

# Petronas Chemicals (PCHEM MK)

## 4Q23: O&D slips into the red, Specialty continues to drag

### Below expectations; maintain SELL, TP MYR5.05

PCHEM's 4Q23 results missed expectations. We cut our FY24-25E EPS by -33%/-37% to account for: i) lower EBITDA margins for its O&D segment; ii) post results house-keeping; and iii) incorporating Pengerang ops beginning 2H24. With that, our TP is lowered to MYR5.05 (from MYR5.75) after rolling forward valuation to FY25E (from FY24E) based on 18.1x PER (previously 16x), its updated 5Y mean. Maintain SELL.

### 4Q23 missed expectations but DPS was in-line

Ex-one-off (MYR78m inventory write down to NRV), 4Q23 core net profit was MYR161m (-61% QoQ, -81% YoY). FY23 core earnings of MYR1,774m (-69% YoY) was only 86%/82% of ours/consensus estimates. Key variance against our forecast was due to: i) unexpected shutdown at PC Aromatics and slowdown at PC Olefins due to steam interruption issues, resulting in lower production & sales volume in 4Q23; and ii) crimping of EBITDA and PAT margins due to operating leverage (lower sales volumes), coupled with higher maintenance costs throughout the quarter. A 2<sup>nd</sup> interim 5sen DPS brings FY23 DPS to 13sen (62% DPR), well within our forecast.

### FY23 dragged by lower product ASPs and margins

Based on our findings from Bloomberg data, all product spreads were down YoY. For instance, FY23 average polyethylene prices (HDPE, LDPE, LLDPE) were down 12-27% YoY (vs. FY22). Also, urea prices sank -42% YoY while methanol prices fell -15% YoY. PCHEM's O&D and F&M segments' PAT margins dropped to 5.1% (-14.8 pts) and 19.5% (-12.1 pts) respectively due to lower product spreads coupled with higher energy/utilities costs. Group CNP margin was down 16.5 pts YoY to 6.2%.

### Consolidation of Pengerang ops to drag earnings

PCHEM is hopeful that the consolidation of its Pengerang ops will commence in 2Q24 and with that, we have penciled in additional fixed costs from the Pengerang Petrochemical Complex (PPC) for the entirety of 2H24 (additional MYR500m/year). Note that PPC will introduce to PCHEM the exposure of polymer-naphtha spreads, which are currently negative.

FYE Dec (MYR m)	FY22A	FY23A	FY24E	FY25E	FY26E
Revenue	28,953	28,667	33,132	35,600	33,747
EBITDA	8,223	4,134	4,501	4,952	5,066
Core net profit	6,581	1,774	1,926	2,230	2,235
Core EPS (sen)	82.3	22.2	24.1	27.9	27.9
Core EPS growth (%)	(9.5)	(73.0)	8.6	15.8	0.2
Net DPS (sen)	41.0	13.0	12.0	13.9	14.0
Core P/E (x)	10.5	32.3	29.0	25.1	25.0
P/BV (x)	1.8	1.4	1.4	1.3	1.3
Net dividend yield (%)	4.8	1.8	1.7	2.0	2.0
ROAE (%)	17.1	4.3	4.7	5.3	5.2
ROAA (%)	12.9	3.1	3.1	3.5	3.4
EV/EBITDA (x)	7.7	12.7	10.9	9.4	8.7
Net gearing (%) (incl perps)	net cash	net cash	net cash	net cash	net cash
Consensus net profit	-	-	2,857	3,519	na
MIBG vs. Consensus (%)	-	-	(32.6)	(36.6)	na

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# SELL

Share Price	MYR 6.99
12m Price Target	MYR 5.05 (-28%)
Previous Price Target	MYR 5.75

### Company Description

Petronas Chemicals Group Bhd manufactures, markets and sells petrochemicals.

