

PP 14767/09/2012(030761)

Market Access

Petronas Chemical Group Bhd

“Murky Outlook Ahead”

Results Review

- Actual vs. expectations.** Petronas Chemical Group Berhad (PetChem) 6M15 net profit of RM1.31 billion (-8% y-o-y) came in below our forecast, but in line with street expectation, accounting 40% and 50% of both divide full year forecast. The below earnings expectations were derailed by declining profit from olefins and derivatives by 21.5% y-o-y in 6M15 as well as higher expenses booked amounting RM389 million (+634% y-o-y).
- Dividend.** Despite lower earnings, PetChem announced 8 cent dividend, equivalent to 49% payout ratio.
- Topline vs. Bottomline.** 6M15 revenue tumbled to RM6.44 billion (-10% y-o-y) hampered by volatility in global crude oil price especially in 1Q15 that led to PetChem’s average selling price (ASP) lower especially the olefins and derivative product. Nevertheless, EBITDA margin declined by 30 bps to 33% hampered by statutory turnaround activities as well as lower average prices for both fertilisers and methanol.
- Plant utilisation weakened.** Overall plant utilisation dropped to 78% vs. 90% in 1Q15 on the back of statutory turnaround in fertilisers and methanol segment, and planned maintenance in olefins and derivatives segment. Excluding the statutory turnaround and planned maintenance, plant utilisation would be in line with 1Q15 of 89%.
- Volatile crude oil price derailed earnings for both segment.** Earnings for both segment dropped by 17%y-o-y and 16% y-o-y in 2Q15 respectively as a result of softer prices for crude oil prices and hence, led to

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HOLD (TP: RM6.18)

Current Price (RM)	RM6.28
New Fair Value (RM)	RM6.18
Previous Fair Value (RM)	RM5.80
Previous Recommend.	HOLD
Upside To Fair Value	-1.6%
Dividend Yield (FY15)	3.0%

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)	50,240	
YTD Chg In Share Price	15.2%	
Beta (x)	1.33	
52-week Hi/Lo (RM)	RM6.73	RM4.65
3M Average Volume (shrs)	2.94mn	
Estimated Free Float	20.5%	

Major Shareholders

Petronas	64.35%
EPF	10.76%
ASB	4.44%

softer price for naptha, benzene, granular urea, paraxylene, polyethylene, methanol and polypropylene.

- **Olefins and derivatives segment.** Earnings declined by 18% y-o-y to RM769 billion in 6M15 due to narrower product spreads, however it was offset by favourable exchange rate movement as revenue is largely denominated in USD. Plants utilisation reached 84% vs. 65% in 2Q15 driven by lower statutory turnaround activities and improved ethane supply.
- **Fertiliser and methanol segment.** Despite slower topline hampered by lower ASP, earnings improved by 2% y-o-y to RM512million in 6M15 due to lower tax expense. Plants utilisation in 2Q15 dropped to 73% vs. 85% in 2Q14 due to statutory turnaround activities at the Gurun urea facility.
- **Outlook.** Moving forward, management guided volatile market environment due to challenging crude oil price that have yet to settle at steady level. However, we foresee the price could find another soft position given the guessing game by US Federal Reserve to raise interest rate policy. Nevertheless, we find that stronger USD position giving an edge to PetChem as its revenue is largely denominated in USD. On the other hand, about 60% of its costs are denominated in USD and hence, the higher revenue receives from currency effect may be well offset by the higher materials costs in USD.
- **Change to forecast.** We have made some adjustment to our forecast and lowered our FY15 and FY16 forecast by 11% and 6% respectively due to prolonged weakness in crude oil prices. Nevertheless, FY15 and FY16 are projected to grow by 15% y-o-y and 6% y-o-y driven by i) stabilisation of product prices ii) maintenance at its main cracker and iii) recovering of gas supply situation
- **Valuation.** We raise our TP to RM6.18 as we rolled our valuation into FY16 based on 16x PER in line with PetChem 3-year average. We reiterate our **HOLD** call underpinned by i) stronger margins in downstream products; ii) stronger demand once all maintenance activities completed; and 3) cash cow given RM9 billion cash pile.

Results Review - Petronas Chemical Group Bhd

Table 1: Peers Comparison

Company	Y/E Ended	Price (RM)	EPS (RM)		P/E (x)		P/B (x)		ROE (%)	TP	Call
			FY15	FY16	FY15	FY16	FY16	FY16			
MMC Corp	Dec	2.01	0.1	0.2	18.9	16.1	1.0	0.9	3.2	3.00	Buy
TNB	Aug	11.40	1.2	1.2	12.7	12.2	1.8	1.6	14.1	15.20	Buy
Gas Malaysia	Dec	2.08	0.1	0.1	25.0	20.6	3.3	3.2	17.0	2.89	Hold
Petronas Gas	Dec	21.80	0.9	0.9	25.0	24.3	4.0	3.7	21.4	23.20	Hold
Petronas Chemical	Dec	6.28	0.3	0.4	15.1	13.4	1.7	1.6	15.0	6.18	Hold
Malakoff	Dec	1.57	NA	NA	NA	NA	NA	NA	8.68	2.30	Buy
YTL Power	Dec	1.55	0.1	0.1	11.2	11.8	1.1	1.0	12.1	NA	NA
Average			0.5	0.6	19.4	17.3	2.3	2.2	13.8		

