Petronas Chemicals Group Berhad

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

***Maintain* BUY**

FY22 earnings slipped on lower production, sales

***Revised* Target Price: RM10.82**

(previously RM11.77)

KEY INVESTMENT HIGHLIGHTS

- **FY22 earnings down -14%yoy to RM6.3b; below expectation at 79% of our forecast**
- **FY22 revenue up +26%yoy on weak Ringgit and contribution from Perstorp**
- **Expected continued supply-demand imbalance**
- **Revise FY23-24 forecast down -17% and -24% respectively**
- **Maintain BUY with revised TP of RM10.82 per share**

Earnings down -77%yoy. In 4QFY22, Petronas Chemicals Group's (PCG) reported lower earnings by -76.7%yoy and -74.6%qoq to RM481m. For FY22, earnings slipped -13.9%yoy to RM6.32b, which came in below expectations at 79% of our one-year earnings forecast and consensus' at 85%. The lower earnings were due to: (i) lower share profit, (ii) higher operating expenditure, and (iii) earn-out costs arising from the acquisition of BRB Group in CY19.

Revenue up +25%yoy. In 4QFY22, PCG's revenue rose +24.8%yoy and +23.8%qoq to RM8.7b. For FY22, revenue grew +25.7%yoy to RM29b. Higher revenue was contributed by weakened Ringgit against the US Dollar and revenue contribution from Perstorp.

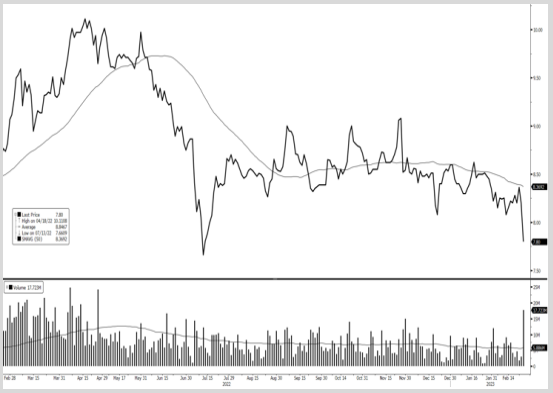
Group Operations. Overall plant utilisation stood at 100% from 89% in 4QFY21; due to lower turnaround and plant maintenance activities in 4QFY22; resulting in higher production and sales volume. Meanwhile for FY22, plant utilisation averaged at 89% compared to 93% in FY21, on the back of lower production and sales volume. Product volume was at 10.4m MT; attributable to Perstorp's production volume.

Olefins & Derivatives. In 4QFY22, revenue increased by +2.6%yoy and +2.2%qoq to RM3.42b, while earnings slipped -92.8%yoy and -94.4%qoq to RM47m. For FY22, revenue was up by +3.6%yoy to RM12.93b, but profit lost -24.9%yoy to RM2.58b. Higher revenue was due to higher sales volume, contributed by product drawdown from inventory in 4QFY22. Plant utilisation was slightly lower due to slowdowns in PC Aromatics and PC Glycol.

Fertilisers & Methanol. In 4QFY22, revenue gained +8.1%yoy and +10.9%qoq to RM3.53b. Meanwhile, earnings dropped -22.6%yoy but added +11.9%qoq to RM1.11b. For FY22, both revenue and earnings gained +37.6%yoy to RM12.85b and +5.5%yoy to RM4.07b respectively. Plant utilisation was at 100% in 4QFY22, compared to 83% in 4QFY21. Higher sales volume, product prices and a strong dollar contributed to the higher revenue.

RETURN STATISTICS	
Price @ 23rd February 2022 (RM)	7.90
Expected share price return (%)	+37.0
Expected dividend yield (%)	+3.7
Expected total return (%)	**+40.7**

SHARE PRICE CHART



Share price performance (%)	Absolute	Relative
1 month	-6.2	-5.5
3 months	-5.3	-11.3
12 months	-15.2	-8.5

KEY STATISTICS	
FBM KLCI	1,457.65
Syariah compliant	Yes
FSGBM Index	Yes
ESG Grading Band	☆☆☆☆
Issues shares (m)	8000.00
Estimated free float (%)	16.01
Market Capitalisation (RM'm)	62,400
52-wk price range	RM7.80 - RM11.1
Beta vs FBM KLCI (x)	0.95
3-mth average daily volume (m)	5.89
3-mth average daily value (RM'm)	49.93
Top Shareholders (%)	
Petroliam Nasional Bhd	64.35
Employees Provident Fund Board	10.05
Amanah Saham Nasional Bhd	5.21

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Specialties. Effective 4QFY22, PCG added a new segment, Specialties, which comprises of the manufacturing and marketing of advanced chemicals solutions, animal nutrition, silicones, and lube oil additives and chemicals. As of date, the segment generated a revenue of RM3.13b and had posted its first earnings of RM113m.

