

23 April 2024

# Ancom Nylex

## Growth Amidst Soft Agri-Chemical Market

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**ANCOMNY's 9MFY24 results met our forecast but disappointed the market. Its 9MFY24 core net profit grew 5% despite a generally soft agri-chemical market thanks to strong timber preservative orders, inroads to new markets for its active ingredients (AIs), and high-margin new AIs. We maintain our forecasts, TP of RM1.50 and OUTPERFORM call.**

Its 9MFY24 core net profit of RM62m met our expectation at 74% of our full-year forecast but disappointed the market at only 70% of the full-year consensus estimate.

**YoY**, its 9MFY24 core net profit grew 5% despite a generally soft agri-chemical market thanks to: (i) higher-margin timber preservative orders, (ii) wider applications and new markets of older AIs, and (iii) higher margins from newer AIs. These were partially offset by: (i) tighter industrial chemical margins and (ii) higher taxes.

**QoQ**, its 3QFY24 core net profit declined 15% largely due to higher taxes.

Its FY24-25F earnings are expected to be healthy on the back of the following:

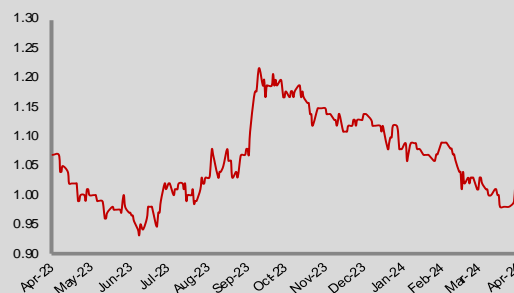
1. A less toxic alternative to Paraquat, MSMA sales in Latin American is helping to offset softer Thai demand, as drier weather tends to reduce MSMA usage. More importantly, an ANCOMNY variant of MSMA has finally been approved for use in Indonesia, while Brazil should extend MSMA applications beyond sugarcane to include soyabean within the next 12 months.
2. Timber preservative orders are still robust as ANCOMNY commands a strong market position for this product range. Talks with a longstanding US buyer for a 2-3 years contract are ongoing but, regardless, it is still giving advance orders to ANCOMNY. Importantly, margins for this range are usually superior to other traditional agri-chemical lines.
3. Demand for new agri-chemicals, Bromacil and Ester, launched in FY22, to target the pineapple and cereal markets is still small but growing well, but margins are good. ANCOMNY is targeting to launch to 2-3 more new products over FY24-26. Among the new products is AI "T" that has been delayed for six months now but a key input chemical has finally been cleared by customs, hence commercial scale production should commence in Feb/March 2024.

Separately, its 34%-owned Ancom Logistics Bhd (ALB, Non-Rated) is acquiring Green Lagoon Technology Sdn Bhd (GLT) for RM120m to be satisfied by the issuance of 1b new shares at RM0.12 per share. As this will dilute ANCOMNY's existing stake to 10%, ANCOMNY will subscribe to 183m new ALB shares for RM22m cash or RM0.12 per share to bring its interest in ALB back to an associate stake of 21%. GLT designs, constructs, operates and manages biogas plants across Malaysia and Indonesia. Since its inception in 2010, GLT has been involved in over 60 biogas projects including those belonging to Sime Darby Plantation, IOI Corporation and Farm Fresh. Following the proposed acquisition, annual profit after tax guarantees of RM8m and RM10m for the first and second year will be in place respectively. We expect the proposal to conclude in 1HFY25.

**OUTPERFORM** ↔

**Price :** **RM1.06**  
**Target Price :** **RM1.50** ↔

### Share Price Performance



KLCI	1,559.59
YTD KLCI chg	7.2%
YTD stock price chg	-5.3%

### Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	ANCOMNY MK Equity
Before	1,018.0
Shares Outstanding	960.4
52-week range (H)	1.23
52-week range (L)	0.93
3-mth avg daily vol:	1,753,434
Free Float	60%
Beta	0.6

