

Malaysia

HOLD (previously REDUCE)

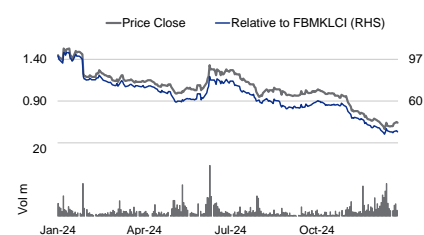
Consensus ratings*: Buy 1 Hold 1 Sell 3

Current price:	RM0.64
Target price:	RM0.65
Previous target:	RM0.86
Up/downside:	1.6%
CGSI / Consensus:	-38.3%
Reuters:	LOTT.KL
Bloomberg:	TTNP MK
Market cap:	US\$325.9m
	RM1,458m
Average daily turnover:	US\$0.34m
	RM1.50m
Current shares o/s:	2,278m
Free float:	24.0%

*Source: Bloomberg

Key changes in this note

➤ No change to EPS forecasts.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	-6.6	-36.0	-52.6
Relative (%)	-9.6	-35.6	-65.5

Major shareholders	% held
Lotte Chemical Corporation	76.0
EPF	4.3
KWAP	3.0

Analyst(s)



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Lotte Chemical Titan

Efforts underway to narrow losses

- Upgrade from Reduce to Hold after the sharp share price sell-off in the past three months and given LCT's efforts to slow down the cash burn.
- We cut our TP to 65 sen, based on CY25F P/BV of 0.15x, slightly below the Covid-19 trough of 0.2x, where we had set our previous target.
- In our view, LCT can probably call on its parent company for cash injections in the future or dial down its Malaysian plant utilisation further.

Shutdown of NC1 could be the first of many rationalisation moves

Lotte Chemical Titan (LCT) shut down its Naphtha Cracker #1 (NC1) at Pasir Gudang, Johor, on 15 Dec 2024 due to sustained cash losses over the past two years. This is a positive development, in our view, as LCT had recorded gross losses for the past nine quarters since 3Q22 despite reducing its utilisation rate from 69% in 3Q22 to 58% in 3Q24 as the petrochemical price spreads against naphtha were too narrow to recoup the cost of manufacturing PE and PP. LCT ran its plants at an average utilisation rate of 57% in 9M24 (1Q24: 65%; 2Q24: 47% due to plant turnaround and shutdown activities; 3Q24: 58%) and guided for an average FY24F utilisation of 55-60%. NC1 has a production capacity of 430k tonnes p.a. (ktpa) of various intermediate petrochemicals, such as ethylene (C2) and propylene (C3), while NC2 has capacity of 869 ktpa. A shutdown of NC1 means that LCT will lose 33% of its C2/C3 production capacity, assuming that LCT does not raise the NC2 utilisation rate. Assuming a 55% utilisation rate of downstream HDPE, LDPE, and PP units in FY24F and a 33% loss of production in FY25F, LCT's effective utilisation rate for FY25F may decline to 37% vs. LCT's guidance of 55-60% in FY24F.

