



Formosa Chemicals & Fibre (1326.TW/1326 TT)

Oil price hikes to boost 3Q23F earnings

FTSE4Good TIP Taiwan ESG Index stock

Underperform · Maintained

Price as of September 19 (NT\$)	64.10
12M target price (NT\$)	57.00
Previous target price (NT\$)	57.00
Unchanged (%)	0.0
Downside (%)	11.1

Key message

Formosa Chemicals and Fibre (FCFC) will announced 3Q23F preliminary earnings on Wednesday, October 11. We forecast 3Q23F EPS will grow QoQ to NT\$0.76 on the back of crude oil price hikes and a second round of industry restocking. We suggest investors wait for industry consolidation and signs of demand recovery.

Trading data

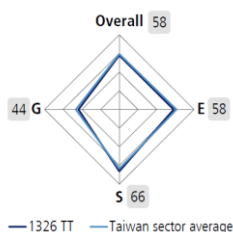
Mkt cap (NT\$bn/US\$mn)	375.7 / 11,754	
Outstanding shares (mn)	5,861	
Foreign ownership (mn)	1,962	
3M avg. daily trading (mn)	3.17	
52-week trading range (NT\$)	60.50 - 76.10	

Performance	3M	6M	12M
Absolute (%)	-5.5	-6.4	-4.9
Relative (%)	-1.8	-14.1	-20.2

ESG score card

NT\$	1Q	2Q	3Q	4Q
2022	1.04A	1.08A	0.43A	(1.28)A
2023	(0.13)A	0.29A	0.76F	0.00F
2024	(0.00)F	1.03F	0.66F	0.45F

Share price chart



Source: Refinitiv, KGI securities

Event

Formosa Chemicals and Fibre (FCFC) will announced 3Q23F preliminary earnings on Wednesday, October 11. We forecast 3Q23F EPS will grow QoQ to NT\$0.76 on the back of crude oil price hikes and a second round of industry restocking.

Impact

Riding inventory gains in 3Q23. We forecast 3Q23F EPS will grow 163% QoQ and 79% YoY to NT\$0.76, above consensus of NT\$0.34, mainly as: (1) operating profit will turn positive, with the integrated ABS-naphtha spread, which is an indicator of the firm's profitability, to fall US\$53/metric ton (mt) from the already unprofitable 2Q23 level, while the integrated PTA-naphtha spread will sink US\$31/mt from the already unprofitable 2Q23 level on (a) demand for blending aromatics in gasoline during the peak driving season in the US, which has kept PX-benzene spread flattish QoQ at a healthy level; (b) stable SM capacity utilization backed by enhanced cost competitiveness after maintenance and exports to South Korea; (c) increased sales volume of polymers and restocking by traders amid China's monetary easing and property stimulus policies, as well as continuous crude price hikes; and (d) inventory gains for the firm's 1st Petrochemical Division thanks to higher crude and naphtha prices; and (2) we predict that Formosa Petrochemical Corp. (FPCC; 6505 TT, NT\$81.2, N) will contribute investment income (vs. losses in 2Q23), boosted by inventory gains.

Aromatics spreads to be under pressure in 4Q23F. We estimate 4Q23F EPS will fall 99% QoQ to NT\$0.00, which is worse than consensus EPS of NT\$0.33, mainly because: (1) we expect operations to be loss-making in 4Q23 on (a) high oil prices hurting aromatics and derivatives spreads; (b) narrowing PX-benzene spread on a QoQ basis as the peak driving season comes to an end; and (c) declining inventory gains; and (2) investment income from FPCC will fall QoQ as a result of lower inventory gains.

Valuation & Action

To reflect the negative impact of high oil prices on aromatics spreads in 4Q23F and 2024F, we revise down 2024F EPS to NT\$2.14. We maintain our target price of NT\$57, based on 1.0x 2024F BVPS of NT\$57. The ramp-up of new capacities of aromatics derivatives in China will continue to squeeze the firm's product spreads and capacity utilization. As such, we maintain Underperform and suggest investors wait for industry consolidation and signs of demand recovery.

Risks

Slumping crude oil prices; weakening demand for commodities.

Key financials and valuations

	Dec-20A	Dec-21A	Dec-22A	Dec-23F	Dec-24F
Revenue (NT\$mn)	253,295	365,812	379,897	325,510	383,786
Gross profit (NT\$mn)	29,532	53,438	12,742	9,957	24,203
Operating profit (NT\$mn)	15,324	34,433	(5,286)	(4,743)	8,703
Net profit (NT\$mn)	19,544	38,359	7,360	5,421	12,504
EPS (NT\$)	3.34	6.56	1.26	0.93	2.14
Cash DPS (NT\$)	2.50	4.80	0.95	0.70	1.60
EPS growth (%)	(34.4)	96.3	(80.8)	(26.3)	130.7
PE (x)	19.2	9.8	50.9	69.2	30.0
PB (x)	1.1	1.0	1.2	1.1	1.1
EV/EBITDA (x)	9.8	5.9	25.7	24.5	12.4
Net debt to equity (%)	19.5	17.9	28.6	29.0	28.0
Dividend yield (%)	3.9	7.5	1.5	1.1	2.5
Return on average equity (%)	5.6	10.4	2.1	1.6	3.7

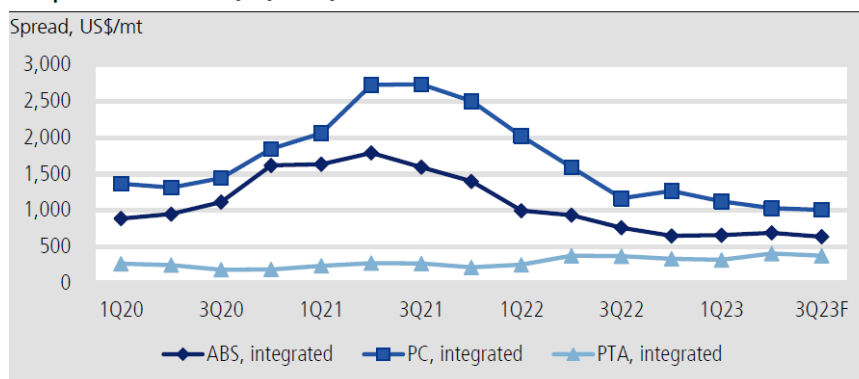
Source: Company data, KGI Research estimates

