

15 April 2016 | Corporate Update

## Petronas Chemicals Group Berhad

### *Bold move axing elastomer project*

**Maintain NEUTRAL**

**Maintain Target Price (TP): RM6.86**

#### INVESTMENT HIGHLIGHTS

- **Petronas Chemicals Group has cancelled the elastomer project in RAPID**
- **The project was estimated to be approximately USD1.3b**
- **Cancellation of the project is expected to bode well for company**
- **Other projects, i.e. polymer and glycol, expected to continue according to schedule**
- **Maintain NEUTRAL with unchanged TP of RM6.86**

**Elastomer project first mooted in 2013.** Back in November 2013, PETRONAS and Versalis, Eni's chemical subsidiary, have signed a Shareholders' Agreement to set up a joint venture company that will manufacture, sell and market elastomers produced within PETRONAS' RAPID complex in Pengerang, Johor, Malaysia.

**Elastomer project cancellation.** However, Petronas Chemicals Group Berhad is cancelling the elastomer project in the Petronas Refinery and Petrochemicals Integrated Development (RAPID) in Pengerang. The projected investment cost for the elastomer plants is approximately USD1.3b of the total USD3.9b estimated for the total investment cost of the polymer, glycol and elastomer projects. The other two projects (polymer and glycol) will continue according to schedule. The company noted that the cancellation of the elastomer project will result in 0.35mMTPA capacity reduction of the total 3.5mMTPA.

**Rationale for cancellation.** Petronas Chemicals guided that the decision to cancel the elastomer project was arrived at after taking into consideration less-than-favourable product market outlook and estimated return on investment on the project. In fact, the company further noted that the cancellation is expected to improve the overall returns of Petronas Chemicals investments in RAPID.

**Our view.** In light of the soft market outlook for certain petrochemicals products and continued uncertainty in the global crude oil prices, we believe that Petronas Chemicals is taking a very bold and prudent approach in its investment decisions.


**Petronas remains committed at RAPID.** Nevertheless, Petronas Chemicals remains committed to its other projects in RAPID namely the polymer and glycol projects.

RETURN STATS	
Price (14 April 2016)	RM6.74
Target Price	RM6.86
Expected Share Price Return	+1.8%
Expected Dividend Yield	+3.3%
<b>Expected Total Return</b>	<b>+5.1%</b>

STOCK INFO	
KLCI	1,723.78
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)	53,920.0
Price over NA	2.1x
52-wk price Range	RM5.17 – RM7.62
Beta (against KLCI)	1.24
3-mth Avg Daily Vol	6.2m
3-mth Avg Daily Value	RM42.4m
Major Shareholders (%)	
Petroliam Nasional Berhad	64.35
Employees Provident Fund	10.22
Permodalan Nasional Bhd	6.76

**Polymer and glycol projects awarded.** Back in 23 November 2015, Petronas Chemicals, via its unit PRPC Polymers Unit Sdn Bhd, had awarded the consortium comprising Tecnimont SPA, Huanqiu Engineering and Engineering Corp, TechnimonthQC Sdn Bhd and TechnimonthQC S.C.A.R.L. an engineering, procurement, construction and commissioning (EPCC) contract for 900,000 tonnes per annum (900 ktpa) Polypropylene (PP) plant within RAPID worth USD482m. Also, back in 4 December 2015, Petronas Chemicals awarded two EPCC projects (polyethylene and glycol) worth a collective USD882m to Samsung Engineering.

**Impact on earnings.** No change to our earnings estimates at this juncture.

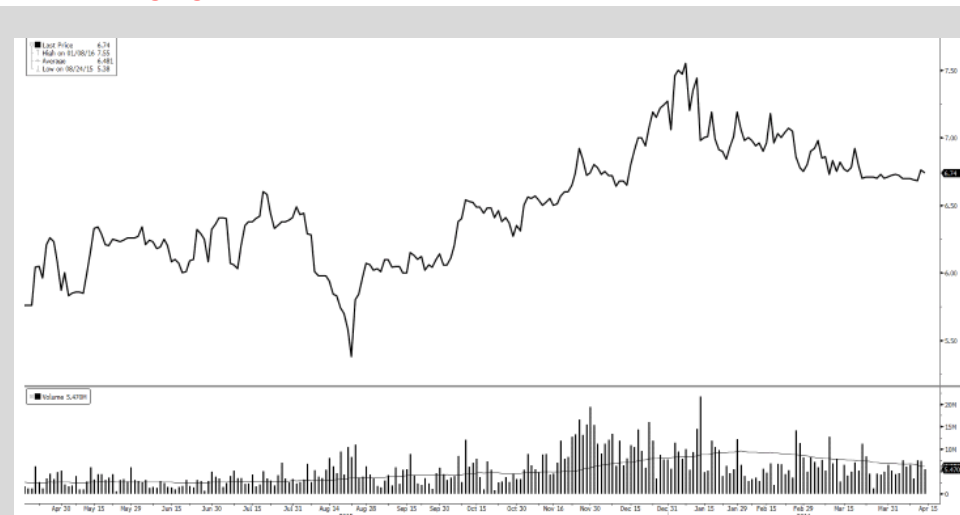
**Recommendation.** We are maintaining our **NEUTRAL** recommendation on Petronas Chemicals with an unchanged target price of **RM6.86** per share as we believe that the outlook, fundamentals and stock price performance have improved significantly. Our target price is premised on a target PER16 of 17.5x pegged to EPS16 of 39.2sen. Our target PER16 is the company's average quarterly rolling PER since its listing. It is however worthwhile noting that the company'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	FY15	FY16F	FY17F
Revenue (RM'm)	15,202	14,597	13,536	15,572	16,678
EBIT (RM'm)	4,334	3,431	3,757	4,251	4,553
Pretax Profit (RM'm)	4,547	3,551	3,833	4,531	4,861
Net Profit (RM'm)	3,504	2,465	2,782	3,140	3,369
EPS (sen)	39	31	34.8	39.2	42.1
EPS (%)	-11.4	-20.5	12.9	12.1	7.3
PER (x)	17.3	21.7	19.3	17.2	16.0
Net Dividend (sen)	22	22	22	23	23
Net Dividend (%)	3.3	3.3	3.3	3.4	3.4

Source: MIDFR

## DAILY PRICE CHART



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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.