Lotte Chemical Titan (IPO Note)

Oil & Gas Industry (NEUTRAL)

28 June 2017
Fair Value: RM7.39
IPO Price: RM8.00

A Titan at its peak

Highlights

- Lotte Chemical Titan (LCT) is an integrated producer of olefin and polyolefin (raw material for plastic product manufacturing), operating in Malaysia and Indonesia, using oil-based naphtha as its feedstock. In addition, it also produces other derivative products including butadiene, TBA, benzene and toluene.
- **Indonesia Integrated Petrochemical Facility.** Out of the total IPO proceeds worth RM5.8bn, RM4.9bn would be spent on an integrated facility in Merak, Indonesia. It would be built next to its existing Indonesian plants and the new facility would be able to feed all of the existing facilities with ethylene (feedstock for polyethylene). Out of the 1000KTA new ethylene capacity, 450 KTA would be feed into existing facility (cost savings) and remaining 560KTA would be sold to 3rd party. Earnings impact would only come in 2023.
- **TE3 and PP3 project.** TE3 project involves the extension on its current facilities in Malaysia and it would be completed in 2H17. PP3 (new propylene plant) will be completed in 2H18. Overall, the group's capacity would be improved by 15-20% approximately depending on market conditions. That aside, current idling OCU plant (which produces propylene) would be ramped up to produce feedstock for PP3 plant.
- **Product spread appears toppish.** Post 2017, global polyolefin capacity surplus over demand is expected to widen further due to US shale-based capacity expansion and methanol-based China capacity additions. Nexant has forecasted cash margin (product spread) for petrochemicals in Asia to narrow in 2018 (lower petrochemical production profitability). Our argument is further supported by significant expected capacity addition in ASEAN by 2020, with PCHEM adding 1.4m MT polyolefin capacity while SCG would add another 1.4m MT.

Risks

- Cyclicality of product spreads resulting in highly volatile margins.
- Cost overrun on incoming expansion plan.
- Spike in oil price.

Earnings

- We expect core net profit CAGR of -4.8% over the period of 2017-2019. This is premised on the assumptions of (i) gradually lower revenue/MT (ii) narrowing EBITDA margin from 25.6% to 19.1% caused of lower expectation of product spread due to global capacity expansion and (iii) 7% growth in product volume (3-year CAGR) after factoring in TE3 and PP3 capacity. US shale gas JV earnings are not factored in.

Valuation

- We believe that LCT should be fairly priced at **RM7.39** pegged to 12x FY18 PER. It is valued significantly lower than its Malaysian peer, **PCHEM (NOT RATED),** which is currently valued at 16x PER due to (i) smaller size compared to PCHEM (ii) higher volatility in product spread due to its naphtha-based feedstock (highly correlated to oil price) compared to PCHEM which uses ethane (gas-based feedstock) which is more stable and (iii) lower EBITDA margin.

Lim Sin Kiat
LimSK@hlib.hongleong.com.my
(603) 2176 2656

Share price

Indicative IPO Price	RM8.00

Details of IPO Offerings

Offer for Sales ('000 Shares)	**740,483**
- Bumiputra institutional	283,852
- Institutional investors	400,848
- Directors, Employees &busi. associates	6,417
- Public investors	49,366

IPO Timetable

16 June 2017	Issuance of Prospectus/ Opening date of IPO
28 June 2017	Closing date of retail offering
29 June 2017	Closing of institutional offering
3 July 2017	Date of balloting of applications
7 July 2017	Date for allotment of IPO shares
11 July 2017	Listing date

Post IPO Major Shareholders

Lotte Chemical Corporation	70.0%

Summary Earnings Table

FYE Dec (RM m)	FY16A	FY17E	FY18F	FY19F
Turnover	8,137	8,182	9,960	9,711
EBITDA	2,086	2,190	2,615	2,334
Pre-tax Profit	1,710	1,639	1,900	1,500
Rpt. net profit	1,315	1,310	1,519	1,200
Norm. net profit	1,391	1,310	1,519	1,200
Rpt. EPS (sen)	53.3	53.1	61.6	48.6
Norm. EPS (sen)	56.4	53.1	61.6	48.6
P/E (x)	14.2	15.1	13.0	16.5
Book Value (RM)	3.2	5.9	6.2	6.4
P/B (x)	2.5	1.4	1.3	1.2
Net Dvd Yield (%)	0.0	3.3	3.8	3.0
Net Gearing (%)	N.C.	N.C.	N.C.	N.C.
ROE (%)	17.50	9.02	9.94	7.55
ROA (%)	14.89	8.25	9.05	6.89