LCT unlikely to start operations on Indonesia's LINE, in our view

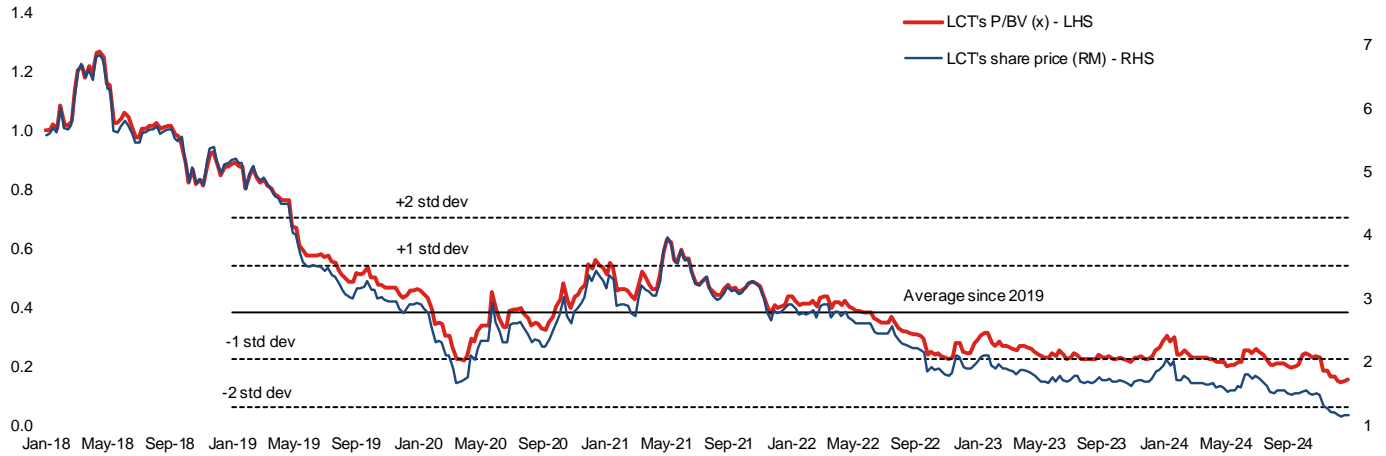
We expect a lower utilisation rate to narrow LCT's losses in FY25F. However, we keep our forecasts unchanged as we await LCT's official guidance on its expected FY25F utilisation rate. The key unknown is whether LCT will partially compensate for the shutdown of NC1 by moderately raising NC2's utilisation rate. Although we think this may not make economic sense, LCT could be concerned about the risk of permanently losing its customer base to competitors. If economic conditions do not improve in one year's time, we think LCT will take even more drastic action, including potentially mothballing the entire Malaysian petrochemical complex, which is old and cost inefficient, in order to focus on its new Indonesian naphtha cracker complex (LINE) in the long term. LCT may also draw on support from its South Korean parent company in the form of shareholder loans, we think. Although the LINE complex is scheduled for physical completion in mid-2025F, we do not expect LCT to begin commercial operations in the current poor economic environment and also because LCT will not want to start loan principal repayments. We upgrade to Hold because LCT is finally taking the action it needs to survive the downturn. Upside risks include the potential for its parent company to privatise LCT or LCT liquidating its Malaysian or Indonesian assets, which may unlock its BVPS of RM4.25 (as at 30 Sep 2024). Downside risks include the potential for an impairment of its assets in its upcoming 4Q24F results or a persistently high cash burn rate despite mitigation efforts.

Financial Summary	Dec-22A	Dec-23A	Dec-24F	Dec-25F	Dec-26F
Revenue (RMm)	10,019	7,646	7,047	7,197	7,158
Operating EBITDA (RMm)	(324.6)	(502.6)	(609.3)	(480.8)	(519.8)
Net Profit (RMm)	(714.6)	(780.9)	(884.2)	(781.9)	(810.5)
Core EPS (RM)	-0.27	-0.39	-0.39	-0.34	-0.36
Core EPS Growth	(164%)	45%	(1%)	(12%)	4%
FD Core P/E (x)	NA	NA	NA	NA	NA
DPS (RM)	0.14	0.00	0.00	0.00	0.00
Dividend Yield	21.8%	0.0%	0.0%	0.0%	0.0%
EV/EBITDA (x)	NA	NA	NA	NA	NA
P/FCFE (x)	NA	NA	1.97	5.14	1.15
Net Gearing	(9%)	35%	96%	119%	140%
P/BV (x)	0.12	0.13	0.14	0.15	0.16
ROE	(5.03%)	(7.69%)	(8.00%)	(7.65%)	(8.60%)
% Change In Core EPS Estimates			0%	0%	0%
EPS/Consensus EPS (x)			1.15	1.82	2.56

SOURCES: CGSI RESEARCH ESTIMATES, COMPANY REPORTS

Historical P/BV chart ►

Figure 1: Lotte Chemical Titan historical P/BV chart – P/BV average since 2019 and standard deviations (LCT had a BVPS of RM4.25 as at 30 Sep 2024)



