

July 8, 2025

# Petronas Chemicals (PCHEM MK)

## O&D spreads likely stay subdued for some time

### Maintain SELL with an unchanged TP of MYR2.59

We hosted PCHEM's CFO and Investor Relations, Mohd Azli Ishak, & team in our Maybank-IB's annual Invest ASEAN event across 2 full days of meetings with global & local investors on 2-3 July 2025. We reiterate our bearish view on the O&D subsector due to the ongoing regional oversupply glut (mainly from China). We made no changes made to our FY25-27E earnings forecasts and SELL rating with an unchanged TP of MYR2.59, based on 15x PER (5Y mean PER) on FY26E EPS.

### O&D spreads expected to still be weak in 2H25

O&D spreads continued to weaken in 2Q25, currently at multi-year lows since the Covid-19 pandemic in 1H20. Based on the group's knowledge sharing series ([link](#)), we are expecting O&D spreads to still be subdued in 2H25 given the ongoing regional supply glut, driven by fierce upcoming regional petrochemical complexes (mainly from China due to the country's drive for self-sufficiency). We are closely monitoring industry updates on any major capacity rationalisation developments in the near future to spot any possible turnaround for the sector as most naphtha-based petrochemical players are loss-making in current environment.

### Weaker USD may lead to unrealised forex loss in 2Q25

The USD/MYR forex weakened by 5% in 2Q25 to 4.21 as at end-June 2025 (end-March 2025: 4.43). Based on our historical trends, PCHEM does a mark-to-market assessment and book in the forex impact on their assets on a quarterly basis. Hence, PCHEM's upcoming 2Q25 headline profits could be negatively impacted on two fronts: i) revaluation of PCHEM's shareholder loans to PPC; and ii) revaluation of PPC's payables. Based in our estimates, PCHEM could register weaker QoQ core earnings in 2Q25 due to a shutdown in PRefChem and declining O&D spreads.

### Upside may come from "special discounts" from PRC

We understand that the current favorable GRMs would mean that PRC is likely to be profitable when it is up and running in 3Q25. With that, PCHEM is hopeful that its 50%-owned PPC could receive the "special discount" beginning 2H25 (which is contingent on PRC being profitable) from PRC to subsidise PPC's losses, which may pose an upside risk to our forecasts.

FYE Dec (MYR m)	FY23A	FY24A	FY25E	FY26E	FY27E
Revenue	28,667	30,671	31,856	31,526	32,507
EBITDA	4,134	4,345	4,353	4,945	5,252
Core net profit	1,704	1,159	900	1,380	1,664
Core EPS (sen)	21.3	14.5	11.3	17.2	20.8
Core EPS growth (%)	(74.1)	(32.0)	(22.3)	53.3	20.6
Net DPS (sen)	13.0	13.0	5.6	8.6	10.4
Core P/E (x)	33.6	35.7	30.1	19.7	16.3
P/BV (x)	1.4	1.1	0.7	0.7	0.7
Net dividend yield (%)	1.8	2.5	1.7	2.5	3.1
ROAE (%)	4.3	3.0	2.3	3.5	4.1
ROAA (%)	2.9	1.9	1.5	2.3	2.7
EV/EBITDA (x)	12.7	8.3	4.8	4.1	3.7
Net gearing (%) (incl perps)	net cash	net cash	net cash	net cash	net cash
Consensus net profit	-	-	882	1,447	1,691
MIBG vs. Consensus (%)	-	-	2.1	(4.6)	(1.6)

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## SELL

Share Price	MYR 3.39
12m Price Target	MYR 2.59 (-24%)
Previous Price Target	MYR 2.59

### Company Description

*Petronas Chemicals Group Bhd manufactures, markets and sells petrochemicals.*

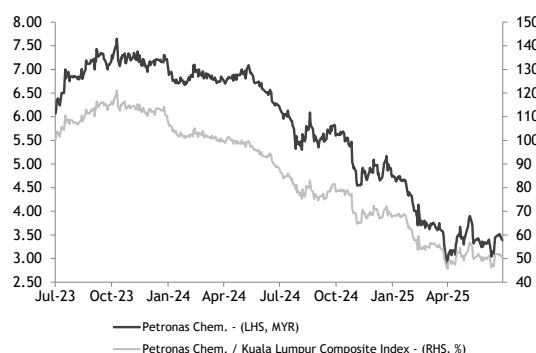
### Statistics

52w high/low (MYR)	6.22/2.80
3m avg turnover (USDm)	4.0
Free float (%)	23.1
Issued shares (m)	8,000
Market capitalisation	MYR27.1B
	USD6.4B