Source: Bloomberg; M&A Securities

Table 2: Results Analysis

YE: Dec (RM million)	2Q15	1Q15	2Q15	y-o-y	q-o-q	6M15	6M14	y-o-y
Revenue	3,305	3,140	3,341	-1%	5%	6,445	7,147	-10%
Cost of sales	(2,260)	(2,108)	(2,447)	-8%	7%	(4,368)	(4,999)	-13%
Gross Profit	1,045	1,032	894	17%	1%	2,077	2,148	-3%
Selling and Distribution Expenses	(149)	(146)	(149)	0%	2%	(295)	(293)	1%
Administration Expenses	(143)	(110)	(137)	4%	30%	(253)	(278)	-9%
Other expenses	(88)	(301)	(8)	1000%	-71%	(389)	(53)	634%
Other income	179	350	148	21%	-49%	529	271	95%
Operating profit	844	825	748	13%	2%	1,669	1,795	-7%
Financing costs	(8)	(7)	(4)	100%	14%	(15)	(8)	88%
Results of associates	17	25	38	-55%	-32%	42	87	-52%
PBT	853	843	782	9%	1%	1,696	1,874	-9%
Taxation	(215)	(171)	(197)	9%	26%	(386)	(450)	-14%
PAT	638	672	585	9%	-5%	1,310	1,424	-8%
EPS	7	8	7	0%	-13%	15	16	-6%
EBIT margin	26%	26%	22%			26%	25%	
PBT margin	26%	27%	23%			26%	26%	
PAT margin	19%	21%	18%			20%	20%	

Source: Bursa Malaysia, M&A Securities

Table 3: Financial Forecast

YE: Dec (RM million)	FY12	FY13	FY14	FY15F	FY16F
Revenue	16,599	15,202	14,597	14,874	15,536
Cost of sales	(10,935)	(10,160)	(10,150)	(10,412)	(10,875)
Gross Profit	5,664	5,042	4,447	4,462	4,661
Selling and Distribution Expenses	(676)	(604)	(603)	(595)	(621)
Administration Expenses	(558)	(477)	(551)	(446)	(466)
Other expenses	(459)	(92)	(471)	(297)	(280)
Other income	375	465	609	550	625
Operating profit	4,346	4,334	3,431	3,674	3,919
Financing costs	(82)	(8)	(46)	(40)	(53)
Results of associates	286	221	166	200	180
PBT	4,550	4,547	3,551	3,834	4,046
Taxation	(719)	(1,043)	(825)	(958)	(1,011)
PAT	3,831	3,504	2,726	2,875	3,034
EPS (Sen)	44	39	31	40	43
PBT Margin	27%	30%	27%	26%	26%
PAT Margin	23%	23%	20%	19%	20%
PER (x)	13.1	14.9	17.0	15.3	14.7
P/BV (x)	2.3	2.15	2.06	1.97	1.89

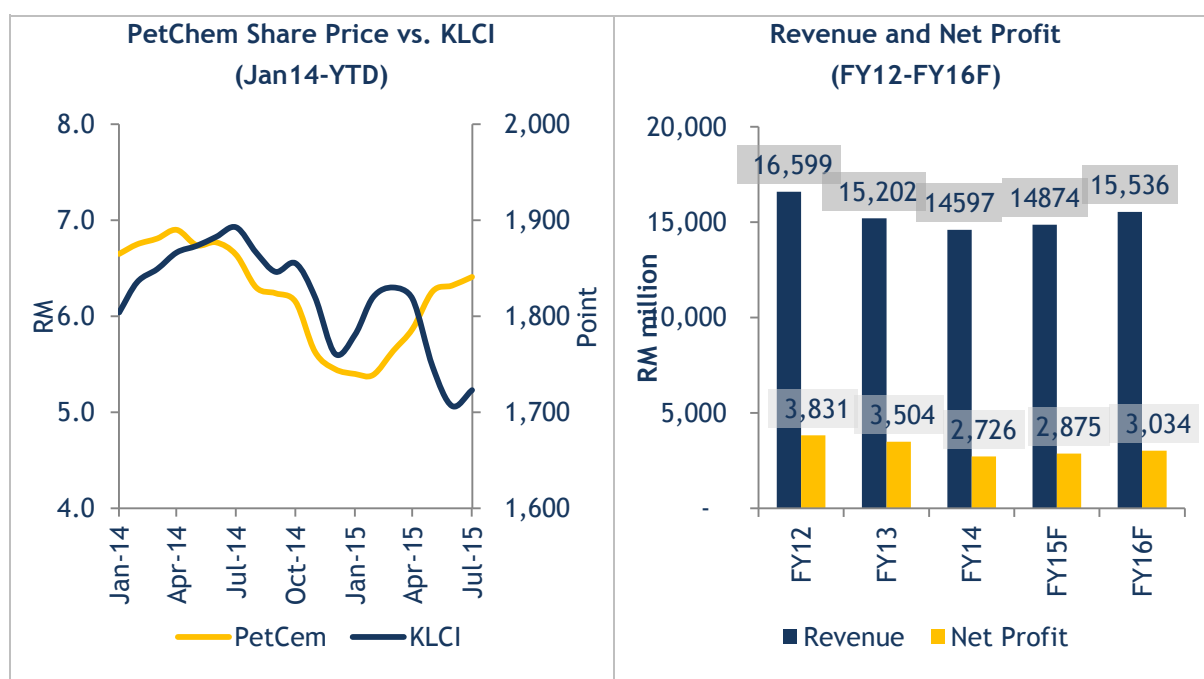
Source: Bursa Malaysia, M&A Securities

*FY13 PAT restated after minus exceptional items

Table 4: Segment Results

(RM million)	Group		Olefins & Derivatives		Fertilisers & Methanol	
	6M15	6M14	6M15	6M14	6M15	6M14
Revenue	6,445	7,147	4,449	5,104	2,059	2,128
Segment Results	1,310	1,424	769	935	512	501

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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