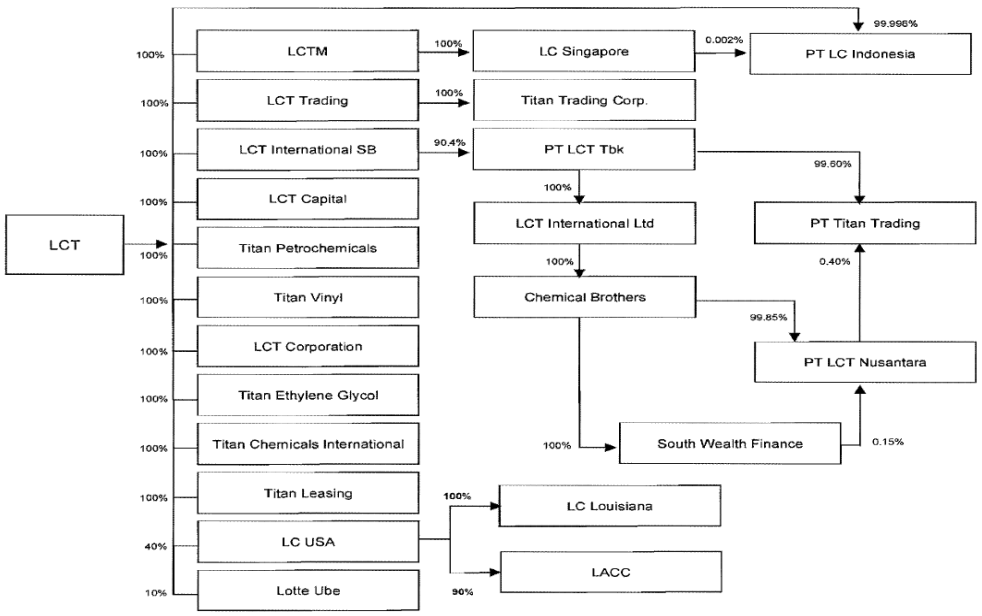
HLIB

Lotte Chemical Titan Business

Lotte Chemical Titan Holdings (LCT) is an integrated producer of olefin and polyolefin, predominantly using naphtha as feedstock (oil-based). It has 14 owned-facilities across Malaysia and Indonesia

LCT is an integrated olefin and polyolefin producer with 14 owned facilities.

Figure 1: LCT Group Structure



Source: LCT

Main products produced by LCT include polyolefin (polyethylene& polypropylene) and olefin (ethylene, propylene and other derivatives including butadiene, TBA, benzene and toluene). The olefin production is mainly to feed into LCT's own polyolefin production. Therefore, LCT's major revenue contribution is through the sales of polyolefin.

Product description:

Polyolefin

(i) Polyethylene

It is classified into 3 types:

(a) HDPE – for manufacturing of grocery, merchandise, trash bags, food containers, plastic cups &etc.

(b) LDPE – for manufacturing of food packaging films, ice bags, coatings on flexible packaging products& etc.

(c) LLDPE – for manufacturing of garbage and lawn-leaf bags, house wares, coffee can lids, outdoor gym sets, protective coating for telephone wires & etc.

Polyethylene is mainly applied in plastic products with different specifications

(ii) Polypropylene

- Used to manufacture fibre for carpets, rugs and upholstery, automotive battery cases & etc.

Polypropylene is used for automotive and fibres.

Olefin

(i) Ethylene–feedstock for polyethylene.

(ii) Propylene – feedstock for polypropylene.

Derivatives

(i) Butadiene –to produce synthetic rubber.

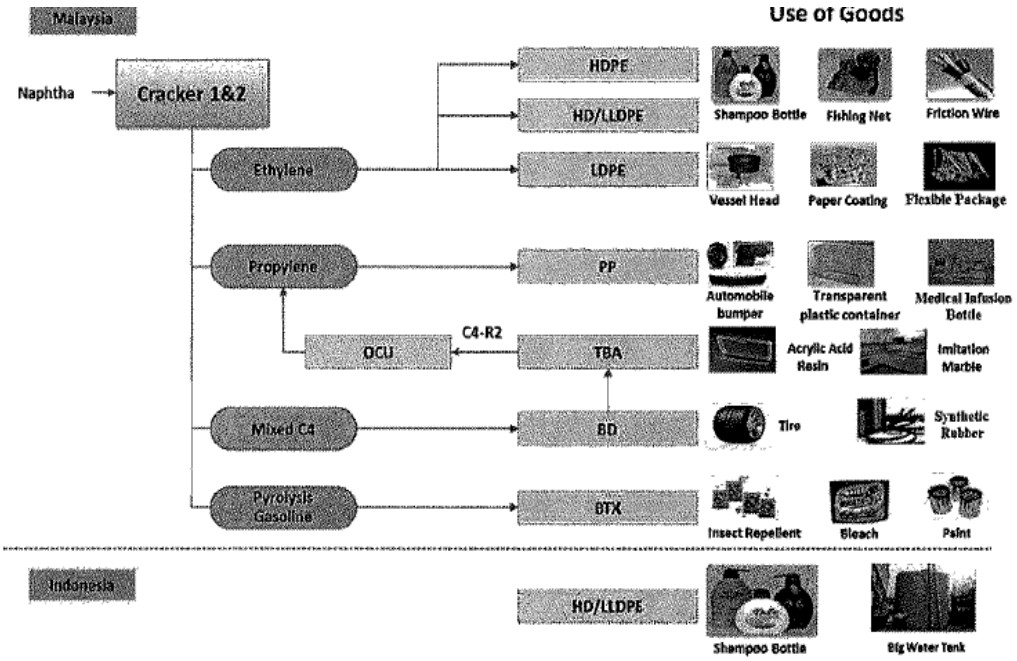
(ii) TBA – solvent for ethanol, paint remover ingredient and octane booster for gasoline.

(iii) Benzene – used in production of nylon, plastics, rubber and polystyrene.

(iv) Toulene – octane enhancer in gasoline, feedstock for Benzene.

Derivatives products are also produced by the group for different functions

Figure 2: Production process



Source: LCT

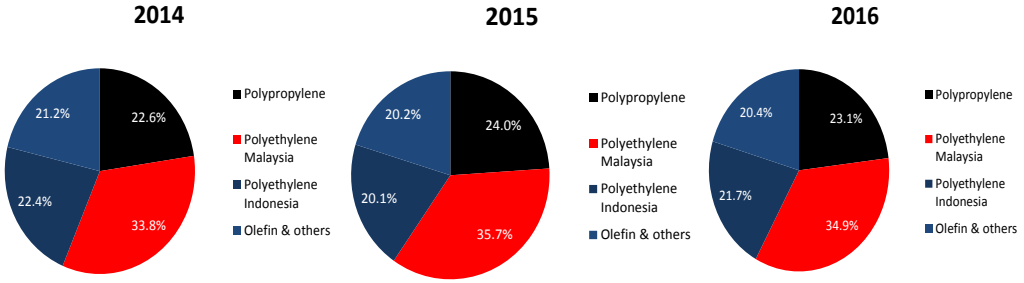
Naphtha is being feed into cracker plants to be processed into olefins and derivatives. Olefins are processed further to produce polyolefin.

