

Petronas Chemicals (PCHEM MK)

3Q23: Falling short of expectations yet again

Cut FY23-25E EPS by 22%-30%; D/G to SELL

3Q23 results fell short and as such, we cut FY23/24/25E EPS by -22%/-27%/-30% to account for: i) lower blended plant utilisation rates; ii) lower product spreads across the board; and iii) lower EBITDA margins for both O&D and F&M segments. With that, we downgrade PCHEM to SELL with a lower TP of MYR5.75 based on FY24E PER of 16x, in line with its 5Y mean PER. We transfer coverage of PCHEM to Jeremie Yap.

3Q23 missed expectations (-31% QoQ, -77% YoY)

Excluding one-offs (MYR29m inventories written down), 3Q23 core net profit was MYR413m (-31% QoQ, -77% YoY). 9M23 core earnings of MYR1,613m (-72% YoY) was only 62%/63% of ours/consensus FY23E. Key variance against our forecasts was: i) an unexpected fall in O&D segment's profits (-50% QoQ), stemming from a lower marked-to-market forex gain (undisclosed quantum) as at end-3Q23 (USD gained more strength throughout 2Q23) which impacted the group's shareholders loan on the JV with Saudi Aramco to finance the construction of Pengerang Petrochemical Complex (estimated total of about USD650m including interest portion); and ii) unexpected shutdown in PC Olefins which resulted in lower production/sales volumes in 3Q23.

9M23 impacted by lower product ASPs and margins

Based on Bloomberg data, 9M23 average polyethylene ASPs (HDPE, LDPE, LLDPE) were down 16%-31% YoY (vs. 9M22). Also, urea prices witnessed a celestial 44% fall YoY while methanol prices were down 17% YoY in 9M23. With lower product spreads coupled with higher energy/utilities costs, both PCHEM's O&D and F&M segments' PAT margin shrank to 7.6% (-19.2 ppts) and 18.6% (-13.1ppts) respectively due to operating leverage. Overall, 9M23 group CNP margins stood at 7.5% (-20.8 ppts YoY).

4Q23 will still be weak, PCHEM not out of the woods

With guidance of sustained weak ASPs due to: i) a seasonal softening of commodity prices towards YE (traditional off-peak season); and ii) softer urea prices amid uncertainties surrounding China's export restriction and muted market activity, we think that PCHEM will rake in another weak quarter in 4Q23 as product spreads are expected to remain soft till YE.

FYE Dec (MYR m)	FY21A	FY22A	FY23E	FY24E	FY25E
Revenue	23,026	28,953	28,579	35,077	37,971
EBITDA	8,661	8,223	4,218	5,301	5,932
Core net profit	7,272	6,581	2,072	2,876	3,532
Core EPS (sen)	90.9	82.3	25.9	35.9	44.1
Core EPS growth (%)	300.4	(9.5)	(68.5)	38.8	22.8
Net DPS (sen)	56.0	41.0	13.0	18.0	22.1
Core P/E (x)	9.8	10.5	27.3	19.7	16.0
P/BV (x)	2.0	1.8	1.4	1.4	1.3
Net dividend yield (%)	6.3	4.8	1.8	2.5	3.1
ROAE (%)	22.5	17.1	5.2	7.0	8.3
ROAA (%)	16.9	12.9	3.7	5.0	5.9
EV/EBITDA (x)	6.7	7.7	11.6	8.8	7.4
Net gearing (%) (incl perps)	net cash	net cash	net cash	net cash	net cash
Consensus net profit	-	-	2,662	3,685	4,117
MIBG vs. Consensus (%)	-	-	(22.2)	(22.0)	(14.2)

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SELL

[Prior:HOLD]

Share Price MYR 7.08
12m Price Target MYR 5.75 (-19%)
Previous Price Target MYR 7.00

Company Description

Bumi Armada engages in the operations, engineering, and maintenance services to oil and gas companies.

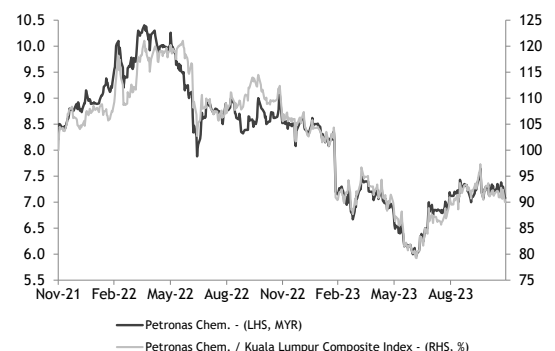
Statistics

52w high/low (MYR)	8.67/5.97
3m avg turnover (USDm)	4.6
Free float (%)	24.2
Issued shares (m)	8,000
Market capitalisation	MYR56.6B USD12.1B