Figure 1: Breakdown of 3Q23 earnings forecasts by segment

NT\$m	3Q23F		
	KGI forecast	QoQ (%)	YoY (%)
Operating income	1,226	N.M.	N.M.
Non-operating income	3,903	(18)	(50)
Investment income	3,371	1,219	N.M.
FPCC	2,771	N.M.	N.M.
Mao-Liao Power	748	26	5,017
Other	(149)	(17)	N.M.
Dividend income	470	(89)	(94)
Forex gain / loss	300	4	(72)
Other	(238)	5	N.M.

Source: KGI Research

Figure 2: Integrated benzene-SM-PS-ABS spreads, PX-PTA, and phenol-acetone-PC spreads declined QoQ in 3Q23



Source: Oilchem; KGI Research

Figure 3: Breakdown of 3Q23 & 4Q23 forecast revisions vs. consensus

NT\$m	3Q23F								4Q23F							
	Revision	Previous	Chg. (%)	QoQ (%)	YoY (%)	Consensus	Diff. (%)	Revision	Previous	Chg. (%)	QoQ (%)	YoY (%)	Consensus	Diff. (%)		
Sales	84,875	78,399	8.3	12.9	(6.5)	79,895	6.2	82,437	82,485	(0.1)	(2.9)	(4.1)	82,088	0.4		
Gross profits	5,078	3,003	69.1	1,225.4	-	4,480	13.4	3,088	4,972	(37.9)	(39.2)	-	5,080	(39.2)		
Operating income	1,403	(872)	-	-	-	668	110.1	(688)	934	-	-	-	1,153	-		
Pretax Income	5,306	810	554.8	233.3	212.2	2,267	134.0	643	2,311	(72.2)	(87.9)	-	1,951	(67.1)		
Net income	4,463	451	889.4	163.0	78.9	1,736	157.1	28	697	(96.0)	(99.4)	-	1,470	(98.1)		
EPS (NT\$)	0.76	0.08	889.4	163.0	78.9	0.34	157.1	0.00	0.12	(96.0)	(99.4)	-	0.33	(98.1)		
Gross margin (%)	6.0	3.8	2.2 ppts	5.5 ppts	8.1 ppts	5.6	0.4 ppts	3.7	6.0	(2.3)ppts	(2.2)ppts	5.2 ppts	6.2	(2.4)ppts		
OP margin (%)	1.7	(1.1)	2.8 ppts	5.8 ppts	8.5 ppts	0.8	0.8 ppts	(0.8)	1.1	(2.0)ppts	(2.5)ppts	5.3 ppts	1.4	(2.2)ppts		
Net margin (%)	5.3	0.6	4.7 ppts	3.0 ppts	2.5 ppts	2.2	3.1 ppts	0.0	0.8	(0.8)ppts	(5.2)ppts	8.8 ppts	1.8	(1.8)ppts		

Source: KGI Research

Figure 4: Breakdown of 2023 & 2024 forecast revisions vs. consensus

NT\$m	2023F							2024F						
	Revision	Previous	Chg. (%)	YoY (%)	Consensus	Diff. (%)	Revision	Previous	Chg. (%)	YoY (%)	Consensus	Diff. (%)		
Sales	325,510	319,054	2.0	(14.3)	318,732	2.1	383,786	386,875	(0.8)	17.9	336,200	14.2		
Gross profit	9,957	10,112	(1.5)	(21.9)	13,103	(24.0)	24,203	25,722	(5.9)	143.1	23,420	3.3		
Operating income	(4,743)	(5,388)	-	(10.3)	(2,598)	-	8,703	9,722	(10.5)	(283.5)	7,171	21.4		
Pretax profit	6,407	3,564	79.8	(33.2)	6,023	6.4	16,570	18,249	(9.2)	158.6	16,704	(0.8)		
Net profit	5,421	2,063	162.8	(26.3)	5,312	2.1	12,504	13,242	(5.6)	130.7	13,120	(4.7)		
EPS (NT\$)	0.93	0.35	162.8	(26.3)	1.11	2.1	2.14	2.26	(5.6)	130.7	2.26	(4.7)		
Gross margin (%)	3.1	3.2	(0.1)ppts	(0.3)ppts	4.1	(1.1)ppts	6.3	6.6	(0.3)ppts	3.2 ppts	7.0	(0.7)ppts		
OP margin (%)	(1.5)	(1.7)	0.2 ppts	(0.1)ppts	(0.8)	(0.6)ppts	2.3	2.5	(0.2)ppts	3.7 ppts	2.1	0.1 ppts		
Net margin (%)	1.7	0.6	1.0 ppts	(0.3)ppts	1.7	(0.0)ppts	3.3	3.4	(0.2)ppts	1.6 ppts	3.9	(0.6)ppts		