LCT has an integrated value chain which involves input of naphtha into its crackers, of which olefin (ethylene, propylene) would be produced with by-product (which in turn would be channelled into plants to be converted into derivatives). The olefin produced, on the other hand, would be further processed in LCT's plants to be converted into polyolefin (end product for sale). This enables the group to enjoy better margins than players who only own plants to manufacture polyolefin (with olefin being its feedstock) across the value chains.

LCT possesses integration across olefin and polyolefin value chain.

Business drivers

Figure 3: Revenue mix



Source: LCT

LCT's revenue is mainly driven by polyethylene products with more than 50% revenue contributed by the product for period of 2014-2016. Within the polyethylene segment, Malaysia plants were the main driver at 33-35% of total group revenue while Indonesia was at 20-22%. On the other hand, polypropylene, olefin and others contributed circa 20-24% to the group's top line in similar time period.

Polyethylene is the group's largest revenue contributor.

Figure 4: Product spread analysis

Spreads (RM/MT)	2014	2015	2016
Polypropylene – naphtha (Malaysia)	2,408.0	2,884.0	2,990.0
Polyethylene - naphtha (Malaysia)	2,339.0	3,125.0	3,398.0
Polyethylene - ethylene (Indonesia)	1,053.0	927.0	918.0
Ethylene –naphtha (Malaysia)	1,298.0	2,327.0	2,574.0
Ethylene-naphtha/Polypropylene-naphtha (%)	53.9%	80.7%	86.1%
Ethylene-naphtha/Polyethylene Malaysia-naphtha (%)	55.5%	74.5%	75.8%

Source: LCT

Main driver of gross profits for the group is polyethylene sales from Malaysian plants as shown in the fast growing polyethylene Malaysia-naphtha spread in period of 2014-2016 due to lower naphtha cost and relatively stable polyethylene prices. On the other hand, Indonesian plants had significantly lower spreads as they were not integrated like the Malaysian plants. The Indonesian plants have to purchase ethylene feedstock from 3rd parties.

Polyethylene Malaysia-naphtha spread widening is the main driver of gross profits.

We note that polyethylene-ethylene spreads have been stable throughout 2014-2016 based on data shown by its Indonesian plants (ref Fig 4). This indicates that polyethylene prices closely track ethylene prices (feedstock).

However, ethylene-naphtha spread has more than doubled in the same period, due to severe drop in naphtha cost (in tandem with the slump in crude oil price). Therefore, we conclude that the improvement in the group's gross profits is mainly driven by drop in naphtha cost caused by weak oil prices.

Ethylene-naphtha spread widened significantly due to plunge to crude oil prices.

Expansion plans post IPO

Integrated Petrochemical facility

LCT plans into invest RM15.5bn (partially funded by RM4.9bn from IPO proceeds) in an integrated petrochemical facility in Merak, Indonesia, on a new piece of land located just next to its existing polyolefin facility in Merak (current capacity of 450KTA). Once completed, the integrated facility is expected to be able to supply 1000 KTA ethylene to fully meet the requirements of its existing and also new polyolefin plants in Indonesia.

RM4.9bn from IPO proceeds would be utilised to fund Indonesia Integrated Petrochemical project.

Upon completion, its existing 450KTA plants in Indonesia would be able to source all of its ethylene feedstock from the new facility instead of from 3rd party suppliers, which in turn would further improve its margins in Indonesia. The remaining 550KTA ethylene to be produced from the new facility could be further sold off to the market, therefore potentially doubling the group's once the facility commence operations before new polyethylene facilities are being set up within the existing site.

The project would make feedstock for its current plants significantly cheaper.

We do not anticipate major impact from this project in the next 4 years as the project is currently still under feasibility studies while the expected commercial commencement is in 2023. If executed according to stipulated plan, the facility is expected to contribute significantly to the group's earnings post 2023 but it would still be subject to long term trend in product spreads, which are cyclical in nature (much dependant of oil price movement).

No impact in the near term with commencement scheduled in 2023

TE3 project

The project in Malaysia (would be attached to existing NC2 plant in Pasir Gudang, Johor) has already commenced since 2015 with RM1.2bn already funded by the group itself. The remaining CAPEX of RM108.2m would be funded from the IPO proceeds. The project would be completed in 2H17 and it would increase the group's ethylene/propylene/derivative capacity by 93/170/134 KTA. The expansion would allow the group to restart its currently idle OCU plant (capable of producing propylene) with additional selling volume dependent on market prices of propylene.

TE3 would allow more ethylene and derivatives to be produced in house, allowing for cost savings in polyolefin production.

