

PP 14767/09/2012(030761)

Tuesday, May 10, 2016

Market Access

Petronas Chemical Group Bhd

“Difficult with Current Oil Price”

Results Review

- Actual vs. expectations.** Petronas Chemical Group Berhad (PetChem) 3M16 net profit of RM671 million (+7% y-o-y) came in line with our forecast and consensus estimates, accounting 22% and 23% of ours and consensus full year net profit forecast respectively. The higher earnings booked was assisted by higher plant utilisation and improving feedstock supply.
- Dividend.** No dividend was declared in this quarter.
- Topline vs. Bottomline.** 3M16 revenue was flat at RM3.14 billion (+0% y-o-y, -14% q-o-q), hampered by volatility in global crude oil price especially in 1Q16 that led to lower PetChem’s average selling price (ASP) especially on olefins and derivative product. Nevertheless, EBITDA margin surged by 80 bps y-o-y to 36.4% assisted by higher sales volume and favourable exchange rate as well as better supplies for ethane and naphtha
- Plant utilisation improving.** On y-o-y basis, plant utilisation grew to 92% vs. 88% in 4Q15. The stronger performance was a result of improving overall plant reliability and higher methane supply for the Group’s methanol facilities.
- Olefins and derivatives segment.** Earnings surged strongly by 26.6% y-o-y to RM461 million aided by higher sales volumes and stronger US Dollar that eased the impact of narrower product spreads. Additionally, lower operating costs assisted EBITDA to improve by 26.6% y-o-y to RM461 million whilst the segment recorded a very strong plant utilisation of 97% compared to 95% in 1Q15.

HOLD (TP: RM6.18)

Current Price (RM)	RM6.11
New Fair Value (RM)	RM6.18
Previous Fair Value (RM)	RM6.18
Previous Recommend.	HOLD
Upside To Fair Value	0.1%
Dividend Yield (FY16)	2.8%

Stock Code

Bloomberg	PCHEM MK
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Stock & Market Data

Listing	MAIN MARKET	
Sector	Utilities	
Shariah Compliance	Yes	
Issued Shares (mn)	8,000	
Market Cap (RM mn)	48,880	
YTD Chg In Share Price	-16%	
Beta (x)	1.23	
52-week Hi/Lo (RM)	RM7.6	RM5.17
3M Average Volume (shrs)	2.94mn	
Estimated Free Float	20.5%	

Major Shareholders

Petronas	64.3%
EPF	10.2%
ASB	4.4%

Results Review - Petronas Chemical Group Bhd

- **Fertilisers and methanol segment.** Both earnings and EBITDA down by 28% y-o-y and 33% y-o-y to RM338 million and RM193 million respectively. Plant utilization inched up to 89% vs. 87% in 4Q15 largely attributable to higher methane supply at the Group's methanol facilities.
- **Elastomer project cancelled.** Petronas Chemicals announced that it would no longer proceed with the elastomer project in RAPID. It cited the product's weak market outlook and expectations of a low project return on investment as the main reasons. The cancellation would reduce RAPID's petrochemical capacity to 3.15m tonnes pa (mtpa) from 3.5 mtpa. This would also reduce the total investment to USD2.6 billion from USD3.9 billion.
- **Cease coverage.** In light of the soft market outlook products and continued uncertainty in the global crude oil prices, we believe PetChem's outlook will be challenging as its products are tight to the global crude oil outlook. Coupled with its decision to cancel the elastomer project which we think is a bold decision, we will temporarily cease our coverage on Petchem. Re-initiating coverage on the stock is a probability until we see a clear sign of recovery in global oil prices.
- **Valuation.** We value Petchem at RM6.18 and we reiterate our **HOLD** call on the stock underpinned by 1) stronger margins in downstream products; 2) stronger demand once all maintenance activities completed; and 3) cash cow given RM9.5 billion cash pile.

