

# Equity Research

## Company Update

### Chandra Asri Petrochemical Tbk

Positive on a quarterly basis; higher Brent price affects yearly growth; maintain HOLD

Revenue growth of 12% q-q on the back of higher polyolefin and styrene monomer sales; modest net profit growth of 7% q-q as a result of rising Brent oil price (9% q-q) CAP recorded revenue of USD 695Mn (12% q-q) in 1Q18, on the back of higher polyolefin (35% q-q) and styrene monomer (10% q-q) sales. Note that butadiene revenue dropped by 25% q-q due the plant shut down as the company upgraded its production capacity by 37%. Despite Brent oil rising by 9% q-q, gross profit grew by 18% q-q, which resulted in a margin of 17% (vs. 16% in 4Q17). As such, CAP booked a moderate growth of 7% q-q in net profit to USD 73Mn. Additionally, COGS grew by 11% q-q, with raw materials rising by a mere 2% q-q, as the average price of naphtha increased by 6% q-q from USD 570/MT in 4Q17 to USD 603/MT in 1Q18.

**Besides top-line gain of 10%, negative growth in 1Q18 on a yearly basis as Brent oil price spiked 23% compared to 1Q17**

Besides revenue growth of 10% y-y, gross profit, EBIT and net income experienced negative double-digit growth mainly due to higher Brent oil price. The price of Brent surged from an average of USD 54/bbl in 1Q17 to USD 67/bbl in 1Q18, which is a 23% increase. Margins were suppressed on a yearly basis, as margins dropped by 6-8%. This was mainly due to a 21% increase in COGS, with the raw material component rising by 11%.

**Butadiene expansion completed; next expansion expected to start up by 2H19**

As mentioned, the expansion of the butadiene plant (from 100KTA to 137 KTA) is officially completed, after the company shut down the plant for maintenance and to upgrade. With the plant running at a utilization rate of 105% in 2017, we expect that by next year, it can achieve 85% utilization rate. As such, we expect butadiene revenue to reach USD 295Mn (61% y-y). Aside from the JV with Michelin to produce synthetic rubber (commencing 3Q18), the next expansions in the pipeline are the polypropylene debottlenecking and the new polyethylene plant, which are expected to commence by 3Q19 and 4Q19, respectively.

**In-line with our forecasts; maintain HOLD**

That said, as the dominant market leader in Indonesia and the ability to charge a premium for its products, we maintain our HOLD call on CAP, with a TP of IDR 5,720/share, implying a 2018F/2019F P/E ratio of 21.9x/21.1x and an EV/EBITDA multiple of 13.0x/12.3x.

Upside risks include: higher ASPs, lower naphtha price, and greater sales volume.

Downside risks include: bullish naphtha price, delays in capex, and oversupply of petrochemicals in the market.

#### FINANCIAL HIGHLIGHTS

(USD millions)	2015	2016	2017	2018F	2019F
Sales Revenue	1,378	1,930	2,419	2,625	2,687
EBITDA	143	499	544	572	604
Net Profit	26	300	319	343	355
EPS (USD)	0.0015	0.0168	0.0179	0.0193	0.0199
EPS Growth (%)	44.4%	1039.1%	6.2%	7.7%	3.4%
PER (x)	30.9	16.7	23.7	20.3	19.7
PBV (x)	0.9	4.4	4.7	0.7	0.7
EV/EBITDA (x)	8.9	10.3	14.1	11.5	10.9
Net-DER (%)	50.8%	11.1%	-12.7%	-3.8%	6.1%
ROE (%)	3.0%	29.6%	22.7%	19.4%	17.9%

Source: CAP, Sucor Sekuritas (Share price as of June 27th 2018)

Sucor Sekuritas

**HOLD**

Current Price IDR 5,325  
Price Target IDR 5,720  
Upside/Downside +7%

28 June 2018

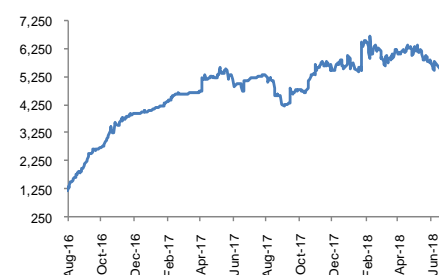
## INDONESIA

## ENERGY- CHEMICALS

#### Stock Data

Bloomberg Ticker	TPIA IJ Equity
Outs. Share (Mn)	17,833.5
Mkt Cap (IDR Bn)	94,963.5
52Week Range (IDR)	4,140-6675
6M Avg. Val (IDR Bn)	30.5
YTD Returns (%)	-11.3
Beta (x)	0.8
Free Float (%)	8.9