SOURCES: CGSI RESEARCH, BLOOMBERG

Sector comparison table ►


Figure 2: Sector Comparisons

Company	Bloomberg Ticker	Recom.	Price	Target Price	Market Cap (US\$ m)	Core P/E (x)		3-year EPS CAGR (%)	P/BV (x)		Recurring ROE (%)			EV/EBITDA (x)		Dividend Yield (%)	
						CY24F	CY25F		CY24F	CY25F	CY24F	CY25F	CY26F	CY24F	CY25F	CY24F	CY25F
Petronas Chemicals Group	PCHEM MK	Hold	RM5.17	RM5.18	9,249	30.5	24.3	3.3%	1.0	1.0	3.2%	4.0%	4.1%	8.0	6.7	2.5%	2.5%
Lotte Chemical Titan	TTNP MK	Hold	RM0.64	RM0.65	326	na	na	na	0.1	0.1	-8.0%	-7.6%	-8.6%	NA	NA	0.0%	0.0%
Indorama Ventures	IVL TB	Hold	THB24.90	THB27.50	4,073	37.2	14.0	na	1.0	0.9	2.7%	6.9%	7.9%	8.8	6.9	0.4%	1.6%
Siam Cement	SCC TB	Reduce	THB168.00	THB150.00	6,625	24.3	15.9	-7.6%	0.6	0.6	2.4%	3.6%	3.2%	12.1	10.2	1.8%	2.9%
PTT Global Chemical	PTTGC TB	Hold	THB24.40	THB28.00	3,205	121.1	10.2	na	0.4	0.4	0.3%	3.7%	4.2%	10.5	7.6	0.4%	5.0%
IRPC	IRPC TB	Reduce	THB1.23	THB1.30	732	na	20.5	na	0.4	0.4	-3.8%	1.9%	1.8%	13.2	7.3	2.4%	2.5%
Lotte Chemical	011170 KS	Add	W59,800	W130,000	1,736	na	9.0	na	0.1	0.1	-1.9%	1.6%	2.5%	13.1	5.5	5.6%	5.6%
LG Chem	051910 KS	Add	W250,000	W440,000	11,979	29.5	11.1	31.7%	0.6	0.6	2.0%	5.1%	8.5%	6.6	5.2	1.3%	2.2%
Kumho Petrochemical	011780 KS	Add	W90,600	W180,000	1,681	6.3	5.3	11.5%	0.4	0.4	7.5%	8.0%	8.1%	2.3	1.2	3.0%	3.5%
POSCO Future M	003670 KS	Reduce	W142,100	W170,000	7,471	150.4	86.4	111.3%	5.4	5.2	3.7%	6.1%	10.1%	60.0	16.9	0.3%	0.3%
Wanhua Chemical Group	600309 CH	Not Rated	Rmb71.35	n.a.	30,690	14.2	11.5	12.4%	2.2	2.0	17.3%	18.1%	18.6%	9.2	7.3	2.2%	2.7%
Formosa Plastics	1301 TT	Not Rated	TWD35.50	n.a.	6,891	560.9	23.0	73.6%	0.7	0.7	0.1%	2.9%	3.8%	55.6	19.4	1.8%	3.0%
Formosa Chemicals & Fibre	1326 TT	Not Rated	TWD27.30	n.a.	4,880	57.5	21.9	95.8%	0.5	0.5	0.9%	2.3%	2.2%	13.5	14.3	1.8%	3.7%
Nan Ya Plastics	1303 TT	Not Rated	TWD29.90	n.a.	7,231	36.3	19.8	42.1%	0.6	0.6	1.8%	3.2%	4.1%	12.1	10.3	1.8%	3.8%
Petrochemical average						38.0	14.8	nm	0.8	0.8	2.1%	5.2%	6.5%	8.8	6.7	1.7%	2.6%

SOURCES: CGSI RESEARCH ESTIMATES, BLOOMBERG, COMPANY REPORTS; DATA AS AT 31 DEC 2024; NON-RATED COMPANIES' ESTIMATES ARE BASED ON BLOOMBERG CONSENSUS ESTIMATES (NR COMPANIES SHOW REPORTED NET PROFIT)