Major shareholders:

Government of Malaysia	64.4%
Employees Provident Fund	11.0%
Permodalan Nasional Bhd.	4.9%

Price Performance



	-1M	-3M	-12M
Absolute (%)	(3)	1	(22)
Relative to index (%)	(3)	1	(20)

Source: FactSet

Fig 1: Results Review

FYE December	3Q23	3Q22	YoY	2Q23	QoQ	9M23	9M22	YTD-YoY
Revenue	6,784	7,032	-4%	7,113	-5%	21,454	20,249	6%
Cost of sales	-5,556	-4,942	12%	-5,923	-6%	-17,646	-13,570	30%
Gross profit	1,228	2,090	-41%	1,190	3%	3,808	6,679	-43%
Operating expenses	-866	-557	55%	-675	28%	-2,446	-1,562	57%
Other income	244	507	-52%	187	30%	538	897	-40%
Operating Profit (EBIT)	606	2,040	-70%	702	-14%	1,900	6,014	-68%
Finance costs	-33	-19	74%	-22	50%	-95	-34	179%
Share of JV and associates	13	-1	-1400%	14	-7%	65	192	-66%
Profit/(loss) before taxation	586	2,020	-71%	694	-16%	1,870	6,172	-70%
Taxation	-147	-121	21%	-61	141%	-262	-329	-20%
Profit after taxation	439	1,899	-77%	633	-31%	1,608	5,843	-72%
Minority Interests	15	3	400%	5	200%	24	2	1100%
Net profit	424	1,896	-78%	628	-32%	1,584	5,841	-73%
Exceptional Items	-11	-87	-87%	-32	-66%	29	-108	-127%
Core Net Profit	413	1,809	-77%	596	-31%	1,613	5,733	-72%
Margins			+/- ppts		+/- ppts			+/- ppts
Gross Profit Margin	18.1%	29.7%	-11.6	16.7%	1.4	17.7%	33.0%	-15.2
EBIT Margin	8.9%	29.0%	-20.1	9.9%	-0.9	8.9%	29.7%	-20.8
PBT Margin	8.6%	28.7%	-20.1	9.8%	-1.1	8.7%	30.5%	-21.8
PAT Margin	6.5%	27.0%	-20.5	8.9%	-2.4	7.5%	28.9%	-21.4
PATAMI Margin	6.3%	27.0%	-20.7	8.8%	-2.6	7.4%	28.8%	-21.5
Core Net Profit Margin	6.1%	25.7%	-19.6	8.4%	-2.3	7.5%	28.3%	-20.8
Effective Tax Rate	25.1%	6.0%	19.1	8.8%	16.3	14.0%	5.3%	8.7