Table 1: Peers Comparison

Company	Y/E Ended	Price (RM)	EPS (RM)		P/E (x)		P/B (x)		ROE (%)	TP	Call
			FY16	FY17	FY16	FY17	FY16	FY17			
MMC Corp	Dec	2.12	0.1	0.2	15.0	13.6	0.6	0.6	19.9	2.90	Buy
TNB	Aug	14.12	1.2	1.3	11.2	10.7	1.5	1.3	12.1	14.90	Hold
Gas Malaysia	Dec	2.31	0.1	0.1	22.3	20.8	3.2	2.9	10.7	2.89	Buy
Petronas Gas	Dec	20.90	0.9	0.9	23.6	23.2	3.8	3.7	18.1	23.20	Hold
Petronas Chemical	Dec	6.11	0.4	0.4	18.9	17.3	2.2	2.0	11.7	6.80	Hold
Malakoff	Dec	1.61	0.1	0.1	14.5	14.2	1.4	1.3	9.3	2.00	Buy
YTL Power	Dec	1.50	0.1	0.1	12.8	11.6	0.9	1.0	8.1	NA	NA
Average			0.5	0.6	18.2	17.1	2.3	2.1	12.8		

Source: Bloomberg; M&A Securities

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Table 2: Results Analysis

YE: Dec (RM million)	1Q16	4Q15	1Q15	y-o-y	q-o-q	3M16	3M15	y-o-y
Revenue	3,147	3,642	3,140	0%	-14%	3,147	3,140	0%
Cost of sales	(2,050)	(2,193)	(2,108)	-3%	-7%	(2,050)	(2,108)	-3%
Gross Profit	1,097	1,449	1,032	6%	-24%	1,097	1,032	6%
Selling and Distribution Expenses	(162)	(168)	(146)	11%	-4%	(162)	(146)	11%
Administration Expenses	(122)	(148)	(110)	11%	-18%	(122)	(110)	11%
Other expenses	(125)	(257)	(301)	-58%	-51%	(125)	(301)	-58%
Other income	203	324	350	-42%	-37%	203	350	-42%
Operating profit	891	1,200	825	8%	-26%	891	825	8%
Financing costs	0	(6)	(7)	-100%	-100%	0	(7)	-100%
Results of associates	5	31	25	-80%	-84%	5	25	-80%
PBT	896	1,225	843	6%	-27%	896	843	6%
Taxation	(225)	(235)	(171)	32%	-4%	(225)	(171)	32%
PAT	671	990	672	0%	-32%	671	672	0%
EPS	7	11	8	-13%	-36%	7	8	-13%
EBIT margin	35%	40%	33%			35%	33%	2825%
PBT margin	28%	33%	26%			28%	26%	
PAT margin	28%	34%	27%			28%	27%	2820%

Source: Bursa Malaysia, M&A Securities

Table 3: Financial Forecast

YE: Dec (RM million)	FY13	FY14	FY15	FY16F	FY17
Revenue	15,202	14597	14874	15536	16,599
Cost of sales	(10,160)	(10150)	(10412)	(10875)	(10,935)
Gross Profit	5,042	4447	4462	4661	5,664
Selling and Distribution Expenses	(604)	(603)	(595)	(621)	(676)
Administration Expenses	(477)	(551)	(446)	(466)	(558)
Other expenses	(92)	(471)	(297)	(280)	(459)
Other income	465	609	550	625	375
Operating profit	4,334	3431	3674	3919	4,346
Financing costs	(8)	(46)	(40)	(53)	(82)
Results of associates	221	166	200	180	286
PBT	4,547	3551	3834	4046	4,550
Taxation	(1,043)	(825)	(958)	(1011)	(719)
PAT	3,504	2726	2875	3034	3,831
EPS (Sen)	39	31	40	43	44
PBT Margin	30%	27%	26%	26%	27%
PAT Margin	23%	20%	19%	20%	23%
PER (x)	14.9	17.0	15.3	14.7	13.1
P/BV (x)	2.15	2.06	1.97	1.89	2.3

