Petronas Chemicals Group Berhad

***Maintain* BUY**

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

Higher product prices continue to elevate earnings

***Maintain* Target Price: RM11.93**

KEY INVESTMENT HIGHLIGHTS

- **Petronas Chemicals, Mentri Besar Trengganu and PCC SE signed an EOI Letter for PCC Oxyalkylates (PCGPCC)**
- **PCGPCC constructed in CY21, completion expected CY23 with 70,000 tonnes of annual output**
- **MBTI to buy 5% of shares for PCGPCC upon finalisation**
- **No changes to earnings forecast**
- **Maintain BUY with TP of RM11.93 per share**

PCG to receive investment from MBTI. Mentri Besar Trengganu Inc. (MBTI), a Terengganu state-owned corporation, Petronas Chemicals Group Berhad (PCG) and PCC SE signed an Expression of Interest (EOI) Letter to allow MBTI to conduct due diligence on PCG PCC Oxyalkylates Sdn. Bhd (PCGPCC). In the presence of Terengganu Chief Minister, Dato' Seri Dr. Ahmad Samsuri Mokhtar, the Letter was signed by MBTI's representative, State Secretary of Terengganu, Tengku Sri Bijaya Raja Datuk Tengku Farok Hussin Tengku Abdul Jalil; PCG Managing Director and Chief Executive Officer, Ir. Mohd Yusri Mohamed Yusof; and PCC SE Management Member, Peter Berger. With the signing of the agreement, the state government will carry out the necessary due diligence before making a final investment decision to allow MBTI to buy a total of 5% of the shares in PCGPCC from the existing shareholders.

Factory to be operational in CY23. The Oxyalkylates factory in Kerteh, Terengganu was borne via a joint venture between PCG and PCC SE in CY21 and production is expected to commence in CY23. When fully operational, the factory will produce speciality polyether polyols and ethoxylates at a rate of up to 70,000 tonnes annually. Polyether polyols are largely used to manufacture polyurethane foam for mattresses and upholstery applications, while ethoxylates are employed used in the creation of detergents, home care, and personal care goods. This project, which aims to meet the rising demand for oxyalkylates, primarily in the SE Asia and Asia Pacific areas, is the first dual-train plant in the region.

Expected contribution to state growth. PCG and PCC SE's continuous oxyalkylates investment will create job opportunities, including high-skilled occupations for the local community, in addition to acting as a catalyst for growth in the Terengganu. PCG welcomes the investment as the state had continuously supported PCG through infrastructure and resources for its projects and growth; in hopes that this new venture will further strengthen their partnership.

RETURN STATISTICS	
Price @ 29th August 2022 (RM)	8.90
Expected share price return (%)	+34.0
Expected dividend yield (%)	+3.4
Expected total return (%)	**+37.4**

SHARE PRICE CHART



Share price performance (%)	Absolute	Relative
1 month	0.2	-0.4
3 months	-1.1	-8.5
12 months	8.5	15.7

KEY STATISTICS	
FBM KLCI	1,501.57
Syariah compliant	Yes
FSGBM Index	Yes
ESG Grading Band	☆☆☆☆
Issues shares (m)	8000.00
Estimated free float (%)	17.60
Market Capitalisation (RM'm)	71,200.00
52-wk price range	RM7.75 - RM11.0
Beta vs FBM KLCI (x)	1.14
Monthly velocity (%)	0.26
Monthly volatility (%)	14.60
3-mth average daily volume (m)	7.24
3-mth average daily value (RM'm)	65.31
Top Shareholders (%)	
Petroliam Nasional Bhd	64.35
Employees Provident Fund Board	8.42
Amanah Saham Nasional Bhd	5.21

MIDF Research
research@midf.com.my

No changes to earnings estimate. Considering that the EOI is still in its early stages, and that the PCGPCC will only be fully operational in CY23, we make no changes to our earnings estimates.

Maintain BUY. All in, we maintain our **BUY** call on PCG with the **target price of RM11.93 per share**.

We reiterate our positive stance with PCG's continuous hunt for beneficial partnership and collaboration in the local and regional petrochemical industry. We believe the additional investment in PCGPCC will add to PCG's expanding portfolio for specialty chemicals, subsequently proving PCG's capacity and capability to retain itself as a main provider of specialty chemicals locally and regionally. Additionally, this project is expected to not only improve PCG's revenue stream in the near future, but also benefit the state government to play a role as one of the important petrochemical hubs in the country.

INVESTMENT STATISTICS

Financial year ending 31st December (in RM'm unless otherwise stated)	2020A	2021A	2022E	2023F	2024F
Revenue	14,362	23,025	26,418	27,188	28,558
EBIT	2,200	7,010	8,031	8,483	8,453
Pretax Profit	1,857	7,710	8,837	9,308	9,308
Net Profit	1,586	7,319	8,479	9,064	9,285
EPS (sen)	20.0	92.0	106.0	113.3	116.1
EPS growth (%)	-43.2%	360.0%	15.2%	6.9%	2.4%
PER (x)	53.4	11.6	11.3	10.5	10.3
Dividend per share (sen)	12.0	33.0	39.0	40.0	41.0
Dividend yield (%)	1.1%	3.1%	3.3%	3.4%	3.4%

Source: Company, 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 *rise* 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 *fall* 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.
ESG RECOMMENDATIONS* - source Bursa Malaysia and FTSE Russell	
☆☆☆☆	Top 25% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆☆☆	Top 26-50% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆☆	Top 51%- 75% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆	Bottom 25% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell

* ESG Ratings of PLCs in FBM EMAS that have been assessed by FTSE Russell in accordance with FTSE Russell ESG Ratings Methodology