

# Malaysia O&G and Petrochemicals

## MY Oil & Gas: POSITIVE

## MY Petrochemicals: NEGATIVE

### O&G: POSITIVE; Petrochemicals: NEGATIVE

For MY O&G, we maintain POSITIVE but are selective to: i) defensive midstream space; and ii) FPSO names with Dialog and BArmada as top picks, respectively. We expect Brent crude oil prices to be lower at an average of USD70/bbl in 2025E (2024: USD80/bbl) while a likely lower PETRONAS capex may impact domestic-centric upstream OGSE names in 2025E. For MY Petrochemicals, we maintain NEGATIVE as we expect polymer ASPs to remain weak in 2025E as start-up of new regional capacities is still looking to flood supply. We have SELLS on both PCHEM and LCTITAN.

### OPEC+ may unwind production cuts in 2025E

Based on our understanding, OPEC+ producers may execute their plan to increase output by 2.2m bpd over an 18-month period, starting April 2025. This could lead to an inventory build-up in 2025E and put some downward pressure on oil prices. Currently, OPEC+'s output cuts of 5.86m bpd represents about 6% of global oil demand, under agreements/pledges made since 2022. With that, we expect Brent crude oil prices to be lower YoY at USD70/bbl in 2025E.

### Strong FPSO outlook amid Petronas capex uncertainty

We see bright spots in the global FPSO market as Rystad Energy estimates that deepwater (125-1,500m) and ultra-deepwater (>1,500m) will spearhead offshore liquids production growth at an estimated CAGR of 2.2% and 8.0% each from 2024-2030E. Rystad also projects a total of 64 FPSO awards from 2025-2030E, averaging 10-11 jobs/year. Yinson and BArmada are beneficiaries of this golden upcycle. However, on home ground, the transition of gas trading responsibilities & control to PETROS from PETRONAS ([link](#)) could impact PETRONAS's revenue and free cash flows although we are unable to quantify the impact at the moment. A PETRONAS capex deferral is possible as a significant portion of its trading revenues have been lost. Consequently, further E&P works/ developing projects may be deferred until both parties mutually achieve a resolution. We expect this to impact OGSE names with exposure in the exploration & development sub-segments - mainly OSVs, offshore fabrication, drilling rigs & hook-up and commissioning. Meanwhile, the midstream segment offers a defensive play; Dialog is the proxy.

### Petrochemicals: Another soft year ahead

While we believe that the petrochemical sector has found a bottom in terms of ASPs (before the next influx of PE & PP capacities in 2026), the sector appears to be in an L-shaped recovery. Coupled with additional polymer capacities coming onstream regionally in 2026, it is unlikely that the industry will revisit its ASP highs in 2021 and 2H22 anytime soon. We view that: i) the worst is not over for PCHEM yet as we expect the group to rake in YoY decline in FY25E profits post-incorporation of PPC's losses of >MYR700m annually; and ii) PE-naphtha spreads are not wide enough for LCTITAN to turn profitable. We have a SELL rating on both PCHEM and LCTITAN.

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#### Abbreviations

IEA = International Energy Agency  
EIA = Energy Information Administration  
OPEC = Organisation of the Petroleum Exporting Countries  
OGSE = Oil & Gas Service and Equipment  
OSV = Offshore Support Vessel  
FPSO = Floating Production Storage and Offloading

Stock	Bloomberg code	Mkt cap (USD'm)	Rating	Price (LC)	TP (LC)	Upside (%)	P/E (x)		P/B (x)		Div yld (%)	
							24E	25E	24E	25E	24E	25E
Petronas Chem.	PCHEM MK	8,672	Sell	4.89	3.82	(22)	21.8	22.4	0.9	0.9	2.3	2.2
MISC	MISC MK	7,520	Hold	7.60	8.09	11	16.5	13.7	0.9	0.8	4.7	4.7
Dialog Group	DLG MK	2,341	Buy	1.87	2.97	61	22.1	14.8	2.3	1.6	1.5	2.0
Yinson Holdings	YNS MK	1,904	Buy	2.68	4.78	78	8.2	15.7	1.4	1.4	0.8	1.5
Bumi Armada	BAB MK	874	Buy	0.67	0.71	7	4.0	5.1	0.6	0.5	0.0	0.0
Lotte Chemical	TTNP MK	326	Sell	0.64	0.91	44	nm	nm	0.1	0.1	0.0	0.0
Velesto Energy	VEB MK	282	Buy	0.16	0.20	28	7.2	7.8	0.5	0.5	2.8	2.6
Wasco	WSC MK	198	Buy	1.15	1.47	28	5.1	7.8	1.0	0.9	2.9	1.9
Icon Offshore	ICON MK	140	Hold	1.01	1.00	(1)	71.8	10.1	1.8	1.6	0.0	2.0

