

20 April 2023

# Ancom Nylex

## A Soft Patch, Manageable

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**ANCOMNY remains confident on better FY23F despite intensifying competition and unfavourable weather conditions that could jeopardise the planting season, dampening demand for herbicides. However, rising sales volumes of high-margin products should cushion soft ASP (which could also recover in tandem with firmer oil prices). We maintain our forecasts, TP of RM1.80 and OUTPERFORM call**

ANCOMNY hosted its 3QFY23 results briefing yesterday and the key takeaways are as follows:

- Competition in the agricultural chemical space has intensified with the return of Chinese exporters to the international market after China's reopening. This has weighed down on ASP for most of the group's chemical products. However, ANCOMNY is able to manage the situation better wielding a slight pricing power as the sole active ingredient producer in Southeast Asia. Furthermore, there are only a handful of competitors in the region for its other products. It remains confident on better FY23F.
- The decline of its industrial chemical division's 9MFY23 operating profit by 43.4% despite flattish revenue was mainly due to weakened global demand and was line with the downtrend in oil prices. Oil prices have since recovered following the recent move by OPEC+ to cut production by 1.1m bbl/day. An uptick in prices of industrial chemicals in tandem with firmer oil prices should boost the division's earnings from 4QFY23.
- There is a concern that the onset of "El Niño" in certain regions over the next six months could jeopardise planting conditions and hence dampen the demand for herbicides. Nonetheless, we believe this could be cushioned by the introduction of new product "T" in 1HFY24, and rising sales volumes of higher-margin products such as Bromacil and Ester.
- ANCOMNY is not ready to commit itself to a dividend policy as yet, but may do so once its net gearing is reduced significantly from 0.5x as at end-Feb 2023.

All in, we reiterate our earnings forecasts and TP of RM1.80 based on FY24F PER of 15x, at a 30% discount to the forward PER of its regional agriculture chemical peers of 22x to reflect its smaller market capitalisation. There is no change to our TP based on ESG given a 3-star rating as appraised by us (see page 4).

We continue to like ANCOMNY for its position as: (i) the largest herbicide active ingredients (AI) producer in South-East Asia, (ii) a beneficiary of the widening ban on the paraquat use, and (iii) a proxy to global food production and food security goal. Maintain **OUTPERFORM**.

**Risks to our call include:** (i) downturn in crop production in key markets, (ii) regulatory risk on AI, and (iii) foreign exchange translation risk.

**OUTPERFORM** ↔

Price : **RM1.10**  
Target Price : **RM1.80** ↔

### Share Price Performance



KLCI	1,425.07
YTD KLCI chg	-4.7%
YTD stock price chg	6.8%

### Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	ANCOMNY MK Equity
Market Cap (RM m)	1,027.2
Shares Outstanding	933.8
52-week range (H)	1.30
52-week range (L)	0.84
3-mth avg daily vol	2,498,026
Free Float	55%
Beta	0.7

### Major Shareholders

Siew Ka Wei	15.6%
Lee Cheun Wei	7.2%
Siew Nim Chee & Sons	4.9%

### Summary Earnings Table

FY May (RM m)	2022A	2023F	2024F
<b>Turnover</b>	<b>2,013.1</b>	<b>2,168.8</b>	<b>2,367.3</b>
EBIT	90.2	136.1	190.6
PBT	78.2	115.6	170.9
<b>Net Profit</b>	<b>68.2</b>	<b>73.7</b>	<b>110.6</b>
<b>Core Net Profit</b>	<b>53.2</b>	<b>73.7</b>	<b>110.6</b>
Consensus (NP)	-	74.7	101.1
Earnings Revision	-	-	-
Core EPS (sen)	5.8	8.0	12.0
Core EPS growth (%)	-42.1	38.5	50.2%
NDPS (sen)	-	-	-
BVPS (RM)	0.4	0.5	0.6
PER (x)	19.1	13.8	9.2
PBV (x)	2.6	2.2	1.8
Net Gearing (x)	0.7	0.5	0.2
Net Div. Yield (%)	-	-	-

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**Income Statement**

FYE May (RM m)	2020A	2021A	2022A	2023F	2024F
Revenue	1,472.3	1,538.5	2,013.1	2,168.8	2,367.3
Operating Profit	<b>19.8</b>	<b>67.8</b>	<b>90.2</b>	<b>136.1</b>	<b>190.6</b>
Depreciation	-55.1	-41.7	-40.8	-46.2	-48.1
Interest Inc/(Exp)	-17.9	-12.0	-12.7	-19.0	-18.1
Profit Before Tax	<b>-0.8</b>	<b>53.4</b>	<b>78.2</b>	<b>115.6</b>	<b>170.9</b>
Taxation	-18.1	-18.4	-49.1	-34.7	-51.3
Minority interest	9.2	-8.8	39.1	-7.3	-10.8
<b>Net Profit</b>	<b>-9.7</b>	<b>23.8</b>	<b>68.2</b>	<b>73.7</b>	<b>110.6</b>
<b>Core Net Profit</b>	<b>-9.7</b>	<b>23.8</b>	<b>53.2</b>	<b>73.7</b>	<b>110.6</b>

