

Lotte Chemical Titan (TTNP MK)

Headwinds on the horizon

Lowering FY22/23 estimates; D/G to HOLD

TTNP's 12MFY21 core NP came in broadly below consensus. Margin compression from elevated naphtha prices continues to pose downside risks and as such, we have slashed both our FY22/23E earnings estimates by c.35%. We introduce FY24E and rollover our valuation base year to FY23, with a lower TP of MYR2.26 (-25%) - pegged to an unchanged 3.7x FY23 EV/EBITDA (LT mean). With limited upside, we downgrade TTNP to a HOLD.

A weak showing in 4Q21; below consensus

Excluding unrealized forex losses of MYR13m and EIs (totalling MYR111m), 4Q21 core PATMI came in at MYR89m (-37% YoY; +43% QoQ). This brought cumulative FY21 core net profit to MYR973m making up just 76%/89% of ours and the street's full-year estimates. Results were broadly below expectations due to stronger-than-expected margin compression in the quarter from surging feedstock costs.

Strong ASPs eroded as margin compression sets in

Key takeaways from 4Q21's set of results: (i) Revenue improved by 40%/20% YoY/QoQ from higher blended ASPs (MYR5,046/t vs MYR3,892/t in 4Q20) and improved plant utilisation (88% vs 76% in 3Q21) in the absence of major statutory turnarounds; (ii) Despite relatively high ASPs, EBITDA margins compressed by 35%/17% YoY/QoQ from higher actualised naphtha consumption costs, in-line with the strong uptrend in crude prices; (iii) headline NP (MYR187m) was boosted by two lumpy one-offs - MYR101m from associate LC USA's arbitration settlement with its JV partner and MYR10m from the sale of its 10% stake in Lotte UBE Synthetic Rubber.

Tepid outlook in FY22 with PCHEM's entry

Despite having its second-best year since listing, it is unlikely that TTNP will be able to replicate its performance in FY22. Product spreads continue to soften (-5%/-11%/-11% QtD-1Q22 for HDPE/LDPE/PP) as surging naphtha costs outweigh demand-driven ASPs gains. PCHEM's entry into the downstream chemical space via the start-up of PIC in 1Q22 will further pressure TTNP's premium (c.USD50-100) in the domestic market. With heavy capex outlay for the LINE project (MYR9b through to 2025) and limited alternative income streams to mitigate the downside, we have turned downbeat on its near-to-medium term prospects. D/G to HOLD.

FYE Dec (MYR m)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue	6,901	9,831	8,430	8,179	8,220
EBITDA	830	2,204	870	905	942
Core net profit	181	973	314	322	340
Core EPS (sen)	8.0	42.7	13.8	14.1	14.9
Core EPS growth (%)	(45.9)	436.9	(67.8)	2.6	5.5
Net DPS (sen)	3.3	38.9	6.2	6.4	6.7
Core P/E (x)	34.8	5.6	16.3	15.9	15.1
P/BV (x)	0.5	0.4	0.4	0.4	0.4
Net dividend yield (%)	1.2	16.2	2.8	2.8	3.0
ROAE (%)	1.3	8.6	2.5	2.6	2.7
ROAA (%)	1.3	6.6	2.1	2.2	2.3
EV/EBITDA (x)	3.1	0.7	3.4	4.7	5.4
Net gearing (%) (incl perps)	net cash	net cash	net cash	net cash	net cash
Consensus net profit	-	-	456	564	na
MKE vs. Consensus (%)	-	-	(31.2)	(43.0)	na

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HOLD

[Prior:BUY]

Share Price MYR 2.25
 12m Price Target MYR 2.26 (+0%)
 Previous Price Target MYR 3.00

Company Description

Lotte Chemical Titan manufactures and sells petrochemicals and polymers

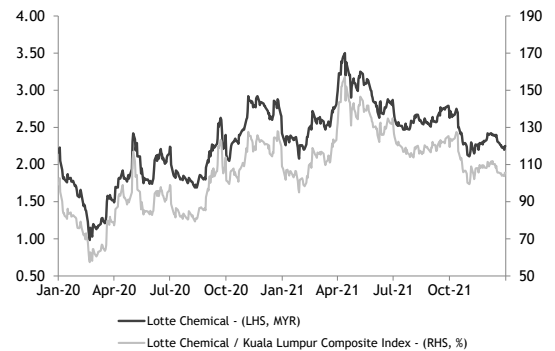
Statistics

52w high/low (MYR) 3.50/2.08
 3m avg turnover (USDm) 0.9
 Free float (%) 25.0
 Issued shares (m) 2,278
 Market capitalisation MYR5.1B
 USD1.2B

