

Petronas Chemicals (PCHEM MK)

4Q21: Capping off a record-breaking year

A strong (but expected) quarter; maintain BUY

PCHEM's 12MFY21 results were its best since listing, as 4Q21 results came in in-line with ours but above consensus estimates. With a firm near-to-mid-term ASP outlook, we maintain our BUY call but raise our FY22-23E estimates by 7%/8%, and roll-forward our base year to FY23 (we have also introduced FY24E). Our new TP is MYR11.00 (+5%), pegged to an unchanged 9x FY23E EV/EBITDA (LT mean). With a strong balance sheet (net cash of MYR1.75 per share, end-3Q21: MYR1.58) and attractive FY22-23E dividend yields of c.4%, PCHEM remains our top pick in the MY petrochemical space.

A third consecutive quarterly PATMI record

Excluding EIs of MYR19m, 4Q21 core PATMI of MYR2.04b (+192% YoY, +5% QoQ) was PCHEM's third consecutive quarterly record as 12MFY21 core NP surged to MYR7.21b, coming in at 100%/110% of ours/the street's full-year estimates. A 23 sen interim dividend was declared, taking FY21 dividends to 56 sen (payout ratio: 61%). The performance was esp. commendable given blended plant utilisation averaged just 89%, vs 3Q21/4Q20's 94%.

Lower tax and JV contributions boost bottom-line

4Q21 key highlights: (i) Revenue grew by 82%/21% YoY/QoQ to MYR7.0b, on the back of firm O&D and exceptionally strong F&M ASPs (+93%/28% YoY/QoQ on a blended basis); (ii) EBITDA margins were sequentially lower (-3.3% QoQ) as feedstock cost pressures weighed on the O&D segment, in line with higher prices for crude derivative; (iii) increased F&M sales (+119%/44% YoY/QoQ) via Labuan entities incurred lower taxation - the eff. tax rate for 4Q21/FY21 was just 5% (substantially lower than the 5Y avg of 15%); and (iv) Assoc. contributions of MYR728m in FY21 (vs FY19/20 loss of MYR54m/84m) was a positive PBT boost, underpinned by its 60:40 BASF JV's exceptional performance in the specialty chemical space.

Revising estimates in light of firm ASP outlook

We have revised our FY22-23E estimates to impute for: (i) a lower eff. tax rate of 10% (vs. 15% previously), (ii) improved contributions from assocs. and JVs (+MYR100-150m), and (iii) raised feedstock cost (+19%)/blended ASP (+25%) assumptions to reflect the higher expected cost of crude in FY22 (MIBG assumption: USD80/bbl). As border reopenings gather pace, the ongoing Ukraine crisis could provide further tailwinds to already strong O&D/F&M ASPs, should O&G prices remain elevated throughout 1H22. BUY.

FYE Dec (MYR m)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue	14,362	23,025	21,222	22,324	22,923
EBITDA	3,523	8,287	7,927	8,295	9,178
Core net profit	1,816	7,206	5,614	5,873	6,161
Core EPS (sen)	22.7	90.1	70.2	73.4	77.0
Core EPS growth (%)	(38.4)	296.8	(22.1)	4.6	4.9
Net DPS (sen)	12.0	56.0	35.1	36.7	38.5
Core P/E (x)	32.7	9.9	13.1	12.5	11.9
P/BV (x)	2.0	2.0	2.0	1.8	1.7
Net dividend yield (%)	1.6	6.3	3.8	4.0	4.2
ROAE (%)	5.4	22.5	15.5	15.0	14.6
ROAA (%)	4.6	16.7	11.7	11.6	11.5
EV/EBITDA (x)	14.1	7.0	7.3	6.8	5.8
Net gearing (%) (incl perps)	net cash	net cash	net cash	net cash	net cash
Consensus net profit	-	-	5,725	5,595	na
MKE vs. Consensus (%)	-	-	(1.9)	5.0	na

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BUY

Share Price	MYR 9.20
12m Price Target	MYR 11.00 (+24%)
Previous Price Target	MYR 10.50

Company Description

Petronas Chemicals Group Bhd manufactures, markets, and sells petrochemicals.

