

PP 14767/09/2012(030761)

Wednesday, November 04, 2015

Market Access

Petronas Chemical Group Bhd

“Out of the Woods”

Results Review

- Actual vs. expectations.** Petronas Chemical Group Berhad (PetChem) 9M15 net profit of RM2.3 billion (+7% y-o-y) came in line with our forecast, but beaten consensus forecast, accounting 80% and 90% of ours and consensus full year net profit forecast respectively. The higher earnings booked was assisted by higher plant utilisation and better plant and feedstock supply reliability.
- Dividend.** No dividend was declared in this quarter.
- Topline vs. Bottomline.** 9M15 revenue tumbled to RM10.08 billion (-16% y-o-y) hampered by volatility in global crude oil price especially in 1H15 that led to lower PetChem’s average selling price (ASP) especially on olefins and derivative product. Nevertheless, EBITDA margin surged by 521 bps to 36.1% assisted by higher sales volume and favourable exchange rate as well as lower feedstock cost especially for naphtha, propane and butane.
- Plant utilisation improving.** On y-o-y basis, plant utilisation grew to 88% vs. 75% in 3Q15. The stronger performance was achieved on the back of better plant and feedstock supply reliability. During the quarter, the Group undertook statutory turnaround at its larger methanol facility. Excluding the statutory turnaround and planned maintenance, plant utilisation would have been at 97%.
- Olefins and derivatives segment.** Earnings by these segments declined by 5.4% y-o-y to RM1.41 billion in 9M15 due to narrower product spreads especially on naphtha. However,

HOLD (TP: RM6.18)

Current Price (RM)	RM6.50
New Fair Value (RM)	RM6.18
Previous Fair Value (RM)	RM6.18
Previous Recommend.	HOLD
Upside To Fair Value	-5%
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)	52,000	
YTD Chg In Share Price	19.7%	
Beta (x)	1.26	
52-week Hi/Low (RM)	RM6.70	RM4.65
3M Average Volume (shrs)	2.94mn	
Estimated Free Float	20.5%	

Major Shareholders

Petronas	64.3%
EPF	10.8%
ASB	4.4%

EBITDA rose by 4% y-o-y in 9M15 on the back of higher volumes, favourable exchange rate movement and lower feedstock cost. The segment reached higher plant utilisation of 93% compared to 84%, in line with lower statutory turnaround activities and improving ethane supply.

- **Fertiliser and methanol segment.** Both revenues and earnings grew 5.1% y-o-y and 26.4% y-o-y assisted by higher volumes and favourable exchange rate movement albeit negated the impact of lower prices. Plants utilisation in 9M15 surged to 80% vs. 72% in 9M14. Operationally, both urea and ammonia prices fell due to excess supply in the market as well as regional producers resumed operations.
- **Outlook.** The prolonged weakness in global crude oil prices may push Petchem operational outlook to remain murky. Nonetheless, the major absence of major statutory turnaround at plants will give an edge to Petchem as the Group is able to maximize its plants to produce large products. Additionally, the murky global crude oil prices will be well offset with strengthening of US Dollar as majority of the products are denominated in Dollar. Hence, , as 60% of its costs are denominated in USD and therefore, the higher revenue receive from currency effect may be well offset by the higher materials costs in USD.
- **Change to forecast.** We maintain our FY15 and FY16 earnings forecast as 9M15 results were within our expectation. At this juncture, FY15 and FY16 earnings are expected 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 value Petchem at RM6.18 and we reiterate our **HOLD** call 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
			FY15	FY16	FY15	FY16	FY16	FY16			
MMC Corp	Dec	2.24	0.1	0.2	18.9	16.1	1.0	0.9	3.2	3.00	Buy
TNB	Aug	12.64	1.2	1.2	12.7	12.2	1.8	1.6	14.1	14.60	Buy
Gas Malaysia	Dec	2.39	0.1	0.1	25.0	20.6	3.3	3.2	17.0	2.89	Buy
Petronas Gas	Dec	23.00	0.9	0.9	25.0	24.3	4.0	3.7	21.4	23.20	Hold
Petronas Chemical	Dec	6.48	0.3	0.4	15.1	13.4	1.7	1.6	15.0	6.18	Hold
Malakoff	Dec	1.73	NA	NA	NA	NA	NA	NA	8.68	2.30	Buy
YTL Power	Dec	1.56	0.1	0.1	11.2	11.8	1.1	1.0	12.1	NA	NA
<b>Average</b>			<b>0.5</b>	<b>0.6</b>	<b>19.4</b>	<b>17.3</b>	<b>2.3</b>	<b>2.2</b>	<b>13.8</b>		