# 1. Crude surplus in 2025E?

## 1.1 Both IEA and EIA are expecting a crude supply surplus environment in 2025E

- IEA (International Energy Agency), in its Dec 2024 Oil Market Report, is expecting crude oil supply to increase 104.8m bpd in 2025E (+0.6m bpd), even without unwinding of OPEC+ cuts. The organisation is also forecasting a lift in consumption to 103.9m bpd in 2025E (+1.1m bpd). This ultimately implies an average daily crude supply surplus of 0.9m bpd in 2025E.
- US EIA (Energy Information Administration), in its Nov 2024 Short-Term Energy Outlook (STEO) report, also expects a net crude oil surplus in 2025E with global production at 104.66m bpd slightly eclipsing consumption at 104.36m bpd. This results in an average surplus of 0.3m bpd in 2025E, based on the organisation's forecast.

**Fig 1: US EIA's crude oil production and consumption forecast for 2023-2025E (Nov 2024 STEO)**

Production (mbpd)													
	2023				2024E			2025E					Year
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	
Total OPEC	32.7	32.44	31.63	31.93	32.16	32.09	32.03	32.09	32.34	32.51	32.59	32.60	32.18
Total Non-OPEC	68.85	69.16	70.19	71.16	69.87	70.39	70.59	71.26	71.30	71.87	72.54	72.88	69.84
Total World Production	101.55	101.60	101.82	103.09	102.03	102.48	102.62	103.35	103.64	104.38	105.13	105.48	102.02
OPEC / World (%)	32%	32%	31%	31%	32%	31%	31%	31%	31%	31%	31%	31%	32%
Consumption (mbpd)													
	2023				2024E			2025E					Year
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	
OECD	45.26	45.52	45.90	46.00	44.80	45.55	46.15	46.22	45.44	45.22	46.05	46.16	45.67
Non-OECD	56.01	56.60	56.66	56.59	57.40	57.59	57.37	57.46	58.44	58.80	58.66	58.65	56.47
Total World Consumption	101.27	102.12	102.56	102.59	102.20	103.14	103.52	103.68	103.88	104.02	104.71	104.81	102.14
Net surplus/(deficit)	0.28	-0.52	-0.74	0.50	-0.17	-0.66	-0.90	-0.33	-0.24	0.36	0.42	0.67	-0.12
													0.30

Source: EIA (Nov 2024 STEO)

## 1.2 OPEC+ may start unwinding production cuts in April 2025E

As shown in Figure 1, OPEC constitutes > 30% of global oil production. Over the past years, OPEC+ played its part as a “swing producer” to maintain balance in oil prices. OPEC+ producers may execute their plan to increase output by 2.2m bpd over an 18-month period, starting in April 2025. This could lead to an inventory build-up in 2025E and put downward pressure on oil prices. Currently, OPEC+'s output cuts of 5.86m bpd represent about 6% of global demand, under agreements made since 2022. Below are the major events with regards to OPEC+'s major decisions in terms of output cuts chronologically since 2022.

Oct 2022: OPEC+ agreed to reduce oil production by 2.0m bpd;

Apr 2023: 8 OPEC+ members voluntarily reduced output by 1.66m bpd;

Nov 2023: Same 8 members announced further cuts of 2.2m bpd.

### 1.3 Maybank-IB's Brent crude oil forecast is USD70/bbl for 2025E

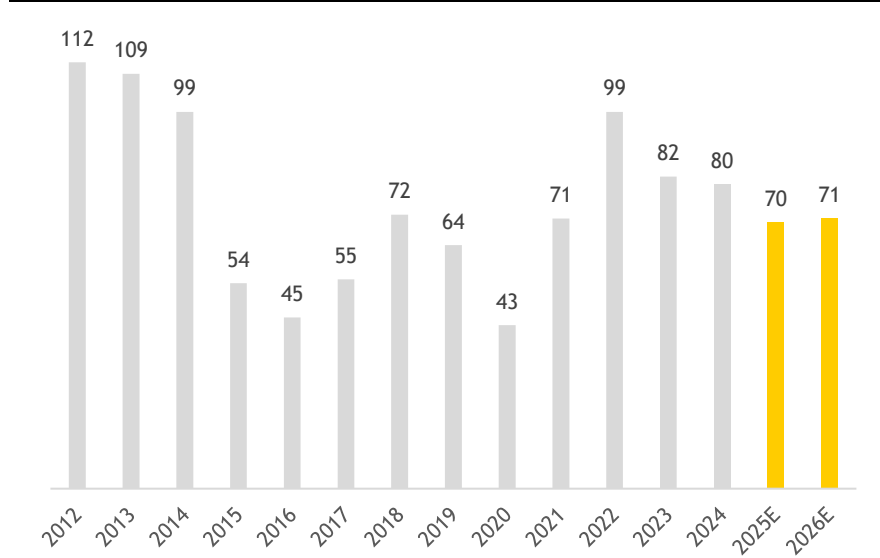
We expect Brent crude oil prices to be weaker at an average of USD70/bbl in 2025E (from USD80/bbl in 2024) as we concur on the likelihood of a crude supply environment for the year as forecasted by both IEA and EIA.