### Major shareholders:

Government of Malaysia	64.4%
Employees Provident Fund	11.6%
Permodalan Nasional Bhd.	5.2%

### Price Performance



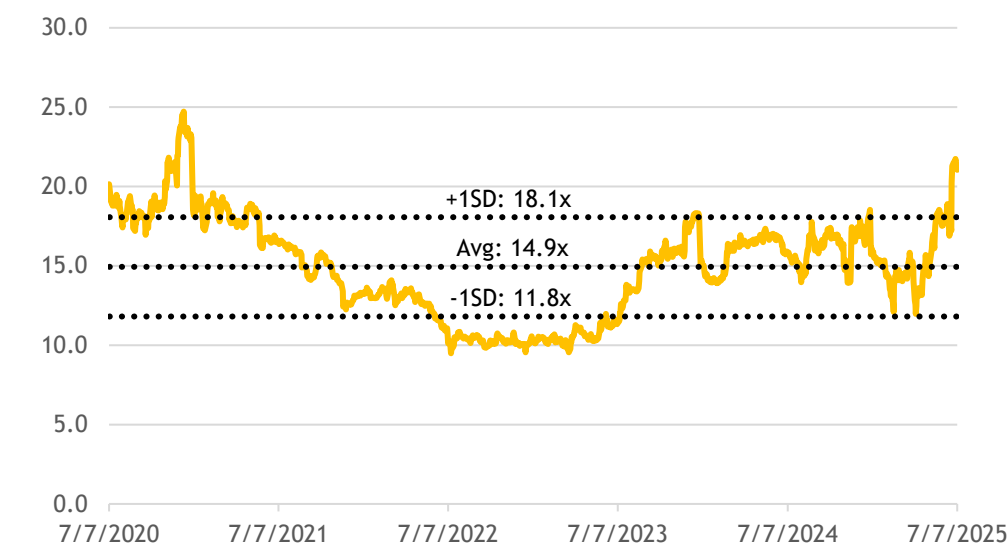
	-1M	-3M	-12M
Absolute (%)	4	15	(46)
Relative to index (%)	3	8	(43)

Source: FactSet

### Abbreviations

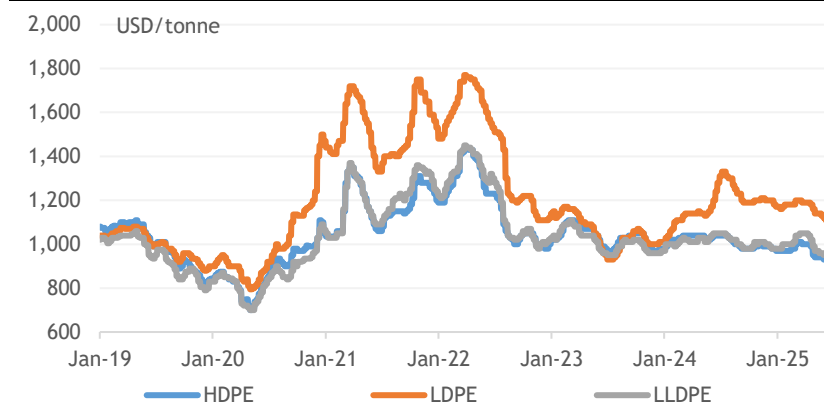
O&D: Olefins & Derivatives  
PPC: Pengerang Petrochemical Company  
PRC: Pengerang Refining Company  
GRMs: Gross Refining Margins