Source: Bloomberg; M&A Securities

## Results Review - Petronas Chemical Group Bhd

Table 2: Results Analysis

YE: Dec (RM million)	2Q15	1Q15	2Q15	y-o-y	q-o-q	6M15	6M14	y-o-y
Revenue	3,642	3,305	3,549	3%	10%	10,087	10,696	-6%
Cost of sales	(2,193)	(2,260)	(2,506)	-12%	-3%	(6,561)	(7,505)	-13%
Gross Profit	1,449	1,045	1,043	39%	39%	3,526	3,191	10%
Selling and Distribution Expenses	(168)	(149)	(149)	13%	13%	(463)	(442)	5%
Administration Expenses	(148)	(143)	(139)	6%	3%	(401)	(417)	-4%
Other expenses	(257)	(88)	(12)	2042%	192%	(646)	(65)	894%
Other income	324	179	107	203%	81%	853	378	126%
Operating profit	1,200	844	850	41%	42%	2,869	2,645	8%
Financing costs	(6)	(8)	(4)	50%	-25%	(21)	(12)	75%
Results of associates	31	17	53	-42%	82%	73	140	-48%
PBT	1,225	853	899	36%	44%	2,921	2,773	5%
Taxation	(235)	(215)	(167)	41%	9%	(621)	(617)	1%
PAT	990	638	732	35%	55%	2,300	2,156	7%
EPS	11	7	8	38%	57%	26	24	8%
EBIT margin	40%	32%	29%			35%	30%	-184%
PBT margin	33%	26%	24%			28%	25%	
PAT margin	34%	26%	25%			29%	26%	-94%

Source: Bursa Malaysia, M&amp;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

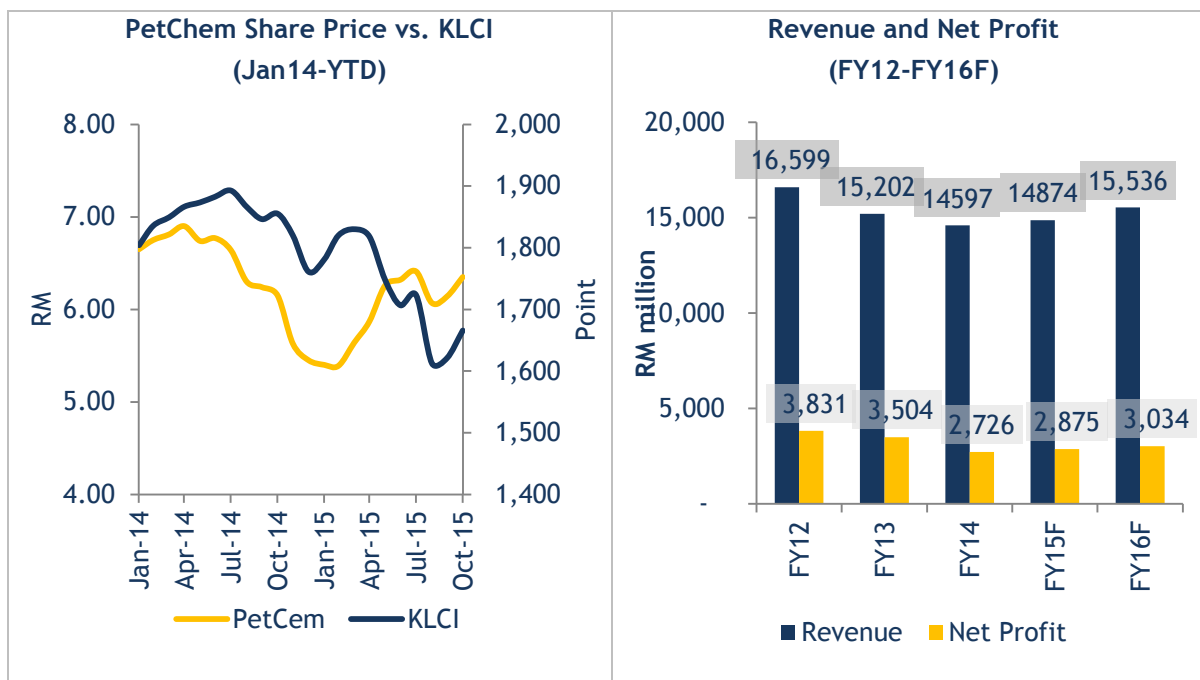
Source: Bursa Malaysia, M&amp;A Securities

\*FY13 PAT restated after minus exceptional items

Table 4: Segment Results

(RM million)	Group		Olefins & Derivatives		Fertilisers & Methanol	
	9M15	9M14	9M15	9M14	9M15	9M14
Revenue	10,087	10,696	7,067	7,838	3,131	2,979
Segment Results	2,300	2,155	1,415	1,496	814	644

Source: Bursa Malaysia, M&amp;A Securities



Source: Bloomberg, M&amp;A Securities

# M&A Securities

## STOCK RECOMMENDATIONS

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

## SECTOR RECOMMENDATIONS

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

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