Corporate Update

Petronas Chemicals Group Berhad

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

4 Stars | SHARIAH Compliant | FTSE4Good

Maintain **NEUTRAL**

Revised Target Price **RM4.34** (from RM4.89)

Challenges to Continue into FY25

Maintain NEUTRAL. Petronas Chemicals Group Bhd's (PTD) FY24 earnings came in below our expectations at 70%, and consensus at 72%. As such, we maintain our NEUTRAL call for PCG. We revised the **target price** from **RM4.89** to RM4.34 to accommodate the FY24 results.

Normalised PATAMI down -25%yoy. FY24 revenue gained +7%yoy to RM30.7b due to higher sales volume, partially offset by lower product prices. Conversely, normalised PATAMI lost -25.3%yoy to RM1.3b due to lower product spreads and higher plant operating costs from a JV company.

Higher plant costs dragged earnings. Olefins & Derivatives (O&D) segment added +12.2% in revenue to RM15.4b, driven by higher sales volume and product prices. However, earnings lost -83.5%yoy to RM117m due to lower product spreads and higher plant operating costs; partially offset by higher sales volume. O&D recorded a 91% plant utilisation rate (+6%yoy) attributable to improved plant performance and lower maintenance activities, resulting in higher production and sales volume.

Higher sales with lower prices. Fertiliser & Methanol (F&M) segment gained +2%yoy in revenue to RM8.7b. Likewise, earnings increased +6.1%yoy to RM1.8b. These were attributable to higher sales volume, partially offset by lower product prices and lower product spreads. F&M recorded a 90% plant utilisation rate (+6%yoy) due to improved plant performance and lower maintenance activities, resulting in higher production and sales volume.

Favourable forex lifted sales volume. Specialties segment saw revenue added +2.5%yoy to RM6.5b, while earnings surged +123.2%yoy to RM46m. These improvements were contributed by higher sales volume, lower raw material costs and favourable forex.

Stable prospects but headwinds remain. PCG's production facilities and its utilisation rate are dependable on maintenance activities and availability of feedstock and utilities supply. As a guidance, the group is expecting O&D to be stable despite supply outages, balanced by limited demand. Meanwhile, F&M product prices remain stable, supported by India's urea seasonal demand and methanol restocking. While Specialties had seen improved performance in FY24, we echoed PCG's cautiously optimistic stance for the segment, as the uncertainty in the global trade movement would impact demand recovery in the near term. However, we anticipate headwinds to remain, on the back of: (i) ongoing geopolitical uncertainties, (ii) supply-demand imbalance from sanctions and tariffs, and (iii) increased competition in line with the changes in global trade and forex movement.

RETURN STATISTICS	
Price @ 21st Feb 2025 (RM)	4.14
Expected share price return (%)	+4.8
Expected dividend yield (%)	+4.1
Expected total return (%)	+8.9

SHARE PRICE CHART



Price performance (%)	Absolute	Relative
1 month	-16.0	-16.8
3 months	-23.8	-12.2
12 months	-42.7	-44.5

INVESTMENT STATISTICS			
FYE Dec (Rm'm)	2025E	2026F	2027F
Revenue	31,131	32,085	32,328
EBIT	2,161	2,211	2,270
PBT	1,918	2,022	2,118
Core PATAMI	1,732	1,759	2,066
Core EPS	21.7	22.0	25.8
DPS	18.0	22.0	23.0
Dividend Yield (%)	4.1%	5.1%	5.3%

KEY STATISTICS	
FBM KLCI	1,591.03
Issue shares (m)	8000.00
Estimated free float (%)	28.05
Market Capitalisation (RM'm)	31520.00
52-wk price range	RM3.88 - RM7.15
3-mth average daily volume (m)	0.29
3-mth average daily value (RM'm)	20.20
Top Shareholders (%)	
Petroliam Nasional Bhd	64.35
Employees Provident Fund Board	11.63
Amanah Saham Nasional Bhd	3.62

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Revised earnings estimates. In consideration that FY24 earnings came in below expectations, we revise our earnings forecast for FY25-27 downwards by -20%/-26%/-22%. We took into account the normalisation of the forecast with FY24 results, as well as the continuously volatile petrochemicals market in line with the uncertainties in global demand for petrochemical products and geopolitical tensions moving forward. We are expecting the downcycle for petrochemicals to continue into FY25.

Revised TP to RM4.34. Likewise, we revised our target price to RM4.34 from RM4.89, pegging on a PER of 20x to the revised EPS25 of 21.7sen. The new PER used is derived from PCG's average 5-Y PER of 20.5x with a slight discount. We believe the discount was fair in tandem with the uncertainties in the global market for petrochemical production. We expected the petrochemical sector will continue to see headwinds in terms of oversupply against slow demand recovery, in addition to the trade tariffs imposed against China, which could impact petrochemical exports to divert from the US to Asia, further disrupting the market. At this juncture, we maintain NEUTRAL for PCG.