**Fig 1: PCHEM's forward PER band chart**



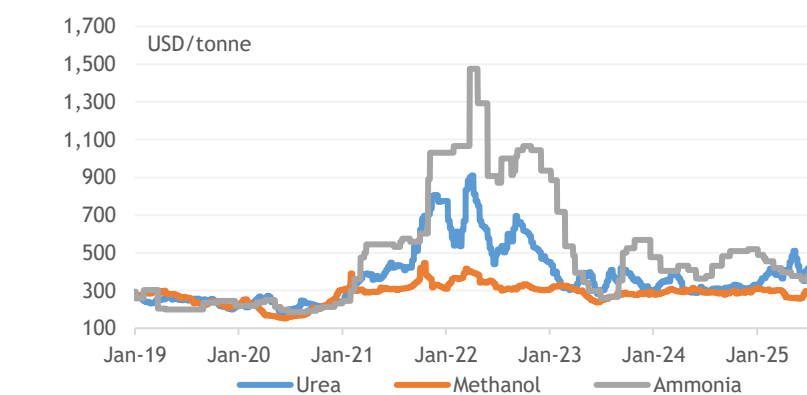
Source: Maybank IBG Research

**Fig 2: O&D product prices**



Source: Bloomberg, Maybank IBG Research

**Fig 3: F&M product prices**



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.

## Appendix I

### Methodology of our proprietary ESG scoring methodology

We evaluate the ESG ratings based on quantitative, qualitative and ESG targets. We assign a score for each of these three parameters. The overall rating is based on the weighted average of the scores: quantitative (50%), qualitative (25%) and ESG target (25%).

For the quantitative, qualitative and ESG target, the sub-parameters are assigned a score - '0' for data not available, '+1' for improving trajectory, positive change, 'Yes', better than peers or a positive number if historical is not available and '-1' for declining trajectory, negative change, 'No', lower than peers or a negative number. The total of the scores of all the sub-parameters is divided by the total number of sub-parameters, to derive the score of each of the three parameters.

The sub-parameters may be different for different industries depending on the key areas to monitor for each industry. A company should achieve a minimum score of 50 for an average ESG rating.

Risk Rating & Score <sup>1</sup>	19.2 (Low)
Score Momentum <sup>2</sup>	-3.4
Last Updated	23 May 2024
Controversy Score <sup>3</sup> (Updated: 26 Jan 2023)	0 - None

## Business Model & Industry Issues

- As an integrated chemicals producer, PCHEM's biggest ESG challenge lies in the negative sentiment surrounding single-use plastics. However, we note that its single-use plastic capacity is only <5% of its total capacity and PCHEM is actively expanding its bio-friendly product portfolio. Meanwhile, much of the world's recyclable plastics end up in landfills/oceans due to low recycling rates. Hence, via its New Plastic Economy (NPE) initiatives, PCHEM hopes to raise awareness amongst the local communities whilst simultaneously investing in infrastructure to enable recycling initiatives in the future.
- PCHEM primarily uses natural gas as its fuel, which is the cleaner option.
- We are positive on the sector's long-term growth as we believe the demand for plastics will remain robust given that there is no real alternatives.
- PCHEM also scores above average in our proprietary scoring methodology (see Pg. 3) with an overall score of 65/100.

## Material E issues

- FY23 Scope 1 emission: 5.96m tCO<sub>2</sub>e (FY22: 5.95m tCO<sub>2</sub>e).
- FY23 Scope 2 emission: 1.38m tCO<sub>2</sub>e (FY22: 1.48m tCO<sub>2</sub>e).
- PCHEM stopped disclosures of its Scope 3 emissions in FY22 and FY23.
- FY23 GHG intensity (Scope 1 & 2): 0.71 tCO<sub>2</sub>e per tonne of production (FY22: 0.69 tCO<sub>2</sub>e per tonne of production).
- FY23 NO<sub>x</sub> emission: 22.0k tonne (FY22: 18.7k tonne).
- FY23 SO<sub>x</sub> emission: 0.17k tonne (FY22: 0.19k tonne).
- Zero cases of environmental non-compliance in FY21-23.
- FY23 wastewater discharge: 227.8 tonnes (FY22: 215.0 tonnes).
- FY23 share of renewable energy use in operations: 0.5%.

## Material S issues

- FY23 percentage of women in workforce: 21.0% (FY22: 21.6%).
- FY23 percentage of women in senior management roles: 30.8% (FY22: 25.0%).
- FY23 average training per employee: 11.1 man days (FY22: 10.2 man days).
- FY23 percentage of local supplier: 87% (FY22: 70%).
- FY23 lost time injury frequency (LTIF) rate: 0.09 (FY22: 0.17).