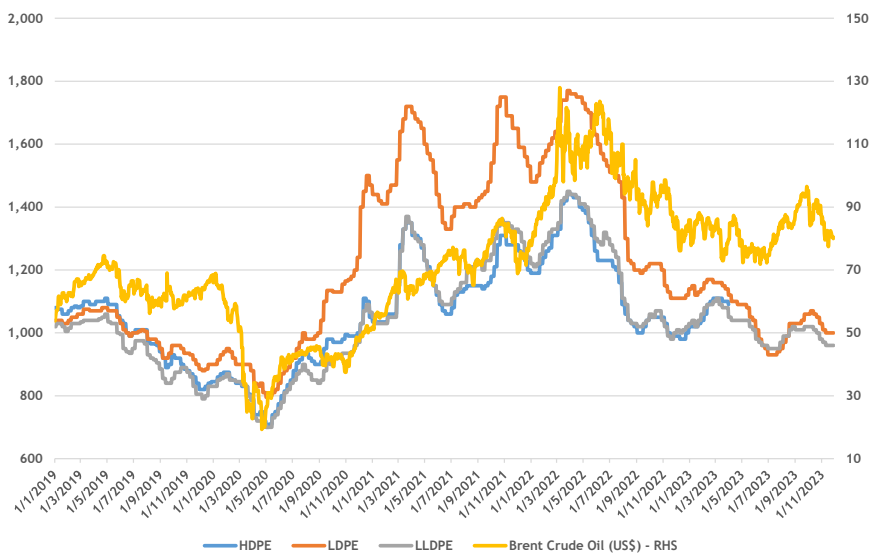
Source: Company, Maybank IBG Research

Fig 2: Operational Data and Segmental Breakdown

FYE December (MYR m)	3Q23	3Q22	YoY	2Q23	QoQ	9MFY23	9MFY22	YTD-YoY
Olefins and Derivatives (O&D)								
Revenue	3,496	3,419	2%	3,633	-4%	10,522	9,435	12%
PAT	211	844	-75%	421	-50%	802	2,531	-68%
EBITDA	404	697	-42%	584	-31%	1,287	2,494	-48%
Sales volume	897	800	12%	933	-4%	2,691	1,999	35%
Plant utilisation	78.6%	96.8%		98.4%				
Fertilisers and Methanol (F&M)								
Revenue	1,810	3,187	-43%	1,874	-3%	6,091	9,317	-35%
PAT	361	994	-64%	240	50%	1,134	2,958	-62%
EBITDA	601	1,264	-52%	460	31%	1,843	3,660	-50%
Sales volume	1,204	1,341	-10%	1,286	-6%	3,847	3,661	5%
Plant utilisation	76.4%	94.4%		73.0%				
Specialties and others								
Revenue	1,467	426	244%	1,579	-7%	4,803	1,497	221%
PAT	43	61	-30%	-25	-272%	-149	354	-142%
Profit Margins								
Olefins and Derivatives (O&D)								
PAT	6.0%	24.7%	-18.7	11.6%	-5.6	7.6%	26.8%	-19.2
EBITDA	11.6%	20.4%	-8.8	16.1%	-4.5	12.2%	26.4%	-14.2
Fertilisers and Methanol (F&M)								
PAT	19.9%	31.2%	-11.2	12.8%	7.1	18.6%	31.7%	-13.1
EBITDA	33.2%	39.7%	-6.5	24.5%	8.7	30.3%	39.3%	-9.0
Specialties and others								
PAT	2.9%	14.3%	-11.4	-1.6%	4.5	-3.1%	23.6%	-26.7

Source: Company, Maybank IBG Research

Fig 3: Polyethylene Price Trends



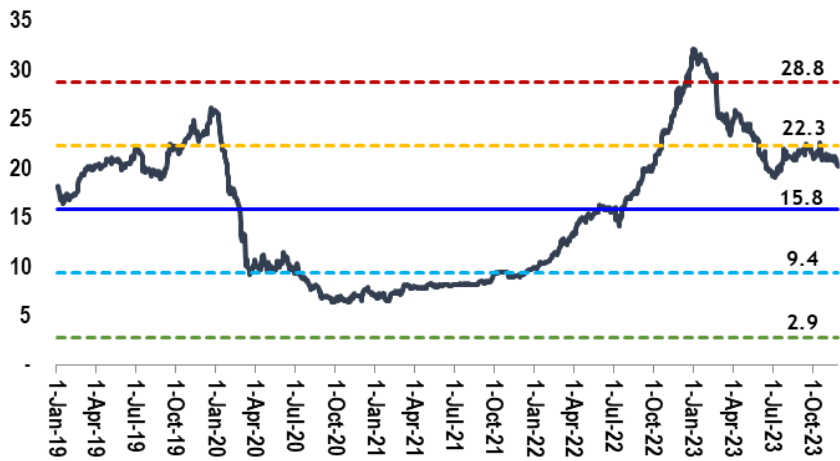
Source: Bloomberg, Maybank IBG Research

Fig 4: Urea and Methanol Price Trends



Source: Bloomberg, Maybank IBG Research

Fig 5: PCHEM's 1-year forward P/E band



Source: Bloomberg, Maybank IBG Research

Risk statement

There are several risk factors affecting our earnings estimates, target price and rating for PCHEM such as: i) an abrupt increase in polymer, urea, methanol and ammonia prices which will lead to a swing in its revenue and profits; ii) a sudden decline in crude oil and natural gas prices, which will lead to a decline in utilities costs and a reduction in input marked-to-market ethylene feed into its Pengerang plants.

FYE 31 Dec	FY21A	FY22A	FY23E	FY24E	FY25E
Key Metrics					
P/E (reported) (x)	8.8	11.5	27.3	19.7	16.0
Core P/E (x)	9.8	10.5	27.3	19.7	16.0
P/BV (x)	2.0	1.8	1.4	1.4	1.3
P/NTA (x)	2.0	1.8	1.4	1.4	1.3
Net dividend yield (%)	6.3	4.8	1.8	2.5	3.1
FCF yield (%)	9.3	nm	5.3	6.7	7.9
EV/EBITDA (x)	6.7	7.7	11.6	8.8	7.4
EV/EBIT (x)	8.3	9.5	24.0	16.5	12.7

INCOME STATEMENT (MYR m)

