Petronas Chemicals Group Berhad

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

SHARIAH Compliant | ESG 4 Stars | FTSE4Good

Corporate Update

2QFY25 Earnings Lost on O&D and Specialties

Maintain SELL

Unchanged Target Price **RM3.01**

Maintain SELL. Petronas Chemicals Group Bhd's (PCG) 1HFY25 loss came in significantly below ours and consensus expectations. As such, we maintain SELL for PCG with an unchanged target price of RM3.01.

1HFY25 revenue down -7%yoy. 2QFY25 and 1HFY25 revenue dropped to RM6.4b (-17%yoy) and RM14.1b (-7%yoy) respectively. This was due to the strengthening MYR against USD and lower product prices. PCG also recorded lower plant utilisation rate of 86% for 1HFY25 (vs 1HFY24: 88%) which was impacted by: (i) utilities supply disruption in Kertih, (ii) feedstock supply disruption at PC Fertiliser Kedah, and (iii) higher plant repair and maintenance activities. These resulted in lower production volume.

1HFY25 Core LATAMI down -98%yoy. 2QFY25 LATAMI came in at -RM1.08b from 2QFY24 PATAMI of RM777m. Excluding exceptional items, core LATAMI stood at -RM141m (vs 2QFY24: RM839m). For 1HFY25, LATAMI stood at -RM1.1b (-176%yoy) while core PATAMI amounted to RM33m (-98%yoy). This was in view of: (i) lower product spreads, (ii) lower contribution from joint operation entity (unrealised forex loss), and (iii) impairment of assets at Perstorp.

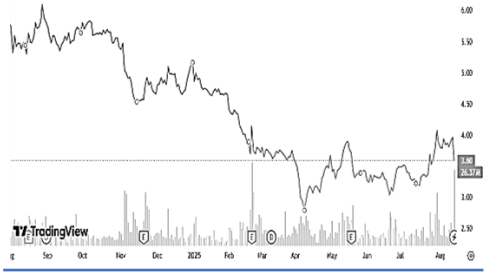
Forex loss dragged O&D to red. Olefins & Derivatives (O&D) segments 2QFY25 and 1HFY25 revenue dropped to RM2.6b (-30%yoy) and RM6.2b (-18%yoy) respectively. This was due to: (i) lower product prices, (ii) weakened USD against MYR, and (iii) lower sales volume. Meanwhile, 2QFY25 and 1HFY25 LAT slipped >100%yoy to -RM671m and -RM1.0b respectively. This was attributed to lower product spreads and unrealised forex loss on revaluation of payables. The segment recorded lower plant utilisation rate of 86% in 1HFY25 (vs 1HFY24: 91%).

F&M supported by higher prices and volume sold. Fertiliser & Methanol (F&M) segment's 2QFY25 and 1HFY25 revenue improved to RM2.3b (+7%%yoy) and RM4.8b (+16%yoy) respectively. This was due to higher product prices and sales volume; partially offset by weakened USD against MYR. Meanwhile, 2QFY25 PAT slipped -33%yoy to RM307m, but gained +1%yoy to RM934m in 1HFY25. The lower 2QFY25 PAT was due to lower product spreads. 1HFY25 plant utilisation rate was comparable to 1HFY24 at 85%.

Specialties dragged by lower margins, forex loss. Specialties segment's 2QFY25 and 1HFY25 revenue dropped to RM1.5b (-17%yoy) and RM3.1b (-12%yoy) respectively, due to lower sales. Likewise, 2QFY25 and 1HFY25 PAT slipped to deficits of -RM302m (2QFY24: RM59m) and -RM444m (1HFY24:RM130m) respectively. This was driven by: (i) lower contribution margins, (ii) impairment of assets at Perstorp, and (iii) unfavourable net foreign exchange impact.