## Key G metrics and issues

- As of 31 Dec 2023, the Board had a total of 8 Directors, out of which, 4 (or 50%) were Independent Non-Executive Directors (INEDs).
- The Board has 3 female Directors, representing 38% of the Board's composition. PCHEM achieved its target of hiring another female Director in order to achieve the minimum target of 30% in FY22.
- PCHEM's major shareholder is PETRONAS, which holds a 64.4% equity stake.
- MD/CEO salary represented 0.11% of FY23 reported net profit (FY22: 0.03%).
- The board's salary represented 0.22% of FY23 reported net profit (FY22: 0.06%).
- The Top 5 Senior Management (MD/CEO, CFO, Chief Manufacturing Officer, Chief Commercial Officer and Head of Strategic Planning and Ventures) are seconded from PETRONAS.
- KPMG PLT is the external auditor and has served PCHEM for more than 10 years.

<sup>1</sup>**Risk Rating & Score** - derived by Sustainalytics and assesses the company's exposure to unmanaged ESG risks. Scores range between 0 - 50 in order of increasing severity with low/high scores & ratings representing negligible/significant risk to the company's enterprise value, respectively, from ESG-driven financial impacts. <sup>2</sup>**Score Momentum** - indicates changes to the company's score since the last update - a **negative** integer indicates a company's improving risk score; a **positive** integer indicates a deterioration. <sup>3</sup>**Controversy Score** - reported periodically by Sustainalytics in the event of material ESG-related incident(s), with the impact severity scores of these events ranging from Category 0-5 (0 - no reports; 1 - negligible risks; ...; 5 - poses serious risks & indicative of potential structural deficiencies at the company).

Quantitative Parameters (Score: 39)						
	Particulars	Unit	2021	2022	2023	TTNP MK (2023)
E	Scope 1 GHG emissions	m tCO <sub>2</sub> e	5.98	5.95	5.96	N/A
	Scope 2 GHG emissions	m tCO <sub>2</sub> e	1.48	1.48	1.38	0.39
	<b>Total</b>	<b>m tCO<sub>2</sub>e</b>	<b>7.46</b>	<b>7.43</b>	<b>7.34</b>	<b>0.39</b>
	Scope 3 GHG emissions	m tCO <sub>2</sub> e	3.27	N/A	N/A	N/A
	<b>Total</b>	<b>m tCO<sub>2</sub>e</b>	<b>10.73</b>	<b>7.43</b>	<b>7.34</b>	<b>0.39</b>
	GHG intensity (Scope 1 & 2) (per tonne of production)	tCO <sub>2</sub> e/t	0.67	0.69	0.71	N/A
	Energy intensity (per tonne of production)	GJ/tonne	15.76	17.08	16.84	0.48
	Share of renewable energy use in operations	%	N/A	N/A	0.5%	N/A
	Water consumption intensity (per tonne of production)	cu	5.6	5.8	5.5	N/A
	Wastewater discharge (COD)	tonnes	182.4	215.0	227.8	76.3
	Hazardous waste 3R rate	%	75%	76%	76%	N/A
	NOx	Ktonne	25.20	18.70	22.00	572.1
	SOx	Ktonne	0.27	0.19	0.17	203.1
	PM	Ktonne	N/A	N/A	N/A	35.6
	Cases of environmental non-compliance	number	0	0	0	0
S	% of women in workforce	%	17.3%	21.6%	21.0%	18.4%
	% of women in senior management roles	%	21.9%	25.0%	30.8%	N/A
	Average training per employee	Man days	10.0	10.2	11.1	1.7
	Lost time injury frequency (LTIF) rate	number	0.07	0.17	0.09	0.12
	% of local supplier (amount)	number	66%	70%	87%	83%
G	MD/CEO salary as % of reported net profit	%	0.02%	0.03%	0.11%	N/A
	Board salary as % of reported net profit	%	0.04%	0.06%	0.22%	N/A
	Independent directors on the Board	%	50%	56%	50%	57%
	Female directors on the Board	%	22%	33%	38%	43%