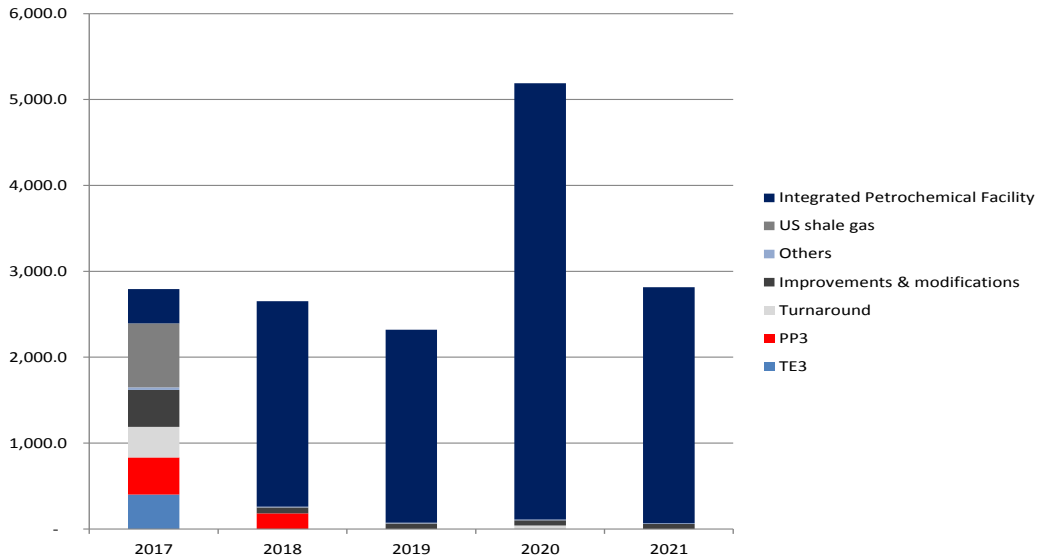
PP3 project

This project has commenced since March 2017 which involved construction of a new polypropylene with an estimated cost of RM603.5m (to be funded entirely by IPO proceeds). This project would complement TE3 project, of which its feedstock (propylene) would be sourced from the idle OCU plant. This would increase the group's polypropylene capacity by 200KTA with commencement scheduled to be in 2H18.

PP3 would increase volume of propylene sold and utilised extra capacity from TE3.

CAPEX schedule

Figure 5: Projected CAPEX (RMm)



Source: LCT

CAPEX for the next 5 years (2017-2021) are expected to be RM16bn. Bulk of the CAPEX would consist of integrated petrochemical facility in Indonesia (RM15.1bn in total), of which 67% of the CAPEX would be funded through borrowings. The group has net cash position of RM965.1m with net incoming IPO proceeds of RM5.8bn. Therefore, we believe the group is able to fund its CAPEX in the next 5 years without requiring further equity cash call.

CAPEX would be funded by IPO proceeds and borrowings, no equity cash call expected.

Investment in US shale gas JV

Cumulatively, the group has already injected RM2.2bn into LC USA, which is co-owned by LCT (40%) and Lotte Chemical Corporation (60%). The CAPEX for the whole project is budgeted at RM11.9bn whereby RM5bn is equity financed while the remaining RM6.9bn is financed by syndicated loan facility. No further CAPEX commitments are required by the group for the JV, therefore allaying our concerns of further cash requirements from the project.

RM2.2bn was invested into LC USA for 40% stake, no further CAPEX commitment required.

Scheduled to begin in 1H19, the project involves a US MEG plant (700KTA MEG production) and US ethane cracker plant (1000KTA ethylene) located in Louisiana, US. LCT's entitled chemical production would be at 280KTA MEG and 360KTA ethylene.

1 MEG plant for final product sales and 1 ethane cracker plant for feedstock of MEG plant.

To note, the US ethane cracker plant is only 90% owned by LC USA JV, whereby the remaining 10% is owned by Axiall Corporation through Eagle US 2 LLC. An option is also given to Axiall Corporation to increase its stake in the cracker to 50% within 3 years from mechanical completion (scheduled to be in 2H18).

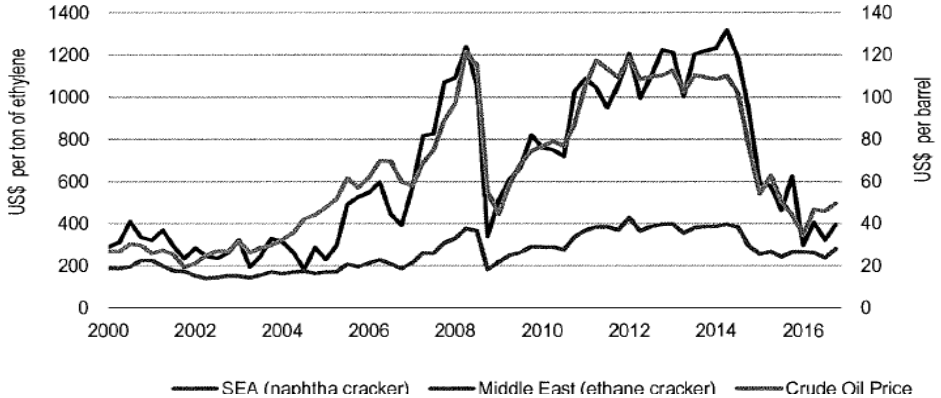
US ethane cracker plant is 90% owed by LC USA, while Axiall has 10%, with option to increase its stake to 50%.

Why US?

While the project is not expected to provide any synergies to its current business, it would provide the group with long term income flow with higher stability in margins compared to its existing business. To note, the US ethane cracker plant produces ethylene using ethane (gas-based) as feedstock instead of naphtha (oil-based). The advantage of ethane-based plants (as compared to naphtha-based plants) are higher cash margin and significantly more stable feedstock costs.

US ethane cracker uses gas-based feedstock, resulting in lower cost and more stable raw material prices.

