

Thursday, January 13, 2011

EQUITY TALKS

Outshine in both olefins and aromatics. Buy TOP, PTTAR, and PTCH

OVERWEIGHT

- ▶ Ethylene, propylene, HDPE, LDPE, and MEG outshine, benefiting PTCH and IRPC
- ▶ Px and Bz prices make 28-month high, benefiting TOP and PTTAR
- ▶ Maintain overweight. Buy TOP, PTTAR, and PTCH

Index Sector 1,336.75

Market cap (B bn) 553.58

- ▶ Ethylene, propylene, HDPE, LDPE, and MEG outshine, benefiting PTCH and IRPC

Prices of olefins line petrochemical products remain strong, with a continuous rally for ethylene, propylene, LDPE, HDPE, and MEG. Ethylene price is standing at US\$1,100/ton, the 7-month record. In spite of increasing supply from a resumption of Rayong Olefins plant after a maintenance shutdown in December 2010, an increase in price of a raw material Naphtha to US\$854/ton following global crude oil price was a main factor that has boosted price of ethylene continuously. Similarly, price of propylene continued rising to make a 28-month high at US\$1,320/ton (PTCH and IRPC produce propylene respectively by 17.7% and 4% of their total production volume). Meanwhile, price of MEG (PTCH's main product, comprising 15% of total production volume) equates US\$1,060/ton, the record high in 27 months. In addition, prices of HDPE and LDPE plastic resins have also risen to US\$1,310/ton and US\$1,710/ton, the 11-month and 28-month record high respectively, as a result of tight regional supply and cost push. This benefited PTCH which uses natural gas as raw material, thus having advantage amidst hiking Naphtha price. We project net profit of PTCH in 4Q10 at a healthy level of B3.1bn, and B4bn in 1Q11. Moreover, for IRPC products which are specialty plastics or value-added products, price of polypropylene or PP plastic (15% of total products) is US\$1,480/ton, the 28-month record high, while price of ABS plastic (4% of total products) continued to make a historical high at US\$2,270/ton. Accordingly, this will benefit IRPC's net profit outlook in 4Q10 and 1Q11.

- ▶ Px and Bz prices make 28-month high, benefiting TOP and PTTAR

Similarly, price of aromatics products also outshine as a result of product price spreads which remain very high. Particularly, price of paraxylene (Px) stood recently at US\$1,440/ton, the 28-month record high, while spread between Px-Naphtha was very high at US\$586/ton, hiking 27%qoq from 4Q10. At the same time, price of benzene (Bz) rose to US\$1,070/ton, also a 28-month record high, but average spread between Bz-Naphtha remained low at only US\$127/ton, a substantial decrease of 30%qoq. However, this has not raised significant concerns among operators, both PTTAR and TOP, as Bz product comprises only 29% and 20% of total aromatics production volume respectively, lower than Px. We have positive perspective toward overall spread outlook of the aromatics sector in 4Q10 and 1Q11 as demands remain in the peak period of the year. Moreover, shortage of PTA supply, a midstream product (recently PTA price rallied to 1,230/ton, the historical record) has boosted price of Px which is an upstream product. This will benefit net profit in 4Q10 and 1Q11 of both TOP and PTTAR. In addition, IVL as another PTA operator will also benefit from the PTA price increase as well.

- ▶ Maintain overweight. Buy TOP, PTTAR, and PTCH

We select TOP, PTTAR, and PTCH as top picks of the sector as they will benefit from price and product spreads which are marching to make a new record and tend to continue rising. Furthermore, PTCH will also benefit from a full utilization rate of PTTPE plant. Consequently, EPS for FY2011 of TOP, PTTAR, and PTCH are projected to grow significant almost 1 time from 2010.