Qualitative Parameters (Score: 83)	
a) is there an ESG policy in place and whether there is a standalone ESG committee or is it part of a risk committee?	<i>Yes - as of FY21, it has an established framework and a working sustainability committee that reports quarterly to the Board.</i>
b) is the senior management salary linked to fulfilling ESG targets?	<i>Yes - in FY21, sustainability KPIs were introduced in top management performance appraisals.</i>
c) Does the company follow the task force of climate related disclosures (TCFD) framework for ESG reporting?	<i>Yes.</i>
e) Does the company have a mechanism to capture Scope 3 emissions - which parameters are captured?	<i>PCG's efforts for Scope 3 emissions disclosure are ongoing. In 2023, PCG completed Scope 3 emissions baselining for all relevant categories under the scope. This exercise has determined the material Scope 3 items and working towards disclosure.</i>
f) What are the 2-3 key carbon mitigation/water/waste management strategies adopted by the company?	<i>The group collaborates with 3R facilities to identify recoverable waste and implement treatments that divert waste from landfills. PCHEM launched a water recovery program to minimise usage/intake at its production sites. PCHEM installed gas turbine engines with De-Nox technology at its PC Fertiliser Kedah facility, significantly reducing NOx emissions.</i>
g) Does carbon offset form part of the net zero/carbon neutrality target of the company?	<i>Yes. 10% emissions will be offset using carbon removal via nature-based solutions.</i>

Target (Score: 100)		
Particulars	Target	Achieved
Reduce Scope 1 & 2 GHG emissions (tonnes) by 2024	6.98	7.00
Reduce energy intensity (GJ/tonne) vs 2014 baseline	10%	11%
Recover plastic waste from total MY polymer production volume by 2030	100%	N/A
Increase hazardous waste 3R (reduce, reuse, recycle) rate by 2024	82%	75%
Increase number of people reached by CSR outreach initiatives ('000)	1,000	295
Reduce 2030/40 carbon emissions vis-a-vis 2020 baseline	20%/80%	N/A
Net-zero carbon emissions by 2050	Net Zero	N/A
Impact		
NA		
Overall Score: 65		
As per our ESG matrix, Petronas Chemicals Group (PCHEM MK) has an overall score of 65.		

ESG score	Weights	Scores	Final Score
Quantitative	50%	38	19
Qualitative	25%	83	21
Target	25%	100	25
<b>Total</b>			<b>65</b>

As per our ESG assessment, PCHEM has an established framework, internal policies, and tangible mid/long-term targets but needs to make headway in improving its quantitative "E" metrics YoY. PCHEM's overall ESG score is **65**, which makes its ESG rating **above average** in our view (average ESG rating = 50; refer to Appendix I for our ESG Assessment Scoring).

FYE 31 Dec	FY23A	FY24A	FY25E	FY26E	FY27E
<b>Key Metrics</b>					
P/E (reported) (x)	33.8	41.1	30.1	19.7	16.3
Core P/E (x)	33.6	35.7	30.1	19.7	16.3
P/BV (x)	1.4	1.1	0.7	0.7	0.7
P/NTA (x)	1.4	1.1	0.7	0.7	0.7
Net dividend yield (%)	1.8	2.5	1.7	2.5	3.1
FCF yield (%)	4.8	5.3	4.6	5.7	7.0
EV/EBITDA (x)	12.7	8.3	4.8	4.1	3.7
EV/EBIT (x)	24.4	17.5	12.5	8.9	7.4

**INCOME STATEMENT (MYR m)**

Revenue	28,667.0	30,671.0	31,855.6	31,525.8	32,506.5
EBITDA	4,134.0	4,345.0	4,352.7	4,945.0	5,252.4
Depreciation	(1,978.0)	(2,288.0)	(2,662.0)	(2,655.6)	(2,649.3)
Amortisation	0.0	0.0	0.0	0.0	0.0
EBIT	2,156.0	2,057.0	1,690.6	2,289.4	2,603.1
Net interest income / (exp)	(139.0)	(260.0)	(460.7)	(475.7)	(490.7)
Associates & JV	93.0	(107.0)	(136.8)	(12.7)	(6.7)
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	2,110.0	1,690.0	1,093.1	1,801.1	2,105.6
Income tax	(360.0)	(401.0)	(143.0)	(371.5)	(391.9)
Minorities	(54.0)	(100.0)	(50.0)	(50.0)	(50.0)
Discontinued operations	0.0	0.0	0.0	0.0	0.0
Reported net profit	1,696.0	1,189.0	900.2	1,379.6	1,663.7
Core net profit	1,704.0	1,159.0	900.2	1,379.6	1,663.7