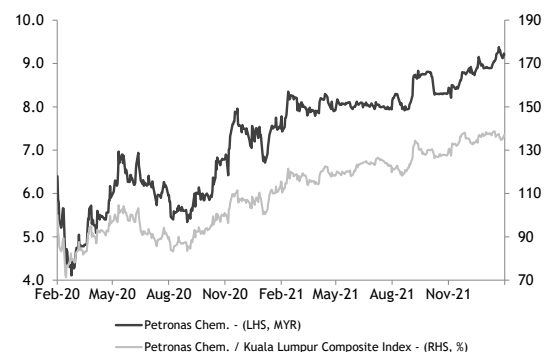
Statistics

52w high/low (MYR)	9.38/7.43
3m avg turnover (USDm)	12.1
Free float (%)	28.3
Issued shares (m)	8,000
Market capitalisation	MYR73.6B USD17.5B

Major shareholders:

Government of Malaysia	64.4%
Employees Provident Fund	6.8%
Permodalan Nasional Bhd.	5.0%

Price Performance



	-1M	-3M	-12M
Absolute (%)	3	10	20
Relative to index (%)	(1)	6	18

Source: FactSet

Acronyms

ASP - average selling price
BASF - world's largest chemical manufacturer
bbl - per barrel
F&M - Fertiliser & Methanol
O&D - Olefins & Derivatives
O&G - oil & gas
MY - Malaysia

EBITDA - earnings before interest, tax, depreciation & amortisation
EI - exceptional item
EV - enterprise value
JV - joint venture
LT - long-term
NP - net profit
PBT - profit before tax
PATMI - profit after tax & minority interest
TP - target price

Figure 1: PCHEM's quarterly results summary

FY 31 Dec (MYR m)	4Q21	4Q20	% YoY	3Q21	% QoQ	FY21	FY20	% YoY
Revenue	6,976	3,836	81.9	5,766	21.0	23,025	14,362	60.3
EBITDA	2,325	1,149	>100.0	2,113	10.0	8,578	5,195	65.1
Depreciation & Amortisation	(429)	(418)	2.6	(417)	2.9	(1,650)	(1,670)	(1.2)
Net interest expense	22	81	(72.8)	22	0.0	88	197	(55.3)
Associates & JVs	173	(34)	(>100.0)	255	(32.2)	729	(84)	(>100.0)
Exceptionals	19	(232)	n.m.	25	n.m.	139	(188)	n.m.
Pretax profit	2,134	519	>100.0	2,029	5.2	7,710	1,857	>100.0
Tax	(100)	(63)	58.7	(66)	51.5	(391)	(271)	44.3
Minority interest	26	10	>100.0	1	>100.0	26	42	(38.1)
PATMI	2,060	466	>100.0	1,964	4.9	7,345	1,628	>100.0
Core PATMI	2,041	698	>100.0	1,939	5.3	7,206	1,816	>100.0
Core EPS (sen)	25.5	8.7	>100.0	24.2	5.3	90.1	22.7	>100.0
DPS (sen)	23.0	7.0	>100.0	10.0	>100.0	56.0	12.0	>100.0
Net Cash (MYRm)	14,002	10,515	33.2	12,609	11.0	16,390	12,707	29.0
Margins & tax rate	4Q21	4Q20	+/- ppt	3Q21	+/- ppt	FY21	FY20	+/- ppt
EBITDA margin (%)	33.3	30.0	3.4	36.6	(3.3)	37.3	36.2	1.1
Core PATMI margin (%)	29.3	18.2	11.1	33.6	(4.4)	31.3	12.6	18.7
Tax rate (%)	4.7	12.1	(7.5)	3.3	1.4	5.1	14.6	(9.5)
Segmental breakdown	4Q21	4Q20	% YoY	3Q21	% QoQ	FY21	FY20	% YoY
Revenue	6,976	3,836	81.9	5,766	21.0	23,025	14,362	60.3
Olefins & Derivatives	3,406	2,123	60.4	3,155	8.0	12,477	8,194	52.3
Fertilisers & Methanol	3,268	1,490	>100.0	2,271	43.9	9,341	5,311	75.9
Others	302	223	35.4	340	(11.2)	1,207	857	>100.0
PAT (before MI)	2,034	456	346.1	1,963	3.6	7,319	1,586	361.5
Olefins & Derivatives	649	29	>100.0	955	(32.0)	3,429	302	>100.0
Fertilisers & Methanol	1,436	476	>100.0	983	46.1	3,859	1,356	>100.0
Others	(51)	(49)	4.1	25	n.m.	31	(72)	n.m.
PAT (before MI) margin (%)	29.2	11.9	17.3	34.0	(4.9)	31.8	11.0	20.7
Olefins & Derivatives	19.1	1.4	(1.4)	30.3	(11.2)	27.5	3.7	23.8
Fertilisers & Methanol	43.9	31.9	12.0	43.3	0.7	41.3	25.5	15.8
Operating statistics:	4Q21	4Q20	% YoY	3Q21	% QoQ	FY21	FY20	% YoY
Product volumes (m tons)	2.5	2.7	(5.8)	2.7	(5.2)	10.39	10.70	(2.9)
Olefins & Derivatives	1.0	0.9	5.6	1.0	3.8	3.91	3.93	(0.5)
Fertilisers & Methanol	1.5	1.7	(12.1)	1.7	(10.4)	6.48	6.76	(4.2)
Plant Utilisation rate (%)	89.0	94.0	(5.0)	94.0	(5.0)	93.0%	94.0%	(1.0)