Key Data (Bm)					
FY: Close Dec. 31	FY07A	FY08A	FY09A	FY10F	FY11F
Net Profit (Bm)	25,813	18,614	15,543	25,151	36,921
EPS (B)	75.1	54.13	45.12	60.73	89.15
% Growth	36.00%	-27.90%	-16.70%	34.60%	46.80%
PER (x)	17.8	24.7	29.6	22	15
ROE	60.70%	20.20%	10.90%	16.60%	22.40%
BVS (B)	129.53	405.43	424.85	379.12	415.66
PBV (x)	4.2	1.3	1.3	1.4	1.3

Source : Reserch ASP

The Company is a current issuer and financial advisor on Derivative Warrants for PTCH

Quarterly Petrochemical Price Average

US\$/TN	10-Jan-11	4Q10	3Q10	%qoq
PRICE				
Naphtha	854	793	655	21.0%
Ethylene	1,100	1,048	897	16.9%
Propylene	1,320	1,240	1,134	9.4%
Paraxylene	1,440	1,256	928	35.3%
Benzene	978	970	846	14.6%
EDC	438	438	446	-1.6%
PVC	985	975	918	6.2%
HDPE	1,310	1,242	1,099	13.1%
LDPE	1,710	1,597	1,314	21.5%
PP	1,485	1,401	1,227	14.3%
ABS	2,275	2,139	1,927	11.0%
PET-US	1,387	1,387	1,387	0.0%
PET-ASIA	1,530	1,388	1,109	25.1%
PTA	1,232	1,105	961	12.6%
MEG	1,060	994	877	6.5%
VCM	960	684	686	-0.3%

Spread Product Price				
Avg Spread	10-Jan-11	4Q10	3Q10	%qoq
Ethylene-Naphtha	246	250	241	-5.9%
Propylene-Naphtha	465	447	478	-6.5%
HDPE-Ethylene	210	194	202	-4.0%
LDPE-Ethylene	610	549	417	31.5%
HDPE-Naphtha	456	449	443	1.4%
LDPE-Naphtha	856	804	658	22.1%
PP-Propylene	165	162	93	73.9%
PP-Naphtha	631	608	571	6.5%
PVC-Ethylene	435	451	469	-3.9%
PVC-EDC	548	537	472	13.7%
VCM - Ethylene	410	160	258	-32.9%
Px-Naphtha	586	463	273	69.8%
Bz-Naphtha	124	177	191	-7.2%
PET(ASIA)-PTA	298	283	128	121.3%
PTA-PX	(208)	(151)	53	n.a.
ABS-Naphtha	1,421	1,346	1,272	5.9%

Source : DataStream/Research ASP

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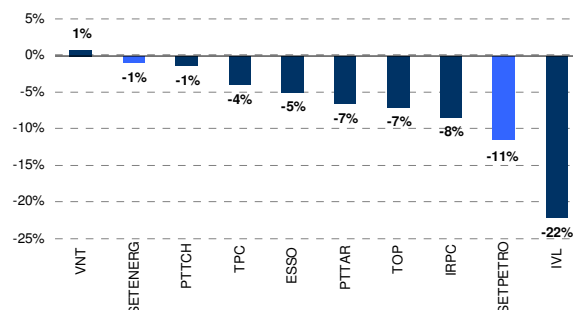
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Recommendations on petrochemical stocks under our coverage

	Rec.	Close Price	Fair value	Upside	2011F			
					EPS	PER	PBV	Div Yield
		(B)	(B)	(%)	(B)	(X)	(X)	(%)
TOP	Buy	72.75	86.67	19%	5.91	12.3	1.7	3.7
PTTAR	Buy	35.75	46.99	31%	3.00	11.9	1.7	4.2
IRPC	Buy	5.95	6.18	4%	0.41	14.6	1.5	4.2
ESSO	Buy	7.55	9.05	20%	1.36	5.5	0.9	6.6
PTTCH	Buy	145.00	204.14	41%	13.35	10.9	1.8	3.7
IVL	Buy	45.00	69.00	53%	2.81	16.0	3.7	1.9
TPC	n.a.	29.50	24.02	-19%	2.40	12.3	1.8	4.9
VNT	Hold	14.70	14.48	-2%	2.04	7.2	1.0	2.9