Revenue	23,026.0	28,953.0	28,579.0	35,076.6	37,971.5
EBITDA	8,661.0	8,223.0	4,218.0	5,300.7	5,932.5
Depreciation	(1,650.0)	(1,589.0)	(2,177.0)	(2,480.0)	(2,470.8)
Amortisation	0.0	0.0	0.0	0.0	0.0
EBIT	7,011.0	6,634.0	2,040.9	2,820.7	3,461.7
Net interest income / (exp)	(29.0)	(66.0)	(87.0)	(96.6)	(106.2)
Associates & JV	729.0	165.0	227.5	342.1	418.4
Exceptionals	0.0	0.0	0.0	0.0	0.0
Other pretax income	0.0	0.0	0.0	0.0	0.0
Pretax profit	7,711.0	6,733.0	2,181.5	3,066.2	3,773.9
Income tax	(391.0)	(406.0)	(159.3)	(240.4)	(292.4)
Minorities	26.0	(5.0)	50.0	50.0	50.0
Discontinued operations	0.0	0.0	0.0	0.0	0.0
Reported net profit	7,346.0	6,322.0	2,072.2	2,875.8	3,531.5
Core net profit	7,272.0	6,581.0	2,072.2	2,875.8	3,531.5

BALANCE SHEET (MYR m)

Cash & Short Term Investments	16,390.0	8,888.0	11,179.3	13,835.4	16,820.2
Accounts receivable	2,737.0	3,619.0	3,446.6	3,971.6	4,229.4
Inventory	2,214.0	3,465.0	3,300.0	3,802.6	4,049.4
Reinsurance assets	0.0	0.0	0.0	0.0	0.0
Property, Plant & Equip (net)	22,041.0	27,213.0	26,036.0	24,556.0	23,085.2
Intangible assets	0.0	0.0	0.0	0.0	0.0
Investment in Associates & JVs	1,480.0	1,665.0	1,892.5	2,234.6	2,653.0
Other assets	1,592.0	10,580.0	10,580.0	10,580.0	10,580.0
Total assets	46,454.0	55,430.0	56,434.4	58,980.3	61,417.3
ST interest bearing debt	232.0	229.0	379.0	529.0	679.0
Accounts payable	4,378.0	5,914.0	5,632.3	6,490.3	6,911.5
Insurance contract liabilities	0.0	0.0	0.0	0.0	0.0
LT interest bearing debt	2,156.0	2,489.0	2,639.0	2,789.0	2,939.0
Other liabilities	4,302.0	7,065.0	7,065.0	7,065.0	7,065.0
Total Liabilities	11,068.0	15,697.0	15,715.3	16,873.3	17,594.5
Shareholders Equity	34,851.0	39,078.0	40,114.1	41,552.0	43,317.8
Minority Interest	535.0	655.0	605.0	555.0	505.0
Total shareholder equity	35,386.0	39,733.0	40,719.1	42,107.0	43,822.8
Total liabilities and equity	46,454.0	55,430.0	56,434.4	58,980.3	61,417.3

CASH FLOW (MYR m)

Pretax profit	7,711.0	6,733.0	2,181.5	3,066.2	3,773.9
Depreciation & amortisation	1,650.0	1,589.0	2,177.0	2,480.0	2,470.8
Adj net interest (income)/exp	29.0	66.0	0.0	0.0	0.0
Change in working capital	(188.0)	910.0	55.7	(169.7)	(83.3)
Cash taxes paid	(197.0)	(462.0)	(159.3)	(240.4)	(292.4)
Other operating cash flow	(936.0)	(1,034.0)	(227.5)	(342.1)	(418.4)
Cash flow from operations	8,186.0	8,049.0	4,027.5	4,793.9	5,450.6
Capex	(1,539.0)	(12,988.0)	(1,000.0)	(1,000.0)	(1,000.0)
Free cash flow	6,647.0	(4,939.0)	3,027.5	3,793.9	4,450.6
Dividends paid	(3,206.0)	(3,844.0)	(1,036.1)	(1,437.9)	(1,765.8)
Equity raised / (purchased)	0.0	0.0	0.0	0.0	0.0
Change in Debt	169.0	296.0	300.0	300.0	300.0
Other invest/financing cash flow	(165.0)	(221.0)	0.0	0.0	0.0
Effect of exch rate changes	238.0	1,206.0	0.0	0.0	0.0
Net cash flow	3,683.0	(7,502.0)	2,291.3	2,656.0	2,984.8