#### Share Price Performance (IDR/Share)



#### Share Performance (%)

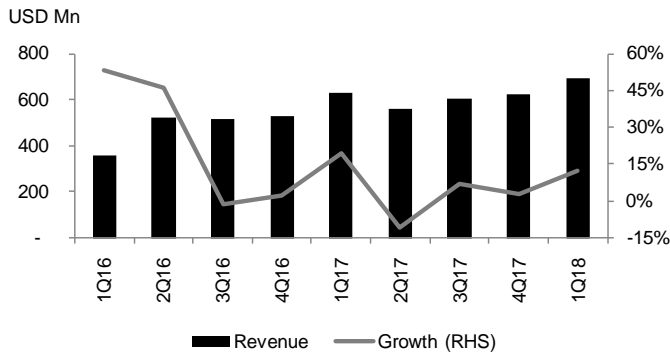
Month	Absolute	Relative
3M	-8.4	-8.2
6M	1.5	2.7
12M	10.8	4.8

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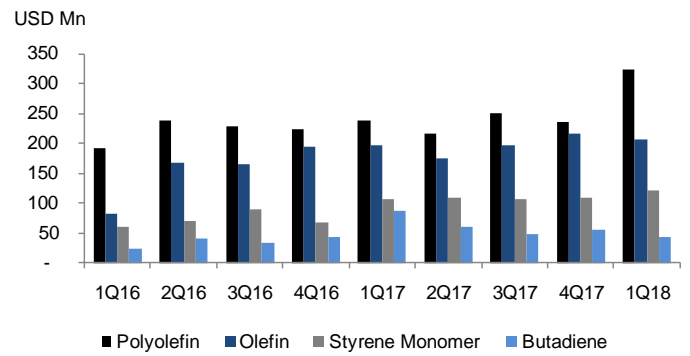
# 1Q18 Results Update