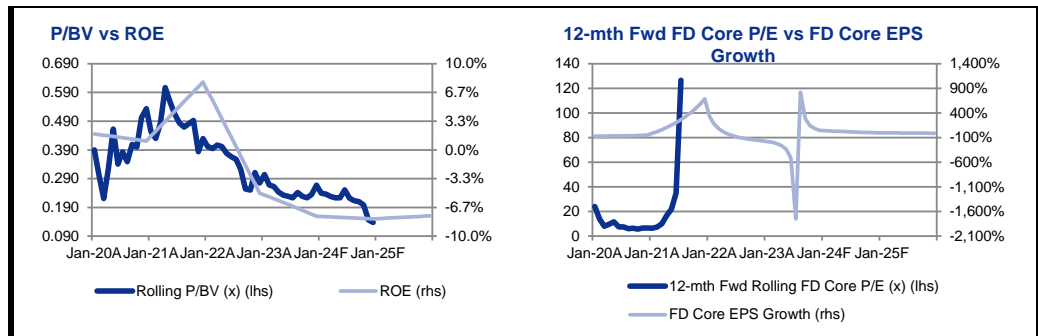
Abbreviation key

- PE: Polyethylene polymers
 - HDPE: High-density polyethylene
 - LDPE: Low-density polyethylene
 - LLDPE: Linear low-density polyethylene
- PP: Polypropylene polymers