Source: KGI Research

Figure 5: Breakdown of earnings forecasts by business segment

(NT\$mn)	1Q23	2Q23	3Q23F	4Q23F	1Q24F	2Q24F	3Q24F	4Q24F	2021	2022	2023F	2024F
1st Petrochemical (benzene, PX, OX, raffinate)	493	748	1,798	563	498	1,614	1,089	986	2,618	417	3,602	4,187
2nd Petrochemical (SM, phenol, acetone)	(1,247)	(1,585)	(697)	(827)	(927)	(540)	476	217	6,666	(2,187)	(4,355)	(774)
3rd Petrochemical (PTA, PIA)	(491)	(543)	(47)	(515)	(405)	316	316	(4)	3,438	286	(1,596)	223
Plastics (ABS, PS, PP, PC)	(1,138)	(895)	523	(184)	619	1,415	1,057	975	19,740	(661)	(1,694)	4,067
Formosa Taffeta (textiles)	224	(17)	88	165	120	359	180	180	1,550	1,270	461	838
Other	(146)	(862)	(263)	111	(20)	141	70	(30)	421	(4,411)	(1,161)	162
Total operating income	(2,305)	(3,153)	1,403	(688)	(115)	3,306	3,188	2,325	34,433	(5,286)	(4,743)	8,703
Mao-Liao Power	659	595	748	492	249	499	374	125	77	(1,126)	2,494	1,247
FPCC	1,028	(160)	2,771	1,065	360	1,685	1,948	1,234	11,969	3,575	4,705	5,228
Other	(287)	(180)	(149)	22	42	42	42	42	522	(182)	(594)	167
Total investment income	1,400	256	3,371	1,578	652	2,226	2,364	1,401	12,567	2,268	6,605	6,642
FPCC									216	1,388	402	548
FPC									1,169	3,993	2,045	487
NYP									992	3,100	1,240	289
Nanya Technology									435	1,239	713	100
Formosa Ha Tinh									0	0	0	0
Other									305	728	500	500
Total dividend income	4	4,427	470	0	0	1,925	0	0	3,116	10,448	4,900	1,925
Net income	(768)	1,697	4,463	28	(25)	6,009	3,889	2,631	38,359	7,360	5,421	12,504
EPS	(0.13)	0.29	0.76	0.00	(0.00)	1.03	0.66	0.45	6.56	1.26	0.93	2.14
DPS									4.80	0.95	0.70	1.60

Source: KGI Research

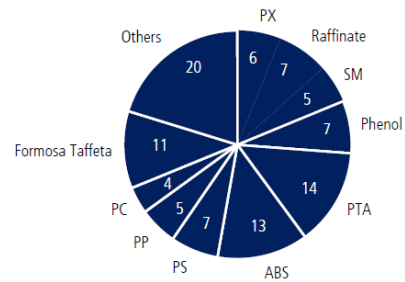
Figure 6: Company profile

Established in 1965, Formosa Chemicals & Fibre Corp. (FCFC) is Formosa Group's integrated aromatics arm based in Mailliao, Taiwan and Ningbo, China. Sourcing pygas and naphtha from affiliate Formosa Petrochemical Corporation (FPCC; 6505 TT, NT\$81.2, N), FCFC manufactures upstream products like benzene, OX, PX, and processed derivatives such as SM, PS, PTA, PS, ABS, and PC. Its presence in the downstream textile business was established via a 37.4% stake in Formosa Taffeta (1434 TT, NT\$25.65, NR) and a 42.5% stake in Formosa Industries Corporation (unlisted). Its 24.2% equity in FPCC helps minimize commodity pricing volatility.

Source: KGI Research

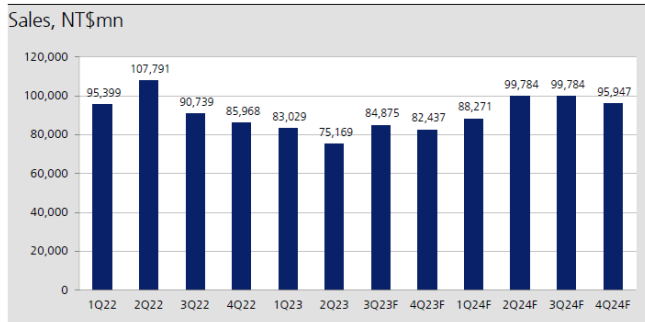
Figure 7: PX, SM, PS & other aromatic derivatives are core products

