

Malaysia Petrochemicals

Year Ahead 2026: Still a drag

NEGATIVE [Unchanged]

Maintain NEGATIVE on Malaysia Petrochemicals

Olefin & polymer prices are likely to remain on a structural downtrend in 2026E as the current downturn continues to ensue due to new, sizeable capacity additions and build-outs. Meanwhile, we believe that the capacity closures announced so far are unlikely to be sufficient to offset the oversupply environment. We do not expect PE-naphtha spreads to improve meaningfully in 2026-2027E. We have SELLS on PCHEM (TP: MYR2.38) and LCTITAN (TP: MYR0.35).

2026-2027 likely to see record new capacity start-ups

We are expecting olefin & polymer prices to remain on a structural downtrend in 2026E as the current downturn ensues due to new, massive capacity additions and build-outs. Net capacity addition in 2025-2028E (49m tpa cumulative) is larger than its preceding 4 years (30m tpa), with 2027E likely the record year for new capacity start-ups. This wave of supply growth is occurring against a backdrop of only moderate demand recovery, particularly in China and other key downstream markets, limiting the industry's ability to absorb new capacity.

Capacity closure announced likely insufficient

South Korean petrochemical companies have announced that they would work together and with government support to close down 2.7-3.7m tpa of naphtha cracking capacity - which translates into about 1.1-1.5m tpa of ethylene output. This will likely not even move the needle as it will be short of the 25m tonnes that the world needs to balance the market. Meanwhile, China's "anti-involution" plan could see 30-year-old plants phased out by 2029E and those that are 20 years or older reviewed for emission and safety standards. This may not be too significant as only 9% of China's capacity will be over 30 years old by 2029E. Capacity closures announced so far are unlikely to be sufficient to offset the oversupply environment. We estimate 25m tonnes or more closures would be needed by 2028E to bring the petrochemical cycle to mid-cycle spreads.

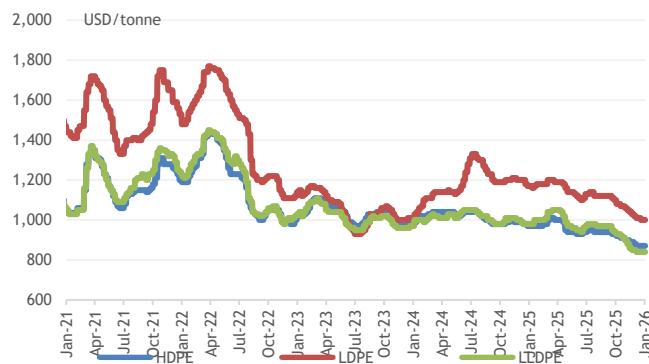
Lower ASPs to impact PCHEM & LCTITAN

Overall, operating rates are likely to remain suppressed, prolonging margin compression across the olefin and polymer value chain. Any meaningful price recovery is therefore expected to be delayed until post-2027, when the pace of new capacity additions starts to taper and supply-demand balances gradually normalise. We have SELLS on both PCHEM & LCTITAN. We view that: i) PCHEM's de-rating may ensue if the company continues to report quarterly losses; and ii) PE-naphtha spreads are not wide enough for LCTITAN to be profitable.

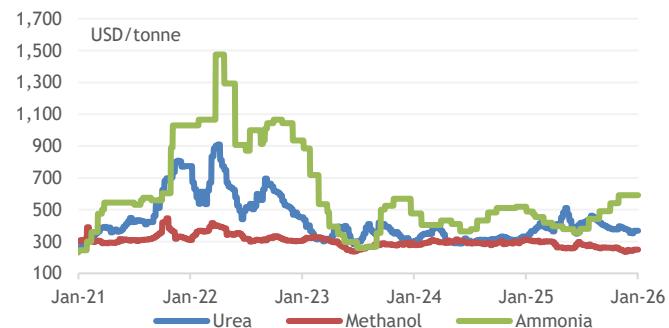
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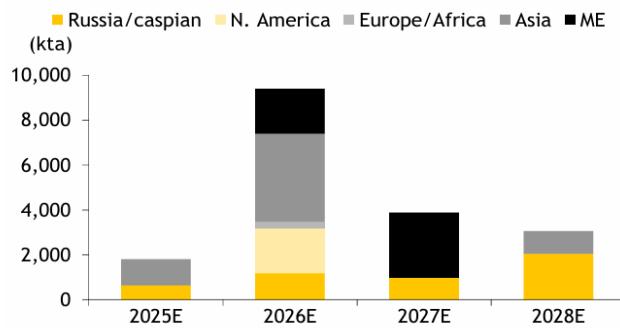
Stock	Bloomberg code	Mkt cap (USD'm)	Rating	Price (LC)	TP (LC)	Upside (%)	P/E (x)		P/B (x)		Div yld (%)	
							25E	26E	25E	26E	25E	26E
Petronas Chem.	PCHEM MK	6,836	Sell	3.48	2.38	(32)	nm	44.6	0.7	0.7	1.7	1.1
Lotte Chemical	TTNP MK	230	Sell	0.41	0.35	(14)	nm	nm	0.1	0.1	0.0	0.0