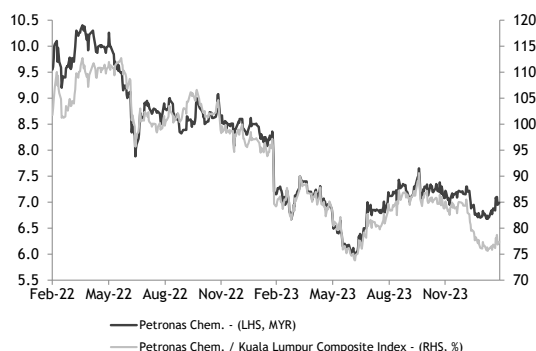
### Statistics

52w high/low (MYR)	7.65/5.97
3m avg turnover (USDm)	3.7
Free float (%)	24.2
Issued shares (m)	8,000
Market capitalisation	MYR55.9B
	USD11.7B

### Major shareholders:

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

### Price Performance



	-1M	-3M	-12M
Absolute (%)	4	(4)	(3)
Relative to index (%)	1	(10)	(9)

Source: FactSet

**Fig 1: Results Review**

FYE December	4Q23	4Q22	YoY	3Q23	QoQ	FY23	FY22	YTD-YoY
Revenue	7,213	8,704	-17%	6,784	6%	28,667	28,953	-1%
Cost of sales	(6,236)	(6,707)	-7%	(5,556)	12%	(23,882)	(20,277)	18%
<b>Gross profit</b>	<b>977</b>	<b>1,997</b>	<b>-51%</b>	<b>1,228</b>	<b>-20%</b>	<b>4,785</b>	<b>8,676</b>	<b>-45%</b>
Operating expenses	(894)	(1,197)	-25%	(866)	3%	(3,340)	(2,759)	21%
Other income	173	(180)	-196%	244	-29%	711	717	-1%
<b>Operating Profit (EBIT)</b>	<b>256</b>	<b>620</b>	<b>-59%</b>	<b>606</b>	<b>-58%</b>	<b>2,156</b>	<b>6,634</b>	<b>-68%</b>
Finance costs	(44)	(32)	38%	(33)	33%	(139)	(66)	111%
Share of JV and associates	28	(27)	-204%	13	115%	93	165	-44%
<b>Profit/(loss) before taxation</b>	<b>240</b>	<b>561</b>	<b>-57%</b>	<b>586</b>	<b>-59%</b>	<b>2,110</b>	<b>6,733</b>	<b>-69%</b>
Taxation	(98)	(77)	27%	(147)	-33%	(360)	(406)	-11%
<b>Profit after taxation</b>	<b>142</b>	<b>484</b>	<b>-71%</b>	<b>439</b>	<b>-68%</b>	<b>1,750</b>	<b>6,327</b>	<b>-72%</b>
Minority Interests	30	03	900%	15	100%	54	05	980%
<b>Net profit</b>	<b>112</b>	<b>481</b>	<b>-77%</b>	<b>424</b>	<b>-74%</b>	<b>1,696</b>	<b>6,322</b>	<b>-73%</b>
Exceptional Items	49	367	-87%	(11)	-545%	78	259	-70%
<b>Core Net Profit</b>	<b>161</b>	<b>848</b>	<b>-81%</b>	<b>413</b>	<b>-61%</b>	<b>1,774</b>	<b>6,581</b>	<b>-73%</b>
<b>Margins</b>			<b>+/- ppts</b>		<b>+/- ppts</b>			<b>+/- ppts</b>
Gross Profit Margin	13.5%	22.9%	-9.4	18.1%	-4.6	16.7%	33.0%	-16.3
EBIT Margin	3.5%	7.1%	-3.6	8.9%	-5.4	7.5%	29.7%	-22.2
PBT Margin	3.3%	6.4%	-3.1	8.6%	-5.3	7.4%	30.5%	-23.1
PAT Margin	2.0%	5.6%	-3.6	6.5%	-4.5	6.1%	28.9%	-22.8
PATAMI Margin	1.6%	5.5%	-4.0	6.3%	-4.7	5.9%	28.8%	-22.9
Core Net Profit Margin	2.2%	9.7%	-7.5	6.1%	-3.9	6.2%	28.3%	-22.1
Effective Tax Rate	40.8%	13.7%	27.1	25.1%	15.7	17.1%	5.3%	11.7