Sales weighting (excl. internal transactions) in 2019, percent



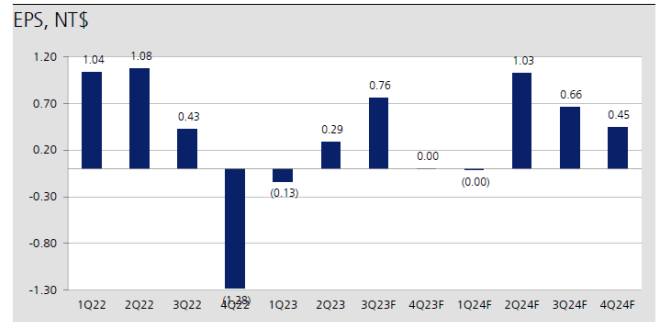
Source: KGI Research

Figure 8: Sales



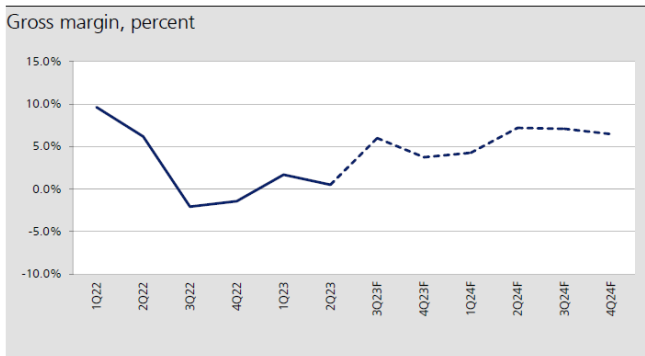
Source: KGI Research

Figure 9: EPS



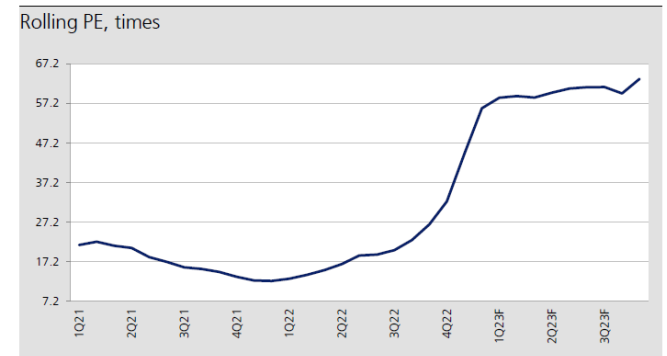
Source: KGI Research

Figure 10: Gross Margin



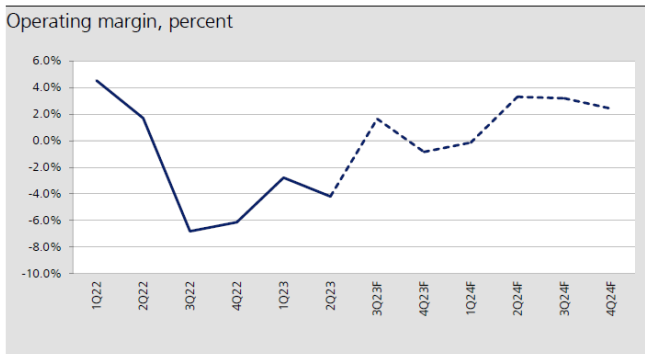
Source: KGI Research

Figure 11: Rolling PE



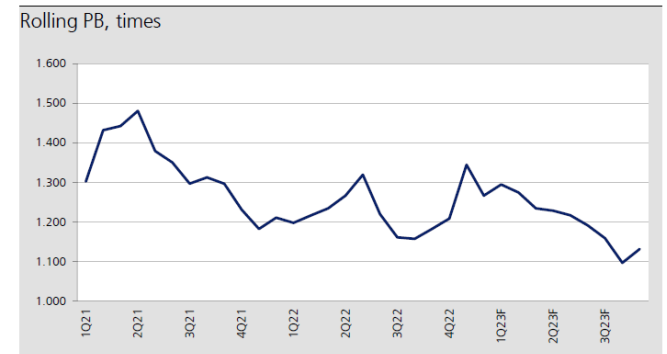
Source: KGI Research

Figure 12: Operating Margin



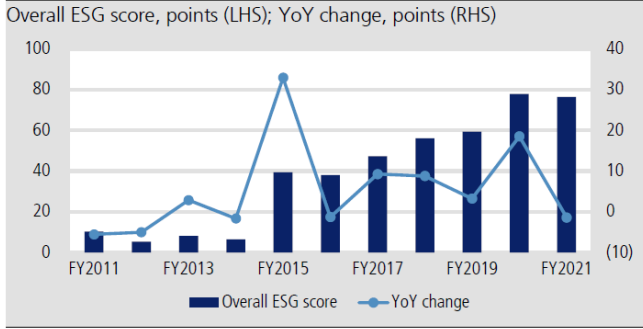
Source: KGI Research

Figure 13: Rolling PB



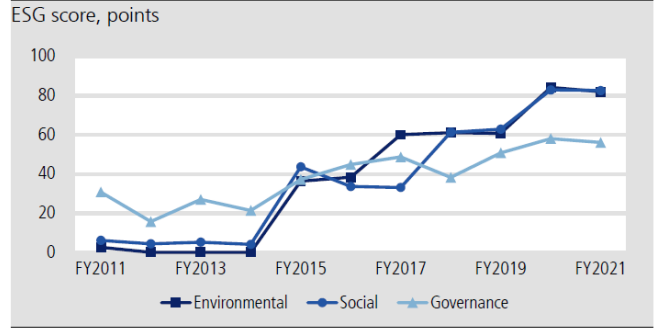
Source: KGI Research

Figure 14: Overall ESG score



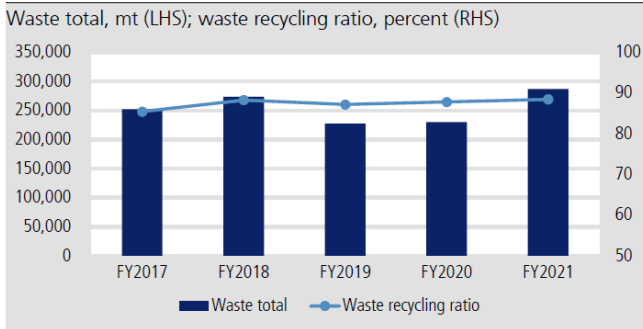
Source: Refinitiv; Company data

Figure 15: ESG score by category



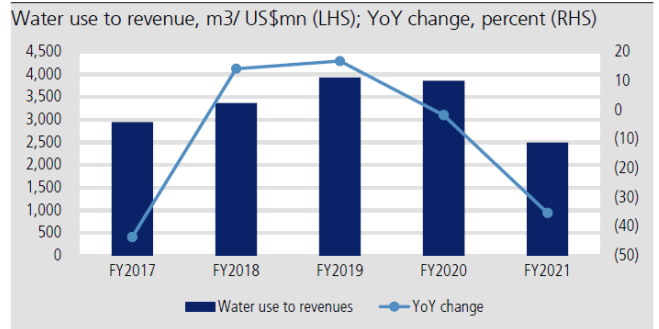
Source: Refinitiv; Company data

Figure 16: Waste total



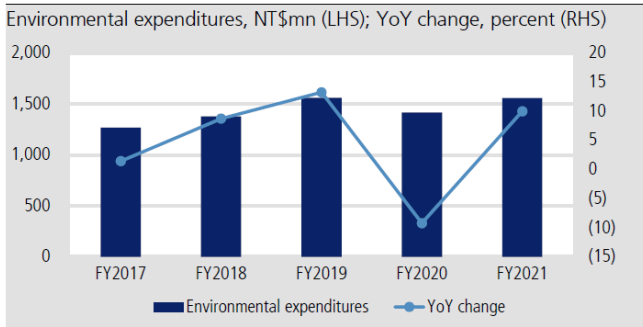
Source: Refinitiv; Company data

Figure 17: Water use



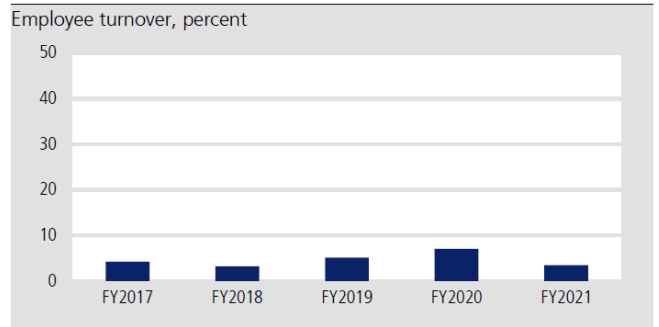
Source: Refinitiv; Company data

Figure 18: Environmental expenditures



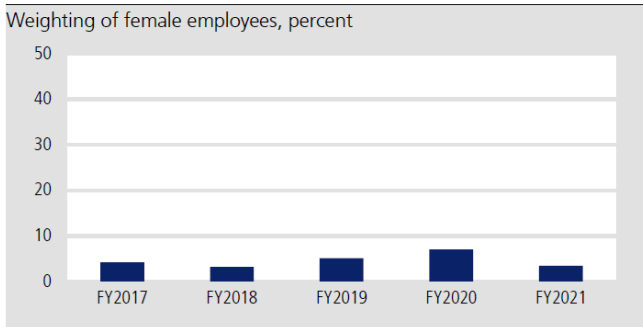
Source: Refinitiv; Company data

Figure 19: Employee turnover



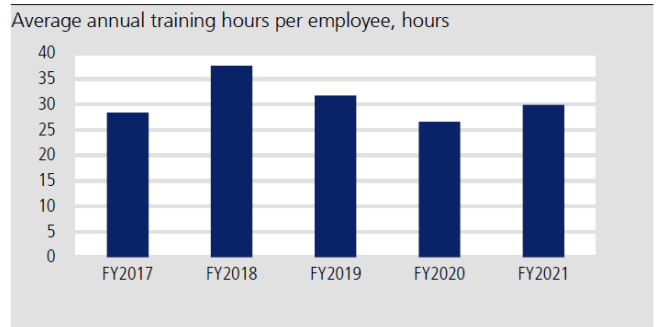
Source: Refinitiv; Company data

Figure 20: Gender diversification



Source: Refinitiv; Company data

Figure 21: Employee training



Source: Refinitiv; Company data

ESG chart definition

Item	Definition	Remarks
Energy use	<p>Total direct and indirect energy consumption in gigajoules.</p> <ul style="list-style-type: none"> - the total amount of energy that has been consumed within the boundaries of the company's operations - total energy use = total direct energy consumption + indirect energy consumption - purchased energy and produced energy are included in total energy use - for utilities, transmission/ grid loss as part of its business activities is considered as total energy consumed and data does not consider electricity produced to answer energy use (utility company produces to sell) - for utilities, raw materials such as coal, gas or nuclear used in the production of energy are not considered under 'total energy use' 	
Renewable energy purchased	<p>Total primary renewable energy purchased in gigajoules.</p> <ul style="list-style-type: none"> - energy consumed by the company from various sources and among the purchased energy, how much energy is renewable in nature (solar, wind, hydro, biomass, geothermal) are in scope - if there is no evidence that renewable energy is produced by the company, then we consider the reported energy figure as renewable energy purchased 	
Renewable energy use ratio	Renewable energy to total energy used	
CO2 equivalent emissions	<p>Direct CO2 and CO2 equivalent emissions in metric tons.</p> <ul style="list-style-type: none"> - direct emissions from sources that are owned or controlled by the company (scope 1 emissions) - following gases are relevant: carbon dioxide (CO2), methane (CH4), nitrous oxide (N2O), hydrofluorocarbons (HFCs), perfluorinated compound (PFCS), sulfur hexafluoride (SF6), nitrogen trifluoride (NF3) 	
CO2 equivalent emissions to sales	<p>Direct CO2 and CO2 equivalent emissions (metric tons) to sales (NT\$mn)</p> <ul style="list-style-type: none"> - direct emissions from sources that are owned or controlled by the company (scope 1 emissions) - following gases are relevant: carbon dioxide (CO2), methane (CH4), nitrous oxide (N2O), hydrofluorocarbons (HFCs), perfluorinated compound (PFCS), sulfur hexafluoride (SF6), nitrogen trifluoride (NF3) 	