**Fig 2: Brent Crude Oil price chart in USD/bbl (2000 till current)**



Source: Bloomberg

**Fig 3: Maybank-IB's annual Brent Crude oil price forecast (2025-2026E)**



Source: Maybank IBG Research

## 1.4 Rystad Energy: Peak oil demand at 111m bpd in 2033E

Rystad Energy recently revised its peak oil demand forecast to 2033E at 111m bpd (from 2025E at 107m bpd). Oil demand is anticipated to peak later than previous estimates was due to limited alternatives in hard-to-abate industries and slower-than-expected EV adoption. Also, Rystad thinks that Brent Crude Oil will average at USD75/bbl in 2025E (vs. our in-house USD70/bbl in 2025E). Meanwhile, Rystad has a LT Brent Crude oil price forecast of USD70/bbl.

Rystad Energy thinks that:

- i) The oil market's new order will be shaped by new/renewed US trade policies under a tariff-driven Trump 2.0 era, while China 3.0 is likely to be defined by an outward and expansionist path away from export-driven domestic growth;
- ii) OPEC+ market management has evolved through three stages of growth while going through supply gluts caused by various factors. Rystad sees OPEC policies to target multiple goals of price stability, accelerating refinery attrition, and growing refining and petchem capacity strength at home and abroad;
- iii) OPEC+ is likely to wait to see how Trump 2.0 and China 3.0 evolve before taking drastic action of repeating a price war. Production cuts are most likely to roll through for another one or two months with a higher focus on cuts compliance, while waiting for the next steps in the ongoing geopolitical conflicts (i.e. Russia-Ukraine, Gaza and Israel-Iran).

## 2. Golden Age of the FPSO cycle

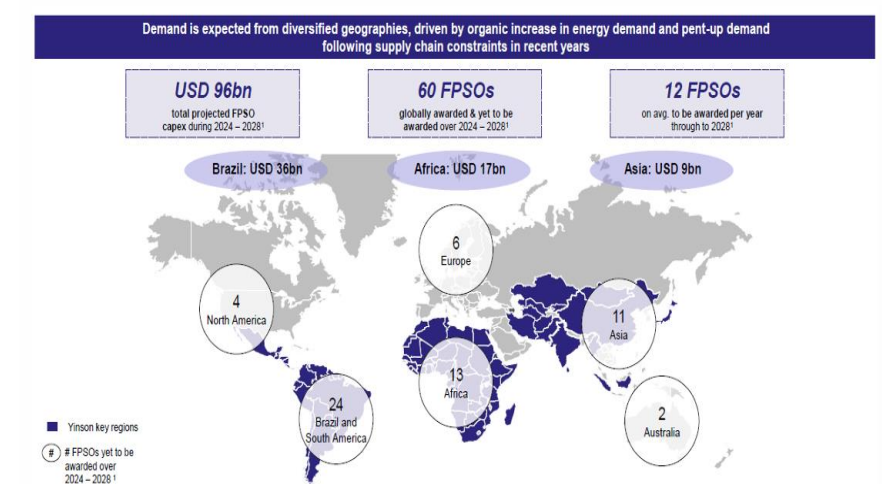
### 2.1 Strong global FPSO outlook

Rystad Energy estimates that total offshore upstream Oil & Gas and CCS investments to grow at a 5% CAGR from 2023 to 2027E, where the bulk of the growth would come from greenfield and brownfield capex - see Figure 4. In 2024-2030E, deepwater (125-1,500m) and ultra-deepwater (>1,500m) will spearhead offshore liquids production growth at an estimated CAGR of 2.2% and 8.0% each

FPSOs are often the most popular/feasible option for developing oil & gas fields in such depths as pipeline installation/construction can be extremely expensive and technically challenging. While FPSOs are not exclusively used in deepwater and ultra-deepwater, they are particularly well-suited for these environments due to their ability to handle their unique challenges and complexities.

We think the FPSO market is currently in the "Golden Age" due to a robust global tender pipeline - with an expected 60 awards from 2024-2028E (source: Energy Maritime Associates).