**Balance Sheet**

FYE May (RM m)	2020A	2021A	2022A	2023F	2024F
Fixed Assets	200.7	189.7	216.7	190.4	162.4
Intangible Assets	90.3	75.9	77.1	77.1	77.1
Other Fixed Assets	139.0	141.9	119.8	119.8	119.8
Inventories	128.9	175.0	179.1	201.1	229.8
Receivables	287.3	355.2	393.3	438.8	492.1
Other Current Assets	12.8	15.0	11.8	11.8	11.8
Cash	100.4	108.8	126.1	190.7	290.7
Asset Held For Sale	0	6.68	0	0	0
<b>Total Assets</b>	<b>959.3</b>	<b>1,068.3</b>	<b>1,123.8</b>	<b>1,229.8</b>	<b>1,383.6</b>
Payables	154.1	218.0	225.6	257.9	302.8
ST Borrowings	251.2	250.1	332.5	332.5	332.5
Other ST Liability	33.2	26.7	23.6	23.6	23.6
LT Borrowings	70.8	50.7	78.9	78.9	78.9
Other LT Liability	26.4	40.4	35.0	35.0	35.0
<b>Net Assets</b>	<b>423.6</b>	<b>482.4</b>	<b>428.3</b>	<b>501.9</b>	<b>610.8</b>
Shareholders' Equity	311.7	362.2	387.6	461.3	570.1
Minority Interests	111.9	120.2	40.7	40.7	40.7
<b>Total Equity</b>	<b>423.6</b>	<b>482.4</b>	<b>428.3</b>	<b>501.9</b>	<b>610.8</b>

**Cashflow Statement**

FYE May (RM m)	2020A	2021A	2022A	2023F	2024F
Operating CF	126.1	31.5	23.7	105.1	139.6
Investing CF	-18.5	13.3	-68.4	-21.5	-21.5
Financing CF	-97.5	-24.1	58.6	-19.0	-18.1
Change In Cash	10.1	20.7	13.9	64.7	100.0
Free CF	110.8	17.4	-12.1	85.1	119.6

**Financial Data & Ratios**

FYE May	2020A	2021A	2022A	2023F	2024F
<b>Growth</b>					
Turnover	-25.9%	4.5%	30.9%	7.7%	9.2%
EBITDA	-25.9%	4.5%	30.9%	7.7%	9.2%
Operating Profit	-51.6%	242.2%	33.0%	50.9%	40.0%
PBT	-103.9%	-6514.2%	46.5%	47.9%	47.8%
Net profit	-164.1%	-345.0%	123.9%	38.5%	50.2%
<b>Profitability</b>					
Operating Margin	1.3%	4.4%	4.5%	6.3%	8.1%
PBT Margin	-0.1%	3.5%	3.9%	5.3%	7.2%
Core Net Margin	-0.7%	1.5%	2.6%	3.4%	4.7%
Effective Tax Rate	-2170.7%	34.5%	62.8%	30.0%	30.0%
ROA	-0.9%	2.3%	6.2%	6.3%	8.5%
ROE	-3.1%	7.0%	18.2%	17.4%	21.4%
<b>DuPont Analysis</b>					
Net Margin (%)	-0.7	1.5	2.6	3.4	4.7
Assets Turnover (x)	1.5	1.4	1.8	1.8	1.7
Leverage Factor (x)	3.1	2.9	2.9	2.7	2.4
ROE (%)	-3.1	7.0	18.2	17.4	21.4
<b>Leverage</b>					
Debt/Asset (x)	0.3	0.3	0.4	0.3	0.3
Debt/Equity (x)	1.0	0.8	1.1	0.9	0.7
Net (Cash)/Debt	221.7	192.0	285.3	220.7	120.7
Net Debt/Equity (x)	0.7	0.5	0.7	0.5	0.2
<b>Valuations</b>					
Core EPS (sen)	(4.3)	10.0	5.8	8.0	12.0
NDPS (sen)	-	-	-	-	-
BV/sh (RM)	1.4	1.5	0.4	0.5	0.6
PER (x)	(24.6)	10.6	19.1	13.8	9.2
Div. Yield (%)	0.0	0.0	0.0%	0.0%	0.0%
PBV (x)	0.8	0.7	2.6	2.2	1.8
EV/EBITDA (x)	(0.4)	1.6	1.8	1.9	2.8