LSEG ESG Scores													
 <table border="1" style="display: inline-table; margin-left: 20px;"> <tr> <td style="background-color: #90EE90; text-align: center;">C+</td> <td style="background-color: #3CB371; text-align: center;">A+</td> <td style="background-color: #90EE90; text-align: center;">C+</td> <td style="background-color: #FF8C00; text-align: center;">D+</td> <td style="background-color: #90EE90; text-align: center;">B</td> <td style="background-color: #90EE90; text-align: center;">C+</td> </tr> <tr> <td style="font-size: 8px; text-align: center;">ESG Grade</td> <td style="font-size: 8px; text-align: center;">ESG Controversies Grade</td> <td style="font-size: 8px; text-align: center;">ESG Combined Grade</td> <td style="font-size: 8px; text-align: center;">ESG Environment Pillar Grade</td> <td style="font-size: 8px; text-align: center;">ESG Social Pillar Grade</td> <td style="font-size: 8px; text-align: center;">ESG Governance Pillar Grade</td> </tr> </table>		C+	A+	C+	D+	B	C+	ESG Grade	ESG Controversies Grade	ESG Combined Grade	ESG Environment Pillar Grade	ESG Social Pillar Grade	ESG Governance Pillar Grade
C+	A+	C+	D+	B	C+								
ESG Grade	ESG Controversies Grade	ESG Combined Grade	ESG Environment Pillar Grade	ESG Social Pillar Grade	ESG Governance Pillar Grade								
<h2>ESG in a nutshell</h2> <p>LCT is a naphtha-feedstock producer of petrochemicals, with plants in Pasir Gudang and Tanjung Langsat in Johor, Malaysia, and in Cilegon, Java, Indonesia. Petrochemical production is a heavy industry that consumes large amounts of energy. Hence, efficiency in energy use is important in order to minimise greenhouse gas (GHG) emissions in the course of production. The polymer products produced are used to make plastics and the growing problem of plastic waste has become an urgent global issue. We believe that petrochemical companies should invest to minimise their GHG emissions, make an effort to offset their carbon emissions, and also invest in the recycling of plastic waste. In our view, LCT has not yet made sufficient or apparent efforts in all three categories.</p>													
<h3>Keep your eye on</h3> <p>Petrochemical companies must first and foremost measure their GHG and carbon emissions from their operations and then invest to mitigate those emissions, in our view. While LCT discloses its Scope 2 carbon emissions from the use of purchased electricity, it does not yet have equipment to measure its Scope 1 carbon emissions from its own plant operations.</p> <p>In 2021, LCT disclosed that it is in the process of measuring its Scope 1 GHG emissions, and hoped to finish this process by 2022. LCT had also intended to develop and disclose its Carbon Emission Management Roadmap (CEMR) by 2023. However, neither Scope 1 emissions disclosures nor the CEMR was made available to the public at the time of the release of the 2023 Annual Report on 29 Mar 2024.</p>	<h3>Implications</h3> <p>In terms of Scope 2 emissions, LCT emitted 353,589 tonnes of CO₂ equivalent (tCO₂e) in 2021, rising to 375,172 tCO₂e in 2022, and to 390,158 tCO₂e in 2023. The continuous yoy increases in Scope 2 emissions was despite LCT reducing production levels from 3m tonnes of petrochemical products in 2021, to 2.7m tonnes in 2022, and 2.4m tonnes in 2023.</p> <p>In 2020, LCT said it had succeeded in reusing 100% of the hydrogen and methane gases produced by its Malaysian naphtha cracker, which reduced its use of natural gas.</p> <p>In Indonesia, LCT has lowered its GHG emissions by using an ethylene recovery unit to recover wasted gas in the reactor, reducing the use of the coal-fired boiler and increasing the use of the natural gas boiler, and replacing the freon refrigerant (that is a potent GHG) in various equipment with propylene.</p> <p>However, without any disclosure of Scope 1 emissions, we are unable to determine the success or otherwise of LCT's GHG emissions reduction efforts.</p>												
<h3>ESG highlights</h3> <p>Energy intensity, water consumption intensity, nitrous oxide (NO_x) and sulphur oxide (SO_x) emissions, wastewater discharge quality, as well as hazardous waste management are all important measures of environmental management for LCT's operations, in our view.</p>	<h3>Implications</h3> <p>Carbon emissions regulations are absent in Malaysia but we believe that responsible corporate citizens should seriously consider efforts to offset their carbon emissions that cannot be mitigated by operational measures.</p> <p>LCT did not indicate any intention to offset the carbon emissions from its operations; it is still in the process of trying to measure those emissions in the first place.</p>												
<h3>Trends</h3> <p>Plastic waste is becoming an increasingly urgent global issue. LCT's competitor, Petronas Chemicals Group, has already taken final investment decision to set up a chemical recycling plant by 2026F, and also committed to recover 100% of plastic waste equivalent to its domestic polymer sales volume, which will be "redirected into a circular economy" (no timeline provided).</p>	<h3>Implications</h3> <p>LCT has expressed its commitment to the Malaysian government's circular economy initiative and to continued participation in the new Malaysian Sustainable Plastics Alliance (MaSPA) initiative by the Ministry of Environment and Water, et. al. Apart from contributing to "various recycling awareness and education programmes", LCT has yet to commit to any concrete measures to collect plastic waste or to be actively involved in plastic recycling.</p>												

SOURCES: CGSI RESEARCH, COMPANY REPORTS, LSEG

BY THE NUMBERS



Profit & Loss

(RMm)	Dec-22A	Dec-23A	Dec-24F	Dec-25F	Dec-26F
Total Net Revenues	10,019	7,646	7,047	7,197	7,158
Gross Profit	-77	-232	-377	-248	-287
Operating EBITDA	-325	-503	-609	-481	-520
Depreciation And Amortisation	-584	-511	-529	-539	-549
Operating EBIT	-909	-1,014	-1,138	-1,020	-1,069
Financial Income/(Expense)	32	-14	-9	7	19
Pretax Income/(Loss) from Assoc.	-22	-117	-100	-100	-100
Non-Operating Income/(Expense)	12	21	25	25	25
Profit Before Tax (pre-EI)	-886	-1,125	-1,223	-1,088	-1,126
Exceptional Items	-99	114	0	0	0
Pre-tax Profit	-985	-1,011	-1,223	-1,088	-1,126
Taxation	256	187	293	261	270
Exceptional Income - post-tax					
Profit After Tax	-729	-824	-929	-827	-855
Minority Interests	14	43	45	45	45
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
Preference Dividends (Australia)					
Net Profit	-715	-781	-884	-782	-810
Recurring Net Profit	-616	-894	-884	-782	-810
Fully Diluted Recurring Net Profit	-616	-894	-884	-782	-810
Normalised Net Profit	-630	-938	-929	-827	-855
Fully Diluted Normalised Profit	-616	-894	-884	-782	-810