Major shareholders:

Lotte Chemical Corp. 74.9%

Price Performance



	-1M	-3M	-12M
Absolute (%)	(3)	(18)	(7)
Relative to index (%)	(2)	(14)	(3)

Source: FactSet

Figure 1: LCT's quarterly results

FYE 31 Dec	4Q21	4Q20	YoY %	3Q21	QoQ %	FY21	FY20	YoY %
Revenue	2,684.6	1,922.7	39.6	2,236.6	20.0	9,830.9	6,901.3	42.4
COGS (ex-depreciation)	(2,447.1)	(1,474.2)	66.0	(1,948.6)	25.6	(7,985.2)	(5,843.7)	36.6
Distribution expenses	(42.3)	(47.6)	(11.2)	(35.6)	18.7	(143.0)	(112.6)	27.1
Other expenses	(4.1)	(12.0)	(66.2)	(3.9)	3.0	(14.6)	(41.5)	(64.9)
EBITDA	314.8	484.6	(35.0)	377.5	(16.6)	2,203.7	830.3	>100.0
Depreciation	(139.6)	(139.7)	(0.1)	(137.6)	1.4	(556.4)	(558.2)	(0.3)
EBIT	175.2	344.8	(49.2)	239.8	(26.9)	1,647.4	272.0	>100.0
Net interest income	10.2	7.6	35.1	10.4	(1.6)	38.7	51.2	(24.4)
Share results of associates	101.2	(10.5)	NM	35.6	NM	221.1	(119.3)	NM
Pretax profit	147.0	202.2	(27.3)	148.1	(0.8)	1,350.8	204.0	>100.0
Tax	38.9	(52.4)	NM	(100.0)	NM	(292.0)	(50.0)	>100.0
Minority interest	(0.9)	(1.4)	(35.8)	(0.8)	19.9	(0.8)	(5.4)	(84.6)
Reported PATMI	186.8	151.2	23.6	48.8	>100.0	1,058.0	148.6	>100.0
Adjust for one-offs:								
Unrealised forex gains/(loss)	(13.1)	8.8	NM	(13.3)	0.2	(25.7)	(34.9)	(26.3)
Fair value change on derivatives	(0.4)	(0.0)	NM	0.0	(0.4)	(0.4)	2.7	NM
Exceptionals	111.2	0.0	NM	0.0	NM	111.2	0.0	NM
Core PATMI	89.2	142.3	(37.4)	62.1	43.5	972.9	180.8	>100.0
Core EBIT margin (%)								
	4Q21	4Q20	YoY %	3Q21	QoQ %	FY21	FY20	YoY %
	2.9	17.5	(14.6)	11.3	(8.4)	15.9	12.9	3.0
Core PATMI margin (%)								
	4Q21	4Q20	YoY %	3Q21	QoQ %	FY21	FY20	YoY %
	3.3	7.4	(4.1)	2.8	0.5	9.9	2.6	7.3
Effective tax rate (%)								
	4Q21	4Q20	YoY %	3Q21	QoQ %	FY21	FY20	YoY %
	(85.1)	24.7	NM	88.9	NM	21.6	24.5	(2.9)

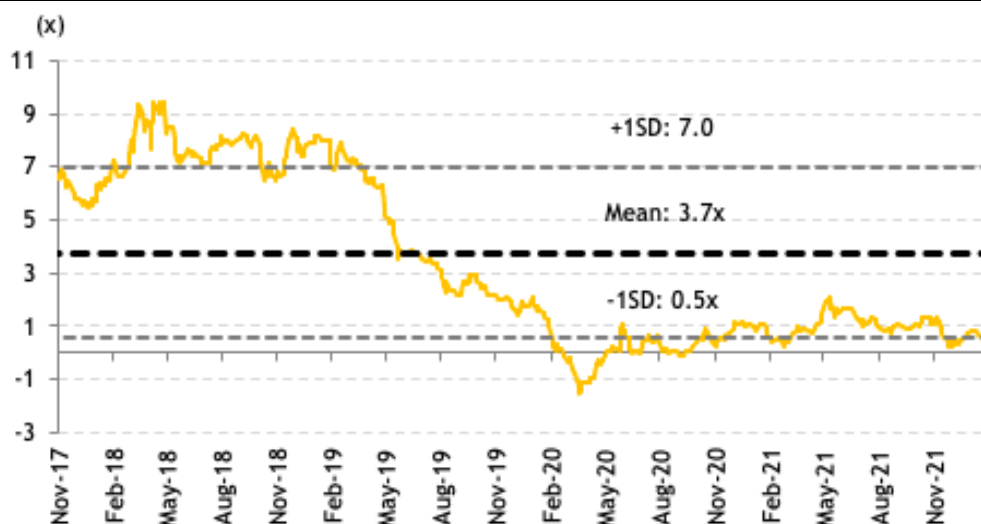
Source: Company data, Maybank IBG (compilation)