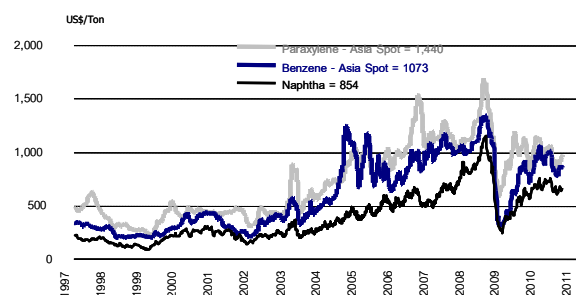
Source : DataStream

Returns from petrochemical stocks under our coverage



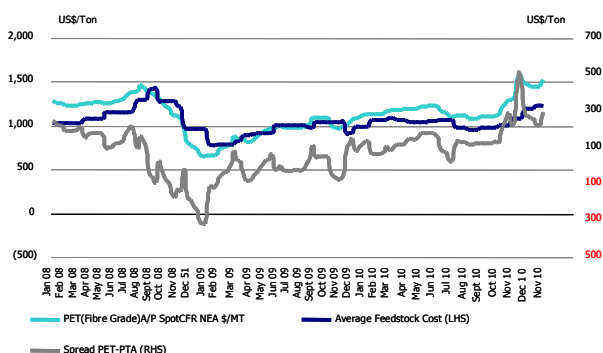
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Prices of Px, Bz, and Naptha



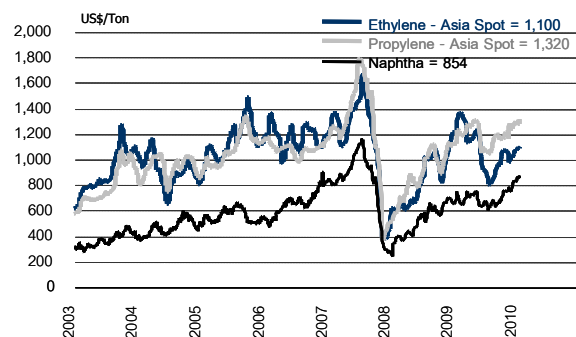
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Prices of PET and raw material



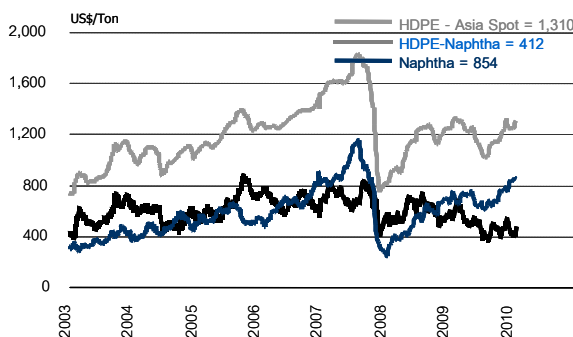
Source : DataStream

Prices of Ethylene, Propylene, and Naptha



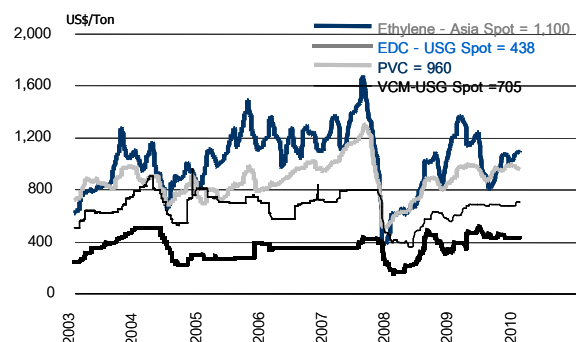
Source : DataStream

Prices of HDPE and Naptha



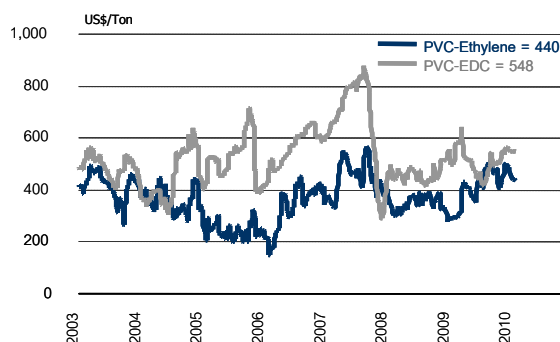
Source : DataStream

Prices of PVC and raw material



Source : DataStream

Spread between PVC and raw material



Source : DataStream