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|---------------------------------------|------------|--------------------------|--------------------|
| <h1>Petronas Chemicals Group Bhd</h1> | | Offer Price: | RM5.04 |
| | | IPO Closing Date: | 9 Nov 2010 |
| | | Listing Date: | 26 Nov 2010 |
| Stock Name: | N/A | Board: | Main |

Analyst: Andre Gan



Source: Petronas website

PREFACE

Petronas Chemicals Group Bhd. (PCG) plans to raise about U.S. \$ 4.04 billion (RM12.4 billion) for the Initial Offering (IPO), making it the largest IPO in South East Asia. So far, the largest IPO was recorded by the mobile operator, Maxis Bhd. when offering IPO of RM1.2 billion. Listing is made after the Prime Minister, Datuk Seri Najib Tun Razak wants to reduce government's interest in the business, in addition to attracting foreign investment into the country.

IPO Timeline

| <u>Event</u> | <u>Date</u> |
|---------------------------|---------------|
| Institutional offering | 26 Oct-12 Nov |
| Retail offering | 1 Nov-9 Nov |
| Final price determination | 12 Nov |
| Retail balloting | 12 Nov |
| Retail allotment | 24 Nov |
| Listing date | 26 Nov |

**Tentative, subject to change*

OVERVIEW

Petronas Chemicals group has 22 businesses that make a mixture of various chemicals and fertilizers. Its' yearly production is 11 million tonnes per year and is ranked largest producer in terms of volume of methanol and ethylene glycol, chemicals that are widely used for anti-freeze.

Petronas Chemicals group posted a net profit of RM2.59 billion for the year ended March 31, 2010. It is one of leading producers on olefins and polyolefins productions with an integrated operation. PCG has a comparable scale in olefins and polyolefins productions, however, it offers a wider range of petrochemical products including methanol, ammonia, urea, aromatics and other derivatives.

INDUSTRY INSIGHT

According to the market research report by Nexant, a management and technology consultant, Malaysia is a major producer of petrochemicals in the South East Asia region. In 2009, Malaysia had approximately 2.8 million tons per year of olefins capacity a year, this accounted for 24% of the total capacity of the South East Asia region. The majority of olefins production is consumed domestically for the production of polyolefins and other key intermediaries such as ethylene glycol, acrylic acid and styrene.

DIVIDEND POLICY

PCG intends to adopt a policy of active capital management. It proposes to pay dividends out of cash generated by its operations after setting aside the necessary funding for capital expenditure and working capital needs.



Its management is targeting a dividend payout ratio of around 50% of its consolidated net profit after tax (NPAT) in each calendar year, beginning from the year ending 31 March 2011.

IPO VALUATION

31% of PCG's share capital of RM800.00 million would be offered for this IPO. This 31% would consist of 2480.0 million shares of RM0.10 each.

With an final IPO offer price of RM5.04, its market capitalization would RM40.32 billion. Based on its final offer price of RM5.04, annualised FY11 EPS of 30.5 sen and latest BV/share of RM2.21, we derive a P/E of 16.52 times and P/BV of 2.28 times.

APPENDICES

IPO Offer Share Structure

| Category | No. of Offer Shares (mil) |
|--|---------------------------|
| Retail Offering | |
| Eligible staff, directors and customers of PCB | 133.02 |
| Malaysia Public: | |
| -Bumiputera | 80.00 |
| -Non-bumiputera | 80.00 |
| | |
| Institutional offering: | |
| Bumi investors approved by MITI | 920.00 |
| Other investors | 1266.98 |
| | |
| Total | 2480.00 |

COMPARABLE PETROCHEMICAL COMPANIES in Malaysia

| Financial Ratios | PCG IPO | TITAN |
|------------------|---------|-------|
| Price (RM) | 5.04 | 2.32 |
| Ann. EPS (RM) | 0.305 | 0.30 |
| Current P/E (x) | 16.52 | 13.11 |
| BV/share (RM) | 2.21 | 2.49 |
| P/BV(x) | 2.28 | 0.93 |
| Div/share (RM) | | 0.05 |
| Div Yield(%) | | 2.16 |

**Bloomberg data/our estimates*

UTILISATION OF PROCEEDS

| Details | Timeframe | RM (mil) |
|----------------------------|----------------|--------------|
| Expansion of business | Within 5 years | 2,239 |
| Working capital | Within 2 years | 1,200 |
| Estimated listing expenses | Within 1 year | 96 |
| Total | | 3,535 |

Besides, funds raised from the IPO, will be partially used to build a petrochemical plant in East Malaysia with an annual capacity of up to one million tonnes as well as a potential Greenfield project to develop an integrated refinery complex in Peninsular Malaysia.