**Fig 1 Revenue growth of 12% q-q**



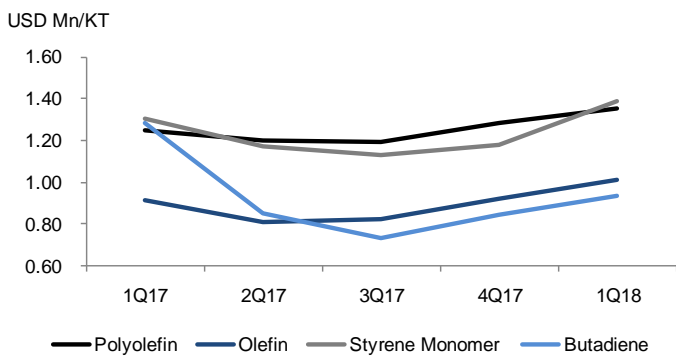
Source: CAP, Sucor Research

**Fig 2 Revenue per segment – growth led by polyolefin (35% q-q) and styrene monomer (10% q-q)**



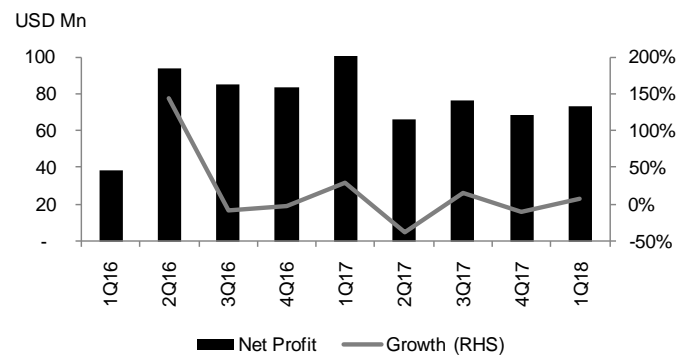
Source: CAP, Sucor Research

**Fig 3 Quarterly ASP per segment – positive trend**



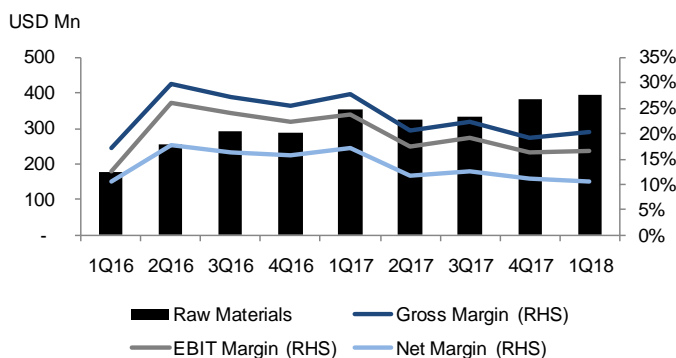
Source: CAP, Sucor Research

**Fig 4 Net profit growth of 7% q-q but -32% y-y**



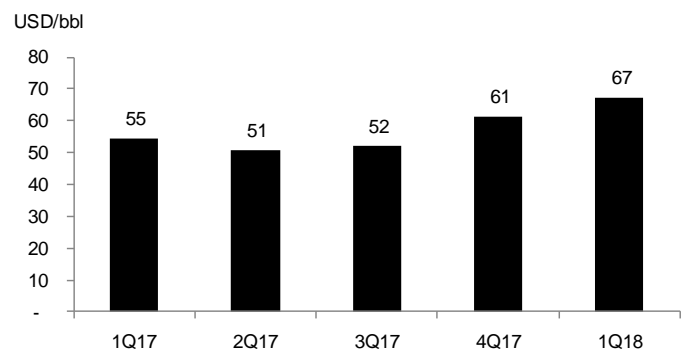
Source: CAP, Sucor Research

**Fig 5 Raw material costs vs. margins**



Source: CAP, Sucor Research

**Fig 6 Brent oil price gained 9% q-q or 23% y-y in 1Q18**



Source: CAP, Sucor Research

**Fig 7 Project timeline update**

Plant	Stage	Expected Startup Date	Project Cost (USD Mn)	Capacity Increase (KTA)	Funding Structure
<b>Butadiene Expansion</b>	<b>Completed</b>	<b>2Q18</b>	<b>42</b>	<b>37</b>	<b>100% Internal Cash</b>
Synthetic Rubber Plant	Committed	3Q18	570	120	Debt + Equity
Polypropylene Debottlenecking	Committed	3Q19	39.5	110	100% Internal Cash
New Polyethylene Plant	Committed	4Q19	356	400	Debt + Equity
Naphtha Cracker Furnace Revamp	Committed	1Q20	48	48 (Ethylene) + 20 (Propylene)	100% Internal Cash
MTBE and Butene-1		3Q20	114	130 (MTBE) + 43 (Butene-1)	100% Internal Cash
<b>Total</b>			<b>599.5</b>	<b>780</b>	
Second Petrochemical Complex	Feasibility	Post 1Q20	4,000-5,000	1,000	TBD

Source: CAP, Sucor Research

**Fig 8 Overall in-line with our forecasts**

	1Q17	4Q17	1Q18	% q-q	% y-y	Sucor 18F	% to Sucor 18F
Revenue	633	621	695	12%	10%	2,625	26%
Gross Profit	176	119	141	18%	-20%	567	25%
EBIT	150	101	115	14%	-23%	473	24%
Pre-Tax Profit	143	91	101	11%	-29%	458	22%
Net Profit	108	68	73	7%	-32%	343	21%
Gross Margin	28%	19%	20%			22%	
EBIT Margin	24%	16%	17%			18%	
Pre-Tax Margin	23%	15%	15%			17%	
Net Margin	17%	11%	11%			13%	

Source: CAP, Sucor Research; Note: Values in USD Mn

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**Fig 9 CAP peer valuation**