Figure 6: Comparison between ethane based cracker and naphtha-based cracker



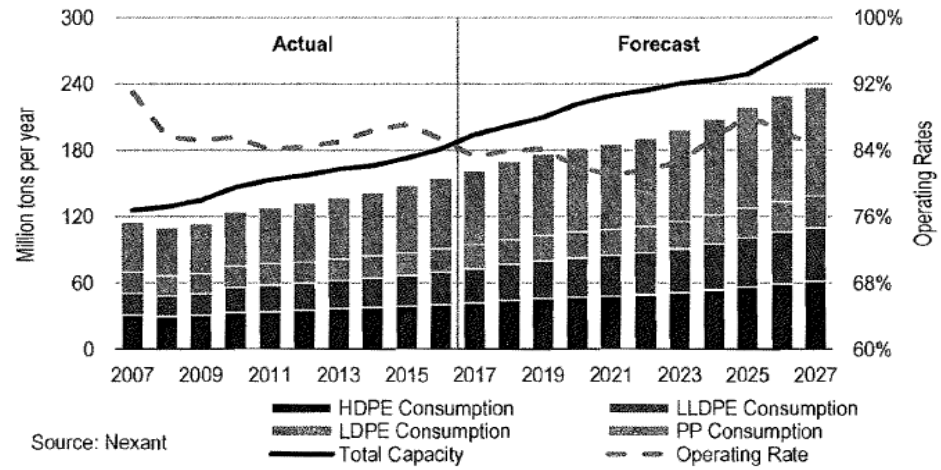
Source: LCT, Nexant

As seen from the chart above, naphtha cracker's cost has risen in tandem with rising crude oil prices during period of 2008-2013 but ethane cracker's cost has risen in a much smaller quantum. This has resulted in widening of cost advantage for ethane crackers compared to naphtha crackers. In recent years (2014-2016), the cost advantage has narrowed significantly due to plunge in oil prices. Therefore, we believe its US JV would enjoy more stable cost margins in the longer run and would be better resilient when facing a change in trend of oil prices.

Cost advantage of ethane as feedstock is evident with prices less volatile and lower than naphtha in the past.

Industry outlook

Figure 7: Polyolefin supply and demand



Source: LCT, Nexant

According to Nexant, global polyolefin capacity surplus over consumption is expected to widen post 2017 due to capacity expansion in the US (due to cost competitiveness of shale gas feedstock) and China (mainly additions of methanol-based cracker). As a result, global operating rate of chemical production facility is expected to remain flattish in 2017-2018 before tapering off in 2019.

Global polyolefin expected to see its capacity surplus widen due to capacity expansion in China and US.

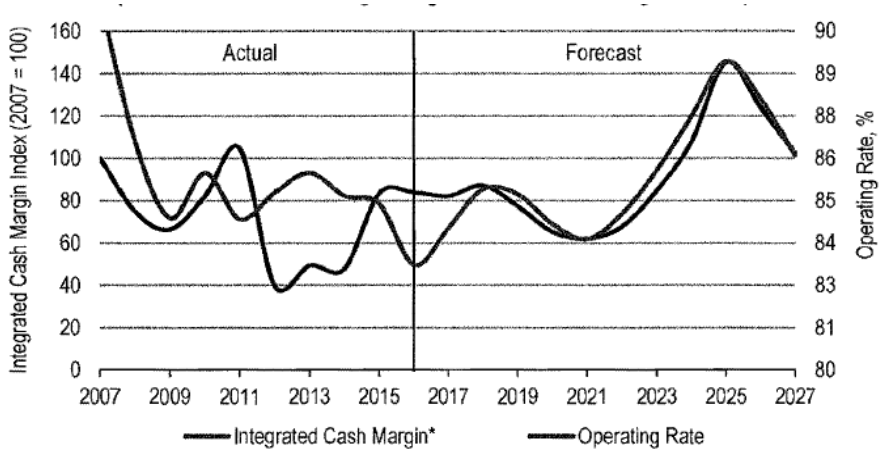
Figure 8: Global petrochemical demand and supply

Consumption (KTA)	2016	2017F	2018F	2019F
Americas	21,577.0	22,170.0	23,017.0	23,725.0
Europe	17,237.0	17,643.0	18,057.0	18,373.0
Middle East/Africa	9,459.0	9,932.0	10,685.0	11,110.0
China	25,848.0	26,364.0	27,860.0	29,406.0
SEA	5,708.0	6,032.0	6,355.0	6,629.0
Malaysia	1,205.0	1,261.0	1,320.0	1,373.0
Indonesia	1,317.0	1,405.0	1,490.0	1,565.0
Asia Pacific (exc. Sea and China)	11,915.0	12,254.0	13,169.0	13,741.0
Total	94,266.0	97,061.0	101,953.0	105,922.0
Total capacity (KTA)				
Americas	25,007.0	27,095.0	30,482.0	31,488.0
Europe	18,601.0	18,705.0	18,894.0	20,473.0
Middle East/Africa	21,986.0	22,961.0	23,411.0	25,433.0
China	16,609.0	19,237.0	20,457.0	21,139.0
SEA	9,526.0	9,927.0	9,927.0	9,927.0
Malaysia	1,056.0	1,055.0	1,055.0	1,055.0
Indonesia	833.0	830.0	830.0	830.0
Asia Pacific (exc. Sea and China)	14,004.0	15,966.0	16,120.0	15,670.0
Total	107,622.0	115,776.0	121,176.0	126,015.0
Surplus	**13,356.0**	**18,715.0**	**19,223.0**	**20,093.0**

Source: LCT, Nexant

The product spread would be out under pressure as capacity surplus over consumption in the global market is expected to increase significantly over the period of 2016-2019, being driven by China capacity expansion. LCT would be partially sheltered from the global overcapacity due to the ASEAN Free Trade agreement which would reduce incentives for additional supply from countries outside the region to penetrate into ASEAN (subject to 10% tariff).

