Weak 2H already priced in

PCHEM saw a weaker 2Q17 whereby revenue of RM3.9bn and core net profit of RM964m declined 15.7% and 25.6% qoq respectively. EBITDA margin also contracted by 2.7ppt. Results was nevertheless within expectations as product prices weakened and coupled with lower plant utilisation. While we expect further earnings weakness in 2H17, we think that this is already reflected in the stock price. Despite the softer 2H17, we expect PCHEM to register 14% tot EPS growth in 2017. Hence, we upgrade the stock to a BUY and a higher TP of RM8.00.

Stronger 1H17 earnings on revenue growth

PCHEM reported a 2Q17 core net profit of RM964m and cumulative 1H17 core net profit of RM2.3bn, which accounted for 62% and 64% of our and consensus 2017 estimates. Results are nevertheless within expectations as we expect earnings to be weaker in 2H17 anticipating a weaker plant utilization (c. 85-90%) with 2 plant turnarounds. 1H17 core net profit soared 82.3% yoy on the back of stronger revenue, which rose 36.3% yoy. 1H17 EBITDA margin edged up 2.1ppt to 41.1%.

Overall ASP grew with higher volume from SAMUR

i. **O&D.** 2Q17 revenue grew 18.9% yoy attributable to better average product prices (+6%) and a stronger US$. However, revenue was slightly offset by the turnaround activities at the MTBE plant. Yoy plant utilisation fell from 93% to 91%.
ii. **F&M.** 2Q17 revenue increased 33.5% yoy boosted by commencement of SAMUR plant. Average product prices was also in favour which rose 5% on better methanol price (*tracking oil prices*), but partially offset by lower urea and ammonia prices (*weaker price outlook to be affected by lower seasonal demand and continuous oversupply*). YoY plant utilisation fell from 96% to 88% due to higher maintenance activities.

Upgrade BUY on roll forward valuation

We make no changes to our earnings forecast as we roll forward our valuation year to 2018 with a new TP derived at RM8.00. This is premised on a lower 16x PER multiple (17x previously), in line with its forward 5-years PE mean. Upgrade to **BUY**. PCHEM has declared an interim dividend of 12sen/share vs. 7sen/share in 2Q16. Downside risks include declines in product ASPs, lower plants utilisation and weaker product demand.

Earnings & Valuation Summary

FYE 31 Dec	2015A	2016A	2017E	2018E	2019E
Revenue (RMm)	13,536.0	13,860.0	15,362.4	16,000.5	16,302.2
EBITDA (RMm)	4,676.0	5,128.0	5,933.8	6,260.5	6,596.5
Pretax profit (RMm)	3,833.0	4,110.0	4,893.0	5,214.1	5,552.8
Net profit (RMm)	2,782.0	2,932.0	3,623.1	4,002.1	4,262.1
EPS (sen)	34.8	36.7	45.3	50.0	53.3
PER (x)	20.2	19.2	15.5	14.1	13.2
Core net profit (RMm)	2,782.0	3,173.0	3,623.1	4,002.1	4,262.1
Core EPS (sen)	34.8	39.7	45.3	50.0	53.3
Core EPS growth (%)	2.0	14.1	14.2	10.5	6.5
Core PER (x)	20.2	17.7	15.5	14.1	13.2
Net DPS (sen)	18.0	19.0	23.5	25.9	27.6
Dividend Yield (%)	2.6	2.7	3.3	3.7	3.9
EV/EBITDA (x)	10.4	9.7	8.3	7.8	7.4
Chg in EPS (%)			-	-	-
Affin/Consensus (%)			1.0	1.1	1.1

Source: Company, Affin Hwang estimates

Results Note

Petronas Chemicals

PCHEM MK
Sector: Oil & Gas

RM7.03 @ 10 August 2017

BUY (upgrade)

Upside: +14%

Price Target: RM8.00

Previous Target: RM7.70

Price Performance

	1M	3M	12M
Absolute	2.0%	-1.8%	5.9%
Rel to KLCI	0.8%	-2.4%	-0.4%

Stock Data

Issued shares (m)	8,000.0
Mkt cap (RMm)/(US$m)	56,240/13,105
Avg daily vol - 6mth (m)	7.1
52-wk range (RM)	6.48-7.8
Est free float	19.1%
BV per share (RM)	3.40
P/BV (x)	2.07
Net cash/(debt) (RMm)	7,580
ROE (2018E)	13.3%
Derivatives	Nil
Shariah Compliant	Yes