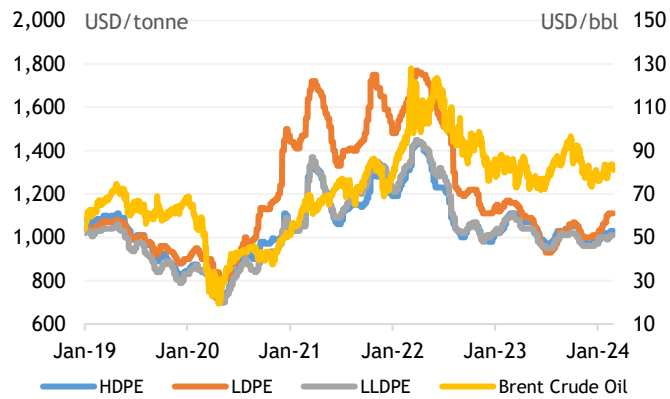
Source: Company, Maybank IBG Research

**Fig 2: Operational Data and Segmental Breakdown**

FYE December (MYR m)	4Q23	4Q22	YoY	3Q23	QoQ	FY23	FY22	YTD-YoY
<b>Olefins and Derivatives (O&amp;D)</b>								
Revenue	3,210	3,494	-8%	3,496	-8%	13,732	12,929	6%
PAT	(95)	46	-307%	211	-145%	707	2,577	-73%
EBITDA	(67)	372	-118%	404	-117%	1,220	2,866	-57%
Sales volume	826	880	-6%	897	-8%	3,517	2,879	22%
Plant utilisation	70.8%	99.4%		78.6%				
<b>Fertilisers and Methanol (F&amp;M)</b>								
Revenue	2,410	3,533	-32%	1,810	33%	8,501	12,850	-34%
PAT	527	1,112	-53%	361	46%	1,661	4,070	-59%
EBITDA	770	1,428	-46%	601	28%	2,613	5,088	-49%
Sales volume	1,406	1,524	-8%	1,204	17%	5,253	5,185	1%
Plant utilisation	91.2%	100.3%		76.4%				
<b>Specialties and others</b>								
Revenue	1,582	1,677	-6%	1,467	8%	6,385	3,174	101%
PAT	(49)	(674)	-93%	43	-214%	(198)	(320)	-38%
<b>Profit Margins</b>								
<b>Olefins and Derivatives (O&amp;D)</b>								
			<b>+/- ppts</b>		<b>+/- ppts</b>			<b>+/- ppts</b>
PAT	-3.0%	1.3%	-4.3	6.0%	-9.0	5.1%	19.9%	-14.8
EBITDA	-2.1%	10.6%	-12.7	11.6%	-13.6	8.9%	22.2%	-13.3
<b>Fertilisers and Methanol (F&amp;M)</b>								
PAT	21.9%	31.5%	-9.6	19.9%	1.9	19.5%	31.7%	-12.1
EBITDA	32.0%	40.4%	-8.5	33.2%	-1.3	30.7%	39.6%	-8.9
<b>Specialties and others</b>								
PAT	-3.1%	-40.2%	37.1	2.9%	-6.0	-3.1%	-10.1%	7.0