FYE 31 Dec	FY21A	FY22A	FY23E	FY24E	FY25E
Key Ratios					
Growth ratios (%)					
Revenue growth	60.3	25.7	(1.3)	22.7	8.3
EBITDA growth	145.8	(5.1)	(48.7)	25.7	11.9
EBIT growth	278.4	(5.4)	(69.2)	38.2	22.7
Pretax growth	315.2	(12.7)	(67.6)	40.6	23.1
Reported net profit growth	351.2	(13.9)	(67.2)	38.8	22.8
Core net profit growth	300.4	(9.5)	(68.5)	38.8	22.8
Profitability ratios (%)					
EBITDA margin	37.6	28.4	14.8	15.1	15.6
EBIT margin	30.4	22.9	7.1	8.0	9.1
Pretax profit margin	33.5	23.3	7.6	8.7	9.9
Payout ratio	61.0	51.9	50.0	50.0	50.0
DuPont analysis					
Net profit margin (%)	31.9	21.8	7.3	8.2	9.3
Revenue/Assets (x)	0.5	0.5	0.5	0.6	0.6
Assets/Equity (x)	1.3	1.4	1.4	1.4	1.4
ROAE (%)	22.5	17.1	5.2	7.0	8.3
ROAA (%)	16.9	12.9	3.7	5.0	5.9
Liquidity & Efficiency					
Cash conversion cycle	(4.0)	(1.4)	8.1	7.2	7.1
Days receivable outstanding	36.5	39.5	44.5	38.1	38.9
Days inventory outstanding	50.1	50.4	51.4	43.7	45.0
Days payables outstanding	90.6	91.4	87.8	74.5	76.7
Dividend cover (x)	1.6	1.9	2.0	2.0	2.0
Current ratio (x)	4.3	2.5	2.8	2.9	3.2
Leverage & Expense Analysis					
Asset/Liability (x)	4.2	3.5	3.6	3.5	3.5
Net gearing (%) (incl perps)	net cash	net cash	net cash	net cash	net cash
Net gearing (%) (excl. perps)	net cash	net cash	net cash	net cash	net cash
Net interest cover (x)	nm	100.5	23.5	29.2	32.6
Debt/EBITDA (x)	0.3	0.3	0.7	0.6	0.6
Capex/revenue (%)	6.7	44.9	3.5	2.9	2.6
Net debt/ (net cash)	(14,002.0)	(6,170.0)	(8,161.3)	(10,517.4)	(13,202.2)

Source: Company; Maybank IBG Research

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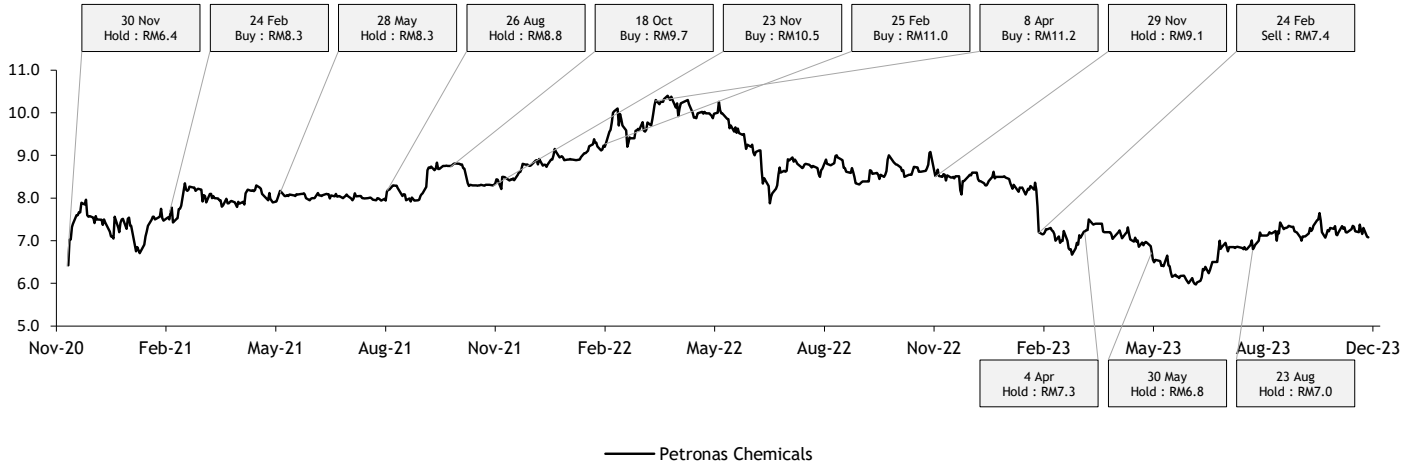
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