

10 May 2016 | 1QFY16 Results Review

Petronas Chemicals Group Berhad

Weaker earnings despite higher PUR

Maintain NEUTRAL

Revised Target Price (TP): RM6.46
(previously RM6.86)

INVESTMENT HIGHLIGHTS

- **Petronas Chemicals Group Bhd's (PChem) 1Q16 earnings declined by -2.1%yoy to RM592m**
- **Earnings were largely impacted by weak market demand and soft product selling prices**
- **Group plant utilisation rate for 1Q16 however improved to 92% from 86% in 4Q15**
- **Maintain NEUTRAL with revised TP of RM6.46 per share**

Weaker earnings despite higher utilisation rates. PChem's 1Q16 earnings declined by -2.1%yoy and -15.9%qoq to RM592m premised on weaker headline revenue. Despite recording higher segmental plant utilisation rates, 3M16 earnings lagged our and consensus full year FY16 earnings estimates by a variance of more than >5%.

Olefins & derivatives. Although average product prices for this segment were negatively impacted by sharp declines in crude oil and naphtha prices in 1Q16, 3M16 segment revenue improved by +7.6%yoy to RM2.2b while profit increased by +26.6%yoy to RM461m. The commendable increase in revenue and profit were largely due to higher sales volume, strong USD and very strong plant utilisation rate of 97% compared with 95% in 1Q15. Segment profit margin also expanded by +3.1ppts to 20.5%.


Fertilisers & Methanol. Similar to the O&D segment, plant utilisation rate also recorded improvements from 87% in 1Q15 to 89% in 1Q16. Unfortunately, the increases in sales volume and production from increased methane supply were not able to offset the large decline in urea prices. Urea prices in 1Q16 were soft due to ample supply while ammonia and methanol prices were weak due to sluggish demand. Overall 3M16 segment revenue and profit declined by -9.9%yoy and -33.4%yoy respectively.

Plant utilisation rate for 1Q16. PChem's group plant utilisation rate in 1Q16 improved to 92% from 90% in 1Q15 due to feedstock supply reliability. This is still above the world-class performance threshold of +85%.

RETURN STATS	
Price (9 May 2015)	RM6.11
Target Price	RM6.46
Expected Share Price Return	+5.7%
Expected Dividend Yield	+3.6%
Expected Total Return	+9.3%

STOCK INFO	
KLCI	1,632.19
Bursa / Bloomberg	5183 / PCHEM MK
Board / Sector	Main / Trading Services
Syariah Compliant	Yes
Issued shares (mil)	8,000.0
Par Value (RM)	1.00
Market cap. (RM'm)	48,880.0
Price over NA	2.1x
52-wk price Range	RM6.11 – RM7.18
Beta (against KLCI)	1.23
3-mth Avg Daily Vol	5.7m
3-mth Avg Daily Value	RM38.6m
Major Shareholders (%)	
Petroliam Nasional Berhad	64.35
Employees Provident Fund	10.22
Permodalan Nasional Bhd	6.76

Impact on earnings. Due to the weaker than anticipated average product selling prices and weaker than expected demand, we are revising our FY16 and FY17 earnings downwards by -11.7% and -12.5% respectively.