Fig 4: EMA's forecasts on the global FPSO outlook from 2024-2028E



Source: EMA, Yinson, Maybank IBG Research

We reiterate our optimistic view on the FPSO sub-segment. Key beneficiaries in this space under our coverage would be Yinson (BUY, TP: MYR4.78), MISC (HOLD, TP: MYR8.09) and Bumi Armada (BUY, TP: MYR0.71). Bumi Armada is our top pick.

### 3. PETRONAS potential capex cuts in 2025E?

#### 3.1 PETROS is now the sole gas aggregator in Sarawak

PETROS has been officially appointed as the sole gas aggregator for the state of Sarawak with effect from 1 Feb 2024 ([link](#)) - marking a significant shift in the control of Sarawak's natural gas resources away from PETRONAS. The transition of gas trading responsibilities could impact PETRONAS' revenue stream and free cash flows although we are unable to quantify the impact. We believe that a PETRONAS capex deferral is a possibility as a significant portion of its trading revenues have likely be lost.

Consequently, further E&P works/ developing projects may be deferred until both parties mutually achieve a resolution. Under a PETRONAS capex deferral scenario, we believe this could impact OGSE names with exposure in the exploration & development sub-segments - mainly OSVs, offshore fabrication, drilling rigs & hook-up and commissioning, potentially impacting names like Velesto (VEB MK, BUY, TP: MYR0.23), Dayang Enterprise (DEHB MK, Not Rated), Perdana Petroleum (PETR MK, Not Rated), Icon Offshore (ICON MK, HOLD, TP: MYR1.20), Sealink (SELI MK, Not Rated), Marine & General, Carimin (CARIP MK, Not Rated), MMHE (MMHE MK, Not Rated) and Petra Energy (PENB MK, Not Rated). While most of these names are showing strong earnings momentum now, potentially lower PETRONAS capex spending could lead to reduced activities/demand/service-providing rates in 2025E, resulting in slower growth for the year. In Figures 5-7, we identify Malaysia-listed companies in each sub-segment of the upstream, midstream and downstream categories.

## 3.2 The Malaysian Oil & Gas value chain

Fig 5: Malaysia's Oil and Gas Sector Value Chain

Activities	Malaysian Listed Companies Involved
<b>Upstream</b>	
Drilling Rig	Velesto Energy, Sapura Energy
Hydraulic Workover Unit (HWU)	Velesto Energy, Uzma, T7 Global
Offshore Fabrication (WHP/CPP)	MMHE, Sapura Energy
FPSO	Bumi Armada, Yinson, MISC
MOPU	T7 Global
Offshore Support Vessel (OSV)	Perdana Petroleum, Dayang Enterprise, Icon Offshore, Petra Energy, Keyfield International, Sealink International, Marine & General
Hook-up and Commissioning (HUC)	Carimin Petroleum, Dayang Enterprise, Petra Energy
Maintenance, Construction and Modification (MCM)	Carimin Petroleum, Dayang Enterprise, Petra Energy
Plugging and Abandonment	Velesto Energy, Uzma, T7 Global
Pipeline Services	Wasco
<b>Midstream</b>	
LNG Shipping / Petroleum Tankers	MISC
Tank Terminals	Dialog
Gas Pipelines	Petronas Gas
<b>Downstream</b>	
Refining	Heng Yuan, Petron Malaysia
Petrochemicals	Lotte Chemical Titan, Petronas Chemicals
Downstream Plant Turnaround	Dialog
Marketing and Distribution	Petronas Dagangan

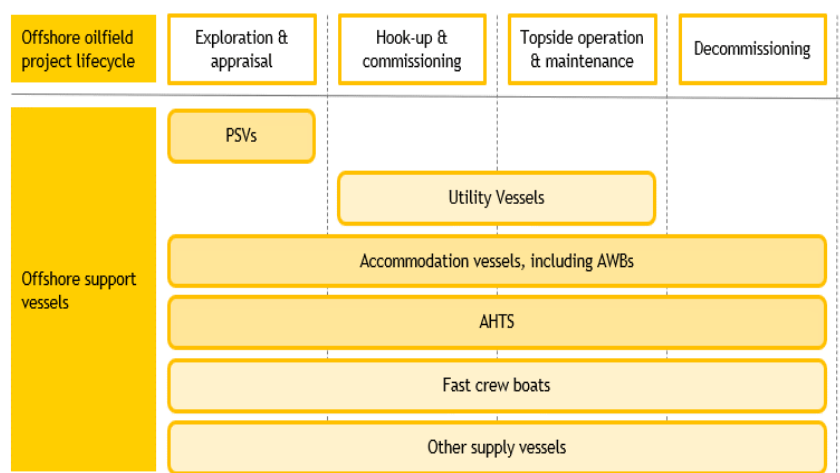
Source: Maybank IBG Research

Fig 6: OGSE subsegments throughout different activity phases

	Exploration	Development	Production	Decommissioning
Drilling Rig	✓	✓	✓	✓
Hydraulic Workover Unit (HWU)			✓	✓
Offshore Fabrication (WHP/CPP)		✓		
FPSO			✓	
Offshore Support Vessel (OSV)	✓	✓	✓	✓
Hook-up and Commissioning (HUC)		✓		
Maintenance, Construction and Modification (MCM)			✓	
Plugging and Abandonment				✓

Source: Maybank IBG Research

Fig 7: Types of OSVs used in different life cycles of an oilfield



Source: PROVIDENCE, Maybank IBG Research

The Oil and Gas industry comprises three main segments: upstream, midstream and downstream.