Company	Market Cap (USD Mn)	2017 P/E	2018F P/E	2019F P/E	2017 EV/EBITDA	2018F EV/EBITDA	2019F EV/EBITDA	2017 ROE (%)	2018F ROE (%)	2019F ROE (%)
<b>Chandra Asri Petrochemical</b>	<b>6,726</b>	<b>23.7</b>	<b>20.5</b>	<b>19.8</b>	<b>14.1</b>	<b>11.5</b>	<b>10.9</b>	<b>22.7</b>	<b>19.4</b>	<b>17.9</b>
DowDuPont Inc	153,891	20.4	15.9	13.5	25.4	8.5	8.6	17.0	9.5	10.6
Formosa Chemicals & Fibre	22,692	14.4	13.3	13.5	10.8	12.2	12.2	12.8	13.3	12.9
Formosa Plastics Corp	22,975	15.1	13.9	13.6	18.9	19.4	19.2	13.4	14.2	13.9
Hansol Chemical Co Ltd	789	14.8	11.8	9.9	9.2	8.4	7.3	19.6	20.8	20.9
Hanwha Chemical Corp	3,138	3.6	3.8	3.9	7.1	5.4	5.2	17.1	14.3	12.0
IRPC PCL	3,717	12.4	9.7	9.2	9.4	7.4	7.1	12.4	14.1	13.5
Kumho Petro Chemical	3,135	17.4	9.6	9.5	8.1	7.2	7.1	12.4	19.0	16.3
LG Chem Ltd	21,191	11.6	12.5	11.4	6.6	5.9	5.3	14.1	11.8	11.7
Lotte Chemical Titan Holding	2,787	10.4	10.4	9.1	4.6	4.2	3.9	9.9	9.2	9.8
Mitsubishi Gas Chemical Co	5,211	12.6	9.2	7.7	8.5	6.7	6.6	10.8	12.9	13.6
Mitsui Chemicals Inc	5,423	10.0	7.7	7.0	6.6	7.7	6.7	14.7	16.2	15.6
Petronas Chemicals	16,800	17.2	16.4	15.9	8.2	9.0	8.6	13.9	14.1	13.7
PTT Global Chemical	10,798	9.5	8.6	8.5	7.1	6.2	6.1	14.8	14.6	13.6
Rongsheng Petrochemical	8,822	24.8	17.1	9.3	22.3	14.3	6.2	13.9	16.2	23.5
Sinopec Shanghai Petrochemical	8,448	11.1	10.1	10.6	4.1	5.6	5.9	20.9	19.4	16.5
Siam Cement	15,135	9.2	9.7	9.4	9.3	8.2	7.9	21.2	17.8	16.7
Weighted Average		17.1	14.2	12.6	18.0	9.3	9.0	16.1	12.2	12.6
Simple Average		14.0	11.8	10.7	10.6	8.7	7.9	15.4	15.1	14.9

Source: Bloomberg, Sucor Research

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**Fig 10 Income Statement and Cash Flow Statement**

Income Statement					Cash Flow Statement				
	2016	2017	2018F	2019F		2016	2017	2018F	2019F
<b>Net Revenue</b>	<b>1,930</b>	<b>2,419</b>	<b>2,625</b>	<b>2,687</b>	Net Profit	300	319	343	355
Cost of Sales	(1,436)	(1,874)	(2,058)	(2,099)	Depreciation & Amortization	75	79	99	115
<b>Gross Profit</b>	<b>494</b>	<b>545</b>	<b>567</b>	<b>588</b>	Non-Controlling Interest	0	1	-	-
Operating Expenses	(71)	(81)	(94)	(99)	Changes in Net Working Capital	60	(74)	87	23
Selling Expenses	(43)	(42)	(47)	(49)	<b>Cash Flow from Operations</b>	<b>435</b>	<b>324</b>	<b>529</b>	<b>493</b>
G&A Expenses	(28)	(38)	(47)	(51)	Capex	(84)	(210)	(567)	(536)
<b>EBIT</b>	<b>424</b>	<b>464</b>	<b>473</b>	<b>489</b>	Others	18	9	(43)	7
Other Operating Expenses	(23)	(40)	(15)	(15)	<b>Cash Flow from Investing</b>	<b>(66)</b>	<b>(201)</b>	<b>(610)</b>	<b>(529)</b>
Finance Costs	(32)	(36)	(31)	(32)	Changes in Debt	(123)	206	(42)	57
Gain (Loss) on Derivative Financial Instruments	1	(1)	1	1	Equity Issuance	-	371	-	-
Share in Net Loss of an Associate	(6)	(9)	1	1	Dividends Paid	(43)	(161)	(137)	(142)
Gain (Loss) on Foreign Exchange - Net	(1)	(3)	1	1	Others	(1)	4	78	(20)
Other Gains (Losses) - Net	15	9	13	13	<b>Cash Flow from Financing</b>	<b>(167)</b>	<b>421</b>	<b>(101)</b>	<b>(105)</b>
Depreciation & Amortization	75	79	99	115	Net Cash Flow	202	544	(183)	(141)
<b>EBITDA</b>	<b>499</b>	<b>544</b>	<b>572</b>	<b>604</b>	Beginning Balance	97	299	843	660
<b>PBT</b>	<b>401</b>	<b>425</b>	<b>458</b>	<b>473</b>	Ending Balance	299	843	660	519
Income Tax Expense - Net	(100)	(105)	(114)	(118)					
<b>Net Profit</b>	<b>300</b>	<b>319</b>	<b>343</b>	<b>355</b>					