### Major Shareholders

Siew Ka Wei	13.0%
Lee Cheun Wei	8.5%
Kenanga Unit Trust B	3.9%

### Summary Earnings Table

FY May (RM m)	2023A	2024F	2025F
<b>Turnover</b>	2,043.3	2,045.9	2,184.6
EBIT	116.0	128.7	164.6
PBT	95.8	109.1	148.7
<b>Net Profit</b>	<b>75.1</b>	<b>84.5</b>	<b>115.5</b>
<b>Core Net Profit</b>	<b>70.1</b>	<b>84.5</b>	<b>115.5</b>
Consensus (NP)	-	89.0	115.3
Earnings Revision	-	-	-
<b>Core EPS (sen)</b>	<b>7.6</b>	<b>8.7</b>	<b>11.5</b>
CNP Growth (%)	32	15	32
NDPS (sen)	1.0	1.0	1.0
BVPS (RM)	0.5	0.6	0.7
PER (x)	13.9	12.1	9.2
PBV (x)	2.0	1.8	1.5
Net Gearing (x)	0.4	0.3	0.1
Net Div. Yield (%)	0.9	0.9	0.9

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**Forecasts & valuations.** We are keeping our FY24-25F net profit forecasts intact along with our TP of RM1.50 based on 13x FY25F PER or about half the forward PER of regional agriculture chemical peers given ANCOMNY's much smaller size. There is no change to our TP arising from its 3-star ESG rating which is appraised by us (see page 4).

**Investment case.** We continue to like ANCOMNY for it being: (i) largest active ingredients producer for herbicide in South-East Asia, (ii) a beneficiary of widening ban of the highly toxic Paraquat, and (iii) an alternative, neutral supplier amidst US-China trade tension. It is indirectly a proxy to global food production and food security as well. Maintain **OUTPERFORM**.

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

Results Highlights								
FYE May (RM m)	3Q24	2Q24	QoQ	3Q23	YoY	9MFY24	9MFY23	YoY
<b>Revenue</b>	<b>516.8</b>	<b>505.2</b>	<b>2%</b>	<b>483.9</b>	<b>7%</b>	<b>1,509.3</b>	<b>1,565.0</b>	<b>-4%</b>
EBIT	33.8	32.9	3%	27.8	22%	101.5	90.7	12%
<b>Pre-tax Profit (PBT)</b>	<b>28.5</b>	<b>28.0</b>	<b>2%</b>	<b>22.3</b>	<b>28%</b>	<b>85.8</b>	<b>76.1</b>	<b>13%</b>
Taxation	(8.1)	(5.3)	53%	(5.9)	38%	(21.9)	(18.1)	21%
Minority Interest	(0.3)	(0.5)	-51%	(0.1)	404%	(0.9)	(1.1)	-21%
<b>Net Profit</b>	<b>20.1</b>	<b>22.1</b>	<b>-9%</b>	<b>16.4</b>	<b>23%</b>	<b>63.0</b>	<b>56.9</b>	<b>11%</b>
<b>Core Net Profit (CNP)</b>	<b>18.9</b>	<b>22.3</b>	<b>-15%</b>	<b>16.8</b>	<b>13%</b>	<b>62.2</b>	<b>59.4</b>	<b>5%</b>
EPS (sen)	2.1	2.3	-9%	1.84	15%	6.64	6.4	4%
CEPS (sen)	1.8	2.2	-15%	1.69	9%	6.09	6.0	2%
DPS (sen)	-	1.1	-	-	N.A.	1.1	-	N.A.
EBIT margin	6.5%	6.5%	-	5.7%	-	6.7%	5.8%	-
PBT margin	5.5%	5.5%	-	4.6%	-	5.7%	4.9%	-
CNP margin	3.6%	4.4%	-	3.5%	-	4.1%	3.8%	-
Effective tax rate	-28.6%	-19.1%	-	-26.4%	-	-25.5%	-23.7%	-

