

Chandra Asri Petrochemical -----NOT COVERED

Expanding in high-growth, high-margin Indonesia market

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- We hosted an NDR for CAP's CEO and CFO to meet investors in Bangkok in Dec-17. CAP is Indonesia's largest integrated petrochemicals producer and operates its only naphtha cracker. Indonesia is one of the most attractive locations for petrochemical plants in Southeast Asia as a net-importing country with sustained pricing premium, high growth and low consumption/ capita.
- CAP is owned by Barito group (60.4%) and SCC (30.6%), allowing the company to capitalise on Barito's strength in local markets to secure land and licenses, with SCC providing expertise on project execution and operation.
- CAP has laid out medium- and long-term growth plans, including the start-up of 45%-owned synthetic rubber plant in 1Q18 and 400k t LLDPE plant in 4Q19. CAP is also working on plan to build a new 1 mn t cracker with commercial start-up in 2023.
- Based on Bloomberg consensus estimate, CAP is trading on an EV/EBITDA of 13.1x and P/E of 20.7 in FY18E.

oil and gas state-owned enterprise, focuses more on refinery expansion, not petrochemicals.

Capitalising on its shareholding structure

CAP is 60.4%-owned by the Barito group and 30.6%-owned by SCC. CAP has leveraged the Barito group's local expertise in the most challenging task of securing land for future expansion. CAP also capitalises on SCC's strengths in operation, project execution and market intelligence to improve operating efficiency and expand capacities.

Solid growth plan both short and long term

CAP has ongoing strategic growth projects, including (1) a 45% stake in a synthetic rubber JV with Michelin which is to start production in 1Q18, (2) a new 400k t LLDPE plant which is to start production in 4Q19, and (3) an integrated 1 mn t naphtha cracker project with start-up in 2023.

Figure 1: CAP's financial summary

Bbg/RIC	TPIA IJ	Price (4 Jan 18, IDR)	5,550		
Ratring (prev. rating)	NOT COVERED	TP (prev. TP IDR)	n.a.		
Shr. outstanding (mn)	17,834	52-wk range (IDR)	4,030 - 5,975		
ADTO- 6m (mn)	6.4	Mkt cap (IDR/US\$ bn)	101,651 / 7.5		
ADTO-6m (US\$ mn)	2.7				
Free float (%)	9	Performance	1M	3M	12M
Major shareholders	Barito 60.4%	Absolute (%)	0.9	16.6	36.2
	SCC 30.6%	Relative (%)	-3.8	10.3	14.8
Year	12/15A	12/16A	12/17E	12/18E	12/19E
Revenue (US\$ mn)	1,378	1,930	2,257	2,319	2,426
EBITDA (US\$ mn)	143	499	569	540	544
Net profit (US\$ mn)	26	300	352	333	334
EPS (US\$)	0.00	0.02	0.02	0.02	0.02
EPS Growth (%)	42.9	1,041.3	17.2	(4.8)	-
P/E (x)	30.9	16.7	19.7	20.7	20.7
Dividend yield (%)	1.3	3.0	2.4	2.4	2.4
EV/EBITDA (x)	8.9	10.3	13.1	13.1	13.1
P/B (x)	0.9	4.4	4.3	4.0	3.8
ROE (%)	3.0	29.8	24.0	18.8	17.2

Source: Company Data, Bloomberg consensus

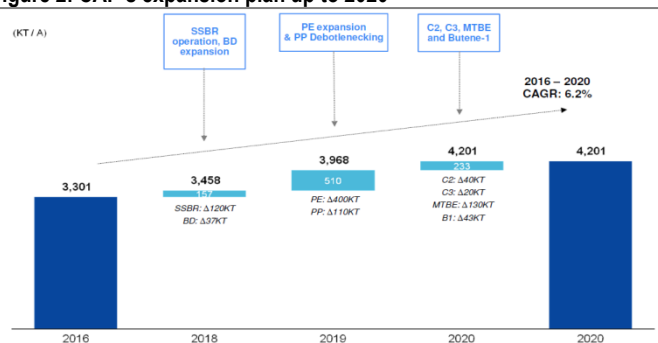
Indonesia's biggest integrated petrochemicals producer

CAP is Indonesia's largest integrated petrochemicals producer and operates the country's only naphtha cracker, styrene monomer (SM) and butadiene (BD) plants. CAP has market shares of 52%, 24%, and 29% in olefin, PE, and PP, respectively. CAP completed its cracker expansion in 4Q15. The company currently sells 430k t of merchant ethylene, while the rest of its upstream products are integrated with its downstream PE, SM, and PP plants.

Indonesia: Most attractive market with domestic premium

Indonesia is a net importer of petrochemical products, with low consumption per capita and a high growth rate of 5-6% a year. In 2016, imported polyolefin accounted for 53% of the total domestic demand. Hence, domestic market prices are at a premium to import prices. As a dominant player in the market, CAP is positioned to capture the growth opportunity. Competition to expand is limited due to the inability of foreign players to secure land, while Pertamina, the

Figure 2: CAP's expansion plan up to 2020



Source: Company data

Second cracker to more than double its capacity in 2023

CAP is working on a plan to build its second naphtha cracker complex with a total ethylene capacity of 1 mn t and related downstream investments. Currently, the project is 100%-owned by CAP and is looking for partners with the aim to reduce stake to around 60%. The total investment cost is estimated at US\$4-5 bn, with targeted ground-breaking for construction in early 2020 and completion in 2023. The new plant should have lower costs, given its bigger scale, higher feedstock flexibility and newer technology (lower energy consumption).

Net cash position

CAP generated EBITDA of US\$570 mn in the 12M ended Sep-17. Its net cash position at the end of 3Q17 was US\$277 mn, after the company raised US\$380 mn from a rights issuance in 3Q17 to increase its free float to 9%. Its remaining capex for committed projects is US\$550 mn will be funded by existing cash flows and debt financing. A separate funding package will be arranged for the cost of its second cracker. Dividend policy is 30-50%.

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Companies Mentioned (Price as of 04-Jan-2018)

Chandra Asri Pet (TPIA.JK, Rp5,550)
Michelin (MICP.PA, €123.45)
Siam Cement (SCC.BK, Bt496.0)

Disclosure Appendix

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