PETRONAS CHEMICALS'S 4QFY24 RESULTS REVIEW

FYE Dec (RM'm)	Quarterly					Cumulative		
	4Q23	3Q24	4Q24	QoQ (%)	YoY (%)	FY23	FY24	YoY (%)
Revenue	**7,213.0**	**7,986.0**	**7,458.0**	**-6.6**	**3.4**	**28,667.0**	**30,671.0**	**7.0**
Cost of revenue	(6,236.0)	(6,705.0)	(6,877.0)	2.6	10.3	(23,882.0)	(25,965.0)	8.7
Gross Profit	**977.0**	**1,281.0**	**581.0**	**-54.6**	**-40.5**	**4,785.0**	**4,706.0**	**-1.7**
Selling & Dist Expenses	(472.0)	(542.0)	(572.0)	5.5	21.2	(1,906.0)	(2,144.0)	12.5
Admin Expenses	(384.0)	(340.0)	(420.0)	23.5	9.4	(1,394.0)	(1,526.0)	9.5
Other Expenses	(152.0)	(1,102.0)	-	-100.0	-100.0	(226.0)	(199.0)	-11.9
Other Income	287.0	137.0	1,151.0	740.1	301.0	897.0	1,220.0	36.0
Operating Profit	**256.0**	**(566.0)**	**740.0**	**-230.7**	**189.1**	**2,156.0**	**2,057.0**	**-4.6**
Net Financing Costs	(44.0)	(92.0)	(95.0)	3.3	115.9	(139.0)	(260.0)	87.1
Associates	28.0	1.0	(43.0)	-4400.0	-253.6	93.0	(107.0)	-215.1
Profit Before Tax	**240.0**	**(657.0)**	**602.0**	**-191.6**	**150.8**	**2,110.0**	**1,690.0**	**-19.9**
Tax expense	(98.0)	(105.0)	(63.0)	-40.0	-35.7	(360.0)	(401.0)	11.4
Profit After Tax	**142.0**	**(762.0)**	**539.0**	**-170.7**	**279.6**	**1,750.0**	**1,289.0**	**-26.3**
Minority Interests	(30.0)	(27.0)	(20.0)	-25.9	-33.3	(54.0)	(114.0)	111.1
PATAMI	**112.0**	**(789.0)**	**519.0**	**-165.8**	**363.4**	**1,696.0**	**1,175.0**	**-30.7**
One-off Items	-	1,250.0	(9.0)	-100.7	#DIV/0!	78.0	151.0	93.6
Core PATAMI	**112.0**	**461.0**	**510.0**	**10.6**	**355.4**	**1,774.0**	**1,326.0**	**-25.3**
				+/(-) ppts	+/(-) ppts			+/(-) ppts
Gross margin (%)	13.5	16.0	7.8	-8.3	-5.8	16.7	15.3	-1.3
Operating profit margin (%)	3.5	(7.1)	9.9	17.0	6.4	7.5	6.7	-0.8
PBT margin (%)	3.3	(8.2)	8.1	16.3	4.7	7.4	5.5	-1.9
PATAMI margin (%)	1.6	(9.9)	7.0	16.8	5.4	5.9	3.8	-2.1
Core PATAMI margin (%)	1.6	5.8	6.8	1.1	5.3	6.2	4.3	-1.9
Tax rate (%)	40.8	(16.0)	10.5	26.4	-30.4	17.1	23.7	6.7
Segmental Revenue:								
- Olefins & Derivatives	3,210.0	4,230.0	3,658.0	-13.5	14.0	13,732.0	15,401.0	12.2
- Fertilisers & Methanol	2,411.0	2,130.0	2,418.0	13.5	0.3	8,501.0	8,667.0	2.0
- Specialties	1,582.0	1,610.0	1,371.0	-14.8	-13.3	6,385.0	6,542.0	2.5
Segmental Operating Profit:								
- Olefins & Derivatives	(289.0)	(137.0)	(442.0)	222.6	52.9	707.0	117.0	-83.5
- Fertilisers & Methanol	286.0	606.0	236.0	-61.1	-17.5	1,661.0	1,763.0	6.1
- Specialties	(53.0)	79.0	(163.0)	-306.3	-207.5	(198.0)	46.0	123.2

FINANCIAL SUMMARY

Profit or Loss (RM'm)	2023A	2024A	2025E	2026F	2027F
Revenue	28,667.0	30,671.0	31,130.5	32,084.5	32,328.3
EBIT	2,156.0	2,057.0	2,161.0	2,211.1	2,269.9
PBT	2,110.0	1,690.0	1,918.1	2,022.4	2,118.5
Taxation	-360.0	-401.0	-392.8	-412.2	-361.2
PAT	1,750.0	1,289.0	1,525.3	1,610.1	1,757.2
MI	-54.0	-114.0	40.5	-52.9	45.3
PATAMI	1,696.0	1,175.0	1,565.8	1,557.2	1,802.5
Core PATAMI	1,774.0	1,326.0	1,732.3	1,758.7	2,065.8
EPS (sen)	21.0	16.6	21.7	22.0	25.8
PER (x)	20.7	26.2	20.0	19.7	16.8
DPS (sen)	13.0	15.0	18.0	22.0	23.0
Dividend yield (%)	3.0	3.5	4.1	5.1	5.3