RETURN STATISTICS	
Price @ 13th August 2025 (RM)	3.60
Expected share price return (%)	-16.4
Expected dividend yield (%)	+3.3
Expected total return (%)	-13.1

SHARE PRICE CHART



Price performance (%)	Absolute	Relative
1 month	13.9	10.5
3months	7.7	1.8
12 months	-31.4	-30.2

INVESTMENT STATISTICS

FYE Dec	2025E	2026F	2027F
Revenue	28,381	32,085	32,328
Operating Profit	861	1,724	1,823
Profit Before Tax	618	1,571	1,695
Core PATAMI	632	1,208	1,507
Core EPS	7.9	16.3	20.5
DPS	10.0	13.0	18.0
Dividend Yield	3.3	4.3	6.0

KEY STATISTICS

FBM KLCI	1,586.60
Issue shares (m)	8000.00
Estimated free float (%)	26.37
Market Capitalisation (RM'm)	30,008.00
52-wk price range	RM2.75 – RM6.1
3-mth average daily volume (m)	5.32
3-mth average daily value (RM'm)	18.82
Top Shareholders (%)	
Petroliam Nasional Bhd	64.35
Employees Provident Fund Board	11.69
Amanah Saham Nasional Bhd	4.20

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Headwinds to persist. PCG's 2QFY25 performance was evidence of its close ties to the global economic conditions. Certain petrochemical companies had been plagued with oversupply and demand uncertainty, painting a continuously challenging environment for the group. Nevertheless, PCG had remained focused on maintaining its high plant utilization rate to mitigate the external pressures and continues to engage with its clients to ensure a consistent supply of products and services. We believe PCG will continue to lean on its operational efficiency to weather the challenges of soft prices and demand uncertainties.

Bearish outlook on O&D, Specialties. Segment-wise, we expect that demand for O&D to remain soft. Prices are anticipated to remain weak due to the imbalance of supply and demand, despite the expected favourable US tariffs to slightly uplift the segment. For Specialties, we are more cautious on the demand growth for its products as Specialties remains a niche market. The sales and pricing for its products are harder to navigate, as it depended on other heavy industries which may face their own headwinds amid external challenges. Meanwhile, F&M has a firmer outlook, as strong prices continue to be supported by: (i) seasonal demand from the plantation sector, and (ii) stable supply post-maintenance activities.

Revised earnings forecast. Given the negative 2QFY25 performance, we downgrade our FY25 earnings estimates by -24%. While we had anticipated the bearish outlook on PCG's O&D and Specialties segments, attributable to (i) lower product prices, (ii) oversupply against lower demand and (iii) unfavourable forex, we maintain positive earnings forecast for FY25 as we anticipate that the impairment incurred in 2QFY25 may be a one-off. Nevertheless, we maintain our FY26 and FY27 based on a global petrochemical industry recovery, following the easing of price pressures on feedstocks and stable economic conditions, especially post-US tariffs. On that note, we still maintain vigilant on any upward or downward changes to the industry.

Likewise, we **maintain our target price at RM3.01** new PER of 18.5x to EPS26 of 16.3sen, as we rollover to FY26 valuations. The new PER is based on PCG's 1-Y PER of 18.2x with a slight premium garnered on the optimism for the overall F&M segment, following the farming season of Sept-Oct, as well as the development phase for palm trees during rainy season (typically towards the end-year). Additionally, tariffs are expected to be somewhat favourable for O&D. We noted that these will give a small, short-term respite for PCG. However, the overall outlook for the petrochemical industry remains bearish for now. Hence, we maintain our **SELL** call on PCG, as we opine that investors should take profit of the recent share price rise.