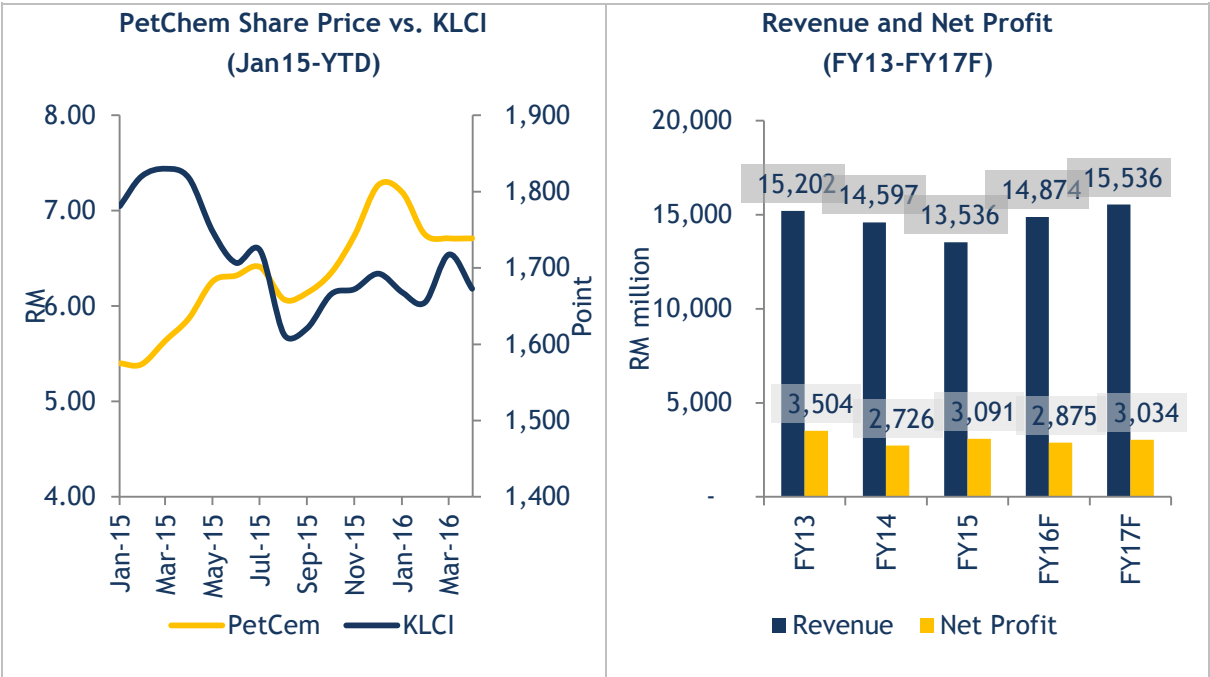
Source: Bursa Malaysia, M&A Securities

*FY13 PAT restated after minus exceptional items

Table 4: Segment Results

(RM million)	Group		Olefins & Derivatives		Fertilisers & Methanol	
	3M16	3M15	3M16	3M15	3M16	3M15
Revenue	3,147	3,140	2,249	2,093	935	1,078
Segment Results	671	672	461	364	193	290

Source: Bursa Malaysia, M&A Securities



Source: Bloomberg, M&A Securities

M&A Securities

STOCK RECOMMENDATIONS

BUY	Share price is expected to be $\geq +10\%$ over the next 12 months.
TRADING BUY	Share price is expected to be $\geq +10\%$ within 3-months due to positive newsflow.
HOLD	Share price is expected to be between -10% and $+10\%$ over the next 12 months.
SELL	Share price is expected to be $\geq -10\%$ over the next 12 months.

SECTOR RECOMMENDATIONS

OVERWEIGHT	The sector is expected to outperform the FBM KLCI over the next 12 months.
NEUTRAL	The sector is expected to perform in line with the FBM KLCI over the next 12 months.
UNDERWEIGHT	The sector is expected to underperform the FBM KLCI over the next 12 months.

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