The upstream segment typically consists of companies involved in the E&P (exploration and production) of oil and gas. This involves the search for reservoirs for natural crude oil or natural gas fields to recover oil and gas.

We highlight that E&P companies do not usually own all of their own equipment. For example, they contract out the drilling of wells to other companies - and these companies typically bill E&P companies based on the length of time they spend working for them. We call these players the Oil and Gas Services and Equipment (OGSE) players. These OGSE players do not generate revenue that is tied directly to oil and gas production volume but will indirectly benefit from the capex/opex spending of the pure-play E&P companies.

### 3.3 Midstream resilient against capex downcycle

A potentially lower capex spending by PETRONAS could lead to reduced activities/demand/service providing rates, potentially as early as in 2025E - which will result in slower growth/a reset in growth expectations for local-centric OGSE names 2025E.

However, we believe that the midstream segment could be more resilient and may not be affected should there be lower capex spending by PETRONAS.

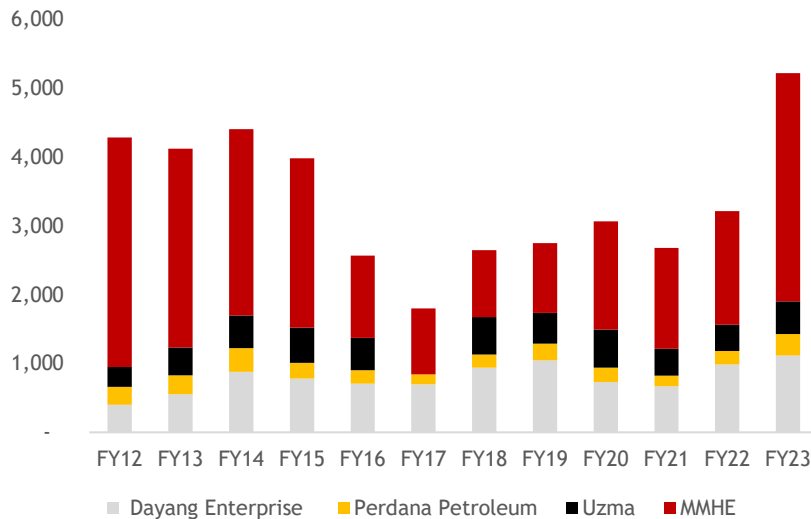
About 60% of Dialog's earnings come from its LT independent & dedicated "take-or-pay" tank terminal assets, which are in the midstream segment in the oil & gas value chain. We still like Dialog as the group may benefit from: i) ChemOne's development of PEC; and ii) PETRONAS's MYR6b development of a 650k biorefinery with Eni and Euglena with the need for tank terminals for LT storage of refined/crude products. We are also forecasting record-high earnings of MYR714m (+17% YoY) for Dialog in FY25E.



## 4. Case study on previously cycle of PETRONAS capex vs. OGSE revenues

### 4.1 We should not decouple PETRONAS capex against sectorial revenues

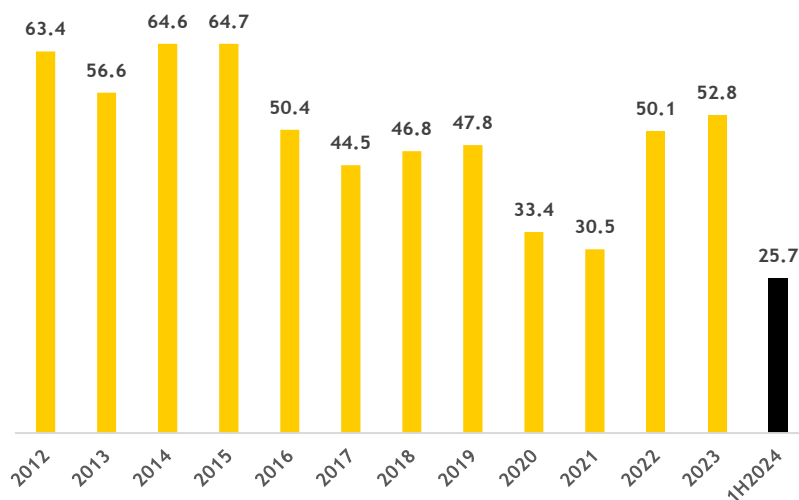
**Fig 8: Local OGSE revenue trend (FY12-23)**



