Petronas Chemicals Group Berhad

Maintain BUY

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

SMJ Sabah acquiring 25% stake of PCG's subsidiary

Unchanged Target Price: RM11.77

KEY INVESTMENT HIGHLIGHTS

- **Petronas Chemicals sold 25% stake of Petronas Chemicals Fertiliser Sabah to the Sabah state**
- **SMJ acquired the stake; ensuring greater revenue in oil and gas sector for the state**
- **Divestment in line with PCG's strategic plans**
- **No changes to earnings estimates**
- **Maintain BUY with TP of RM11.77 per share**

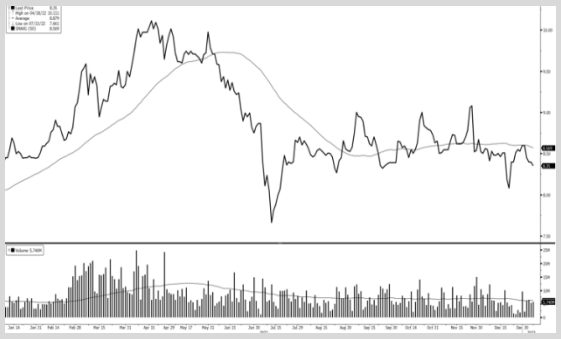
25% stake to Sabah. Petronas Chemicals Group's (PCG) and the state of Sabah – through its wholly-owned company SMJ Sdn Bhd (SMJ) – have signed the Heads of Agreement (HOA) for the acquisition of 25% equity interest in PETRONAS Chemicals Fertiliser Sabah Sdn Bhd (PCFS). The acquisition of equity interest in PCFS will give Sabah a greater revenue share in the oil and gas industry in the state. This is in addition to the recent acquisition of selected downstream gas pipeline assets and supply of natural gas contracts by Sabah Energy Corporation Sdn Bhd (SEC), which makes SEC the largest domestic supplier and transporter of natural gas in Sabah. These acquisitions signify the increased participation of Sabah state GLCs in the local oil and gas industry.

Divestment in line with strategic plans. The divestment is part of PCG's strategic approach to establish itself as a preferred partner in developing and achieving its expansion plans for the petrochemicals industry in Sabah. The group welcomed SMJ as its strategic partner as it will be crucial to PCFS's expansion, while adding value to the state's oil and gas resources.

Production of 1.9 million MT per annum. PCFS was founded in 2011 with the goal of building, owning, and operating an integrated ammonia and urea production complex in the Sipitang Oil and Gas Industrial Park (SOGIP) in the municipality of Sipitang, Sabah. PCFS has facilities capable of producing 1.9 million metric tonnes of ammonia and urea annually on a global scale. It is the third-biggest urea plant in Asia Pacific and Southeast Asia's largest single train ammonia and urea facility. Through SOGIP, PCFS is a significant driver for the growth of the oil and gas sector in Sabah. It is Sabah's first fertiliser factory as well as its first top-tier petrochemical facility.

RETURN STATISTICS	
Price @ 9 January 2023 (RM)	8.35
Expected share price return (%)	+41.0
Expected dividend yield (%)	+3.4
Expected total return (%)	**+44.4**

SHARE PRICE CHART



Share price performance (%)	Absolute	Relative
1 month	-2.1	-3.2
3 months	-2.9	-8.3
12 months	-5.0	-1.8

KEY STATISTICS	
FBM KLCI	1,493.42
Syariah compliant	Yes
FSGBM Index	Yes
ESG Grading Band	☆☆☆☆
Issues shares (m)	8000.00
Estimated free float (%)	16.94
Market Capitalisation (RM'm)	66,800.00
52-wk price range	RM7.87 - RM11.0
Beta vs FBM KLCI (x)	1.02
Monthly velocity (%)	0.00
Monthly volatility (%)	14.33
3-mth average daily volume (m)	6.29
3-mth average daily value (RM'm)	54.05
Top Shareholders (%)	
Petroliam Nasional Bhd	64.35
Employees Provident Fund Board	9.08
Amanah Saham Nasional Bhd	5.21

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HoA in line with State 2021-2025 goals. SMJ is a state oil and gas company established by the State Government of Sabah to oversee the state's overall interest in oil and gas developments for the best interest of the state. SMJ is part of Sabah's development initiative, which plays a key role in the advancement of its industrial sector, including the petrochemical in industry. Part of its initiative for the industrial sector is to secure potential investment to invest in Sabah's economic growth for 2021-2025. Sabah is also home to 11 tcf of natural gas and 1.5 boe of crude oil reserves, which makes up to 12% and 25% of Malaysia's total gas and oil reserves respectively. This presents a great opportunity for the state to leverage on its oil and gas sector. Hence, we opine that PCG's divestment of the 25% stake in PCFS will aid the state into reaching this goal, while continuing to be the main petrochemical player in the Borneo region.

No changes to earnings estimates. Considering that the divestment is in line with PCG's plan of expanding its strategic partnership in the Sabah state, we make no changes to our earnings estimates and maintain our target price of RM11.77, 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 **target price of RM11.77 per share**. We reiterate our positive stance with PCG as the epicentre for local and regional petrochemical industry. We believe that PCG's continuous actions for growth in terms of partnerships, production investments and sustainability will remain robust throughout the year. Ahead of the tabling of Budget 2023 and in consideration of an expectedly stable oil and gas market, we believe PCG will continue to share the benefit with petroleum producing states and ensure that the local petrochemical industry will maintain its strong position in the region.

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

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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