HDPE, LDPE & LLDPE prices

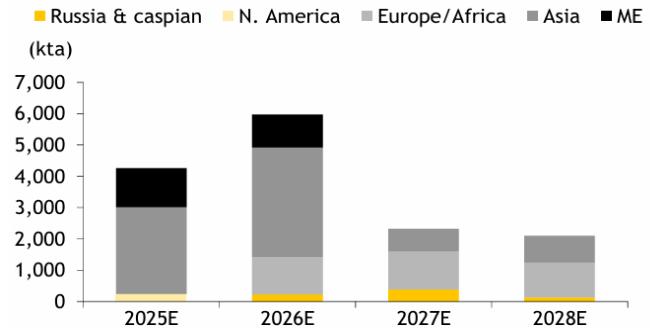
Source: Maybank IBG Research

Urea, Methanol and Ammonia prices

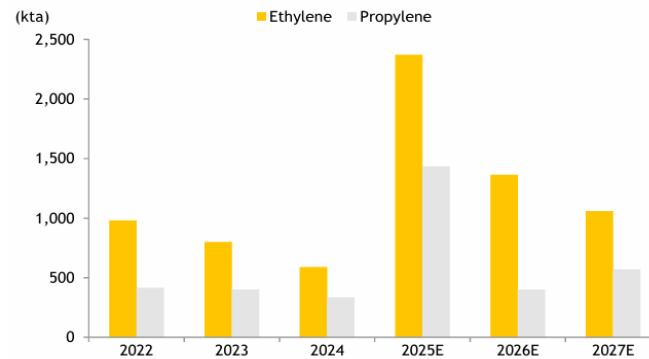
Source: Maybank IBG Research

Global polyethylene (PE) capacity additions

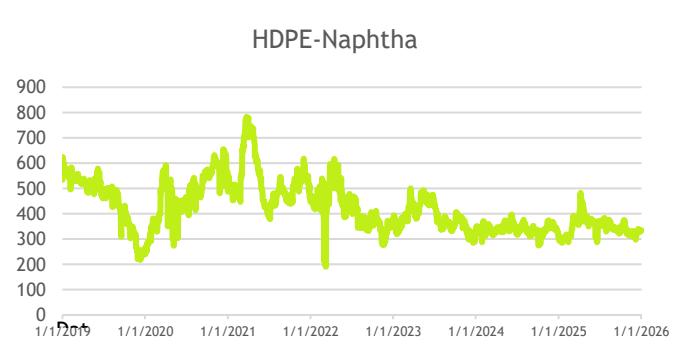
Source: Wood Mackenzie, Maybank Securities Thailand

Global polypropylene (PP) capacity additions

Source: Wood Mackenzie, Maybank Securities Thailand

Global ethylene and propylene capacity closures

Source: Wood Mackenzie, Maybank Securities Thailand

HDPE-naphtha spreads

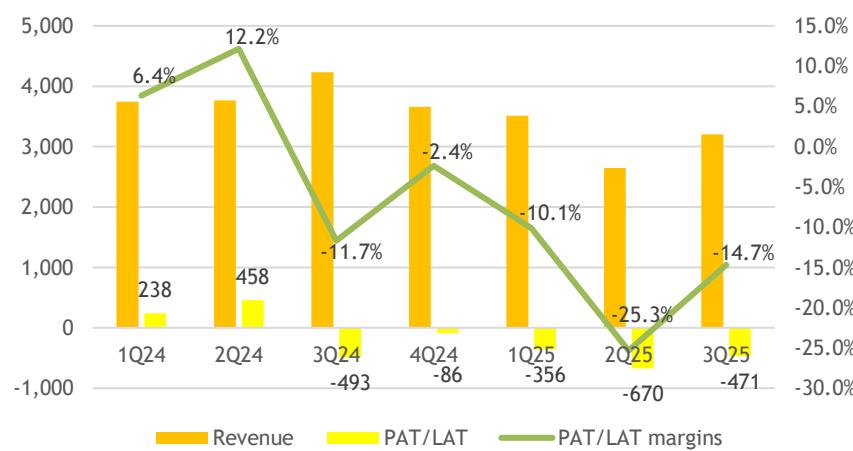
Source: Bloomberg, Maybank IBG Research

O&D margins may continue to be in the negative territory for PCHEM

PCHEM's olefins and derivatives (O&D) PAT margins have been in negative territory in the past 5 quarters - mainly due to weak spreads, operational hiccups and the "Creditors Reliability Test" runs in Pengerang. As polymer prices continues its downtrend, this may cause PAT margins to trend deeper in negative territory.

While PCHEM generally has a significant advantage of its lower fixed gas feedstock from parent company PETRONAS, PPC will continue to add volatility to PCHEM's earnings due to input naphtha costs, which is insufficient to bring the unit to profitability in the current environment. With that, O&D margins may continue trending deeper into negative territory if polymer prices were to continue sliding.

