

Monday, September 8, 2009

NEWSTALK

Product price weakens in short-term following oil, but not beyond expected

OVERWEIGHT

- ▶ **Product price declines in short-term following price of Naphtha**
- ▶ **3Q09's profit outlook remains strong, but 4Q09's may weaken**
- ▶ **PTTCH still outshines among peers**

- ▶ **Product price declines in short-term following price of Naphtha**

Prices of core petrochemical products under our coverage in both olefins (ethylene and HDPE plastics), aromatics (Px), and PVC groups begin to weaken in short-term, except for MEG as its price has rebounded to US\$740/ton after falling to the bottom of US\$620/ton and stabilizing at that level for more than 8 months (we will find out the reason later, but it is believed to result from a shutdown of MEG plant in the Middle East). A decrease in prices of majority of products is likely to occur from a short-term decline in oil price, thus influencing price of Naphtha to fall correspondingly to US\$581/ton. For olefins group, ethylene price has dropped to US\$1,020/ton (from its peak in early Sep at US\$1,100/ton), while price of HDPE plastics has fallen to US\$1,170/ton (slipping below US\$1,200/ton for the first time in 4 month-round). Meanwhile, price spreads for both ethylene-Naphtha and HDPE-Naphtha are found to narrow. In addition, for aromatics group, price of Px has declined to US\$885/ton from its height at US\$1,130/ton in Aug 2009, whereas Bz price remains quite stable at US\$800/ton. Px-Naphtha spread has contracted to US\$279/ton from the record of US\$526/ton in Aug 2009. At the same time, price of PVC has decreased to US\$865/ton, but a decline in prices of raw material, both ethylene and EDC, at a quicker rate makes the price spreads bounce back after having been substantially depressed. Furthermore, PET product price in the US remains strong at US\$1,400/ton, while price of PET products in Asia begins to show a lower rate of decline. However, an increase in prices of core raw materials, both PTA and MEG, will place pressure on overall spread in near-term.

- ▶ **3Q09's profit outlook remains strong, but 4Q09's may weaken**

The short-term contraction in price spread may influence earning outlook for 4Q09 to weaken and move in the opposite direction of 3Q09 (for olefins, aromatics, and PET, except PVC which is projected to show larger profit). However, this is still not beyond our projection and likely not to affect net profit forecast for FY2009. Subsequently, overall 3Q09's profit is foreseen to remain solid as it still benefits from large product spread as we have presented in our previous report. The companies that are anticipated to show remarkable profit in 3Q09 are PTTCH (from HDPE products as price spread is still widening) and IRPC (energy sector as an olefins refinery) as well as TOP and PTTAR (energy sector as aromatics refinery) from average price spread that remains strong. At the same time, average spread for IRP is projected to stabilize at US\$220/ton. In addition, for PVC group which have 2 relating operators, TPC and VNT, although price spread is found to weaken only slightly, adverse effects from lower sale volume during rainy season are believed to weaken its earning performance in 3Q09.

- ▶ **PTTCH still outshines among peers**

We maintain overweighting on the petrochemical sector and select PTTCH as top pick as it is considered as a growth stock. PTTCH's EPS for 2010 is estimated to grow significantly by 132.8%yoy with 2010's PER projected at only 8.5x and dividend yield expected not lower than 4% p.a. On the contrary, although IRP has strong fundamental, in short-term it may be depressed by spread in 4Q09 which is anticipated to weaken from higher core raw material price as mentioned above.

Chemical Index **494.70**

Market cap (B bn) 170.12

Year to Dec	2008A	2009F	2010F
Net Profit (Bm)	17,501	12,253	20,782
EPS (B)	50.89	35.63	60.43
% Growth	-32.2%	-30.0%	69.6%
PER (X)	10.7	13.9	8.2
ROE (%)	18.8%	8.5%	13.4%
BVS (B)	410.88	429.95	469.92
PBV (X)	1.3	1.3	1.2

## Recommendations

	Close Price (B)	Fair value (B)	Target PER, PBV	2010				
				Upside (%)	EPS (B)	PER (x)	PBV (x)	Div. yields
<b>IRP</b> Buy	11.80	16.64	PER 8x	41.0%	2.08	5.7	1.9	5.3%
<b>PTTCH</b> Buy	78.00	92	PER 10x	17.4%	9.16	8.5	1.2	4.2%
<b>TPC</b> Hold	18.70	19.90	PER 9x	6.4%	2.21	8.5	1.3	5.3%
<b>VNT</b> Hold	6.80	6.56	PER 7x	-3.5%	0.94	7.3	0.6	5.7%

Source : ASP

## 2Q09 Avg. Spread

Avg Spread	3Q09	%qoq	2Q09	%qoq
Ethylene-Naphtha	435	74.2%	250	4.2%
Propylene-Naphtha	451	25.2%	360	23.3%
HDPE-Ethylene	214	-47.2%	405	27.0%
LDPE-Ethylene	228	-40.9%	385	19.1%
HDPE-Naphtha	648	-0.9%	655	18.3%
LDPE-Naphtha	662	4.4%	635	13.2%
PP-Propylene	116	-49.5%	229	15.2%
PVC-Ethylene	369	1.3%	364	11.8%
PVC-EDC	444	-5.3%	469	2.8%
VCM-เอทิลีน	286	-20.8%	361	14.9%
Px-Naphtha	437	-25.4%	586	20.8%
Bz-Naphtha	244	32.0%	185	82.6%
PET-PTA-EG (Asia)	109	-40.5%	184	61.8%
PET-PTA-EG (US)	493	-18.8%	607	-8.1%
PP-Naphtha	567	-3.8%	589	20.2%
HDPE-Naphtha	648	-0.9%	655	18.3%
ABS-Naphtha	839	-5.9%	891	18.2%

Source : ASP

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