Waste total	<p>Total amount of waste produced in metric tons.</p> <ul style="list-style-type: none"> - total waste = non-hazardous waste + hazardous waste - only solid waste is taken into consideration, exceptionally if liquid waste is reported in metric tons, then we do the summation to derive total including liquid waste - for sectors like mining, oil & gas, waste generation like tailings, waste rock, coal and fly ash are also considered 	
Waste recycling ratio	<p>The waste recycling ratio as reported by the company.</p> <ul style="list-style-type: none"> - waste recycling ratio = waste recycled/total waste*100 - waste to energy or waste incinerated with energy recovery are considered as waste recycled - waste recovered via composting is considered as recycled waste 	
Water withdrawal total	<p>Total water withdrawal in cubic meters.</p> <ul style="list-style-type: none"> - the total volume of water withdrawn from any water source that was either withdrawn directly by the reporting organization or through intermediaries such as water utilities - different sources of water like wells, town/utility/municipal water, river water, and surface water are considered 	
Environmental expenditures	<p>Total amount of environmental expenditures.</p> <ul style="list-style-type: none"> - all environmental investment & expenditures for environmental protection or to prevent, reduce, control environmental aspects, impacts, and hazards. It also includes disposal, treatment, sanitation, and clean-up expenditures 	
Turnover of employees	<p>Percentage of employee turnover.</p> <ul style="list-style-type: none"> - includes employees who left the company for any reason (voluntary or involuntary), such as resignations, retirement, natural departure/death, medical incapacitation, redundancy, layoffs, restructuring, dismissal, retrenchment or end of a fixed-term contract - employees turnover rate = (employees leaving/average number of employees)*100 - where the average number of employees = (employees at the end of the current year + employees at the end of the previous year)/2 - employees at the end of the current fiscal year = employees at the end of the previous fiscal year + new employees - employees leaving 	
Women managers	<p>Percentage of women managers.</p> <ul style="list-style-type: none"> - percentage of women managers among total managers of the company - if there is a breakdown by category in percentage, such as top, senior, middle, and junior management, then we consider the percentage of middle women managers - percentage of women managers = number of women managers/total number of managers*100 	
Women employees	<p>Percentage of women employees.</p> <ul style="list-style-type: none"> - percentage of women employees to the total number of employees of the company - percentage of women employees = number of women/total number of employees*100 	
Training hours total	<p>Total training hours performed by all employees.</p> <ul style="list-style-type: none"> - consider only employee training hours - includes all types of training given to general employees (such as health & safety, environmental, emergency response, skills & career development training) - if the value is given in days, multiply by 8, assuming that 1 day = 8 hours worked 	
Training hours per employee	Training hours per employee per year	