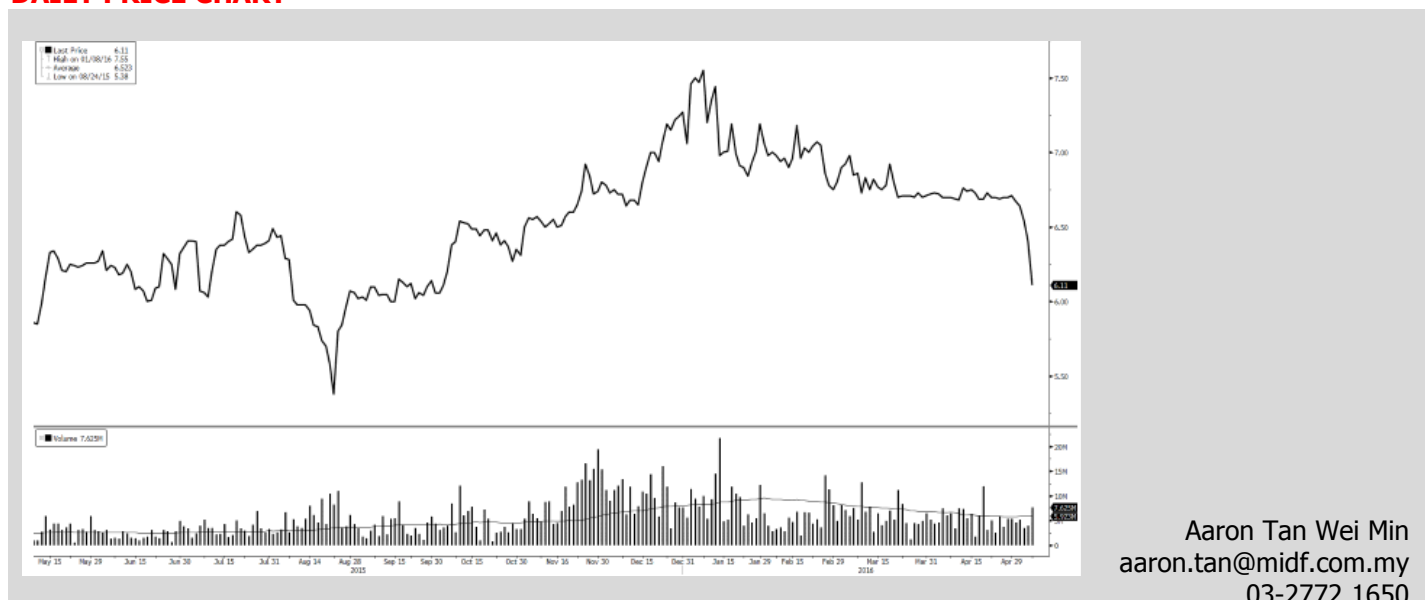
Recommendation. We are maintaining our **NEUTRAL** recommendation on PChem with a revised target price of **RM6.46** per share. We roll forward our valuation base year to derive our target price premised on a target PER17 of 17.5x pegged to EPS17 of 36.9sen. Our target PER16 is the company's average quarterly rolling PER since its listing. It is however worthwhile noting that PChem's PER is a premium over its regional competitor's average PER of only 14.5x due to the company's relatively cheaper and more reliable feedstock advantage from PETRONAS. 

INVESTMENT STATISTICS

FYE Dec	FY13	FY14	FY15F	FY16F	FY17F
Revenue (RM'm)	15,202	14,597	13,536	13,778	14,673
EBIT (RM'm)	4,334	3,431	3,757	3,761	4,006
Pretax Profit (RM'm)	4,547	3,551	3,833	3,999	4,254
Net Profit (RM'm)	3,504	2,465	2,782	2,771	2,948
EPS (sen)	39	31	35	34.6	36.9
EPS (%)	-11	-21	13	-1	6
PER (x)	15.7	19.7	17.5	17.6	16.6
Net Dividend (sen)	22	22	22	22	22
Net Dividend (%)	3.6	3.6	3.6	3.6	3.6

Source: MIDFR

DAILY PRICE CHART



1QFY16 RESULTS SUMMARY

FYE Dec (RM m)	Quarterly Results				
	1Q15	4Q15	1Q16	QoQ (%)	YoY (%)
Revenue	3140	3449	3147	-8.8	0.2
COGS	-2108	-2428	-2050	-15.6	-2.8
Gross Profit	1032	1021	1097	7.4	6.3
Selling & Dist Expenses	-146	-152	-167	9.9	14.4
Admin Expenses	-110	-181	-122	-32.6	10.9
Other Expenses	-301	73	-125	-271.2	-58.5
Other Income	350	137	203	48.2	-42
Operating Profit	825	898	891	-0.8	8
Associates	25	14	5	-64.3	-80
PBT	843	912	896	-1.8	6.3
Tax	-171	-121	225	-286	-231.6
PATAMI	605	704	592	-15.9	-2.1
Segments:					
Revenue					
- Olefins & Derivatives	2090	2439	2249	-7.8	7.6
- Fertilisers & Methanol	1038	1056	935	-11.5	-9.9
Total	3140	3449	3147	-100	-100
Profit					
- Olefins & Derivatives	364	578	461	-20.2	26.6
- Fertilisers & Methanol	290	246	193	-21.5	-33.4
Total	672	791	671	-15.2	-0.1

Source: MIDFR

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MIDF AMANAH INVESTMENT BANK : GUIDE TO RECOMMENDATIONS

STOCK RECOMMENDATIONS

BUY	Total return is expected to be >15% over the next 12 months.
TRADING BUY	Stock price is expected to <i>rise</i> by >15% within 3-months after a Trading Buy rating has been assigned due to positive newsflow.
NEUTRAL	Total return is expected to be between -15% and +15% over the next 12 months.
SELL	Total return is expected to be <-15% over the next 12 months.
TRADING SELL	Stock price is expected to <i>fall</i> by >15% 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.