Figure 9: Asian Petrochemical Industry Profitability

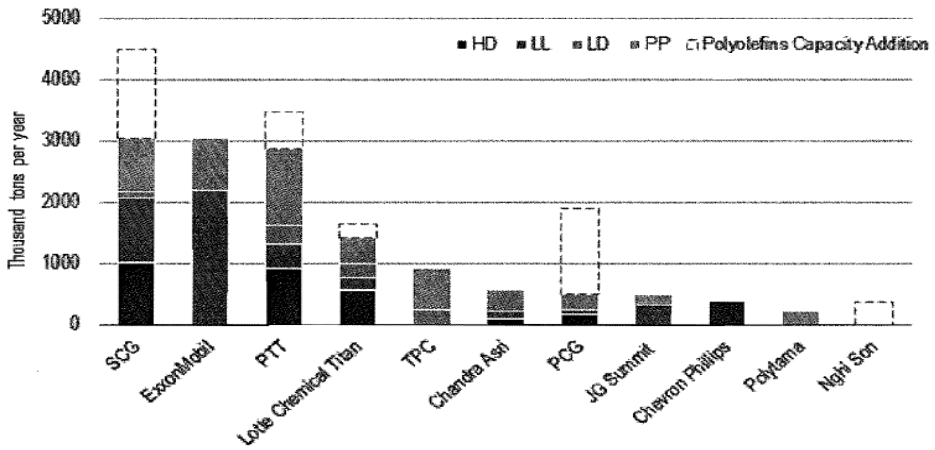


Source: LCT, Nexant

In line with the expected operating rate of worldwide chemical production facilities, integrated cash margin (product spread) for the industry is expected to start trend down from 2018 onwards before recovering in 2021. This is in tandem with the expected shift in demand-supply gap as exhibited in Fig 8.

Cash margin of Asian petrochemical facility expected to be on downtrend in next 5 years.

Figure 10: ASEAN Petrochemical Industry Capacity addition



Source: LCT, Nexant

In ASEAN region, long-term capacity expansion is expected to be driven by major projects by several major downstream players. SCG (Vietnam) plans to add 1.4m MT of polyolefin post 2020. Back in Malaysia, PCHEM plans to add circa 1.4m MT of polyolefin capacity, transforming Malaysia from a net importer of polyolefin to a net exporter by 2019. PetroVietnam's Nghi Son refinery would add around 0.4m MT of polypropylene in 2018. Therefore, we believe this would put downward pressure on petrochemical product spreads due to oversupply of products and therefore bringing down overall petrochemical industry margins.

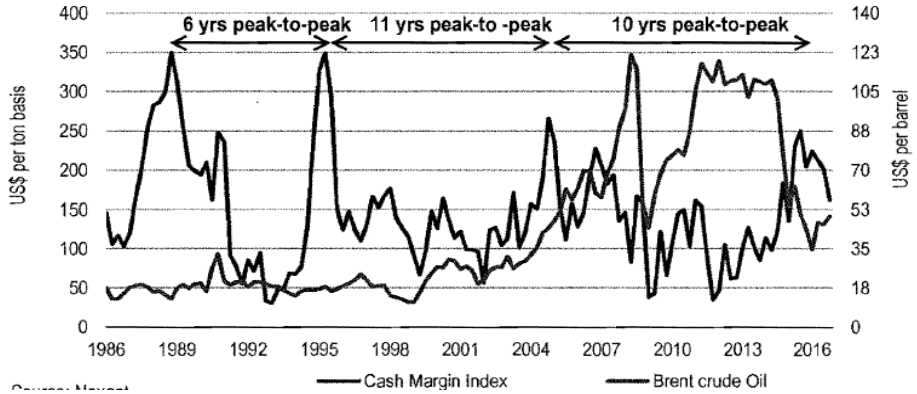
In the longer run, ASEAN region would also experience significant addition in petrochemical facility.

Risks – 1) Cyclicality of petrochemical industry

Petrochemical industry is cyclical in nature and capital intensive. Operating margins would be significantly high when chemical supply is tight and this would lead to capacity expansion (possessing 2-3 years lead time). Consequently, capacity would rise faster than demand growth for chemicals and thus leading to plunge in operating margins.

Petrochemical industry is cyclical in nature with product spread being volatile.

Figure 11: Petrochemical industry cyclicality



Source: LCT, Nexant

As seen from the chart above, cash margin index of petrochemical players have fluctuated in a very volatile manner due to volatility in oil prices and boom-bust cycles caused by capacity expansion.

Risks – 2) Limitations or disruptions in supply of feedstock

While Malaysian plants are sufficiently covered for its feedstock, LCT's Indonesian plants have to source significant amount of ethylene feedstock for production of its polyolefin. Limitation of ethylene supply and high prices would result in lower selling volume for its Indonesian operations, leading to plants not operating optimally. However, this problem would be alleviated if the group proceed with its Integrated Petrochemical Facility in Indonesia.

Limitations or disruptions in feedstock supply would affect plants' uptime significantly.

Risks - 3) Fluctuations of oil price

Naphtha prices are highly correlated to Brent prices as crude oil is the feedstock needed to be processed into naphtha. Sudden surge in oil prices would bring about a spike in naphtha pricing, which in turn increases feedstock costs for LCT significantly. This would erode LCT's margins of product prices as it could not match the increase in feedstock cost (highly possible in volatile environments as product prices upside could be limited by limitations on growth of demand).

Oil price surge would increase naphtha cost significantly, which could erode margins.

Forecast and Valuations

For the time period of 2017-2019, we forecast a 3-year CAGR of -4.8% in its core net profit based on assumptions below:

- Weakening revenue/MT on expectation of capacity built globally and regionally.
- Narrowing EBITDA margin from 25.6% in 2016 to 19.1% due to expectation of narrowing product spread over the years due to capacity build up from 2018.
- 3-years CAGR of 7% in volume of end product sold after accounting for capacity expansion (TE3 and PP3).

Lower tax rate of 20% for the forecast horizon compared to 23% in 2016 due to Principal Hub Incentive which entitles the group for tax incentives given by the Malaysian government. The income from the hub would be tax free for the period of 2017-2021.

Earnings would taper off in 3 years when refining margins decline. This is being partially offset by lower tax rates due to extra tax incentives.

