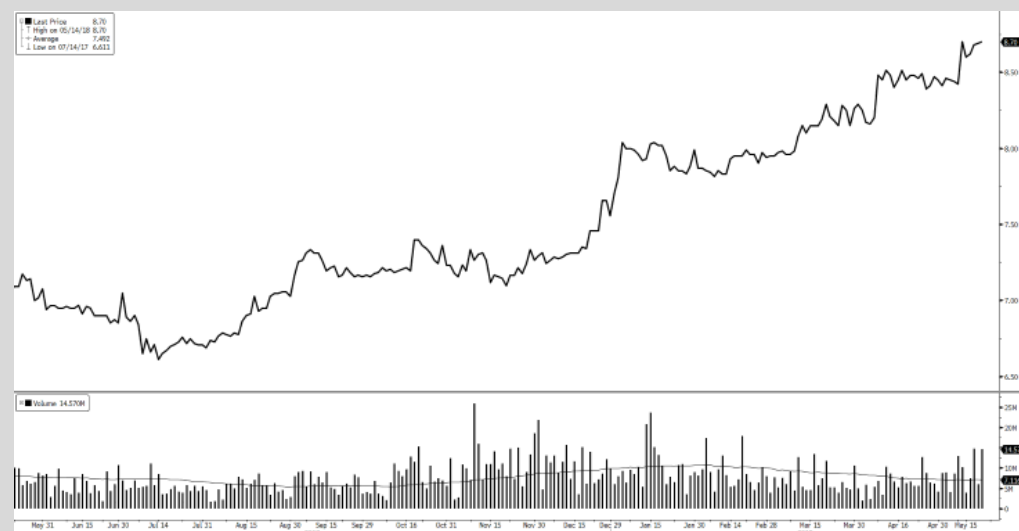
Source: MIDFR, Company

INVESTMENT STATISTICS

FYE Dec	FY15	FY16	FY17	FY18F	FY19F
Revenue (RM'm)	13,536	13,860	17,407	17,442	17,810
EBIT (RM'm)	3,757	4,046	5,240	5,306	5,418
Pretax Profit (RM'm)	3,833	4,110	5,236	5,564	5,684
Net Profit (RM'm)	2,782	2,932	4,177	4,356	4,450
EPS (sen)	35	37	52	54.5	55.6
EPS (%)	13	6	41	5	2
PER (x)	24.9	23.5	16.7	16.0	15.6
Net Dividend (sen)	18	19	27	27	27
Net Dividend (%)	2.1	2.2	3.1	3.1	3.1

Source: MIDFR

DAILY PRICE CHART



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1QFY18 RESULTS SUMMARY

FYE Dec (RM m)	Quarterly Results				
	1Q17	4Q17	1Q18	QoQ (%)	YoY (%)
Revenue	4695	4740	4951	4.5	5.5
COGS	-2742	-3083	-3100	0.6	13.1
Gross Profit	1953	1657	1851	11.7	-5.2
Selling & Dist Expenses	-184	-201	-204	1.5	10.9
Admin Expenses	-177	-163	-208	27.6	17.5
Other Expenses	-12	3	-179	-6066.7	1391.7
Other Income	59	74	63	-14.9	6.8
Operating Profit	1639	1370	1323	-3.4	-19.3
Financing Costs	-6	-5	-4	-20	-33.3
Associates	3	-43	17	-139.5	466.7
PBT	1636	1322	1336	1.1	-18.3
Tax	-255	-273	-229	-16.1	-10.2
PATAMI	1295	1005	1065	6	-17.8
Segments:					
Revenue					
- Olefins & Derivatives	3218	2969	3151	6.1	-2.1
- Fertilisers & Methanol	1465	1813	1787	-1.4	22
- Others	12	na	13	nm	8.3
Profit					
- Olefins & Derivatives	933	637	719	12.9	-22.9
- Fertilisers & Methanol	451	391	564	44.2	25.1
- Others	-3	21	-176	-938.1	5766.7
Total	1381	1049	1107	5.5	-19.8

Source: MIDFR

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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.