Source: CAP, Sucor Research

Note: All figures in USD Mn unless noted otherwise

June 2018

**Fig 11 Balance Sheet and Key Ratios**

Balance Sheet					Key Ratios			
	2016	2017	2018F	2019F	2016	2017	2018F	2019F
Cash and Cash Equivalents	299	843	660	519	<b>Margins</b>			
Receivables	140	207	168	169	Gross Margin (%)	26%	23%	22%
Inventories - Net	200	237	256	262	EBIT Margin (%)	22%	19%	18%
Others	54	142	89	91	EBITDA Mgn. (%)	26%	22%	22%
<b>Current Assets</b>	<b>693</b>	<b>1,429</b>	<b>1,172</b>	<b>1,041</b>	Net Margin (%)	16%	13%	13%
Fixed Assets - Net	1,317	1,448	1,916	2,336	<b>Valuations</b>			
Other LT Assets	120	111	154	147	P/E (x)	16.70	23.74	21.86
<b>Non Current Assets</b>	<b>1,437</b>	<b>1,558</b>	<b>2,069</b>	<b>2,483</b>	P/BV (x)	4.42	4.74	0.80
<b>Total Assets</b>	<b>2,129</b>	<b>2,987</b>	<b>3,242</b>	<b>3,525</b>	EV/EBITDA (x)	10.32	14.10	13.00
Current Maturities - Net	63	78	27	11	<b>Gearing/Liquidity</b>			
Loans	-	-	50	50	Interest Coverage (x)	13.29	12.89	15.05
Payables	344	480	476	509	Net Debt/Equity (x)	0.11	(0.13)	(0.04)
Others	47	29	46	46	Net Debt/Total Cap. (x)	0.08	(0.09)	(0.03)
<b>Current Liabilities</b>	<b>454</b>	<b>587</b>	<b>599</b>	<b>615</b>	Current Ratio (x)	1.53	2.43	1.96
LT Liabilities - Net	362	553	512	585	CFO/Net Income (x)	1.45	1.02	1.54
Other LT Liabilities	172	178	252	232	<b>Profitability</b>			
<b>Non Current Liabilities</b>	<b>534</b>	<b>731</b>	<b>764</b>	<b>817</b>	ROAA (%)	15%	12%	11%
<b>Total Liabilities</b>	<b>988</b>	<b>1,318</b>	<b>1,363</b>	<b>1,432</b>	ROAE (%)	30%	23%	19%
Capital Stock	360	381	381	381	ROCE (%)	27%	20%	19%
Additional Paid-In Capital	109	459	459	459	Earnings Yld. (%)	N/A	4%	5%
Retained Earnings	669	827	1,033	1,246	Dividend Yield (%)	N/A	2%	2%
Others	4	2	6	6				
<b>Total Equity</b>	<b>1,142</b>	<b>1,669</b>	<b>1,879</b>	<b>2,092</b>				
<b>Total Liabilities and Equity</b>	<b>2,129</b>	<b>2,987</b>	<b>3,242</b>	<b>3,525</b>				

Source: CAP, Sucor Research

Note: All figures in USD Mn unless noted otherwise

June 2018

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- Overweight : We expect the industry to perform better than the primary market index (JCI) over the next 12 months.  
Neutral : We expect the industry to perform in line with the primary market index (JCI) over the next 12 months.  
Underweight : We expect the industry to underperform the primary market index (JCI) over the next 12 months

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- Buy : We expect this stock to give return (excluding dividend) of above 10% over the next 12 months.  
Hold : We expect this stock to give return of between -10% and 10% over the next 12 months.  
Sell : We expect this stock to give return of -10% or lower over the next 12 months

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June 2018

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