Source: Company, Kenanga Research

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Segmental Breakdown								
FYE May (RM m)	3Q24	2Q24	QoQ	3Q23	YoY	9MFY24	9MFY23	Yoy
<b>Revenue</b>								
Agriculture chemicals	138.1	130.2	6%	135.9	2%	404.7	440.0	-8%
Industrial chemicals	335.7	320.7	5%	302.0	11%	963.8	982.2	-2%
Logistics	12.2	12.4	-2%	11.1	9%	36.6	40.9	-11%
Polymer	19.0	20.0	-5%	23.0	-17%	58.6	61.4	-5%
Investments & others	11.9	21.8	-45%	12.0	-1%	45.7	40.5	13%
<b>Total</b>	<b>516.8</b>	<b>505.2</b>	<b>2%</b>	<b>483.9</b>	<b>7%</b>	<b>1,509.3</b>	<b>1,565.0</b>	<b>-4%</b>
<b>Profit Before Tax</b>								
Agriculture chemicals	27.6	24.8	12%	19.8	40%	79.3	64.3	23%
Industrial chemicals	5.8	7.9	-26%	4.8	20%	17.3	15.0	15%
Logistics	3.3	2.9	11%	1.0	>100%	8.8	7.2	22%
Polymer	2.6	1.6	61%	2.2	19%	6.9	5.4	28%
Assoc, invest. & others	(5.5)	(4.3)	28%	0.0	>100%	(10.9)	(1.2)	>100%
Finance cost	(5.3)	(4.9)	8%	-5.6	-4%	(15.6)	(14.6)	7%
<b>Total</b>	<b>28.5</b>	<b>28.0</b>	<b>2%</b>	<b>22.3</b>	<b>28%</b>	<b>85.8</b>	<b>76.1</b>	<b>13%</b>
<b>PBT margins</b>								
Agriculture chemicals	20%	19%		15%		20%	15%	20%
Industrial chemicals	1.7%	2.5%		1.6%		1.8%	1.5%	1.7%
Logistics	27%	24%		9%		24%	18%	27%
Polymer	14%	8%		9%		12%	9%	14%
<b>Total</b>	<b>5.5%</b>	<b>5.5%</b>		<b>4.6%</b>		<b>5.7%</b>	<b>4.9%</b>	<b>5.5%</b>

Source: Company, 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.
<b>PLANTATION</b>																	
ANCOM NYLEX BHD	OP	1.06	1.50	41.5%	1,018.0	Y	05/2024	8.5	11.2	20.5%	36.7%	12.5	9.5	1.7	14.9%	1.0	0.9%
BM GREENTECH BHD	UP	1.09	0.810	-25.7%	562.4	Y	03/2024	5.2	5.1	91.5%	-2.8%	20.8	21.4	2.1	10.4%	1.8	1.7%
BP PLASTICS HOLDINGS BHD	OP	1.27	1.42	11.8%	357.5	Y	12/2024	14.2	16.4	19.7%	15.5%	8.9	7.7	1.3	14.6%	6.5	5.1%
HPP HOLDINGS BHD	MP	0.330	0.320	-3.0%	128.2	Y	05/2024	0.7	2.2	-69.9%	203.6%	45.8	15.1	1.1	2.3%	0.5	1.5%
KUMPULAN PERANGSANG SELANGOR	UP	0.725	0.450	-37.9%	389.6	Y	12/2024	4.0	4.7	422.0%	18.7%	18.2	15.3	0.4	2.0%	2.0	2.8%
SCIENTEX BHD	MP	4.04	3.68	-8.9%	6,267.1	Y	07/2024	35.3	36.5	32.1%	3.5%	11.4	11.1	1.6	14.5%	11.0	2.7%
SLP RESOURCES BHD	OP	0.950	1.06	11.6%	301.1	Y	12/2024	5.2	6.3	50.5%	21.3%	18.4	15.1	1.6	8.6%	6.0	6.3%
TECHBOND GROUP BHD	OP	0.415	0.500	20.5%	222.3	Y	06/2024	3.7	4.3	112.8%	14.0%	11.1	9.7	1.1	10.9%	0.8	1.8%
THONG GUAN INDUSTRIES BHD	OP	1.92	2.86	49.0%	767.6	Y	12/2024	25.8	30.0	22.2%	16.6%	7.5	6.4	0.7	10.3%	5.5	2.9%
<b>Sector Aggregate</b>					<b>10,013.9</b>							<b>11.6</b>	<b>10.5</b>	<b>1.3</b>	<b>11.1%</b>		<b>2.9%</b>

Source: Bloomberg, 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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