Petronas Chemicals Group Berhad

***Maintain* BUY**

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

Demand slowdown impacting 3Q22 performance

***Revise* Target Price: RM11.77**

(previously RM11.93)

KEY INVESTMENT HIGHLIGHTS

- **Petronas Chemicals' 3QFY22 earnings down -4%yoy to RM1.89b; slightly below expectation**
- **Revenue up +22%yoy on higher product prices**
- **Slowdown in demand expected until end-year**
- **Revise FY23-24 forecast down -6% and -9% respectively**
- **Maintain BUY with revised TP of RM11.77 per share**

Earnings down -4%yoy. Petronas Chemicals Group's (PCG) reported lower earnings by -3.6%yoy but a marginal gain by +0.8%qoq to RM1.89b. Cumulatively for 9-months, earnings came in higher by +10.5%yoy to RM5.84b, which came in slightly below our one-year earnings forecast at 68.9% and within consensus' at 76.9%.

Revenue up +22%yoy. PCG's revenue rose by +22%yoy and +6.8%qoq to RM7.03b. For the cumulative 9-months, revenue grew +26.2%yoy to RM20.25b. Overall production volume increased +2.8%yoy and 36.8%qoq to 2.74mMT. However, the cumulative 9 months saw a reduction of -9.2%yoy to 7.14mMT. Overall plant utilisation stood at 97% for 3QFY22.

Olefins & Derivatives. O&D segment reported an increase in revenue by +8.4%yoy and +4.4%qoq to RM3.42b, while earnings slipped -11.6%yoy and -11.5%qoq to RM844m. For 9MFY22, revenue was up by +4%yoy to RM9.44b, but profit dropped -9%yoy to RM2.53b. Plant utilisation was up to 101% from 98% in 3QFY21 and 89% in 2QFY22, while production increased +3.3%yoy and +14.9%qoq to 997kMT. This was due to lower plant maintenance activities resulting in higher production and sales volumes, which added to the increase in revenue. Lower earnings were due to lower share of profit from Joint ventures and associates.

Fertilisers & Methanol. Revenue for the F&M segment surged +40.3%yoy and +12.8%qoq to RM3.19b, while earnings grew +1.1%yoy and +25.5%qoq to RM994m. For 9MFY22, both revenue and earnings gained +53.4%yoy to RM9.32b and +22.1%yoy to RM2.96b respectively. Plant utilisation in this segment is recorded at 94% compared to 92% in 3QFY22 and 62% in 2QFY22, while production increased +2.5%yoy and +53.4%qoq to 1.74mMT; due to lower plant statutory turnaround activities resulting in higher production and sales volumes. Higher revenue was attributed to higher product prices.

RETURN STATISTICS	
Price @ 25th November 2022 (RM)	9.05
Expected share price return (%)	+30.1
Expected dividend yield (%)	+3.4
Expected total return (%)	**+33.5**

SHARE PRICE CHART



Share price performance (%)	Absolute	Relative
1 month	2.7	-0.2
3 months	8.2	5.6
12 months	8.9	11.2

KEY STATISTICS	
FBM KLCI	1,486.54
Syariah compliant	Yes
FSGBM Index	Yes
ESG Grading Band	☆☆☆☆
Issues shares (m)	8000.00
Estimated free float (%)	17.60
Market Capitalisation (RM'm)	72,640.00
52-wk price range	RM7.87 - RM11.0
Beta vs FBM KLCI (x)	1.05
Monthly velocity (%)	0.0
Monthly volatility (%)	14.33
3-mth average daily volume (m)	7.04
3-mth average daily value (RM'm)	60.86
Top Shareholders (%)	
Petroliam Nasional Bhd	64.35
Employees Provident Fund Board	8.43
Amanah Saham Nasional Bhd	5.21