Figure #12 Peer Comparisons

Company	Mkt Cap	Rec	PER			PBV		
			CY17E	CY18F	CY19F	CY17E	CY18F	CY19F
Lotte Chemical Corp (KRW)	43,923	NR	5.4	5.6	5.4	1.0	0.9	0.8
Petronas Chemical (MYR)	57,200	NR	16.2	15.9	14.8	2.0	1.8	1.7
Formosa Chemicals & Fibre Corp TWD)	76,247	NR	12.6	13.4	13.1	1.6	1.6	1.5
PTT Global Chemical (THB)	24,124	NR	9.8	9.4	9.1	1.2	1.1	1.0
Lotte Chemical Titan (MYR)	19,746	NR	13.8	11.6	10.7	1.4	1.3	1.2
Average			**11.0**	**11.1**	**10.6**	**1.4**	**1.3**	**1.3**

Bloomberg

We believe the fair value for LCT would be **RM7.39** by pegging to 12x FY18 PER, which is at a discount to 13-16x PER of its significantly larger peers (PCHEM & Formosa Chemicals). LCT, in our opinion, should not trade at PCHEM'S valuation (15.9x FY18 PER) due to several reasons:

(i) PCHEM is 2x larger than LCT;
(ii) PCHEM possesses cost advantage over LCT as it uses ethane feedstock, which results in a lower and more stable feedstock cost structure, as compared to naphtha feedstock; and
(iii) PCHEM's higher EBITDA margin at 38.7% vs. LCT's EBITDA margin of 25.6% in FY16.
(iv) We have not included any contribution from US shale gas JV due to its different structure and product pricing

Furthermore, we believe petrochemical product margins for LCT appear to have peaked and the risk of margins reverting to lower levels is high at this level given the expectation of capacity expansion in regional and global market. The expected dividend yield of the stock is 3.0% for FY17.

Financial Projections

Income Statement

FYE 31 Dec (RMm)	2015A	2016A	2017E	2018F	2019F
Revenue	**8,148**	**8,137**	**8,182**	**9,960**	**9,711**
Operating cost	-6,692	-6,051	-5,993	-7,346	-7,376
EBITDA	**1,456**	**2,086**	**2,190**	**2,615**	**2,334**
Depreciation	-387	-369	-559	-723	-843
EBIT	**1,074**	**1,723**	**1,636**	**1,897**	**1,498**
Net Interest	-19	-7	8	8	8
Associates	-5	-5	-5	-5	-5
Exceptionals	68	76	0	0	0
Pretax profit	**1,050**	**1,710**	**1,639**	**1,900**	**1,500**
Taxation	-436	-394	-328	-380	-300
Minorities	1	1	1	1	1
Discontinued	0	0	0	0	0
Reported PATMI	**613**	**1,315**	**1,310**	**1,519**	**1,200**
Core PATMI	**681**	**1,391**	**1,310**	**1,519**	**1,200**
Basic shares (m)	2,468	2,468	2,468	2,468	2,468
Reported EPS (sen)	24.8	53.3	53.1	61.6	48.6
Core EPS (sen)	**27.6**	**56.4**	**53.1**	**61.6**	**48.6**

Cashflow

FYE 31 Dec (RMm)	2015A	2016A	2017E	2018F	2019F
EBITDA	1,456	2,086	2,190	2,615	2,334
Net Interest	-19	-7	8	8	8
W.Cap changes	314	-215	-20	-386	23
Taxation	-436	-394	-328	-380	-300
Others	489	499	0	0	0
Opexcashflow	**1,804**	**1,969**	**1,851**	**1,857**	**2,065**
Capex & acquisitions	-158	-1,001	-2,762	-2,651	-2,247
Free cashflow	**1,646**	**968**	**-911**	**-794**	**-182**
Other invcashflow	16	-1,381	0	0	0
Net borrowings	-361	-68	-75	0	0
Share issuance	0	0	5,942	0	0
Dividends paid	-101	0	-655	-760	-600
Other fin cashflow	-6	-2	0	0	0
Net cashflow	**1,193**	**-483**	**4,300**	**-1,553**	**-781**
Forex Translation	134	13	0	0	0
Beginning Cash	176	184	1,511	1,040	5,341
Ending Cash	1,511	1,040	5,341	3,787	3,006

Balance Sheet

FYE 31 Dec (RMm)	2015A	2016A	2017E	2018F	2019F
Fixed assets	3,569	4,379	6,581	8,509	9,913
Other assets	188	1,631	1,631	1,631	1,631
Working capital	**1,436**	**1,700**	**1,720**	**2,106**	**2,084**
Receivables	854	1,143	1,150	1,400	1,365
Payables	-606	-590	-604	-749	-762
Inventory	1,187	1,147	1,175	1,455	1,481
Net cash	**1,583**	**1,040**	**5,340**	**3,788**	**3,007**
Cash	1,511	1,040	5,340	3,788	3,007
LT debt	72	0	0	0	0
Shareholders' funds	**6,222**	**7,947**	**14,526**	**15,286**	**15,886**
Share capital	1,728	1,728	7,971	7,971	7,971
Reserves	4,494	6,220	6,556	7,315	7,915
Minorities	11	22	40	42	44
Other liabilities	355	706	706	706	706

Valuation Ratios

FYE 31 Dec	2015A	2016A	2017E	2018F	2019F
Reported EPS (sen)	24.8	53.3	53.1	61.6	48.6
Core EPS (sen)	27.6	56.4	53.1	61.6	48.6
PER (x)	**32.2**	**15.0**	**15.1**	**13.0**	**16.5**
FD PER (x)	**29.0**	**14.2**	**15.1**	**13.0**	**16.5**
Net DPS (sen)	0.0	0.0	26.5	30.8	24.3
Net DY (%)	0.0	0.0	3.3	3.8	3.0
BV/ share (RM)	2.5	3.2	5.9	6.2	6.4
P/BPS (x)	**3.2**	**2.5**	**1.4**	**1.3**	**1.2**
FCF/ share (sen)	66.7	39.2	-36.9	-32.2	-7.4
Market Cap (RMm)	**19,746**	**19,746**	**19,746**	**19,746**	**19,746**
Net cash	1,583	1,040	5,340	3,788	3,007
Enterprise value	18,163	18,706	14,406	15,958	16,739
EV/ EBITDA (x)	12.5	9.0	6.6	6.1	7.2
ROE (%)	**10.9**	**17.5**	**9.0**	**9.9**	**7.6**

