Petronas Chemicals Group Berhad

***Maintain* BUY**

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

New specialty chemicals hub opened in Europe

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

KEY INVESTMENT HIGHLIGHTS

- **Petronas Chemicals' subsidiary BRB International opened its new LAC manufacturing facility in Netherlands**
- **BRB's expertise in LAC expected to meet growing global demand for specialty chemicals**
- **Specialty chemical part of PCG's sustainability commitment**
- **No changes to earnings forecast**
- **Maintain BUY with TP of RM11.93 per share**

LAC facility launched. Petronas Chemicals Group Bhd's (PCG) wholly owned subsidiary BRB International (BRB) has opened its new lube oil additives manufacturing facility at Echt, Netherlands. The facility is equipped with the highest safety and quality standards, and will serve as a lube oils additives and chemicals (LAC) hub for the global market.

Milestone achieved. BRB's expansion is in line with the group's strategy of diversifying into derivatives, specialty chemicals and solutions to meet the growing and changing customer demands in the region. The opening of the facility signals a milestone achievement in strengthening BRB as an innovative solutions provider. BRB's LAC unit has been continuously developing solutions for its customers in the automotive, industrial and original equipment manufacturers field for over 40 years. The new facility will provide more room for growth and development of new LAC product offerings as well as improve BRB's competitiveness in the end markets.

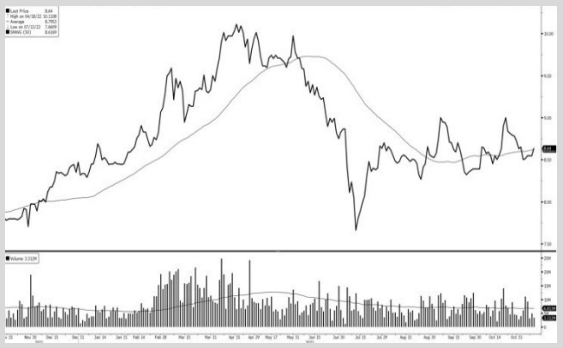
Sustainability practices ensured. Additionally, the facility integrates sustainable practices in BRB's production of its drive line oil additives, Petrolad®, which uses lower energy consumption and reduces its overall carbon footprint in the making of its products. This practice will contribute towards PCG's sustainability goal in achieving Net Zero Carbon Emissions by 2050.

No changes to earnings estimate. In consideration that the facility is an extension of BRB in Europe with already available operations and development of new products is not expected in the near term, we make no changes to our earnings estimates for PCG at this juncture.

Maintain BUY. All in, we maintain our **BUY** call on PCG with **target price of RM11.93 per share**. We reiterate our belief that PCG will continue to pursue the expansion of its specialty chemicals ventures to meet a growing demand for the products in the medium to long term, while achieving its ESG goals in ensuring a cleaner and safer petrochemical industry.

RETURN STATISTICS	
Price @ 10th November 2022 (RM)	8.64
Expected share price return (%)	+38.1
Expected dividend yield (%)	+3.4
Expected total return (%)	**+41.5**

SHARE PRICE CHART



Share price performance (%)	Absolute	Relative
1 month	0.8	-2.2
3 months	3.0	2.0
12 months	5.3	10.5

KEY STATISTICS	
FBM KLCI	1,449.74
Syariah compliant	Yes
FSGBM Index	Yes
ESG Grading Band	☆☆☆☆
Issues shares (m)	8000.00
Estimated free float (%)	17.69
Market Capitalisation (RM'm)	69,120.00
52-wk price range	RM7.87 - RM11.0
Beta vs FBM KLCI (x)	1.05
Monthly velocity (%)	0.00
Monthly volatility (%)	14.33
3-mth average daily volume (m)	6.78
3-mth average daily value (RM'm)	58.65
Top Shareholders (%)	
Petroliam Nasional Bhd	64.35
Employees Provident Fund Board	8.33
Amanah Saham Nasional Bhd	5.21

MIDF Research
research@midf.com.my

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

APPENDIX

BRB International delivers for automotive and industrial aftermarket applications, as well as sulfonates, tackifiers, coolants and windshield wash fluids. BRB delivers solutions to its clients with its signature Petrolad® and Viscotech®. As a subsidiary of the PETRONAS Chemicals Group, BRB International is aligned with an ambitious sustainability roadmap. BRB works to systematically reduce our CO2 footprint and have made a commitment to operate with zero carbon emissions by 2050. The commitment also reaches to its customers through its specialty products that lessen emissions.

Table 1: BRB International's Lube Oil Additives and Chemicals (LAC) Products and Key Markets

Products	Key Markets			Description
	Automotive	Industrial	Off Road	
Viscosity Modifiers	/	/	/	• Non-dispersant olefin copolymer (OCP) viscosity modifiers (Viscotech® 6-series) • Styrenic viscosity modifiers (Viscotech® 4- and 5-series)
Engine Oil Additives	/			• Heavy duty diesel oils (HDDO) (Petrolad® 8770, 8771) • Passenger car motor oils (PCMO) (Petrolad® 9200)
Drive Line Additives	/	/		• Gear oil (Petrolad® 3-series) • Automatic transmission fluid (ATF) (Petrolad® 743)
Hydraulic Additives		/		• Ashless (Petrolad® 1846) • Contains zinc (Petrolad® 9530, 9533)
Fuel Additives	/			• Multifunctional gasoline additives • Multifunctional diesel additives • Gasoline performance additives • Diesel performance additives • Specialties for gasoline, diesel and LPG • Cold flow improvers
Tractor Oil Additives			/	• Universal tractor transmission oils (UTTO) (Petrolad® 5101, 8134) • Super tractor oil universal (STOU) (Petrolad® 5102)
Finished and Specialty Products	/	/	/	• Grease • White oil • Petroleum jelly
Sulfonates, Tackifiers & Others	/	/		• Sulfonates (Petrolad® 6779) • Pour point depressant (PPD) • Friction modifier • Tacky additives
Coolants	/	/	/	• Petrolad® 3550 • BRB Long-life coolant
Screen Wash	/			• BRB screen washer fluids

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