Key Shareholders

PETRONAS	64.4%
EPF	9.4%
ASB	3.3%

Source: Affin Hwang, Bloomberg

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Fig 1: Results comparison

FYE 31 Dec (RM m)	2Q17	qoq % chg	yoy % chg	1H17	yoy % chg	Comments
Revenue	3,959	(15.7)	23.6	8,654	36.3	Higher product ASP, stronger US$ and higher volumes helped in lifting revenue by 36.3%.
Op costs	(2,390)	(11.7)	23.0	(5,097)	31.6	
EBITDA	1,569	(21.1)	24.6	3,557	43.6	
EBITDA margin (%)	*39.6*	*-2.7ppt*	*0.3ppt*	*41.1*	*2.1ppt*	EBITDA margin are expected to decline for the remaining quarters
Depn and amort	(403)	15.5	21.8	(752)	14.3	
EBIT	1,166	(28.9)	25.6	2,805	54.2	
EBIT margin (%)	*29.5*	*-5.5ppt*	*0.5ppt*	*32.4*	*3.8ppt*	
Int expense	(4)	(33.3)	(112.5)	(10)	(131.3)	
Int and other inc	0	n.m	n.m	0	n.m	
Associates and JVs	0	(100.0)	(100.0)	3	(76.9)	
EI	0	n.m	n.m	0	n.m	
Pretax profit	**1,162**	(29.0)	48.4	2,798	66.6	
Core pretax	**1,162**	(29.0)	0.8	**2,798**	50.1	
Tax	(139)	(45.5)	(44.4)	(394)	(17.1)	
Tax rate (%)	*12.0*	*-3.6ppt*	*-20ppt*	*14.1*	*-14.2ppt*	
MI	(59)	(31.4)	(16.9)	(145)	(3.3)	
Net profit	**964**	(25.6)	108.7	**2,259**	114.3	
EPS (sen)	12	(25.6)	108.7	28	114.3	
Core net profit	**964**	(25.6)	49.0	**2,259**	82.3	We deemed earnings to be in line with our estimates as 2H17 performance is expected to weaken. 1H17 earnings accounted for 62% of our 2017E forecast and 64% of consensus.

Fig 2: Segmental breakdown

FYE 31 Dec	2Q16	1Q17	2Q17	QoQ % chg	YoY % chg	1H16	1H17	YoY % chg
Revenue (RM m)	**3,202**	**4,695**	**3,959**	***-15.7***	***23.6***	**6,349**	**8,654**	***36.3***
Olefins & Derivatives	2,133	3,218	2,536	*-21.2*	*18.9*	4,379	5,754	*31.4*
Fertiliser & Methanol	1,056	1,465	1,410	*-3.8*	*33.5*	1,944	2,875	*47.9*
Others	13	12	13	*8.3*	*0.0*	26	25	*-3.8*
EBITDA (RM m)	**1,204**	**1,940**	**1,521**	***-21.6***	***26.3***	**2,350**	**3,461**	***47.3***
Olefins & Derivatives	867	1,334	949	*-28.9*	*9.5*	1,675	2,283	*36.3*
Fertiliser & Methanol	373	622	577	*-7.2*	*54.7*	711	1,199	*68.6*
Others	-36	-16	-5	*n.m*	*n.m*	-36	-21	*n.m*
EBITDA margin (%)	**37.6%**	**41.3%**	**38.4%**	***-2.9%***	***0.8%***	**37.0%**	**40.0%**	***3.0%***
Olefins & Derivatives	40.6%	41.5%	37.4%	*-4.0%*	*-3.2%*	38.3%	39.7%	*1.4%*
Fertiliser & Methanol	35.3%	42.5%	40.9%	*-1.5%*	*5.6%*	36.6%	41.7%	*5.1%*
Plant Utilisation (%)	**95%**	**99%**	**90%**	***-9.0%***	***-5.0%***	**94%**	**94%**	***0.0%***
Olefins & Derivatives	93%	100%	91%	*-9.0%*	*-2.0%*	95%	96%	*0.5%*
Fertiliser & Methanol	96%	96%	88%	*-8.0%*	*-8.0%*	93%	92%	*-0.5%*

Source: Affin Hwang, company data

Securities

Important Disclosures and Disclaimer

Out think. Out perform.

Equity Rating Structure and Definitions

BUY	Total return is expected to exceed +10% over a 12-month period
HOLD	Total return is expected to be between -5% and +10% over a 12-month period
SELL	Total return is expected to be below -5% over a 12-month period
NOT RATED	Affin Hwang Investment Bank Berhad does not provide research coverage or rating for this company. Report is intended as information only and not as a recommendation

The total expected return is defined as the percentage upside/downside to our target price plus the net dividend yield over the next 12 months.

OVERWEIGHT	Industry, as defined by the analyst's coverage universe, is expected to outperform the KLCI benchmark over the next 12 months
NEUTRAL	Industry, as defined by the analyst's coverage universe, is expected to perform inline with the KLCI benchmark over the next 12 months
UNDERWEIGHT	Industry, as defined by the analyst's coverage universe is expected to under-perform the KLCI benchmark over the next 12 months

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