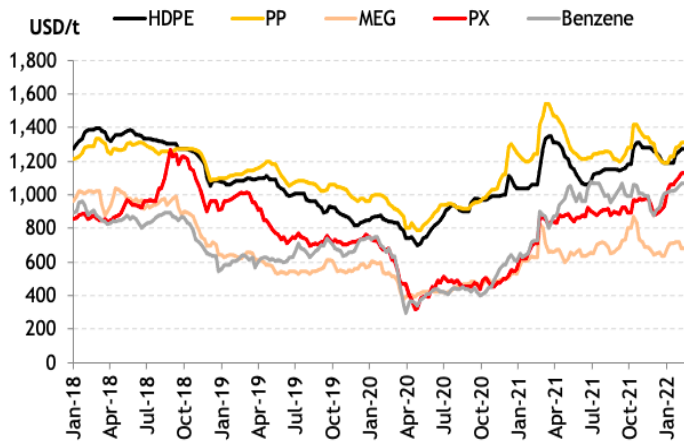
Source: Company, Maybank IBG Research (compilation)

Figure 2: Product ASPs by quarter (USD per mT)

Segments/ Products	4Q21 (QTD)	3Q21	QoQ (Q4/3)	2Q21	QoQ (Q3/2)	9MFY21 (Avg.)	FY20 (Avg.)	YoY
O&D Segment								
HDPE	1,230	1,251	-2%	1138	10%	1,230	1,179	4%
PP	1,263	1,306	-3%	1234	6%	1,263	1,295	-3%
MEG	699	716	-2%	689	4%	699	677	3%
PX	1,085	934	16%	899	4%	1,085	858	26%
Benzene	1,041	979	6%	1027	-5%	1,041	931	12%
F&M Segment								
Urea	876	727	20%	467	56%	876	479	83%
Ammonia	893	795	12%	627	27%	893	560	59%
Methanol	416	459	-9%	393	17%	416	400	4%

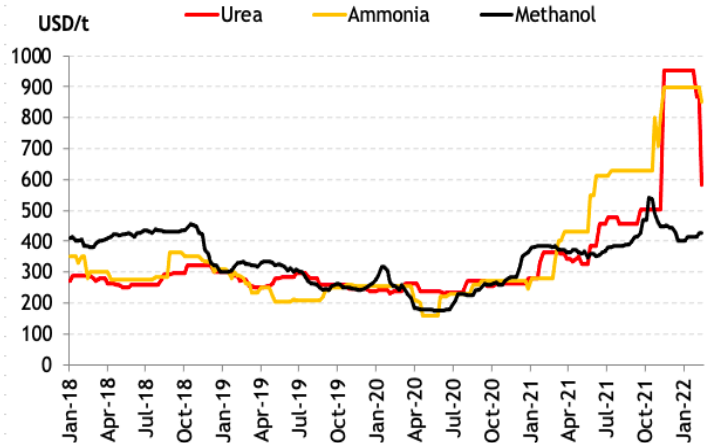
Source: Bloomberg, Maybank IBG Research (compilation)