**BALANCE SHEET (MYR m)**

Cash & Short Term Investments	9,268.0	9,931.0	11,023.7	12,190.5	13,553.9
Accounts receivable	3,857.0	4,705.0	4,681.9	4,528.3	4,623.0
Inventory	3,767.0	4,086.0	4,066.0	3,932.5	4,014.8
Reinsurance assets	0.0	0.0	0.0	0.0	0.0
Property, Plant & Equip (net)	29,437.0	29,338.0	29,176.0	29,020.4	28,871.1
Intangible assets	0.0	0.0	0.0	0.0	0.0
Investment in Associates & JVs	1,710.0	1,339.0	1,202.2	1,189.5	1,182.8
Other assets	12,167.0	10,621.0	10,621.0	10,621.0	10,621.0
<b>Total assets</b>	<b>60,206.0</b>	<b>60,020.0</b>	<b>60,770.8</b>	<b>61,482.3</b>	<b>62,866.6</b>
ST interest bearing debt	500.0	795.0	945.0	1,095.0	1,245.0
Accounts payable	8,042.0	10,054.0	10,004.7	9,676.4	9,878.9
Insurance contract liabilities	0.0	0.0	0.0	0.0	0.0
LT interest bearing debt	2,473.0	2,419.0	2,569.0	2,719.0	2,869.0
Other liabilities	7,117.0	6,773.0	6,773.0	6,773.0	6,773.0
<b>Total Liabilities</b>	<b>18,132.0</b>	<b>20,041.0</b>	<b>20,291.7</b>	<b>20,263.4</b>	<b>20,765.9</b>
Shareholders Equity	40,415.0	38,557.0	39,007.1	39,696.9	40,528.7
Minority Interest	1,659.0	1,422.0	1,472.0	1,522.0	1,572.0
<b>Total shareholder equity</b>	<b>42,074.0</b>	<b>39,979.0</b>	<b>40,479.1</b>	<b>41,218.9</b>	<b>42,100.7</b>
<b>Total liabilities and equity</b>	<b>60,206.0</b>	<b>60,020.0</b>	<b>60,770.8</b>	<b>61,482.3</b>	<b>62,866.6</b>

**CASH FLOW (MYR m)**

Pretax profit	2,110.0	1,690.0	1,093.1	1,801.1	2,105.6
Depreciation & amortisation	1,978.0	2,288.0	2,662.0	2,655.6	2,649.3
Adj net interest (income)/exp	139.0	0.0	0.0	0.0	0.0
Change in working capital	1,335.0	993.0	(6.2)	(41.2)	25.4
Cash taxes paid	(423.0)	(303.0)	(143.0)	(371.5)	(391.9)
Other operating cash flow	(406.0)	(456.0)	136.8	12.7	6.7
Cash flow from operations	5,119.0	4,626.0	3,742.8	4,056.5	4,395.2
Capex	(2,352.0)	(2,452.0)	(2,500.0)	(2,500.0)	(2,500.0)
Free cash flow	2,767.0	2,174.0	1,242.8	1,556.5	1,895.2
Dividends paid	(1,920.0)	(1,234.0)	(450.1)	(689.8)	(831.9)
Equity raised / (purchased)	596.2	0.0	0.0	0.0	0.0
Change in Debt	(29.0)	4,158.0	300.0	300.0	300.0
Other invest/financing cash flow	(467.0)	(4,233.0)	0.0	0.0	0.0
Effect of exch rate changes	29.0	(202.0)	0.0	0.0	0.0
<b>Net cash flow</b>	<b>976.2</b>	<b>663.0</b>	<b>1,092.7</b>	<b>1,166.8</b>	<b>1,363.4</b>