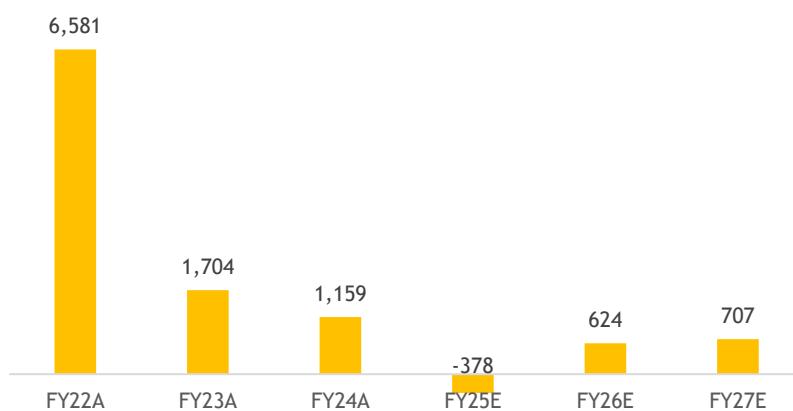
PCHEM's quarterly PAT margins



Source: Maybank IBG Research

While our forecasts suggest that PCHEM would turn profitable with a core net profit of MYR624m-MYR707m in FY26-27E, we project the swing from a low base effect (from core net losses of -MYR378m) due to hiccups in PPC in FY25E. Based on our estimates, PCHEM trades at a PER of 45x FY26E EPS - which we deem to be demanding.

MIBG's forecast on PCHEM's core net profit (FY22-27E)



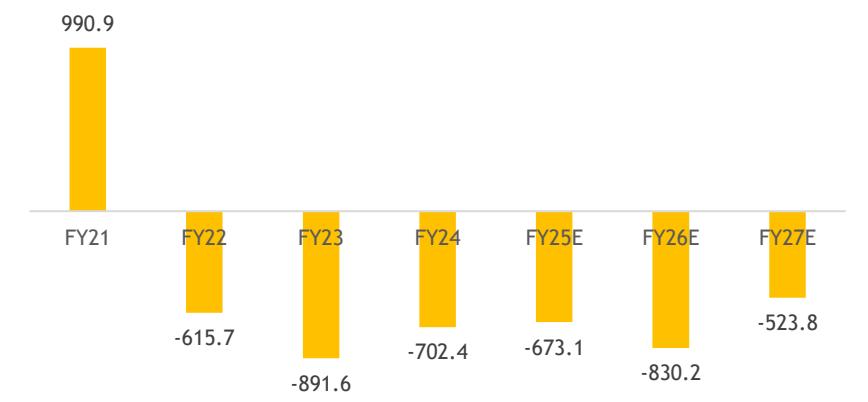
Source: Maybank IBG Research

LINE project to expand LCTITAN's losses in FY26E

On the other hand, LCTITAN's core net losses is expected to widen in 2026E due to the commissioning of its LINE project in Indonesia. While this marks a key milestone for the company, it could weigh on earnings as LCTITAN begins recognising annual depreciation of approximately MYR700m (based on our estimates), in our view. Given current market conditions and subdued olefin prices, achieving breakeven may be an immediate challenge.

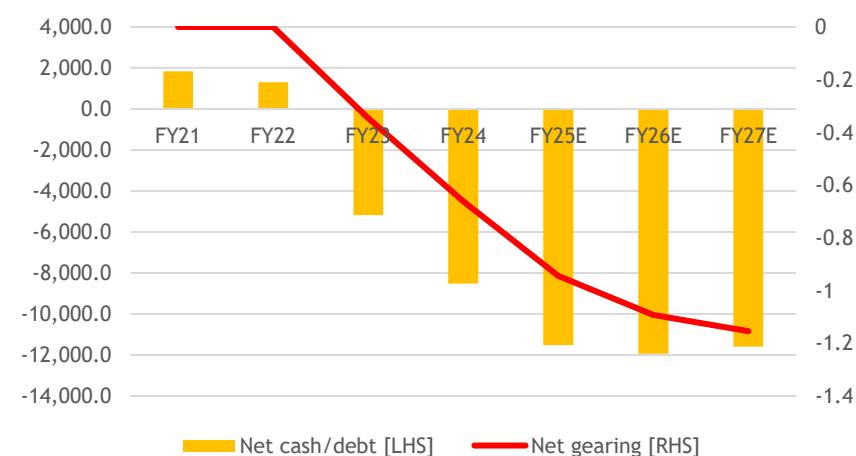
LCTITAN still faces a double whammy: as i) declining olefin prices given the ongoing supply glut couples with; ii) margin squeeze from still elevated naphtha prices. Also, we are concerned with LCTITAN's deteriorating balance sheet since the beginning of the downcycle in FY22 - mainly due to heavy losses and the group's LINE expansion in Indonesia.

LCTITAN's core net profit/loss forecasts (FY21-27E)



Source: Maybank IBG Research

LCTITAN's balance sheet ratios



Source: Maybank IBG Research

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