Cash Flow

(RMm)	Dec-22A	Dec-23A	Dec-24F	Dec-25F	Dec-26F
EBITDA	-325	-503	-609	-481	-520
Cash Flow from Invt. & Assoc.					
Change In Working Capital	84	-131	95	-19	5
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense					
Other Operating Cashflow	-0	26	25	25	25
Net Interest (Paid)/Received	-6	-6	-18	-18	-18
Tax Paid	-102	-11	-10	-12	-15
Cashflow From Operations	-349	-624	-517	-505	-522
Capex	-4,353	-6,510	-5,946	-936	-250
Disposals Of FAs/subsidiaries	2,742	5	0	0	0
Acq. Of Subsidiaries/investments	0	0	0	0	0
Other Investing Cashflow	50	23	17	25	36
Cash Flow From Investing	-1,562	-6,483	-5,929	-911	-214
Debt Raised/(repaid)	0	6,414	7,187	1,700	2,000
Proceeds From Issue Of Shares	2,142	596	0	0	0
Shares Repurchased	0	0	0	0	0
Dividends Paid	-797	0	0	0	0
Preferred Dividends					
Other Financing Cashflow	-27	-482	0	0	0
Cash Flow From Financing	1,319	6,528	7,187	1,700	2,000
Total Cash Generated	-592	-579	741	284	1,264
Free Cashflow To Equity	-1,911	-693	741	284	1,264
Free Cashflow To Firm	-1,905	-7,102	-6,428	-1,399	-718

SOURCES: CGSI RESEARCH ESTIMATES, COMPANY REPORTS

BY THE NUMBERS... cont'd

Balance Sheet

(RMm)	Dec-22A	Dec-23A	Dec-24F	Dec-25F	Dec-26F
Total Cash And Equivalents	1,305	761	1,501	1,785	3,049
Total Debtors	1,130	1,141	1,068	1,086	1,081
Inventories	1,462	1,445	1,358	1,362	1,362
Total Other Current Assets	15	13	13	13	13
Total Current Assets	3,912	3,360	3,940	4,245	5,505
Fixed Assets	10,298	17,171	20,885	21,282	20,983
Total Investments	2,530	2,500	2,400	2,300	2,200
Intangible Assets	0	0	0	0	0
Total Other Non-Current Assets	48	91	91	91	91
Total Non-current Assets	12,876	19,762	23,377	23,674	23,274
Short-term Debt	0	407	407	407	407
Current Portion of Long-Term Debt					
Total Creditors	1,190	1,133	1,067	1,070	1,070
Other Current Liabilities	0	0	0	0	0
Total Current Liabilities	1,190	1,540	1,474	1,477	1,477
Total Long-term Debt	0	5,537	12,724	14,424	16,424
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities	593	755	764	764	764
Total Non-current Liabilities	593	6,292	13,488	15,188	17,188
Total Provisions	465	279	279	279	279
Total Liabilities	2,248	8,112	15,241	16,944	18,944
Shareholders' Equity	11,774	11,499	10,615	9,833	9,023
Minority Interests	2,766	3,511	1,461	1,143	813
Total Equity	14,540	15,011	12,076	10,976	9,835

Key Ratios

	Dec-22A	Dec-23A	Dec-24F	Dec-25F	Dec-26F
Revenue Growth	1.9%	(23.7%)	(7.8%)	2.1%	(0.5%)
Operating EBITDA Growth	(120%)	55%	21%	(21%)	8%
Operating EBITDA Margin	(3.24%)	(6.57%)	(8.65%)	(6.68%)	(7.26%)
Net Cash Per Share (RM)	0.57	-2.28	-5.11	-5.73	-6.05
BVPS (RM)	5.17	5.05	4.66	4.32	3.96
Gross Interest Cover	-50.89	-27.50	-43.22	-57.63	-60.41
Effective Tax Rate	0%	0%	0%	0%	0%
Net Dividend Payout Ratio	NA	NA	NA	NA	NA
Accounts Receivables Days	34.52	44.33	46.80	44.30	44.89
Inventory Days	56.69	67.35	69.10	66.66	66.76
Accounts Payables Days	38.70	52.32	52.24	50.40	50.47
ROIC (%)	(12.1%)	(8.6%)	(6.1%)	(4.6%)	(4.7%)
ROCE (%)	(5.91%)	(5.47%)	(4.80%)	(3.86%)	(3.90%)
Return On Average Assets	(4.10%)	(4.63%)	(3.65%)	(3.02%)	(3.08%)