Table 1: Petronas Chemicals's 2QFY25 earnings review

Financial year ending 31st Dec (in RM'm unless stated otherwise)	Quarterly results					Cumulative results		
	2QFY24	1QFY25	2QFY25	QoQ (%)	YoY (%)	1HFY24	1HFY25	YoY (%)
Revenue	**7,728.0**	**7,656.0**	**6,437.0**	**-15.9**	**-16.7**	**15,227.0**	**14,093.0**	**-7.4**
Cost of revenue	(6,255.0)	(6,602.0)	(5,757.0)	-12.8	-8.0	(12,383.0)	(12,359.0)	-0.2
Gross Profit	**1,473.0**	**1,054.0**	**680.0**	**-35.5**	**-53.8**	**2,844.0**	**1,734.0**	**-39.0**
Selling & Dist Expenses	(523.0)	(519.0)	(494.0)	-4.8	-5.5	(1,030.0)	(1,013.0)	-1.7
Admin Expenses	(400.0)	(265.0)	(348.0)	31.3	-13.0	(766.0)	(613.0)	-20.0
Other Expenses	(63.0)	(192.0)	(1,023.0)	432.8	1523.8	(112.0)	(1,215.0)	984.8
Other Income	549.0	125.0	252.0	101.6	-54.1	947.0	377.0	-60.2
Operating Profit	**1,036.0**	**203.0**	**(933.0)**	**-559.6**	**-190.1**	**1,883.0**	**(730.0)**	**-138.8**
Net Financing Costs	(30.0)	(88.0)	(88.0)	0.0	193.3	(73.0)	(176.0)	141.1
Associates	(66.0)	(28.0)	(27.0)	-3.6	-59.1	(65.0)	(55.0)	-15.4
Profit Before Tax	**940.0**	**87.0**	**(1,048.0)**	**-1304.6**	**-211.5**	**1,745.0**	**(961.0)**	**-155.1**
Tax expense	(131.0)	(69.0)	1.0	-101.4	-100.8	(233.0)	(68.0)	-70.8
Profit After Tax	**809.0**	**18.0**	**(1,047.0)**	**-5916.7**	**-229.4**	**1,512.0**	**(1,029.0)**	**-168.1**
Minority Interests	(32.0)	(36.0)	(34.0)	-5.6	6.3	(67.0)	(70.0)	4.5
PATAMI	**777.0**	**(18.0)**	**(1,081.0)**	**5905.6**	**-239.1**	**1,445.0**	**(1,099.0)**	**-176.1**
One-off Items	62.0	192.0	940.0	389.6	1416.1	14.0	1,132.0	7985.7
Core PATAMI	**839.0**	**174.0**	**(141.0)**	**-181.0**	**-116.8**	**1,459.0**	**33.0**	**-97.7**
				+/(-) ppts	*+/(-) ppts*			*+/(-) ppts*
Gross margin (%)	19.1	13.8	10.6	-3.2	-8.5	18.7	12.3	-6.4
Operating profit margin (%)	13.4	2.7	(14.5)	-17.1	-27.9	12.4	(5.2)	-17.5
PBT margin (%)	12.2	1.1	(16.3)	-17.4	-28.4	11.5	(6.8)	-18.3
PATAMI margin (%)	10.1	(0.2)	(16.8)	-16.6	-26.8	9.5	(7.8)	-17.3
Core PATAMI margin (%)	10.9	2.3	(2.2)	-4.5	-13.0	9.6	0.2	-9.3
Tax rate (%)	13.9	79.3	0.1	-79.2	-13.8	13.4	(7.1)	-20.4
Segmental:								
Revenue								
- Olefins & Derivatives	3,768.0	3,513.0	2,645.0	-24.7	-29.8	7,513.0	6,158.0	-18.0
- Fertilisers & Methanol	2,125.0	2,498.0	2,263.0	-9.4	6.5	4,119.0	4,761.0	15.6
- Specialties	1,819.0	1,632.0	1,514.0	-7.2	-16.8	3,561.0	3,146.0	-11.7
Profit After Tax								
- Olefins & Derivatives	458.0	(356.0)	(671.0)	88.5	-246.5	696.0	(1,027.0)	-247.6
- Fertilisers & Methanol	459.0	627.0	307.0	-51.0	-33.1	921.0	934.0	1.4
- Specialties	59.0	(142.0)	(302.0)	112.7	611.9	130.0	(444.0)	-441.5

Source: Company, MBSBR

FINANCIAL SUMMARY

Profit or Loss (RM'm)	2023A	2024A	2025E	2026F	2027F
Revenue	28,667	30,671	28,381	32,085	32,328
EBIT	2,156	2,057	861	1,724	1,823
PBT	2,110	1,690	618	1,571	1,695
Taxation	-360	-401	-193	-412	-361
PAT	1,750	1,289	425	1,307	1,642
MI	-54	-114	41	-53	45
PATAMI	1,696	1,175	466	1,001	1,244
Core PATAMI	1,774	1,326	632	1,203	1,507
EPS (sen)	21.0	16.6	7.9	16.3	20.5
PER (x)	20.7	26.2	38.1	18.5	14.7
DPS (sen)	13.0	15.0	10.0	13.0	18.0
Dividend yield (%)	3.0	3.5	3.3	4.3	6.0