Moving forward. Petrochemical product prices, which is heavily correlated to the Brent crude oil price, will continue to weigh on PCG's O&D segment. Additionally, changes in forex rates and the global economic conditions will continue to impact PCG's future operations. Meanwhile, utilisation of its production facilities will remain reliant on utility supply, feedstock availability and plant maintenance activities. We opine that market volatility will persist, particularly in the oil price market, in 2023, in tandem with the continuous geopolitical tensions, supply-demand imbalance and inflationary fears. As such, O&D will see a stable pricing on strong demand after China's economic reopening. F&M segment, however, will be seeing a mild growth due to weak downstream demand expected on the back of destocking on all end-market. Meanwhile, Specialties segment continues to see risks on supply chain disruptions and inflationary pressures, although PCG is confident in its newest revenue stream to pick up traction in FY23.

Interim dividend. PCG declared a second interim dividend of 16 sen per ordinary share, amounting to RM1.3b, in respect to FY22.

Revised earnings estimates. Considering PCG's below par FY22 results coupled with the outlook on O&D's product pricing as well as F&M's concerns of inflationary pressures impacting its downstream demand, we revise our FY23 and FY24 earnings forecast downwards by -17% and -24% respectively. As such, we revised our **target price to RM10.82** (previously RM11.77) by pegging a PER of 12.6x to a revised EPS23 of 86.3sen. The PER is derived from the petrochemical (inclusive of agriculture, commodity and specialty chemicals) industry's 5-year average.

Maintain BUY. All in, we maintain our BUY call on PCG with the **revised target price of RM10.82 per share.** We reiterate our positive stance with PCG as the centre for local and regional petrochemical industry. Barring the changes in forex movement, the volatility of the oil and gas market, continuous geopolitical tensions, as well as unforeseen circumstances, we believe that PCG's committed effort to expand its portfolio, including on green chemicals as evident by its acquisition of Perstorp and BRB in FY22, will continue on in FY23. Risks to its operations, however, remain to be increasing inflationary pressures and slower demand for its products.

INVESTMENT STATISTICS

Financial year ending 31st December (in RM'm unless otherwise stated)	2021A	2022A	2023E	2024F	2025F
Revenue	23,025	28,953	27,393	27,964	27,762
EBIT	7,010	6,643	5,917	6,502	7,385
Pretax Profit	7,710	6,742	7,196	7,311	8,180
Net Profit	7,319	6,323	6,902	7,062	7,926
EPS (sen)	92.0	79.0	86.3	88.3	99.1
EPS growth (%)	360.0%	-14.1%	9.2%	2.3%	12.2%
PER (x)	11.8	13.7	12.6	12.3	10.9
Dividend per share (sen)	33.0	39.0	40.0	41.0	42.0
Dividend yield (%)	3.0%	3.6%	3.7%	3.8%	3.9%