Source: Maybank IBG Research

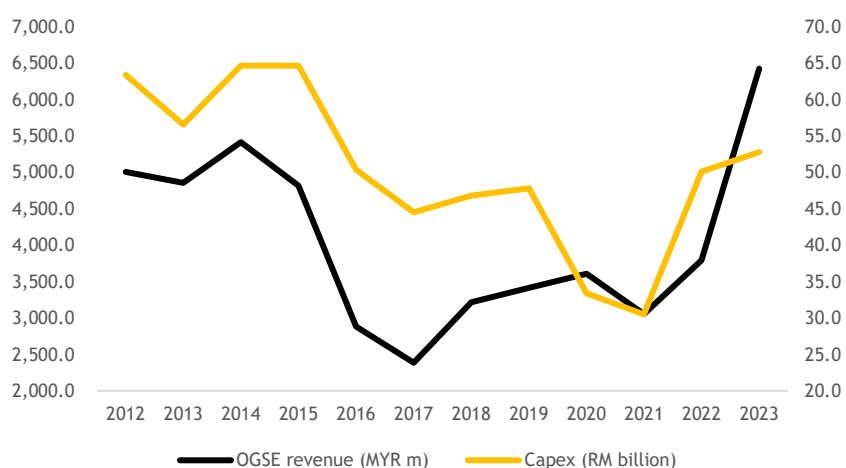
We chose Dayang, Perdana, Uzma and MMHE as proxies to the OGSE subsector

**Fig 9: PETRONAS capex trend (2012-1Q24)**



Source: PETRONAS, Maybank IBG Research

As shown in Figure 8 and Figure 9 above, local-centric OGSE players' revenues in the past (in this case - we chose Dayang Enterprise, Perdana Petroleum, Uzma and MMHE) were generally positively correlated with PETRONAS's capex spending. For instance, the aggregate OGSE players' revenue mirrored the fall in capex spending in 2016, 2017 and 2021.

**Fig 10: Correlation of Petronas capex vs OGSE industry revenue**

Source: PETRONAS, Maybank IBG Research

Applying what we have observed in the past, we flag that there is a possibility that many local-centric upstream OGSE names may see slower growth/need a reset in growth expectations in 2025E due to the ongoing industry development.

On a side note, PETRONAS announced ([link](#)) in early 2023 that it plans to spend MYR300b in capex over the next 5 years (2023-2027E), but we think that this may not materialise given the current circumstance it is facing with PETROS.

## 5. Valuations

### 5.1 Previous upcycle valuations

Relating to valuations, we chose Dayang Enterprise (DEHB MK) as our case study as the other names have experienced volatile earnings and have taken on multiple corporate exercises over the past 15 years, significantly distorting their historical forward P/E band charts - making them inappropriate for our research purpose.

The Global Financial Crisis in 2008 saw Brent Crude Oil prices sank to as low as USD40/bbl (from a peak of >USD140/bbl). Since then, beginning 2009, the oil markets saw a major recovery and entered a prominent upcycle until 2014 (where the Shale Revolution started), as shown in Figure 2.

During the previous upcycle (2009-2014), after stripping out one-offs, we saw Dayang Enterprise trading between a 1 year forward P/E multiple range of 3.9x to as high as 16.4x (Figure 33). Throughout the 7-year horizon, the average mean 1-year forward multiple was 10.1x.

During the previous upcycle (2009-2014), after stripping out one-offs, we saw Dayang Enterprise trading between a 1 year forward PER range of 3.9x to as high as 16.4x (Figure 7). Throughout the 7-year horizon, the average mean 1-year forward multiple was 10.1x. Note that Dayang registered losses in 2017.

Fig 11: Historical 1-year forward P/E multiple for Dayang (2008-15)



Source: Bloomberg, Maybank IBG Research

## 5.2 Reducing the target PER multiple for our Oil & Gas coverage

Given the high possibility of a dip in PETRONAS capex in 2025E, we are taking the view that there will be a sector de-rating for the Malaysian Oil & Gas sector. With that, we lower the target PER multiple to 10x (in line with 7Y mean, as shown in Figure 9) for our Oil & Gas coverage, with changes to our respective target prices (TPs), as shown in Figure 10 below.