Figure 2: LCT's operating statistics

	4Q21	4Q20	YoY %	3Q21	QoQ %	FY21	FY20	YoY %
Production volume (KT)	787	761	3.4	680	15.7	3,008	2,921	3.0
Sales volume (KT)	532	494	7.7	443	20.1	1,987	1,971	0.8
Average utilisation rate (%)	88.0	85.0	3.0	76.0	12.0	84.0	82.0	2.0
ASP (MYR/ton)	5,046	3,892	29.7	5,049	(0.1)	4,948	3,501	41.3

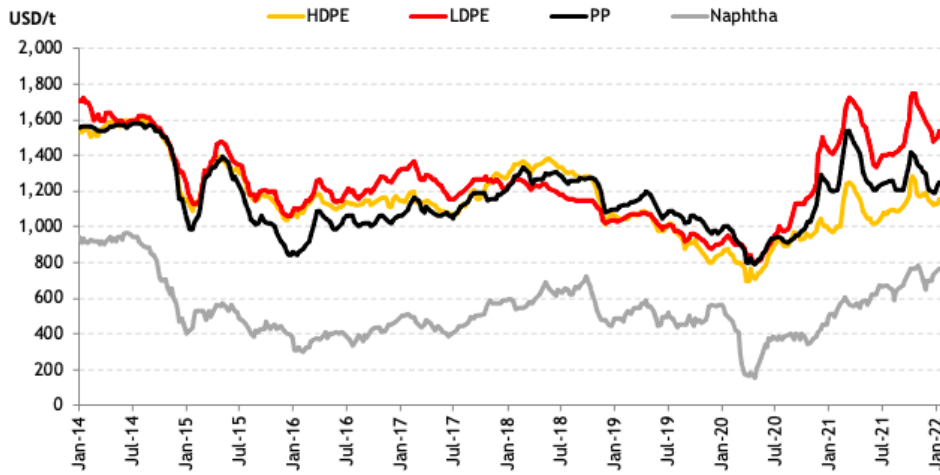
Source: Company data, Maybank IBG (compilation)

Figure 3: LCT's 12M rolling forward EV/EBITDA



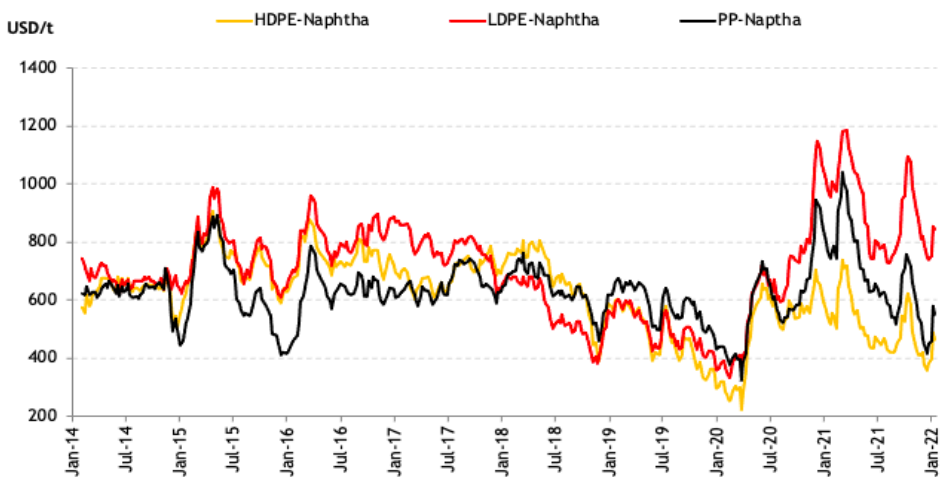
Source: Bloomberg, Company data, Maybank IBG (compilation)

Figure 4: Prices of polymer and naphtha



Source: Bloomberg, Maybank IBG (compilation)

Figure 5: Product spreads



Source: Bloomberg, Maybank IBG (compilation)

Risk statements

Key upside risks to our call/earnings forecasts: (i) Slower-than-expected capacity expansion in the event that some players decided to defer their expansion plans; (ii) Natural disasters/unscheduled maintenance shutdowns globally that could disrupt the petrochemicals supply; (iii) Faster-than-expected global economy growth; (iv) Its 40%-owned associate LC USA delivering stronger-than-expected operating earnings on higher plant performance and better product spreads.