Figure 3: Olefin & Derivatives (O&D) division's key ASPs



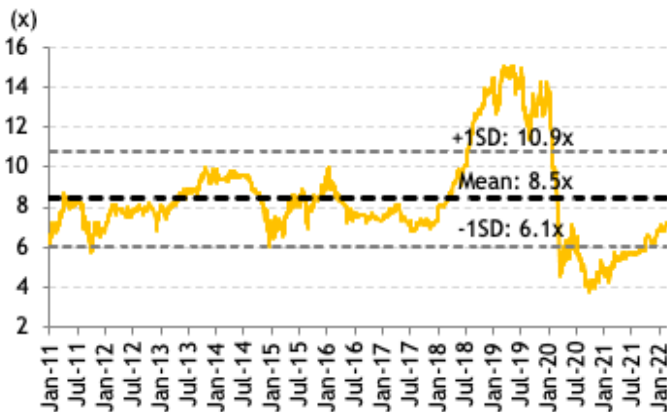
Source: Bloomberg, Maybank IGB Research (compilation)

Figure 4: Fertiliser & Methanol (F&M) division's key ASPs



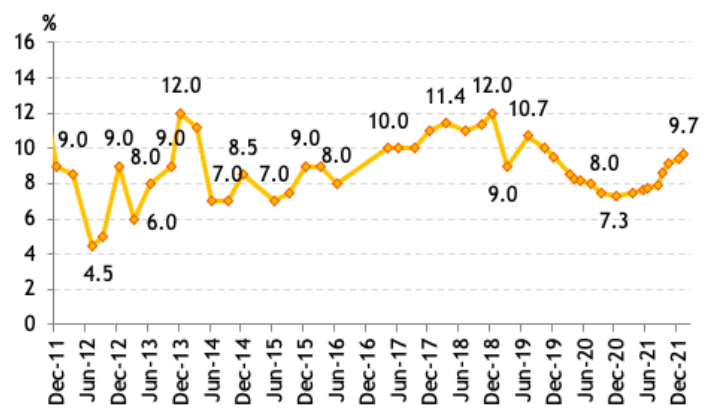
Source: Bloomberg, Maybank IGB Research (compilation)

Figure 5: 12M-fwd rolling EV/EBITDA (currently trades at 7.0x)



Source: Bloomberg, Company data, Maybank IGB Research

Figure 6: Foreign shareholding (end-Jan 2022: 9.7%)



Source: Company data, Maybank IGB Research

Risk statements

Key downside risks to our call/earnings forecasts: (i) slower than expected global demand as pockets of Covid-19 re-emerge to thwart governments' efforts to lift existing lockdown restrictions; (ii) a sudden cooling of the fertiliser market in the event planters switch to alternative crops that do not require a heavy dependence on nitrogen based fertilisers; (iii) the collapse of the natural gas market should governments unify efforts to stabilise constrained supply heading towards the winter months in the northern hemisphere; (v) the Chinese government's sudden reversal of its indefinite fertiliser export control policy; (vi) re-escalation of US-China trade tensions resulting in increased dumping activities from the US into the region; (vii) more countries adopting a firmer stance towards banning the usage of single-use/non-biodegradable plastics; (viii) Pengerang plants achieving poor operating earnings on a weaker-than-expected utilisation rate of <35% in FY22E.

FYE 31 Dec	FY20A	FY21A	FY22E	FY23E	FY24E
Key Metrics					
P/E (reported) (x)	30.0	8.8	13.1	12.5	11.9
Core P/E (x)	32.7	9.9	13.1	12.5	11.9
P/BV (x)	2.0	2.0	2.0	1.8	1.7
P/NTA (x)	2.0	2.0	2.0	1.8	1.7
Net dividend yield (%)	1.6	6.3	3.8	4.0	4.2
FCF yield (%)	2.6	9.3	6.6	7.0	8.1
EV/EBITDA (x)	14.1	7.0	7.3	6.8	5.8
EV/EBIT (x)	26.8	8.7	10.0	9.0	8.0

INCOME STATEMENT (MYR m)