Source: Kenanga Research

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## Peer Table Comparison

Name	Rating	Last Price (RM)	Target Price (RM)	Upside (%)	Market Cap (RM'm)	Shariah Compliant	Current FYE	Core EPS (sen)		Core EPS Growth		PER (x) - Core Earnings		PBV (x)	ROE (%)	Net Div. (sen)	Net Div Yld (%)
								1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.
ANCOM NYLEX BHD	OP	1.10	1.80	63.64%	1,027.2	Y	05/2023	8.0	12.0	38.5%	50.1%	13.8	9.2	2.0	15.8%	0.0	0.0%
BOILERMECH HOLDINGS BHD	UP	0.705	0.700	-0.71%	363.8	Y	03/2023	2.3	4.3	-31.2%	89.7%	31.1	16.4	1.4	4.6%	1.8	2.6%
BP PLASTICS HOLDINGS BHD	OP	1.19	1.63	36.97%	335.0	Y	12/2023	13.6	15.1	23.9%	10.7%	8.7	7.9	1.3	15.8%	5.5	4.6%
HIL INDUSTRIES BHD	UP	0.955	0.810	-15.18%	317.0	Y	12/2023	10.2	11.5	46.1%	12.7%	9.3	8.3	0.7	7.8%	2.0	2.1%
HPP HOLDINGS BHD	OP	0.285	0.530	85.96%	110.7	Y	05/2023	3.2	4.1	48.8%	28.0%	8.9	6.9	0.9	10.2%	2.0	7.0%
KUMPULAN PERANGSANG SELANGOR BHD	MP	0.720	0.700	-2.78%	386.9	Y	12/2023	6.2	7.0	19.1%	13.0%	11.7	10.3	0.4	3.1%	2.5	3.5%
SCIENTEX BHD	UP	3.41	2.99	-12.32%	5,289.1	Y	07/2023	30.6	35.5	15.0%	16.0%	11.1	9.6	1.6	15.5%	7.4	2.2%
SLP RESOURCES BHD	MP	0.925	1.09	17.84%	293.2	Y	12/2023	6.8	7.4	33.3%	8.8%	13.6	12.5	1.5	11.5%	5.5	5.9%
TECHBOND GROUP BHD	OP	0.405	0.450	11.11%	214.4	Y	06/2023	1.9	3.8	-9.8%	98.0%	21.2	10.7	1.3	6.2%	1.0	2.5%
THONG GUAN INDUSTRIES BHD	OP	2.26	3.28	45.13%	884.5	Y	12/2023	30.3	35.3	4.7%	16.4%	7.5	6.4	1.0	14.4%	5.5	2.4%
<b>SECTOR AGGREGATE</b>					<b>9,221.8</b>					<b>25.4%</b>	<b>20.6%</b>	<b>11.2</b>	<b>9.2</b>	<b>1.3</b>	<b>11.6%</b>		<b>3.3%</b>

Source: Kenanga Research

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## STOCK ESG RATINGS

	Criterion	Rating		
GENERAL	Earnings Sustainability & Quality	★	★	☆
	Community Investment	★	★	
	Workers Safety & Wellbeing	★	★	☆
	Corporate Governance	★	★	★
	Anti-Corruption Policy	★	★	★
	Emissions Management	★	★	
SPECIFIC	Product Quality & Safety	★	★	★
	Effluent/Waste Management	★	★	
	Digitalisation & Innovation	★	★	
	Material/Resource Management	★	★	★
	Supply Chain Management	★	★	★
	Energy Efficiency	★	★	☆
<b>OVERALL</b>		★	★	★

☆ denotes half-star  
 ★ -10% discount to TP  
 ★★ -5% discount to TP  
 ★★★ TP unchanged  
 ★★★★ +5% premium to TP  
 ★★★★★ +10% premium to TP

Stock Ratings are defined as follows:

## Stock Recommendations

OUTPERFORM : A particular stock's Expected Total Return is MORE than 10%  
 MARKET PERFORM : A particular stock's Expected Total Return is WITHIN the range of -5% to 10%  
 UNDERPERFORM : A particular stock's Expected Total Return is LESS than -5%

## Sector Recommendations\*\*\*

OVERWEIGHT : A particular sector's Expected Total Return is MORE than 10%  
 NEUTRAL : A particular sector's Expected Total Return is WITHIN the range of -5% to 10%  
 UNDERWEIGHT : A particular sector's Expected Total Return is LESS than -5%

**\*\*\*Sector recommendations are defined based on market capitalisation weighted average expected total return for stocks under our coverage.**

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