Source: Refinitiv; Company data, KGI Research

Income statement

	Quarterly								Annually		
	Mar-23A	Jun-23A	Sep-23F	Dec-23F	Mar-24F	Jun-24F	Sep-24F	Dec-24F	Dec-22A	Dec-23F	Dec-24F
Income statement (NT\$m)											
Revenue	83,029	75,169	84,875	82,437	88,271	99,784	99,784	95,947	379,897	325,510	383,786
Cost of goods sold	(81,621)	(74,786)	(79,797)	(79,349)	(84,510)	(92,604)	(92,722)	(89,747)	(367,154)	(315,553)	(359,583)
Gross profit	1,408	383	5,078	3,088	3,760	7,181	7,063	6,200	12,742	9,957	24,203
Operating expenses	(3,712)	(3,537)	(3,675)	(3,776)	(3,875)	(3,875)	(3,875)	(3,875)	(18,028)	(14,700)	(15,500)
Operating profit	(2,305)	(3,153)	1,403	(688)	(115)	3,306	3,188	2,325	(5,286)	(4,743)	8,703
Depreciation of fixed assets	(3,443)	(3,294)	(3,466)	(3,663)	(3,466)	(3,466)	(3,466)	(3,466)	(13,865)	(13,865)	(13,865)
Amortisation of intangible assets	(969)	(933)	(1,150)	(1,548)	(1,150)	(1,150)	(1,150)	(1,150)	(4,599)	(4,599)	(4,599)
EBITDA	2,106	1,073	6,019	4,523	4,501	7,922	7,804	6,941	13,178	13,722	27,168
Interest income	213	249	213	175	125	125	125	125	662	850	500
Investment income	1,404	4,682	3,840	1,578	652	4,150	2,364	1,401	12,716	11,505	8,567
Other non-op income	252	298	550	495	250	250	250	250	1,321	1,595	1,000
Non-operating income	1,869	5,229	4,603	2,249	1,027	4,525	2,739	1,776	14,699	13,950	10,067
Interest expense	(715)	(732)	(700)	(653)	(550)	(550)	(550)	(550)	(1,798)	(2,800)	(2,200)
Investment loss	-	-	-	-	-	-	-	-	-	-	-
Other non-op expenses	18	248	-	(266)	-	-	-	-	1,974	-	-
Non-operating expenses	(698)	(484)	(700)	(919)	(550)	(550)	(550)	(550)	176	(2,800)	(2,200)
Pre-tax profit	(1,134)	1,592	5,306	643	362	7,281	5,377	3,550	9,590	6,407	16,570
Current taxation	(32)	97	(743)	(91)	(51)	(801)	(753)	(550)	(386)	(769)	(2,154)
Minorities	398	8	(100)	(523)	(336)	(471)	(735)	(370)	(1,844)	(218)	(1,911)
Normalised net profit	(768)	1,697	4,463	28	(25)	6,009	3,889	2,631	7,360	5,421	12,504
Extraordinary items	(0)	(0)	-	0	-	-	-	-	-	-	-
Net profit	(768)	1,697	4,463	28	(25)	6,009	3,889	2,631	7,360	5,421	12,504
EPS (NT\$)	(0.13)	0.29	0.76	0.00	(0.00)	1.03	0.66	0.45	1.26	0.93	2.14
Margins (%)											
Gross profit margin	1.7	0.5	6.0	3.7	4.3	7.2	7.1	6.5	3.4	3.1	6.3
Operating margin	(2.8)	(4.2)	1.7	(0.8)	(0.1)	3.3	3.2	2.4	(1.4)	(1.5)	2.3
EBITDA margin	2.5	1.4	7.1	5.5	5.1	7.9	7.8	7.2	3.5	4.2	7.1
Pretax profit margin	(1.4)	2.1	6.3	0.8	0.4	7.3	5.4	3.7	2.5	2.0	4.3
Net profit margin	(0.9)	2.3	5.3	0.0	(0.0)	6.0	3.9	2.7	1.9	1.7	3.3
Sequential growth (%)											
Revenue growth	(3.4)	(9.5)	12.9	(2.9)	7.1	13.0	0.0	(3.8)			
Gross profit growth		(72.8)	1225.4	(39.2)	21.8	91.0	(1.6)	(12.2)			
Operating profit growth	(56.3)	36.8		(149.0)	(83.3)		(3.6)	(27.1)			
EBITDA growth	30887.0	(49.1)	461.0	(24.9)	(0.5)	76.0	(1.5)	(11.1)			
Pretax profit growth	(87.2)		233.3	(87.9)	(43.7)	1912.1	(26.2)	(34.0)			
Net profit growth	(89.8)		163.0	(99.4)	(188.5)		(35.3)	(32.4)			
YoY growth (%)											
Revenue growth	(13.0)	(30.3)	(6.5)	(4.1)	6.3	32.7	17.6	16.4	3.9	(14.3)	17.9
Gross profit growth	(84.7)	(94.3)			167.2	1774.2	39.1	100.7	(76.2)	(21.9)	143.1
Operating profit growth	(153.3)	(272.0)		(87.0)	(95.0)		127.2		(115.4)	(10.3)	
EBITDA growth	(75.7)	(82.8)		66432.8	113.7	638.4	29.6	53.5	(74.9)	4.1	98.0
Pretax profit growth	(113.9)	(81.4)	212.2			357.3	1.3	452.4	(80.9)	(33.2)	158.6
Net profit growth	(112.7)	(73.1)	78.9		(96.8)	254.1	(12.9)	9243.9	(80.8)	(26.3)	130.7