Revenue	14,362.0	23,025.0	21,222.0	22,324.1	22,922.5
EBITDA	3,523.0	8,287.0	7,927.5	8,295.1	9,177.9
Depreciation	(1,670.0)	(1,650.0)	(2,112.8)	(2,092.8)	(2,555.6)
Amortisation	0.0	0.0	0.0	0.0	0.0
EBIT	1,853.0	6,637.0	5,814.7	6,202.3	6,622.3
Net interest income / (exp)	(27.0)	(29.0)	(56.0)	(56.0)	(56.0)
Associates & JV	(84.0)	729.0	450.0	350.0	250.0
Exceptionals	(232.0)	0.0	0.0	0.0	0.0
Other pretax income	0.0	0.0	0.0	0.0	0.0
Pretax profit	1,857.0	7,710.0	6,208.7	6,496.3	6,816.3
Income tax	(271.0)	(391.0)	(620.9)	(649.6)	(681.6)
Minorities	42.0	26.0	26.0	26.0	26.0
Discontinued operations	0.0	0.0	0.0	0.0	0.0
Reported net profit	1,628.0	7,345.0	5,613.8	5,872.7	6,160.7
Core net profit	1,816.0	7,206.0	5,613.8	5,872.7	6,160.7

BALANCE SHEET (MYR m)

Cash & Short Term Investments	12,707.0	16,390.0	18,378.6	20,504.3	23,349.3
Accounts receivable	1,938.0	2,737.0	2,522.7	2,653.7	2,724.8
Inventory	1,806.0	2,214.0	2,040.6	2,146.6	2,204.1
Reinsurance assets	0.0	0.0	0.0	0.0	0.0
Property, Plant & Equip (net)	20,987.0	22,195.0	22,582.2	22,989.4	22,933.8
Intangible assets	744.0	684.0	684.0	684.0	684.0
Investment in Associates & JVs	722.0	1,480.0	1,930.0	2,280.0	2,530.0
Other assets	925.0	908.0	908.0	908.0	908.0
Total assets	39,829.0	46,608.0	49,046.1	52,166.0	55,334.1
ST interest bearing debt	198.0	232.0	232.0	232.0	232.0
Accounts payable	2,893.0	4,378.0	4,035.2	4,244.7	4,358.5
Insurance contract liabilities	0.0	0.0	0.0	0.0	0.0
LT interest bearing debt	1,994.0	2,156.0	2,156.0	2,156.0	2,156.0
Other liabilities	3,735.0	4,302.0	4,302.0	4,302.0	4,302.0
Total Liabilities	8,820.0	11,068.0	10,725.2	10,934.7	11,048.5
Shareholders Equity	30,364.2	34,923.2	37,730.1	40,666.4	43,746.8
Minority Interest	644.8	616.8	590.8	564.8	538.8
Total shareholder equity	31,009.0	35,540.0	38,320.9	41,231.2	44,285.6
Total liabilities and equity	39,829.0	46,608.0	49,046.1	52,166.0	55,334.1

CASH FLOW (MYR m)

Pretax profit	1,857.0	7,710.0	6,208.7	6,496.3	6,816.3
Depreciation & amortisation	1,670.0	1,650.0	2,112.8	2,092.8	2,555.6
Adj net interest (income)/exp	(197.0)	(88.0)	(75.8)	(91.8)	56.0
Change in working capital	(550.0)	(188.0)	44.9	(27.4)	(14.9)
Cash taxes paid	(204.0)	(197.0)	(620.9)	(649.6)	(681.6)
Other operating cash flow	419.0	(622.0)	170.9	299.6	431.6
Cash flow from operations	3,015.0	8,185.0	7,351.5	7,618.1	8,481.4
Capex	(1,476.0)	(1,538.0)	(2,500.0)	(2,500.0)	(2,500.0)
Free cash flow	1,539.0	6,647.0	4,851.5	5,118.1	5,981.4
Dividends paid	(964.0)	(3,206.0)	(2,806.9)	(2,936.3)	(3,080.4)
Equity raised / (purchased)	0.0	0.0	0.0	0.0	0.0
Change in Debt	(243.0)	(533.0)	(56.0)	(56.0)	(56.0)
Other invest/financing cash flow	32.0	(18.0)	0.0	0.0	0.0
Effect of exch rate changes	(117.0)	238.0	0.0	0.0	0.0
Net cash flow	247.0	3,128.0	1,988.6	2,125.7	2,845.1