Fig 12: Changes in stock ratings, TPs and valuation multiples

OGSE names	PER peg (x)		Target Price (MYR)		Stock Rating	
	Old	New	Old	New	Old	New
Dialog	12	10	3.09	2.97	BUY	BUY
Velesto	12	10	0.25	0.2	BUY	BUY
Wasco	12	10	1.76	1.47	BUY	BUY
Icon Offshore	12	10	1.20	1.00	HOLD	HOLD

Source: Maybank IBG Research

Our summarised ratings, target prices and valuation methodologies for our Oil & Gas coverages below, as shown in Figure 12:

Fig 13: Rating summary, target prices and valuation methodologies

	Rating	TP (MYR)	TP basis
MISC	HOLD	8.09	Sum of Parts (SOP)
Dialog Group	BUY	2.97	Sum of Parts (SOP)
Yinson	BUY	4.78	Sum of Parts (SOP)
Bumi Armada	BUY	0.71	Sum of Parts (SOP)
Velesto Energy	BUY	0.20	10x FY25E PER
Wasco	BUY	1.47	10x FY25E PER
Icon Offshore	HOLD	1.00	10x FY25E PER

Source: Maybank IBG Research

### 5.3 Top Picks: Dialog and Bumi Armada

We are selective on the Malaysia Oil & Gas space, with preference in the: i) defensive midstream space which will be unaffected by the lower PETRONAS capex spending; and ii) FPSO players which are poised to ride on the global deep and ultra-deepwater capex investments.

**Dialog** stands out via its strong operational/financial stability from its LT midstream tank terminal assets. We note that it has secured a renewal for its Master Service Agreement (3+2 years) from PETRONAS (for its plant maintenance segment) beginning 2H24 at significantly higher rates. Also, with the gradual phase-out of loss-making legacy EPCC contracts by Jun 2024, the segment (EPCC) will be profitable beginning FY25E as newer jobs are also signed at improved rates. Re-rating catalysts include: i) strong earnings growth delivery; ii) new tank terminal contracts in Pengerang.

**Fig 14: SOP-valuation for Dialog**

Assets	Equity value	Value/share (MYR)	Basis
Downstream business (EPCC)	3,220.0	0.57	12x FY25E PER
Kertih Terminal (30% stake)	534.0	0.09	Equity Value: WACC @ 6.5%
Tanjung Langsat Terminals 1, 2 and 3	1,200.4	0.21	Equity Value: WACC @ 6.5%
SPV1 - PITSB (46% stake)	2,051.3	0.36	Equity Value: WACC @ 6.5%
SPV2 - PT2SB (25% stake)	2,418.6	0.43	Equity Value: WACC @ 6.5%
SPV3 - PLNG (25% stake)	1,654.4	0.29	Equity Value: WACC @ 6.5%
SPV5 - BP Singapore terminal	782.9	0.14	Equity Value: WACC @ 6.5%
Pengerang Phase 3 future expansion	3,299.3	0.58	Equity Value: WACC @ 6.5%
Upstream business (Bayan, D35/D21/J4, POEC)	1,741.8	0.31	Equity Value: WACC @ 10.0%
FY25E net cash / (debt)	(131.0)	(0.02)	
<b>Total</b>	<b>16,771.7</b>		
Number of shares	5,642.6		
<b>Target Price (MYR/share)</b>	<b>2.97</b>		

Source: Maybank IBG Research

**Bumi Armada**'s balance sheet has improved tremendously over the years. It has recorded lower net debt for 18 consecutive quarters to MYR2.9b as at end-Sep 2024 (from MYR8.7b as at end-1Q20). The group has always aspired to get new FPSO jobs but has also emphasized that it wants to do it with a "partner". We believe Bumi Armada could be a strong contender given the robust mid-term FPSO upcycle outlook, combined with its improving balance sheet when it finds a strategic partner to share resources, construction and execution risks.

**Fig 15: SOP-valuation for Bumi Armada**

Assets	Location	Equity value (MYRm)	Value/share (MYR)	Basis
Armada Kraken FPSO	North Sea, UK	1,447.0	0.24	NPV: WACC @ 7.5% (firm + full extension)
Armada Olombendo FPSO	Angola	3,370.3	0.57	NPV: WACC @ 7.5% (firm + full extension)
Armada LNG Mediterranean FSU	Malta	318.1	0.05	NPV: WACC @ 7.5% (firm)
Armada TGT1 FPSO	Vietnam	260.6	0.04	NPV: WACC @ 7.5% (full extension)
Armada Sterling I (50% JV)	India	680.7	0.11	NPV: WACC @ 7.5% (firm + full extension)
Armada Sterling II (50% JV)	India	289.6	0.05	NPV: WACC @ 7.5% (firm + full extension)
Armada Sterling III (49% JV)	Indonesia	503.6	0.08	NPV: WACC @ 7.5% (firm + full extension)
Armada Sterling V (30% JV)	India	978.8	0.17	NPV: WACC @ 7.5% (firm + full extension)
<b>Sub-total</b>		<b>7,848.7</b>		
(-) FY23 Net debt		-3,649.8		
<b>Total</b>		<b>4,198.9</b>		
No. of shares		5,927.9		
<b>Target Price (MYR/share)</b>		<b>0.71</b>		