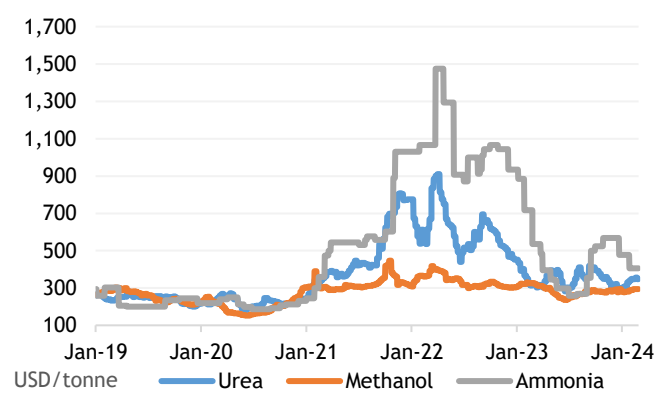
Source: Company, Maybank IBG Research

**Fig 3: Polyethylene Price Trends**



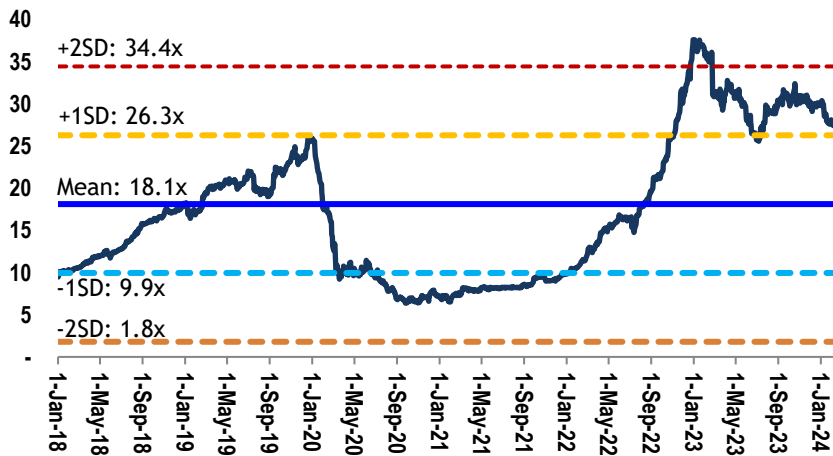
Source: Bloomberg, Maybank IBG Research

**Fig 4: Urea & 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 iii) a reduction in input marked-to-market ethylene feed into its Pengerang plants.

FYE 31 Dec	FY22A	FY23A	FY24E	FY25E	FY26E
<b>Key Metrics</b>					
P/E (reported) (x)	11.5	33.8	29.0	25.1	25.0
Core P/E (x)	10.5	32.3	29.0	25.1	25.0
P/BV (x)	1.8	1.4	1.4	1.3	1.3
P/NTA (x)	1.8	1.4	1.4	1.3	1.3
Net dividend yield (%)	4.8	1.8	1.7	2.0	2.0
FCF yield (%)	nm	4.8	5.9	6.6	6.3
EV/EBITDA (x)	7.7	12.7	10.9	9.4	8.7
EV/EBIT (x)	9.5	24.4	24.1	19.8	17.5

**INCOME STATEMENT (MYR m)**

Revenue	28,953.0	28,667.0	33,132.4	35,600.1	33,747.3
EBITDA	8,223.0	4,134.0	4,501.4	4,951.8	5,066.2
Depreciation	(1,589.0)	(1,978.0)	(2,466.0)	(2,607.4)	(2,543.1)
Amortisation	0.0	0.0	0.0	0.0	0.0
EBIT	6,634.0	2,156.0	2,035.4	2,344.5	2,523.1
Net interest income / (exp)	(66.0)	(139.0)	(95.1)	(104.7)	(114.3)
Associates & JV	165.0	93.0	209.0	251.8	268.0
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	6,733.0	2,110.0	2,149.3	2,491.6	2,676.8
Income tax	(406.0)	(360.0)	(168.9)	(207.2)	(387.5)
Minorities	(5.0)	(54.0)	(54.0)	(54.0)	(54.0)
Discontinued operations	0.0	0.0	0.0	0.0	0.0
Reported net profit	6,322.0	1,696.0	1,926.4	2,230.4	2,235.3
Core net profit	6,581.0	1,774.0	1,926.4	2,230.4	2,235.3