FYE 31 Dec	FY23A	FY24A	FY25E	FY26E	FY27E
<b>Key Ratios</b>					
<b>Growth ratios (%)</b>					
Revenue growth	(1.0)	7.0	3.9	(1.0)	3.1
EBITDA growth	(49.7)	5.1	0.2	13.6	6.2
EBIT growth	(67.5)	(4.6)	(17.8)	35.4	13.7
Pretax growth	(68.7)	(19.9)	(35.3)	64.8	16.9
Reported net profit growth	(73.2)	(29.9)	(24.3)	53.3	20.6
Core net profit growth	(74.1)	(32.0)	(22.3)	53.3	20.6
<b>Profitability ratios (%)</b>					
EBITDA margin	14.4	14.2	13.7	15.7	16.2
EBIT margin	7.5	6.7	5.3	7.3	8.0
Pretax profit margin	7.4	5.5	3.4	5.7	6.5
Payout ratio	61.3	87.5	50.0	50.0	50.0
<b>DuPont analysis</b>					
Net profit margin (%)	5.9	3.9	2.8	4.4	5.1
Revenue/Assets (x)	0.5	0.5	0.5	0.5	0.5
Assets/Equity (x)	1.5	1.6	1.6	1.5	1.6
ROAE (%)	4.3	3.0	2.3	3.5	4.1
ROAA (%)	2.9	1.9	1.5	2.3	2.7
<b>Liquidity &amp; Efficiency</b>					
Cash conversion cycle	(3.7)	(20.8)	(25.5)	(27.6)	(27.4)
Days receivable outstanding	46.9	50.2	53.0	52.6	50.7
Days inventory outstanding	54.5	54.4	53.8	54.9	53.4
Days payables outstanding	105.2	125.4	132.4	135.1	131.5
Dividend cover (x)	1.6	1.1	2.0	2.0	2.0
Current ratio (x)	1.9	1.7	1.8	1.9	1.9
<b>Leverage &amp; Expense Analysis</b>					
Asset/Liability (x)	3.3	3.0	3.0	3.0	3.0
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)	15.5	7.9	3.7	4.8	5.3
Debt/EBITDA (x)	0.7	0.7	0.8	0.8	0.8
Capex/revenue (%)	8.2	8.0	7.8	7.9	7.7
Net debt/ (net cash)	(6,295.0)	(6,717.0)	(7,509.7)	(8,376.5)	(9,439.9)

Source: Company; Maybank IBG Research



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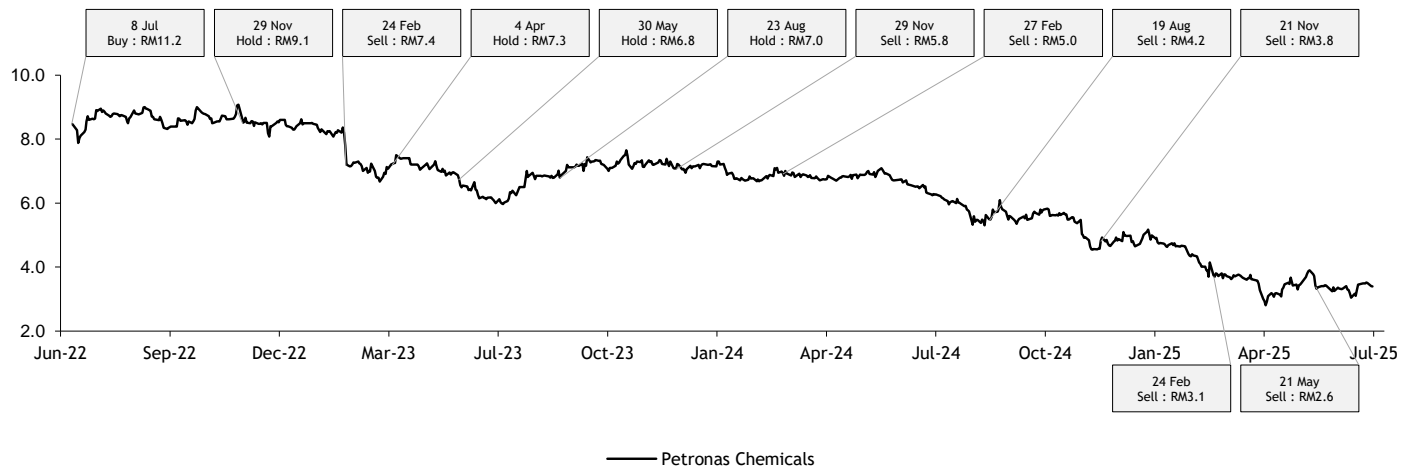
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