Petronas Chemicals Group Berhad

***Maintain* BUY**

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

PCG looking into advanced plastic recycling tech

***Unchanged* Target Price: RM11.93**

KEY INVESTMENT HIGHLIGHTS

- **Petronas Chemicals signed MoU with ExxonMobil to assess potential for large-scale advanced plastic recycling tech**
- **Project expected to assist circular economy of plastics**
- **Initiative part of PCG's sustainability commitment**
- **No changes to earnings forecast**
- **Maintain BUY with TP of RM11.93 per share**

MoU signed with ExxonMobil. Petronas Chemicals Group (PCG) and ExxonMobil (Exxon) had signed a memorandum of understanding (MoU) to assess the potential for large-scale implementation of advanced plastic recycling technology. This is to assist the nation in creating a circular economy involving petrochemicals and plastics. In line with MoU, both PCG and Exxon will evaluate opportunities in support of improving the plastic waste collection and sorting operations nationwide, by leveraging new technologies and expertise.

Another step into ESG. PCG has been continuously exploring and executing innovative technologies to develop sustainable solutions for the growing demand from its customers. This collaboration is crucial to the transition into the circular economy as PCG had planned for the petrochemical industry, while tackling the feasibility of plastic recycling in the long run. Apart of waste management and advanced recycling, PCG had also initiated solutions for green and specialty chemicals (*see "PCG to tap into specialty chemicals with Perstorp", 19 May 2022*) for a more sustainable petrochemical products in the future.

Matching collaboration. Exxon is a founding member of the Alliance to End Plastic Waste (AEPW) with the objectives to accelerate investment in safe, scalable and economically viable solutions in addressing plastic waste management. Exxon had plans to build its first large-scale plastic waste advanced recycling facility with a capacity of 500,000 MT per year by end of 2026 across multiple locations globally. PCG's parent company PETRONAS had been in collaboration with Exxon in the past, with its prior MoU signed in 2021 for a joint exploration of opportunities in carbon capture and storage (CCS) technologies to aid in decarbonising Malaysia's upstream subsector and provide storage solutions for CO2 in the region. PETRONAS was Exxon's ninth MoU in CCS since establishing its Low Carbon Solutions business.

No changes to earnings estimate. Considering that the MoU is still in its early stages, we make no changes to our earnings estimates.

RETURN STATISTICS	
Price @ 20 September 2022 (RM)	8.70
Expected share price return (%)	+37.1
Expected dividend yield (%)	+3.4
Expected total return (%)	**+40.5**

SHARE PRICE CHART



Share price performance (%)	Absolute	Relative
1 month	-0.5	2.5
3 months	-3.3	-9.5
12 months	10.8	15.8

KEY STATISTICS	
FBM KLCI	1,461.10
Syariah compliant	Yes
FSGBM Index	Yes
ESG Grading Band	☆☆☆☆
Issues shares (m)	8000.00
Estimated free float (%)	17.49
Market Capitalisation (RM'm)	69,600.00
52-wk price range	RM7.75 - RM11.0
Beta vs FBM KLCI (x)	1.15
Monthly velocity (%)	0.00
Monthly volatility (%)	14.33
3-mth average daily volume (m)	7.03
3-mth average daily value (RM'm)	61.66
Top Shareholders (%)	
Petroliam Nasional Bhd	64.35
Employees Provident Fund Board	8.53
Amanah Saham Nasional Bhd	5.21

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Maintain BUY. All in, we maintain our **BUY** call on PCG with the **target price of RM11.93 per share**. Plastic waste management is important to achieve a circular economy in focus of the petrochemical industry and meeting in the increasing demand for recycled products. Advanced recycling often involves pyrolysis and gasification, which can improve the recycling process of plastics while significantly reduce waste disposal and/or incineration. While recycling operations oftentimes yield less profit-wise, the processes are already regulated and had proven advantages in reducing plastic waste in the environment. As such, we maintain our positive stance with PCG's continuous efforts in achieving its ESG goals through valuable and efficient collaborations, whilst continue to be an important focal point for a greener petrochemical industry.

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