Source: Company data, KGI Research estimates

Balance sheet

NTS\$mn	Dec-20A	Dec-21A	Dec-22A	Dec-23F	Dec-24F
Total assets	531,820	598,345	555,539	557,057	567,379
Current assets	215,865	246,631	224,714	214,214	215,312
Cash & ST securities	135,818	145,371	133,920	133,831	134,928
Inventory	33,048	47,200	48,437	46,170	46,170
Accounts receivable	33,504	37,105	30,060	27,093	27,093
Other current assets	13,495	16,954	12,296	7,121	7,121
Non-current assets	315,955	351,714	330,825	342,843	352,067
LT investments	175,914	205,022	171,866	178,874	183,591
Net fixed assets	127,269	130,898	142,849	151,280	160,386
Other assets	12,772	15,794	16,110	12,690	8,091
Total liabilities	136,368	154,364	182,182	177,415	177,415
Current liabilities	73,453	84,917	116,951	110,806	110,806
Accounts payable	18,365	21,662	18,851	16,261	16,261
Interest bearing ST liabilities	37,791	39,859	80,528	79,004	79,004
Other current liabilities	17,297	23,396	17,572	15,541	15,541
Non-current liabilities	62,915	69,447	65,231	66,609	66,609
Long-term debt	56,291	62,677	59,218	60,742	60,742
Other L-T liabilities	5,912	5,977	5,209	5,866	5,866
Total equity	395,453	443,981	373,356	379,643	389,964
Share capital	58,612	58,612	58,612	58,288	58,288
Retained earnings reserve	53,380	72,146	41,405	42,732	45,878
Minority interests	51,099	53,010	47,230	46,405	48,317
Preferred shareholders funds	-	-	-	-	-

Key ratios

	Dec-20A	Dec-21A	Dec-22A	Dec-23F	Dec-24F
Growth					
Revenue growth	(19.7%)	44.4%	3.9%	(14.3%)	17.9%
Operating profit growth	(7.1%)	124.7%	(115.4%)	(10.3%)	
EBITDA growth	(7.5%)	62.0%	(74.9%)	4.1%	98.0%
Net profit growth	(34.2%)	96.3%	(80.8%)	(26.3%)	130.7%
EPS growth	(34.4%)	96.3%	(80.8%)	(26.3%)	130.7%
Profitability					
Gross profit margin	11.7%	14.6%	3.4%	3.1%	6.3%
Operating margin	6.0%	9.4%	(1.4%)	(1.5%)	2.3%
EBITDA margin	12.8%	14.3%	3.5%	4.2%	7.1%
Net profit margin	7.7%	10.5%	1.9%	1.7%	3.3%
Return on average assets	3.6%	6.8%	1.3%	1.0%	2.2%
Return on average equity	5.6%	10.4%	2.1%	1.6%	3.7%
Stability					
Gross debt to equity	23.8%	23.1%	37.4%	36.8%	35.8%
Net debt to equity	19.5%	17.9%	28.6%	29.0%	28.0%
Interest coverage (x)	20.1	48.9	6.3	3.3	8.5
Interest & ST debt coverage (x)	0.4	0.5	0.1	0.0	0.2
Cash flow interest coverage(x)	35.7	37.0	18.2	8.9	12.8
Cash flow/int. & ST debt (x)	1.2	0.9	0.4	0.3	0.3
Current ratio (x)	2.9	2.9	1.9	1.9	1.9
Quick ratio (x)	2.5	2.3	1.5	1.5	1.5
Net debt (NTS\$mn)	76,955	79,475	106,744	110,229	109,131
Per share data					
EPS (NT\$)	3.34	6.56	1.26	0.93	2.14
CFPS (NT\$)	7.90	6.62	5.60	4.28	4.81
BVPS (NT\$)	58.75	66.71	55.64	56.97	58.41
Adj BVPS (NT\$)	58.87	66.84	55.76	56.97	58.41
SPS (NT\$)	43.31	62.54	64.95	55.65	65.62
EBITDA/share (NT\$)	5.53	8.96	2.25	2.35	4.64
Cash DPS (NT\$)	2.50	4.80	0.95	0.70	1.60
Activity					
Sales / avg assets	0.47	0.65	0.66	0.59	0.68
Days receivable	48.4	37.0	28.9	30.4	25.8
Days inventory	54.1	55.2	48.2	53.4	47.0
Days payable	30.0	25.3	18.7	18.8	16.6
Cash cycle	72.4	66.9	58.3	65.0	56.3

Source: Company data, KGI Research estimates

Profit & loss

NTS\$mn	Dec-20A	Dec-21A	Dec-22A	Dec-23F	Dec-24F
Revenue	253,295	365,812	379,897	325,510	383,786
Cost of goods sold	(223,763)	(312,374)	(367,154)	(315,553)	(359,583)
Gross profit	29,532	53,438	12,742	9,957	24,203
Operating expenses	(14,208)	(19,006)	(18,028)	(14,700)	(15,500)
Operating profit	15,324	34,433	(5,286)	(4,743)	8,703
Non-operating income	11,132	17,365	14,699	13,950	10,067
Interest income	357	-	662	850	500
Investment income	8,893	12,567	12,716	11,505	8,567
Other non-op income	1,882	4,798	1,321	1,595	1,000
Non-operating expenses	(1,688)	(1,638)	176	(2,800)	(2,200)
Interest expense	(1,294)	(1,048)	(1,798)	(2,800)	(2,200)
Investment loss	-	-	-	-	-
Other non-op expenses	(394)	(590)	1,974	-	-
Pre-tax profit	24,768	50,160	9,590	6,407	16,570
Current taxation	(3,213)	(7,452)	(386)	(769)	(2,154)
Minorities	(2,010)	(4,348)	(1,844)	(218)	(1,911)
Extraordinary items	(0)	0	(0)	-	-
Net profit	19,544	38,359	7,360	5,421	12,504
EBITDA	32,358	52,426	13,178	13,722	27,168
EPS (NT\$)	3.34	6.56	1.26	0.93	2.14