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		
	4QFY21	3QFY22	4QFY22	QoQ (%)	YoY (%)	FY21	FY22	YoY (%)
Revenue	**6,976.0**	**7,032.0**	**8,704.0**	**23.8**	**24.8**	**23,025.0**	**28,953.0**	**25.7**
Cost of revenue	(4,485.0)	(4,942.0)	(6,707.0)	35.7	49.5	(14,447.0)	(20,277.0)	40.4
Gross Profit	**2,491.0**	**2,090.0**	**1,997.0**	**-4.4**	**-19.8**	**8,578.0**	**8,676.0**	**1.1**
Selling & Dist Expenses	(332.0)	(340.0)	(539.0)	58.5	62.3	(1,091.0)	(1,436.0)	31.6
Admin Expenses	(242.0)	(219.0)	(493.0)	125.1	103.7	(839.0)	(1,157.0)	37.9
Other Income	110.0	509.0	83.0	-83.7	-24.5	448.0	989.0	120.8
Operating Profit	**1,970.0**	**2,040.0**	**620.0**	**-69.6**	**-68.5**	**7,010.0**	**6,643.0**	**-5.2**
Net Financing Costs	(9.0)	(19.0)	(32.0)	68.4	255.6	(29.0)	(66.0)	-
Associates	173.0	(1.0)	(27.0)	2600.0	-115.6	729.0	165.0	-77.4
Profit Before Tax	**2,134.0**	**2,020.0**	**561.0**	**-72.2**	**-73.7**	**7,710.0**	**6,742.0**	**-12.6**
Tax expense	(100.0)	(122.0)	(77.0)	-36.9	-23.0	(391.0)	(406.0)	3.8
Profit After Tax	**2,034.0**	**1,898.0**	**484.0**	**-74.5**	**-76.2**	**7,319.0**	**6,336.0**	**-13.4**
Minority Interests	(26.0)	(3.0)	(3.0)	0.0	-88.5	(26.0)	(13.0)	-50.0
PATAMI	**2,060.0**	**1,895.0**	**481.0**	**-74.6**	**-76.7**	**7,345.0**	**6,323.0**	**-13.9**
				+/(-) ppts				*+/(-) ppts*
Gross margin (%)	35.7	29.7	22.9	-6.8	-12.8	37.3	30.0	-7.3
Operating profit margin (%)	28.2	29.0	7.1	-21.9	-21.1	30.4	22.9	-7.5
PBT margin (%)	30.6	28.7	6.4	-22.3	-24.1	33.5	23.3	-10.2
PATAMI margin (%)	29.5	26.9	5.5	-21.4	-24.0	31.9	21.8	-10.1
Tax rate (%)	4.7	6.0	13.7	7.7	9.0	5.1	6.0	1.0
Segmental:								
Revenue								
- Olefins & Derivatives	3,407.0	3,419.0	3,494.0	2.2	2.6	12,478.0	12,932.0	3.6
- Fertilisers & Methanol	3,268.0	3,187.0	3,533.0	10.9	8.1	9,341.0	12,850.0	37.6
- Specialties	-	-	3,125.0	nm	nm	-	3,125.0	nm
Results								
- Olefins & Derivatives	650.0	844.0	47.0	-94.4	-92.8	3,430.0	2,577.0	-24.9
- Fertilisers & Methanol	1,436.0	994.0	1,112.0	11.9	-22.6	3,859.0	4,070.0	5.5
- Specialties	-	-	113.0	nm	nm	-	113.0	nm

Source: Company, MIDFR

APPENDIX

Olefins and Derivatives Summary

Products (kMT)	4QFY21	3QFY22	4QFY22	QoQ%	YoY%
Olefin, Glycols, Derivatives	241	278	283	+1.8	+17.4
Polymers	122	136	206	+51.5	+68.9
Aromatics & MTBE	359	385	391	+1.6	+8.9
Operations	**4QFY21**	**3QFY22**	**4QFY22**	**QoQ%**	**YoY%**
Plant Utilisation (PU)	101.1	101	99.4	-1.6	-1.7
Production Volume (kMT)	1002	997	980	-1.7	-2.2
Sales Volume (kMT(	786	800	880	10.0	11.9

Fertilisers and Methanol Summary

Products (kMT)	4QFY21	3QFY22	4QFY22	QoQ%	YoY%
Methanol	451	468	635	+35.7	+40.8
Polymers	228	177	202	+14.1	-11.4
Aromatics & MTBE	648	696	687	-1.3	+6.0
Operations	**4QFY21**	**3QFY22**	**4QFY22**	**QoQ%**	**YoY%**
Plant Utilisation (PU)	82.5	94.4	100.3	+5.9	+17.8
Production Volume (kMT)	1519	1738	1846	+6.2	+21.5
Sales Volume (kMT(	1328	1341	1524	+13.7	+14.8

Source: Company, MIDFR

Petronas Chemicals's Segmental Outlook

Segment	Outlook
Olefins and Derivatives	
Ethylene	• Tight supply amidst cracker TA • Reduced cargoes from US and Middle East
Ethylene Glycols	• Balanced supply and steady demand as plants resume operations after Lunar New Year
Polyethylene	• Limited supply due to higher EVA production for solar application • Healthy demand on restocking activities amidst regional festivities
Paraxylene	• Tight supply dur to major units on plant TA • Limited demand due to economic uncertainty
Fertilisers and Methanol	
Urea	• Abundant supply • Bearish demand amidst off-planting season
Methanol	• Sufficient supply upon output recovery in SE Asia • Prolonged weak downstream demand
Ammonia	• Tight supply in SE Asia • Indonesia's new biodiesel mandate to support demand
Specialties	
• Higher price levels for natural gas and raw materials expected to remain, especially in Europe • Inventory destocking is expected to conclude in 1QFY23, followed by modest volume recovery • Impact from China's reopening on supply chain and inflation remains a concern • **Resin & Coatings:** Demand softened and pricing competition for intermediates increased in EMEA and America • **Engineered Fluids:** Rebound in air travel supports demand, offset by softer demand from industrials • **Animal Nutrition:** Raw material prices high due to energy crisis in Europe • **Advanced Materials:** High energy costs reduce competitiveness and profitability • **Silicones:** Anticipation of lower prices by customers boosted destocking • **Lube Oil Additives & Chemicals:** Competition and margin pressure remain stiff with rising raw material prices	

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