**BALANCE SHEET (MYR m)**

Cash & Short Term Investments	8,888.0	9,268.0	11,900.8	14,754.2	17,461.8
Accounts receivable	3,619.0	3,857.0	4,398.5	4,663.0	4,301.5
Inventory	3,465.0	3,767.0	4,295.9	4,554.2	4,201.1
Reinsurance assets	0.0	0.0	0.0	0.0	0.0
Property, Plant & Equip (net)	27,213.0	29,437.0	27,971.0	26,363.6	24,820.6
Intangible assets	0.0	0.0	0.0	0.0	0.0
Investment in Associates & JVs	1,665.0	1,710.0	1,919.0	2,170.9	2,438.9
Other assets	10,580.0	12,167.0	12,167.0	12,167.0	12,167.0
<b>Total assets</b>	<b>55,430.0</b>	<b>60,206.0</b>	<b>62,652.3</b>	<b>64,673.0</b>	<b>65,390.8</b>
ST interest bearing debt	229.0	500.0	650.0	800.0	950.0
Accounts payable	5,914.0	8,042.0	9,171.1	9,722.6	8,968.8
Insurance contract liabilities	0.0	0.0	0.0	0.0	0.0
LT interest bearing debt	2,489.0	2,473.0	2,623.0	2,773.0	2,923.0
Other liabilities	7,065.0	7,117.0	7,117.0	7,117.0	7,117.0
<b>Total Liabilities</b>	<b>15,697.0</b>	<b>18,132.0</b>	<b>19,561.1</b>	<b>20,412.6</b>	<b>19,958.8</b>
Shareholders Equity	39,078.0	40,415.0	41,378.2	42,493.4	43,611.1
Minority Interest	655.0	1,659.0	1,713.0	1,767.0	1,821.0
<b>Total shareholder equity</b>	<b>39,733.0</b>	<b>42,074.0</b>	<b>43,091.2</b>	<b>44,260.4</b>	<b>45,432.1</b>
<b>Total liabilities and equity</b>	<b>55,430.0</b>	<b>60,206.0</b>	<b>62,652.3</b>	<b>64,673.0</b>	<b>65,390.8</b>

**CASH FLOW (MYR m)**

Pretax profit	6,733.0	2,110.0	2,149.3	2,491.6	2,676.8
Depreciation & amortisation	1,589.0	1,978.0	2,466.0	2,607.4	2,543.1
Adj net interest (income)/exp	66.0	139.0	0.0	0.0	0.0
Change in working capital	910.0	1,335.0	58.7	28.7	(39.2)
Cash taxes paid	(462.0)	(423.0)	(168.9)	(207.2)	(387.5)
Other operating cash flow	(1,034.0)	(406.0)	(209.0)	(251.8)	(268.0)
Cash flow from operations	8,049.0	5,119.0	4,296.0	4,668.6	4,525.2
Capex	(12,988.0)	(2,352.0)	(1,000.0)	(1,000.0)	(1,000.0)
Free cash flow	(4,939.0)	2,767.0	3,296.0	3,668.6	3,525.2
Dividends paid	(3,844.0)	(1,920.0)	(963.2)	(1,115.2)	(1,117.7)
Equity raised / (purchased)	0.0	596.2	0.0	0.0	0.0
Change in Debt	296.0	(29.0)	300.0	300.0	300.0
Other invest/financing cash flow	(221.0)	(467.0)	0.0	0.0	0.0
Effect of exch rate changes	1,206.0	29.0	0.0	0.0	0.0
<b>Net cash flow</b>	<b>(7,502.0)</b>	<b>976.2</b>	<b>2,632.8</b>	<b>2,853.4</b>	<b>2,707.5</b>