MIDF Research
research@midf.com.my

Table 1: Petronas Chemical's Segmental Update and Outlook

Segment	Update	3-Month Outlook
Olefins & Derivatives		
Ethylene	• Production volume: +11.9%yoy, -4%qoq to 262kMT • Long supply on poor demand from extended lockdowns in China and depreciation of Yuan	• Balanced supply expected on ongoing cracker outages • Cautious buying amidst squeezed downstream margin
Polymers	• Weak ethylene feedstock prices amidst falling crude oil price • Impacted by strong USD and inflationary pressures	• US deep-sea cargoes remain a threat in SE Asia • High inflation continues to impact buying patterns
MEG	Rising supply from new plant in China and piled inventories, offset by weak demand by slow demand recovery in textile industry	• New plant in China expected to improve on short supply • Expected demand improvement over Lunar New Year
Paraxylene	• Additional capacities built in China • Lower downstream demand with maintenance shutdown and reduced OR of major PTA units	• Supply sufficient • Uptick anticipated on demand over upcoming festive season
Fertilisers & Methanol		
Urea	• Production volume: +18.4%yoy, +55%qoq to 676kMT • Higher export volume from China • Higher supply from Russia to India, with a stable demand in India	• More capacities anticipated to resume operations and increase China's export volume • Weak demand expected except from India
Methanol	• Production volume: -20%yoy, 60.3%qoq to 444kMT • Completed turnaround and maintenance at PC Methanol Plant 2 • Weak China demand and ample availability of China local spot cargoes	SE Asia supply expected to be stable, offset by limited spot demand due to reduced downstream consumption
Ammonia	• Lower demand for from downstream industries • Long supply due to minimal plant maintenance	• Limited supply expected due to outages and shutdowns • Prolonged low production for CAN, CPL and NEA

Source: Company, MIDFR

Moving forward. Petrochemical product prices will continue to move in tandem with crude oil price, most notably for the O&D segment. For the near term, we opine that the utilisation rate of the group's production plants as well as forex rates will have a significant impact on PCG's operations. Plant utilisation is reliant utility supply, feedstock availability, and plant maintenance activities. PCG will continue to maintain its operational excellence and supplier relationship to ensure plant utilisation levels are above industry benchmarks. Meanwhile, demand for petrochemical products and market volatility will continue to be affected by Covid-19. Nevertheless, we believe that PCG's O&D prices will remain moderate on the back of smaller downstream margin and rising inflationary pressures, while F&M will remain resilient due to product shortages in the market.

Revised earnings estimates. Considering PCG's 3QFY22 results, in tandem with a dampening outlook on downstream demand for petrochemical products on concerns of inflationary pressures and China's demand slowdown in the coming quarters, we revise our FY23 and FY24 earnings forecast downwards by -6% and -9% respectively. As such, we **revised our target price to RM11.77** (previously RM11.93) by pegging a PER of 11.4x to a revised EPS23 of 103.6sen. The PER is derived from the chemical and materials industry's 5-year average.

Maintain BUY. All in, we maintain our **BUY** call on PCG with the new **target price of RM11.77 per share**. We reiterate our positive stance with PCG as the powerhouse for local and regional petrochemical industry. We believe that PCG's continuous endeavours for growth in terms of partnerships, production, investments, and sustainability will continue well into the next quarter and CY23. Risks to its operations, however, remain to be: (i) rising inflationary pressures and potential economic recession, (ii) ongoing geopolitical tensions, and (iii) stable crude oil supply but slower demand.

INVESTMENT STATISTICS

Financial year ending 31st December (in RM'm unless otherwise stated)	2020A	2021A	2022E	2023F	2024F
Revenue	14,362	23,025	24,946	24,899	26,598
EBIT	2,200	7,010	7,584	7,768	8,511
Pretax Profit	1,857	7,710	8,317	8,513	9,306
Net Profit	1,586	7,319	7,980	8,289	9,283
EPS (sen)	20.0	92.0	99.8	103.6	116.0
EPS growth (%)	-43.2%	360.0%	8.4%	3.9%	12.0%
PER (x)	53.4	11.6	11.8	11.4	10.1
Dividend per share (sen)	12.0	33.0	39.0	40.0	41.0
Dividend yield (%)	1.1%	3.1%	3.3%	3.4%	3.5%