Cash Flow (RM'm)	2023A	2024A	2025E	2026F	2027F
PBT	2,110	1,690	618	1,466	1,560
Depreciation	1,978	2,288	2,144	2,128	2,187
OP pre-WC changes	3,821	3,522	2,825	3,536	3,926
Change in NWC	1,335	993	1,429	1,405	1,477
Operating cash flow	**5,119**	**4,626**	**4,208**	4,972	5,453
Capital expenditure	-2,352	-2,452	-2,242	-2,301	-2,427
Investing cash flow	**-2,593**	**-2,495**	**-2,293**	**-2,347**	**-2,431**
Debt raised/(repaid)	-255	-32	244	-86	75
Dividends paid	-1,920	-1,234	-1,866	-1,991	-2,067
Financing cash flow	**-2,175**	**-1,266**	**-1,622**	**-2,077**	**-1,992**
Net cash flow	**351**	**865**	**542**	549	1,030
Beginning cash flow	**8,888**	**9,268**	**9,931**	10,319	10,867
Ending cash flow	**9,268**	**9,931**	**10,219**	10,867	11,897

Growth (%)	2023A	2024A	2025E	2026F	2027F
Revenue growth	-12.3	7.0	-7.5	3.1	0.8
PBT growth	-41.1	-19.9	-63.4	44.0	6.4
PATAMI growth	-43.3	-30.7	-60.3	50.3	24.2
Core PATAMI growth	-42.7	-25.3	-52.3	44.5	25.3

Profitability Ratios (%)	2023A	2024A	2025E	2026F	2027F
EBIT margin	7.5	6.7	3.0	5.0	5.2
PBT margin	7.4	5.5	2.2	4.6	4.8
PATAMI margin	5.9	3.8	1.6	3.1	3.8
Core PATAMI margin	6.2	4.3	2.2	3.7	4.7
ROA	2.9	2.2	1.1	1.9	2.3
ROE	4.2	3.3	1.6	2.9	3.6

Balance Sheet (RM'm)	2023A	2024A	2025E	2026F	2027F
PPE	29,437	29,338	29,209	29,616	30,207
ROU assets	10,253	8,898	5,305	5,963	6,452
Non-current assets	**43,268**	**41,261**	**40,345**	**41,185**	**42,017**
Trade receivables	3,857	4,705	5,305	5,963	6,452
Cash & bank balances	9,268	9,931	10,319	10,867	11,897
Current assets	**16,938**	**18,759**	**19,674**	**21,106**	**22,761**
Long-term debt	2,473	2,419	2,428	2,474	2,523
Non-current liabilities	**9,183**	**8,850**	**8,953**	**9,347**	**9,939**
Short-term debt	500	795	785	804	825
Trade payables	8,042	10,054	9,256	9,729	10,779
Current liabilities	**8,949**	**11,191**	**10,428**	**10,988**	**12,080**
Share capital	8,871	8,871	8,871	8,871	8,871
Reserves	31,544	29,686	29,860	30,934	31,646
Equity	**42,074**	**39,979**	**40,138**	**41,339**	**42,302**

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

Leverage Ratios (x)	2023A	2024A	2025E	2026F	2027F
Debt-to-equity	0.4	0.5	0.5	0.5	0.5
Interest coverage	1.3	7.9	8.1	10.3	11.3

Efficiency Ratios (days)	2023A	2024A	2025E	2026F	2027F
Cash conversion cycle	96	103	117	119	127
DIO	57.6	57.4	55.4	56.8	58.7
DSO	49.1	56.0	69.5	70.2	76.7
DPO	10.6	10.5	8.2	7.7	8.3

Source: Bloomberg, MBSBR

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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