FYE 31 Dec	FY20A	FY21A	FY22E	FY23E	FY24E
Key Metrics					
P/E (reported) (x)	30.4	5.7	16.3	15.9	15.1
Core P/E (x)	34.8	5.6	16.3	15.9	15.1
P/BV (x)	0.5	0.4	0.4	0.4	0.4
P/NTA (x)	0.5	0.4	0.4	0.4	0.4
Net dividend yield (%)	1.2	16.2	2.8	2.8	3.0
FCF yield (%)	3.9	13.1	nm	nm	nm
EV/EBITDA (x)	3.1	0.7	3.4	4.7	5.4
EV/EBIT (x)	9.6	0.9	9.3	11.8	12.6

INCOME STATEMENT (MYR m)

Revenue	6,901.3	9,830.9	8,430.0	8,178.8	8,219.7
EBITDA	830.3	2,203.7	869.9	904.8	941.7
Depreciation	(558.2)	(556.4)	(550.8)	(545.3)	(539.9)
Amortisation	0.0	0.0	0.0	0.0	0.0
EBIT	272.0	1,647.4	319.1	359.5	401.9
Net interest income / (exp)	51.2	38.7	65.4	35.7	16.8
Associates & JV	(119.3)	221.1	36.0	36.0	36.0
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	204.0	1,350.8	420.5	431.2	454.7
Income tax	(50.0)	(292.0)	(100.9)	(103.5)	(109.1)
Minorities	5.4	0.8	6.0	6.0	6.0
Discontinued operations	0.0	0.0	0.0	0.0	0.0
Reported net profit	148.6	1,058.0	313.6	321.7	339.6
Core net profit	180.8	972.9	313.6	321.7	339.6

BALANCE SHEET (MYR m)

Cash & Short Term Investments	4,158.0	4,598.1	2,782.8	1,519.2	714.5
Accounts receivable	733.9	975.3	836.3	811.4	815.4
Inventory	1,294.0	1,674.3	1,435.7	1,392.9	1,399.9
Property, Plant & Equip (net)	5,067.8	5,254.3	6,703.4	8,158.1	9,118.3
Intangible assets	19.2	0.0	0.0	0.0	0.0
Investment in Associates & JVs	2,092.8	2,380.8	2,416.9	2,452.9	2,488.9
Other assets	542.5	609.9	594.7	594.7	594.7
Total assets	13,908.2	15,492.7	14,769.8	14,929.2	15,131.7
ST interest bearing debt	0.0	0.0	0.0	0.0	0.0
Accounts payable	805.9	974.7	835.8	810.9	815.0
Insurance contract liabilities	13.6	10.6	10.6	10.6	10.6
LT interest bearing debt	0.0	0.0	0.0	0.0	0.0
Other liabilities	821.0	1,161.0	1,144.0	1,141.0	1,139.0
Total Liabilities	1,640.1	2,146.6	1,990.2	1,962.9	1,964.7
Shareholders Equity	11,799.3	12,723.5	12,151.0	12,331.7	12,526.4
Minority Interest	468.8	622.6	628.6	634.6	640.6
Total shareholder equity	12,268.1	13,346.1	12,779.6	12,966.3	13,167.1
Total liabilities and equity	13,908.2	15,492.7	14,769.8	14,929.2	15,131.7

CASH FLOW (MYR m)

Pretax profit	204.0	1,350.8	420.5	431.2	454.7
Depreciation & amortisation	558.2	556.4	550.8	545.3	539.9
Adj net interest (income)/exp	(51.2)	(38.7)	(65.4)	(35.7)	(16.8)
Change in working capital	258.7	(442.0)	238.7	42.8	(7.0)
Cash taxes paid	(16.1)	(65.7)	(100.9)	(103.5)	(109.1)
Other operating cash flow	67.3	(262.1)	(103.7)	(74.0)	(55.1)
Cash flow from operations	1,073.7	1,167.4	1,005.3	841.8	823.3
Capex	(825.7)	(449.1)	(2,000.0)	(2,000.0)	(1,500.0)
Free cash flow	248.0	718.3	(994.7)	(1,158.2)	(676.7)
Dividends paid	(159.1)	(474.0)	(886.0)	(141.1)	(144.8)
Equity raised / (purchased)	162.3	135.4	0.0	0.0	0.0
Change in Debt	0.0	0.0	0.0	0.0	0.0
Other invest/financing cash flow	105.4	179.1	65.4	35.7	16.8
Effect of exch rate changes	(75.8)	26.9	0.0	0.0	0.0
Net cash flow	265.4	573.7	(1,815.3)	(1,263.6)	(804.7)