Key Drivers

	Dec-22A	Dec-23A	Dec-24F	Dec-25F	Dec-26F
Plant utilisation (%)	76.9%	66.8%	65.6%	65.6%	65.6%
Production volume (m tonnes)	2.7	2.4	2.3	2.3	2.3
Sales volume (m tonnes)	1.9	1.6	1.5	1.5	1.5
Average selling price (US\$/tonne)	1,224.4	1,017.7	1,033.5	1,055.5	1,049.8
Average naphtha price (US\$/tonne)	755.9	628.3	605.6	605.6	605.6
Average price-naphtha spread (US\$/tonne)	468.5	389.4	427.9	449.9	444.2

SOURCES: CGSI RESEARCH ESTIMATES, COMPANY REPORTS

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Description:	Excellent	Very Good	Good	N/A	N/A

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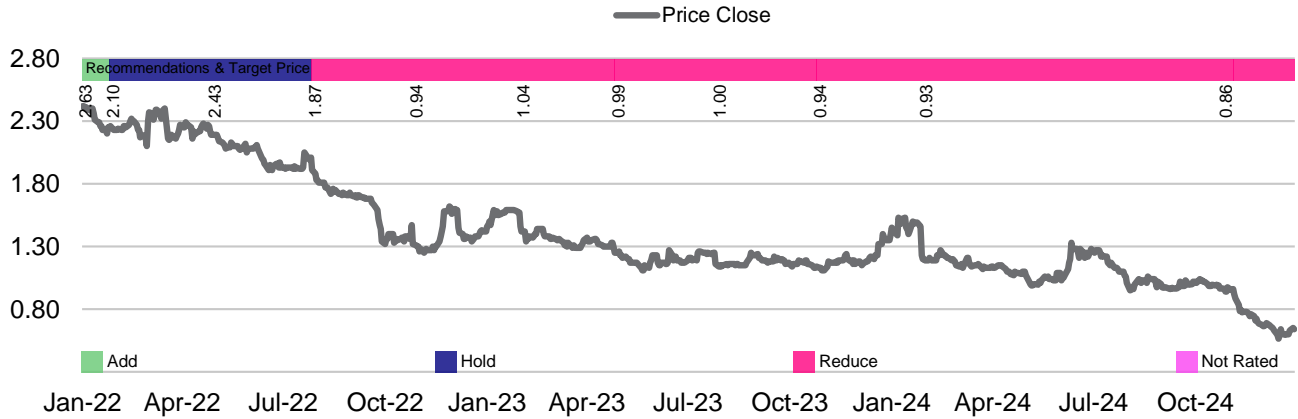
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Distribution of stock ratings and investment banking clients for quarter ended on 30 September 2024
 588 companies under coverage for quarter ended on 30 September 2024

	Rating Distribution (%)	Investment Banking clients (%)
Add	67.0%	0.5%
Hold	23.5%	0.9%
Reduce	9.5%	0.2%

Spitzer Chart for stock being researched (2 year data)

Lotte Chemical Titan (TTNP MK)



Recommendation Framework

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Definition:

Add The stock's total return is expected to exceed 10% over the next 12 months.

Hold The stock's total return is expected to be between 0% and positive 10% over the next 12 months.

Reduce The stock's total return is expected to fall below 0% or more over the next 12 months.

The total expected return of a stock is defined as the sum of the: (i) percentage difference between the target price and the current price and (ii) the forward net dividend yields of the stock. Stock price targets have an investment horizon of 12 months.

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