Source: Maybank IBG Research

## 6. Likelihood of another soft year for the petrochemicals, avoid the sector

### 6.1 Polymer ASPs likely to remain unexciting for the most part of 2025E, there is still a supply glut

While we believe that the petrochemical sector has found a bottom in terms of ASPs (before the next influx of PE & PP capacities in 2026), the sector appears to be in an L-shaped recovery. Coupled with additional polymer capacities coming onstream regionally in 2026, it is unlikely that the industry will revisit its ASP highs in 2021 and 2H22.

According to Independent Chemical & Energy Market Intelligence (ICIS), global PE and PP capacities may have to reduce by 23m tonnes p.a. and 18m tonnes p.a. in 2023-2030 respectively for global operating capacities to return to their historic healthy average of >85%. The outlook for polymers looks gloomy, with supply likely to outstrip demand by a significant margin over the next 2 years, at least. With that, both PCHEM and LCTITAN's bottomline will continue to be tepid as ASPs are expected to remain under pressure with persistent imbalanced supply-demand dynamics. ICIS also estimates that average PP spreads need to recover by c.150% before the emergence of a new upcycle, which we concur. Meanwhile, we believe there is too much capacity to chasing too little demand.

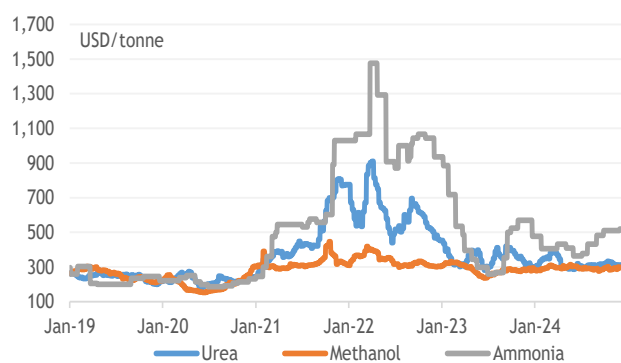
### 6.2 PCHEM's earnings will likely be lower YoY in FY25E

PCHEM has started to recognise its 50% share of PPC's operating costs, comprising MYR300m interest expense and MYR400m depreciation charge p.a. We also note that PPC will use naphtha as a primary feedstock, which may add volatility to PCHEM's earnings vis-à-vis its existing portfolio of ethane-based polymers that are protected by competitive long-term supply agreements with PETRONAS. In our view, incorporating PPC's losses of >MYR700m annually will likely lead to a -3% EPS contraction YoY for PCHEM in FY25E. As such, we believe PCHEM's outlook remains challenging too in 2025 and we maintain our SELL rating on PCHEM with an unchanged TP of MYR3.80 - pegged to a PER of 17.5x on FY25E EPS, at parity to its 7-year mean. PCHEM's valuations are lofty, trading at >22x FY25E EPS.

### 6.3 We expect LCTITAN to still be in the red over the next few foreseeable quarters

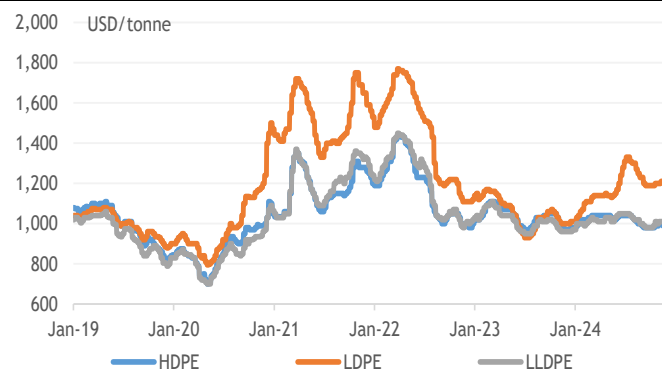
Based on our analysis, LCTITAN's net profit breakeven HDPE-naphtha spreads have to be >USD550/MT. Currently, LCTITAN is making gross losses per unit sales at about USD300-350/MT, which also means that PE-naphtha spreads are not wide enough for LCTITAN to turn profitable. In our view, LCTITAN faces a double whammy: i) we do not foresee polymer prices to improve significantly anytime soon; and ii) margin squeeze from sustained elevated naphtha prices. With that, our SELL call remains with an unchanged TP of MYR0.93 - based on a FY25E PBV multiple of 0.15x.

Fig 16: Urea, Methanol and Ammonia Prices



Source: Bloomberg

Fig 17: HDPE, LDPE & LLDPE Prices



Source: Bloomberg

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