Cash flow

NTS\$mn	Dec-20A	Dec-21A	Dec-22A	Dec-23F	Dec-24F
Operations cash flow	46,213	38,729	32,732	25,043	28,163
Net profit	19,544	38,359	7,360	5,421	12,504
Depreciation & amortisation	17,035	17,993	18,464	18,464	18,464
Decrease in working capital	3,215	(14,456)	3,005	7,263	(5,264)
Other operating cash flow	6,419	(3,166)	3,903	(6,105)	2,458
Investing cash flow	(13,556)	(24,156)	(28,865)	(22,971)	(22,971)
Sale of ST investment	(1,421)	(1,291)	(45)	-	-
New investments	(2,665)	(936)	(1,310)	(403)	1,925
Capital expenditure	(15,682)	(16,152)	(22,971)	(22,971)	(22,971)
Others investing cashflow	6,211	(5,777)	(4,539)	403	(1,925)
Free cash flow	14,234	12,515	(11,174)	(6,017)	(6,798)
Financing cash flow	(30,995)	(8,331)	5,469	(5,575)	(4,094)
Increase in short term debt	(12,782)	(1,533)	18,536	-	-
Increase in long term loans	5,774	9,019	3,566	(9,521)	-
New ordinary shares issued	-	-	-	-	-
Ordinary dividends paid	(25,512)	(14,657)	(31,532)	(5,568)	(4,094)
Other financing cashflow	1,524	(1,160)	14,899	9,533	-
Forex effects	367	(307)	605	-	-
Total cash generated	2,028	5,935	9,941	(3,485)	1,097

ROIC

	Dec-20A	Dec-21A	Dec-22A	Dec-23F	Dec-24F
1 - COGS/revenue					
- Operating exp./revenue	5.6%	5.2%	4.7%	4.5%	4.0%
= Operating margin	6.0%	9.4%	(1.4%)	(1.5%)	2.3%
1 / (Working capital/revenue	0.2	0.2	0.1	0.1	0.1
+ Net PPE/revenue	0.5	0.4	0.4	0.5	0.4
+ Other assets/revenue)	0.0	0.0	0.0	0.0	0.0
= Capital turnover	1.4	1.8	1.8	1.5	1.8
Operating margin	6.0%	9.4%	(1.4%)	(1.5%)	2.3%
x Capital turnover	1.4	1.8	1.8	1.5	1.8
x (1 - tax rate)	87.0%	85.1%	96.0%	88.0%	87.0%
= After-tax ROIC	7.4%	14.7%	(2.4%)	(2.0%)	3.5%

Source: Company data, KGI Research estimates

Formosa Chemicals & Fibre – Recommendation & target price history



Date	Rating	Target	Price
2023-07-10	Underperform	57.0	63.6
2023-07-05	Underperform	57.0	65.6
2023-04-11	Underperform	58.0	70.0
2023-03-30	Underperform	58.0	69.4
2023-01-10	Underperform	59.0	72.5
2023-01-05	Underperform	59.0	70.9
2022-10-11	Underperform	59.0	67.3
2022-10-05	Underperform	59.0	69.0
2022-07-11	Underperform	63.0	69.5
2022-06-30	Underperform	69.0	74.7

Source: TEJ, KGI Research

All the above named KGI analyst(s) is SFC licensed person accredited to KGI Asia Ltd to carry on the relevant regulated activities. Each of them and/or his/her associate(s) does not have any financial interest in the respectively covered stock, issuer and/or new listing applicant.

Disclaimer

All the information contained in this report is not intended for use by persons or entities located in or residing in jurisdictions which restrict the distribution of this information by KGI Asia Limited ("KGI") or an affiliate of KGI. Such information shall not constitute investment advice, or an offer to sell, or an invitation, solicitation or recommendation to subscribe for or invest in any securities or investment products or services nor a distribution of information for any such purpose in any jurisdiction. In particular, the information herein is not for distribution and does not constitute an offer to sell or the solicitation of any offer to buy any securities in the United States of America, or to or for the benefit of United States persons (being residents of the United States of America or partnerships or corporations organised under the laws of the United States of America or any state, territory or possession thereof). All the information contained in this report is for general information and reference purpose only without taking into account of any particular investor's objectives, financial situation or needs. Such information is not intended to provide professional advice and should not be relied upon in that regard.

Some of KGI equity research and earnings estimates are available electronically on www.kgi.com.hk. Please contact your KGI representative for information. The information and opinions in this report are those of KGI internal research activity. KGI does not make any representation or warranty, express or implied, as to the fairness, accuracy, completeness or correctness of the information and opinions contained in this report. The information and opinions contained in this report are subject to change without any notice. No person accepts any liability whatsoever for any loss however arising from any use of this report or its contents. This report is not to be construed as an invitation or offer to buy or sell securities and/or to participate in any investment activity. This report is being supplied solely for informational purposes and may not be redistributed, reproduced or published (in whole or in part) by any means for any purpose without the prior written consent of KGI. Members of the KGI group and their affiliates may provide services to any companies and affiliates of such companies mentioned herein. Members of the KGI group, their affiliates and their directors, officers and employees may from time to time have a position in any securities mentioned herein.