Source: Company, MIDFR

Table 2: Petronas Chemicals's quarterly earnings review

Financial year ending 31st Dec (in RM'm unless stated otherwise)	Quarterly results					Cumulative results		
	3QFY21	2QFY22	3QFY22	QoQ (%)	YoY (%)	19MFY20	9MFY21	YoY (%)
Revenue	**5,766.0**	**6,583.0**	**7,032.0**	**6.8**	**22.0**	**16,049.0**	**20,249.0**	**26.2**
Cost of revenue	(3,637.0)	(4,471.0)	(4,942.0)	10.5	35.9	(9,962.0)	(13,570.0)	36.2
Gross Profit	**2,129.0**	**2,112.0**	**2,090.0**	**-1.0**	**-1.8**	**6,087.0**	**6,679.0**	**9.7**
Selling & Dist Expenses	(260.0)	(278.0)	(340.0)	22.3	30.8	(759.0)	(897.0)	18.2
Admin Expenses	(181.0)	(262.0)	(219.0)	-16.4	21.0	(597.0)	(664.0)	11.2
Other Income	100.0	315.0	509.0	61.6	409.0	338.0	906.0	168.0
Operating Profit	**1,781.0**	**1,887.0**	**2,040.0**	**8.1**	**14.5**	**5,040.0**	**6,023.0**	**19.5**
Net Financing Costs	(7.0)	(8.0)	(19.0)	137.5	171.4	(20.0)	(34.0)	70.0
Associates	256.0	70.0	(1.0)	-101.4	-100.4	556.0	192.0	-65.5
Profit Before Tax	**2,030.0**	**1,949.0**	**2,020.0**	**3.6**	**-0.5**	**5,576.0**	**6,181.0**	**10.9**
Tax expense	(66.0)	(66.0)	(122.0)	84.8	84.8	(291.0)	(329.0)	13.1
Profit After Tax	**1,964.0**	**1,883.0**	**1,898.0**	**0.8**	**-3.4**	**5,285.0**	**5,852.0**	**10.7**
Minority Interests	(1.0)	(3.0)	(3.0)	0.0	200.0	nm	(10.0)	nm
PATAMI	**1,965.0**	**1,880.0**	**1,895.0**	**0.8**	**-3.6**	**5,285.0**	**5,842.0**	**10.5**
				+/(-) ppts				*+/(-) ppts*
Gross margin (%)	36.9	32.1	29.7	-2.4	-7.2	37.9	33.0	-4.9
Operating profit margin (%)	30.9	28.7	29.0	0.3	-1.9	31.4	29.7	-1.7
PBT margin (%)	35.2	29.6	28.7	-0.9	-6.5	34.7	30.5	-4.2
PATAMI margin (%)	34.1	28.6	26.9	-1.6	-7.1	32.9	28.9	-4.1
Tax rate (%)	3.3	3.4	6.0	2.7	2.8	5.2	5.3	0.1
Segmental:								
Revenue								
- Olefins & Derivatives	3,155.0	3,276.0	3,419.0	4.4	8.4	9,071.0	9,438.0	4.0
- Fertilisers & Methanol	2,271.0	2,826.0	3,187.0	12.8	40.3	6,073.0	9,317.0	53.4
Profit After Tax								
- Olefins & Derivatives	955.0	954.0	844.0	-11.5	-11.6	2,780.0	2,531.0	-9.0
- Fertilisers & Methanol	983.0	792.0	994.0	25.5	1.1	2,423.0	2,958.0	22.1

Source: Company, MIDFR

MIDF RESEARCH is part of MIDF Amanah Investment Bank Berhad (197501002077 (23878 – X)).
(Bank Pelaburan)
(A Participating Organisation of Bursa Malaysia Securities Berhad)

DISCLOSURES AND DISCLAIMER

This report has been prepared by MIDF AMANAH INVESTMENT BANK BERHAD ("MIDF Investment") for distribution to and use by its clients to the extent permitted by applicable law or regulation.

Readers should be fully aware that this report is for information purposes only. The opinions contained in this report are based on information obtained or derived from sources that MIDF Investment believes are reliable at the time of publication. All information, opinions and estimates contained in this report are subject to change at any time without notice. Any update to this report will be solely at the discretion of MIDF Investment.

MIDF Investment makes no representation or warranty, expressed or implied, as to the accuracy, completeness or reliability of the information contained therein and it should not be relied upon as such. MIDF Investment and its affiliates and related companies and each of their respective directors, officers, employees, connected parties, associates and agents (collectively, "Representatives") shall not be liable for any direct, indirect or consequential loess, loss of profits and/or damages arising from the use or reliance by anyone upon this report and/or further communications given in relation to this report.

This report is not, and should not at any time be construed as, an offer, invitation or solicitation to buy or sell any securities, investments or financial instruments. The price or value of such securities, investments or financial instruments may rise or fall. Further, the analyses contained herein are based on numerous assumptions. This report does not take into account the specific investment objectives, the financial situation, risk profile and the particular needs of any person who may receive or read this report. You should therefore independently evaluate the information contained in this report and seek financial, legal and other advice regarding the appropriateness of any transaction in securities, investments or financial instruments mentioned or the strategies discussed or recommended in this report.

The Representatives may have interest in any of the securities, investments or financial instruments and may provide services or products to any company and affiliates of such companies mentioned herein and may benefit from the information herein.

This document may not be reproduced, copied, distributed or republished in whole or in part in any form or for any purpose without MIDF Investment's prior written consent. This report is not directed or intended for distribution to or use by any person or entity where such distribution or use would be contrary to any applicable law or regulation in any jurisdiction concerning the person or entity.

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