FYE 31 Dec	FY22A	FY23A	FY24E	FY25E	FY26E
<b>Key Ratios</b>					
<b>Growth ratios (%)</b>					
Revenue growth	25.7	(1.0)	15.6	7.4	(5.2)
EBITDA growth	(5.1)	(49.7)	8.9	10.0	2.3
EBIT growth	(5.4)	(67.5)	(5.6)	15.2	7.6
Pretax growth	(12.7)	(68.7)	1.9	15.9	7.4
Reported net profit growth	(13.9)	(73.2)	13.6	15.8	0.2
Core net profit growth	(9.5)	(73.0)	8.6	15.8	0.2
<b>Profitability ratios (%)</b>					
EBITDA margin	28.4	14.4	13.6	13.9	15.0
EBIT margin	22.9	7.5	6.1	6.6	7.5
Pretax profit margin	23.3	7.4	6.5	7.0	7.9
Payout ratio	51.9	61.3	50.0	50.0	50.0
<b>DuPont analysis</b>					
Net profit margin (%)	21.8	5.9	5.8	6.3	6.6
Revenue/Assets (x)	0.5	0.5	0.5	0.6	0.5
Assets/Equity (x)	1.4	1.5	1.5	1.5	1.5
ROAE (%)	17.1	4.3	4.7	5.3	5.2
ROAA (%)	12.9	3.1	3.1	3.5	3.4
<b>Liquidity &amp; Efficiency</b>					
Cash conversion cycle	(1.4)	(3.7)	(13.1)	(13.5)	(15.3)
Days receivable outstanding	39.5	46.9	44.9	45.8	47.8
Days inventory outstanding	50.4	54.5	51.1	52.3	55.6
Days payables outstanding	91.4	105.2	109.1	111.6	118.8
Dividend cover (x)	1.9	1.6	2.0	2.0	2.0
Current ratio (x)	2.5	1.9	2.0	2.2	2.5
<b>Leverage &amp; Expense Analysis</b>					
Asset/Liability (x)	3.5	3.3	3.2	3.2	3.3
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)	100.5	15.5	21.4	22.4	22.1
Debt/EBITDA (x)	0.3	0.7	0.7	0.7	0.8
Capex/revenue (%)	44.9	8.2	3.0	2.8	3.0
Net debt/ (net cash)	(6,170.0)	(6,295.0)	(8,627.8)	(11,181.2)	(13,588.8)

Source: Company; Maybank IBG Research

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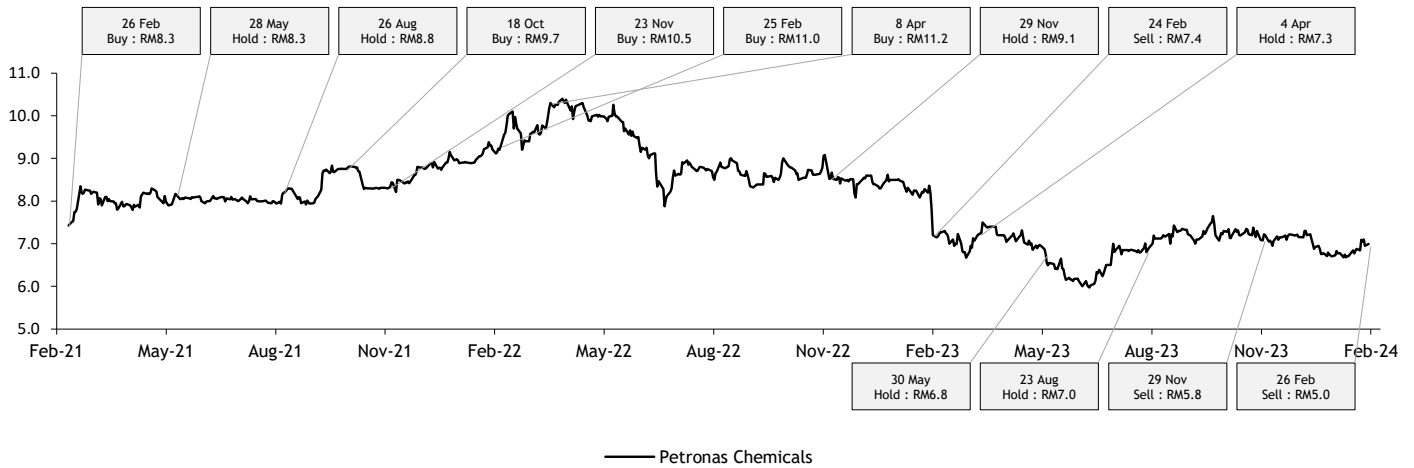
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