FYE 31 Dec	FY20A	FY21A	FY22E	FY23E	FY24E
Key Ratios					
Growth ratios (%)					
Revenue growth	(12.3)	60.3	(7.8)	5.2	2.7
EBITDA growth	(20.8)	135.2	(4.3)	4.6	10.6
EBIT growth	(42.8)	258.2	(12.4)	6.7	6.8
Pretax growth	(41.1)	315.2	(19.5)	4.6	4.9
Reported net profit growth	(42.1)	351.2	(23.6)	4.6	4.9
Core net profit growth	(38.4)	296.8	(22.1)	4.6	4.9
Profitability ratios (%)					
EBITDA margin	24.5	36.0	37.4	37.2	40.0
EBIT margin	12.9	28.8	27.4	27.8	28.9
Pretax profit margin	12.9	33.5	29.3	29.1	29.7
Payout ratio	59.0	61.0	50.0	50.0	50.0
DuPont analysis					
Net profit margin (%)	11.3	31.9	26.5	26.3	26.9
Revenue/Assets (x)	0.4	0.5	0.4	0.4	0.4
Assets/Equity (x)	1.3	1.3	1.3	1.3	1.3
ROAE (%)	5.4	22.5	15.5	15.0	14.6
ROAA (%)	4.6	16.7	11.7	11.6	11.5
Liquidity & Efficiency					
Cash conversion cycle	7.9	(4.0)	(9.6)	(9.2)	(10.8)
Days receivable outstanding	49.3	36.5	44.6	41.7	42.2
Days inventory outstanding	57.5	50.1	55.5	52.1	54.2
Days payables outstanding	98.9	90.6	109.7	103.0	107.2
Dividend cover (x)	1.7	1.6	2.0	2.0	2.0
Current ratio (x)	5.1	4.3	5.0	5.3	5.7
Leverage & Expense Analysis					
Asset/Liability (x)	4.5	4.2	4.6	4.8	5.0
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)	68.6	nm	103.8	110.8	118.3
Debt/EBITDA (x)	0.6	0.3	0.3	0.3	0.3
Capex/revenue (%)	10.3	6.7	11.8	11.2	10.9
Net debt/ (net cash)	(10,515.0)	(14,002.0)	(15,990.6)	(18,116.3)	(20,961.3)

Source: Company; Maybank

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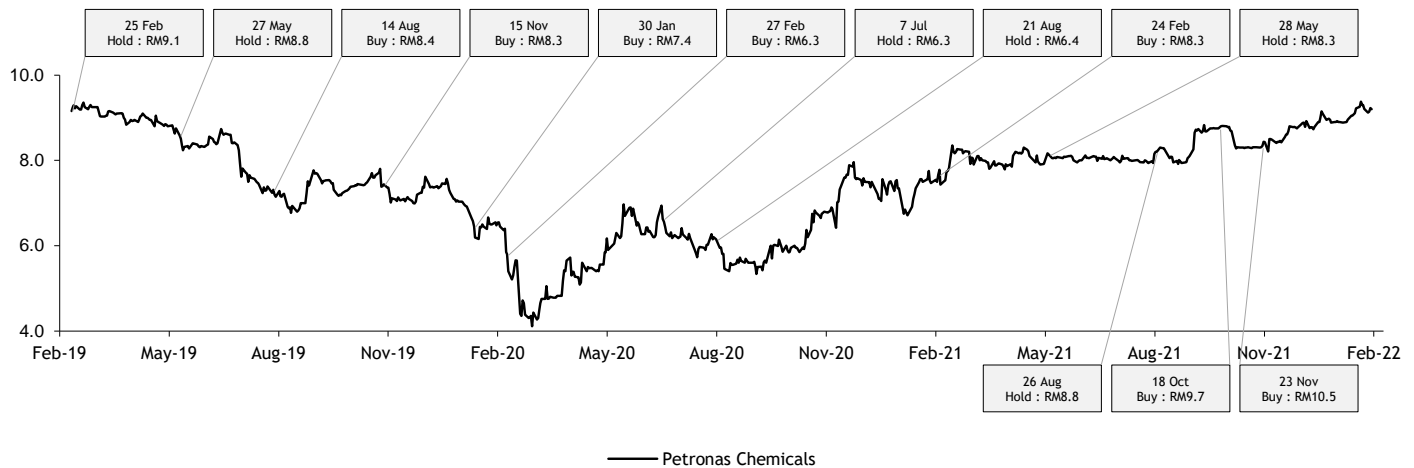
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