FYE 31 Dec	FY20A	FY21A	FY22E	FY23E	FY24E
Key Ratios					
Growth ratios (%)					
Revenue growth	(18.2)	42.4	(14.2)	(3.0)	0.5
EBITDA growth	(6.8)	165.4	(60.5)	4.0	4.1
EBIT growth	4.7	505.6	(80.6)	12.7	11.8
Pretax growth	(59.5)	562.2	(68.9)	2.6	5.4
Reported net profit growth	(66.2)	612.0	(70.4)	2.6	5.5
Core net profit growth	(45.9)	438.0	(67.8)	2.6	5.5
Profitability ratios (%)					
EBITDA margin	12.0	22.4	10.3	11.1	11.5
EBIT margin	3.9	16.8	3.8	4.4	4.9
Pretax profit margin	3.0	13.7	5.0	5.3	5.5
Payout ratio	50.0	83.7	45.0	45.0	45.0
DuPont analysis					
Net profit margin (%)	2.2	10.8	3.7	3.9	4.1
Revenue/Assets (x)	0.5	0.6	0.6	0.5	0.5
Assets/Equity (x)	1.2	1.2	1.2	1.2	1.2
ROAE (%)	1.3	8.6	2.5	2.6	2.7
ROAA (%)	1.3	6.6	2.1	2.2	2.3
Liquidity & Efficiency					
Cash conversion cycle	74.2	58.1	68.4	64.3	63.3
Days receivable outstanding	41.5	31.3	38.7	36.3	35.6
Days inventory outstanding	80.7	66.9	71.1	67.2	66.3
Days payables outstanding	48.0	40.1	41.4	39.1	38.6
Dividend cover (x)	2.0	1.2	2.2	2.2	2.2
Current ratio (x)	7.6	7.4	6.0	4.6	3.6
Leverage & Expense Analysis					
Asset/Liability (x)	8.5	7.2	7.4	7.6	7.7
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)	na	na	na	na	na
Debt/EBITDA (x)	0.0	0.0	0.0	0.0	0.0
Capex/revenue (%)	12.0	4.6	23.7	24.5	18.2
Net debt/ (net cash)	(4,158.0)	(4,598.1)	(2,782.8)	(1,519.2)	(714.5)

Source: Company; Maybank

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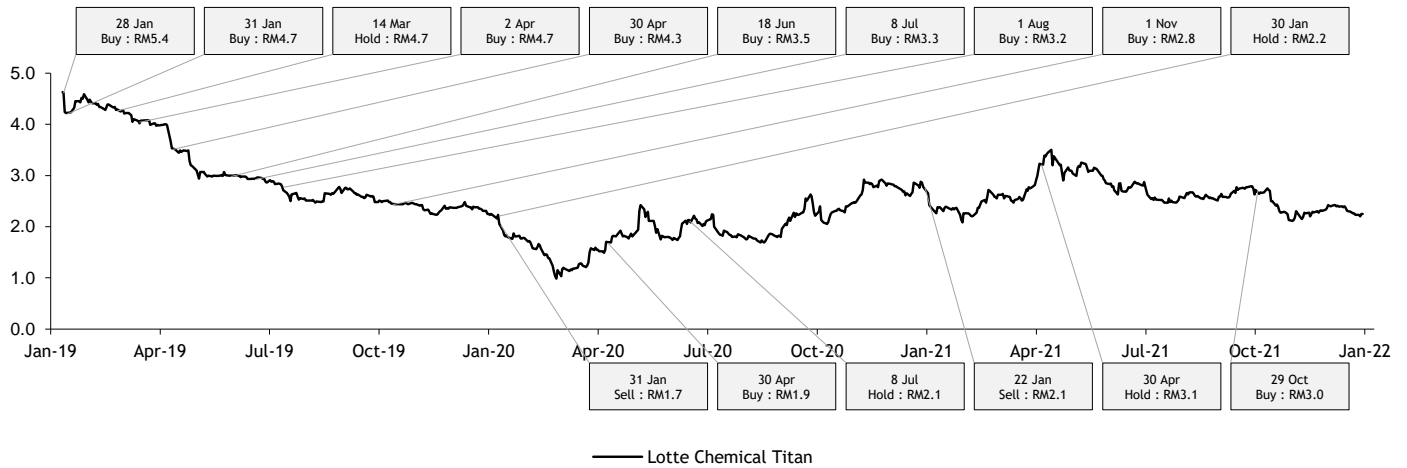
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