Cash Flow (RM'm)	2023A	2024A	2025E	2026F	2027F
PBT	2,110.0	1,690.0	1,918.1	2,022.4	2,118.5
Depreciation	1978.0	2288.0	2143.7	2127.7	2187.4
OP pre-WC changes	3821.0	3522.0	3624.6	3987.6	4349.4
Change in NWC	1335.0	993.0	1428.7	1405.0	1476.5
Operating cash flow	**5119.0**	**4626.0**	**5108.0**	**5423.9**	**5876.7**
Capital expenditure	-2352.0	-2452.0	-2241.5	-2300.7	-2427.5
Investing cash flow	**-2593.0**	**-2495.0**	**-2293.0**	**-2346.6**	**-2431.3**
Debt raised/(repaid)	-255.0	-32.0	243.5	-86.1	75.3
Dividends paid	-1920.0	-1234.0	-1865.9	-1990.9	-2067.3
Financing cash flow	**-2175.0**	**-1266.0**	**-1622.4**	**-2077.1**	**-1992.0**
Net cash flow	**351.0**	**865.0**	**1192.6**	**1000.3**	**1453.4**
Beginning cash flow	**8888.0**	**9268.0**	**9931.0**	**11118.6**	**12118.9**
Ending cash flow	**9268.0**	**9931.0**	**11118.6**	**12118.9**	**13572.3**

Growth (%)	2023A	2024A	2025E	2026F	2027F
Revenue growth	-12.3	7.0	1.5	3.1	0.8
PBT growth	-41.1	-19.9	13.5	5.4	4.8
PATAMI growth	-43.3	-30.7	33.3	-0.6	15.8
Core PATAMI growth	-42.7	-25.3	30.6	1.5	17.5

Profitability Ratios (%)	2023A	2024A	2025E	2026F	2027F
EBIT margin	7.5	6.7	6.9	6.9	7.0
PBT margin	7.4	5.5	6.2	6.3	6.6
PATAMI margin	5.9	3.8	5.0	4.9	5.6
Core PATAMI margin	6.2	4.3	5.6	5.5	6.4
ROA	2.9	2.2	2.9	2.8	3.2
ROE	4.2	3.3	4.3	4.3	4.9

Balance Sheet (RM'm)	2023A	2024A	2025E	2026F	2027F
PPE	29,437.0	29,338.0	29,208.6	29,615.6	30,206.9
ROU assets	10,253.0	8,898.0	7,616.9	7,415.0	7,295.6
Non-current assets	**43,268.0**	**41,261.0**	**40,344.5**	**41,185.2**	**42,017.3**
Trade receivables	3857.0	4705.0	4504.9	4743.7	4912.9
Cash & bank balances	9268.0	9931.0	11118.6	12118.9	13572.3
Current assets	**16938.0**	**18759.0**	**19674.1**	**21138.3**	**22896.9**
Long-term debt	2473.0	2419.0	2428.1	2474.1	2522.9
Non-current liabilities	**9,183.0**	**8,850.0**	**8,952.6**	**9,346.8**	**9,939.0**
Short-term debt	500.0	795.0	784.9	836.1	960.5
Trade payables	8042.0	10054.0	9756.4	10346.7	11236.2
Current liabilities	**8949.0**	**11191.0**	**10928.3**	**11638.0**	**12673.1**
Share capital	8,871.0	8,871.0	8,871.0	8,871.0	8,871.0
Reserves	31,544.0	29,686.0	29,860.1	30,934.5	31,645.9
Equity	**42,074.0**	**39,979.0**	**40,138.1**	**41,339.0**	**42,301.9**

Liquidity Ratios (x)	2023A	2024A	2025E	2026F	2027F
Current ratio	1.9	1.7	1.8	1.8	1.8
Quick ratio	1.5	1.3	1.4	1.4	1.4

Leverage Ratios (x)	2023A	2024A	2025E	2026F	2027F
Debt-to-equity	0.4	0.5	0.5	0.5	0.5
Interest coverage	15.5	7.9	8.1	10.3	11.3

Efficiency Ratios (days)	2023A	2024A	2025E	2026F	2027F
Cash conversion cycle	-16	-28	-27	-28	-37
DIO	58	57	55	57	59
DSO	49	56	53	54	55
DPO	123	141	135	139	151

Source: Bloomberg, 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	The stock price is expected to rise by >10% within 3 months after a Trading Buy rating has been assigned due to positive news flow.
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	The stock price is expected to fall by >10% within 3 months after a Trading Sell rating has been assigned due to negative news flow.

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