Assumption Metrics

FYE 31 Dec	2015A	2016A	2017E	2018F	2019F
Revenue drivers					
Revenue/MT	4,105	4,082	4,300	4,200	4,000
Volume (KTA)	1,985	1,993	1,903	2,371	2,428
Cost drivers					
Feedstock (RMm)	-5,408	-4,805	-4,758	-5,885	-5,935
Other cost (RMm)	-2,805	-2,858	-3,062	-3,770	-3,813
Naphtha cost/MT	1,917	1,651	1,700	1,700	1,700

Other Ratios

FYE 31 Dec	2015A	2016A	2017E	2018F	2019F
Growth (%)					
Sales Growth		-0.1	0.6	21.7	-2.5
EBITDA Growth		43.3	5.0	19.4	-10.7
EBIT Growth		60.4	-5.0	16.0	-21.1
PBT Growth		62.8	-4.2	15.9	-21.0
Core PATMI Growth		104.3	-5.8	15.9	-21.0
Margins (%)					
EBITDA Margin	17.9	25.6	26.8	26.3	24.0
EBIT Margin	13.2	21.2	20.0	19.1	15.4
PBT Margin	7.5	16.2	16.0	15.3	12.4
Core PATMI Margin	8.4	17.1	16.0	15.3	12.4
Net Debt/Equity (%)	**N.C**	**N.C**	**NC**	**NC**	**NC**
ROA (%)	**9.3**	**14.9**	**8.3**	**9.1**	**6.9**

Disclaimer

The information contained in this report is based on data obtained from sources believed to be reliable. However, the data and/or sources have not been independently verified and as such, no representation, express or implied, is made as to the accuracy, adequacy, completeness or reliability of the info or opinions in the report.

Accordingly, neither Hong Leong Investment Bank Berhad nor any of its related companies and associates nor person connected to it accept any liability whatsoever for any direct, indirect or consequential losses (including loss of profits) or damages that may arise from the use or reliance on the info or opinions in this publication.

Any information, opinions or recommendations contained herein are subject to change at any time without prior notice. Hong Leong Investment Bank Berhad has no obligation to update its opinion or the information in this report.

Investors are advised to make their own independent evaluation of the info contained in this report and seek independent financial, legal or other advice regarding the appropriateness of investing in any securities or the investment strategies discussed or recommended in this report. Nothing in this report constitutes investment, legal, accounting or tax advice or a representation that any investment or strategy is suitable or appropriate to your individual circumstances or otherwise represent a personal recommendation to you.

Under no circumstances should this report be considered as an offer to sell or a solicitation of any offer to buy any securities referred to herein.

Hong Leong Investment Bank Berhad and its related companies, their associates, directors, connected parties and/or employees may, from time to time, own, have positions or be materially interested in any securities mentioned herein or any securities related thereto, and may further act as market maker or have assumed underwriting commitment or deal with such securities and provide advisory, investment or other services for or do business with any companies or entities mentioned in this report. In reviewing the report, investors should be aware that any or all of the foregoing among other things, may give rise to real or potential conflict of interests.

This research report is being supplied to you on a strictly confidential basis solely for your information and is made strictly on the basis that it will remain confidential. All materials presented in this report, unless specifically indicated otherwise, is under copyright to Hong Leong Investment Bank Berhad. This research report and its contents may not be reproduced, stored in a retrieval system, redistributed, transmitted or passed on, directly or indirectly, to any person or published in whole or in part, or altered in any way, for any purpose.

This report may provide the addresses of, or contain hyperlinks to, websites. Hong Leong Investment Bank Berhad takes no responsibility for the content contained therein. Such addresses or hyperlinks (including addresses or hyperlinks to Hong Leong Investment Bank Berhad own website material) are provided solely for your convenience. The information and the content of the linked site do not in any way form part of this report. Accessing such website or following such link through the report or Hong Leong Investment Bank Berhad website shall be at your own risk.

1. As of28 June 2017, Hong Leong Investment Bank Berhad has proprietary interest in the following securities covered in this report:
(a) -.

2. As of 28 June 2017, the analyst, Lim Sin Kiat, who prepared this report, has interest in the following securities covered in this report:
(a) -.

Published & Printed by
Hong Leong Investment Bank Berhad(10209-W)
Level 23, Menara HLA
No. 3, Jalan Kia Peng
50450 Kuala Lumpur
Tel 603 2168 1168 / 603 2710 1168
Fax 603 2161 3880

Equity rating definitions

BUY	Positive recommendation of stock under coverage. Expected absolute return of more than +10% over 12-months, with low risk of sustained downside.
TRADING BUY	Positive recommendation of stock not under coverage. Expected absolute return of more than +10% over 6-months. Situational or arbitrage trading opportunity.
HOLD	Neutral recommendation of stock under coverage. Expected absolute return between -10% and +10% over 12-months, with low risk of sustained downside.
TRADING SELL	Negative recommendation of stock not under coverage. Expected absolute return of less than -10% over 6-months. Situational or arbitrage trading opportunity.
SELL	Negative recommendation of stock under coverage. High risk of negative absolute return of more than -10% over 12-months.
NOT RATED	No research coverage and report is intended purely for informational purposes.

Industry rating definitions

OVERWEIGHT	The sector, based on weighted market capitalization, is expected to have absolute return of more than +5% over 12-months.
NEUTRAL	The sector, based on weighted market capitalization, is expected to have absolute return between –5% and +5% over 12-months.
UNDERWEIGHT	The sector, based on weighted market capitalization, is expected to have absolute return of less than –5% over 12-months.