

24 April 2024

Ancom Nylex

Strong Growth Trajectory Intact

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ANCOMNY's FY24-25F earnings guidance is within our expectation. Healthy timber preservative orders, strong MSMA outlook and better industrial chemicals margins are set to underpin earnings growth moving forward. Newly acquired business and higher margin active ingredients (AIs) are also contributing. We maintain our forecasts, TP of RM1.50 and OUTPERFORM.

We came away from ANCOMNY's analyst briefing feeling reassured of its prospects. Despite some headwinds, ANCOMNY appears more confident to grow earnings further for FY24-25. AI "T" has started commercial production but ANCOMNY has opted to improve the stability of a key intermediate chemical input by investing one step upstream to produce the input in-house. Reactors and training have been arranged but full scale, stable state run of AI "T" is pushed out by another 6-12 months. Meanwhile, the following are expected to underpin FY24-25 earnings expansion:

- Healthy timber preservative orders to continue**, looking set to continue into FY25. A 3-year contract with an existing US customer, is pending signing soon (< 6 months). As timber preservative margins are good, healthy order translates to better overall profit margins.
- MSMA demand to trend up**. ANCOMNY expanded its annual MSMA capacity from 11m to 15m litres recently to prepare for: (a) sales beyond sugarcane to include soyabean in Brazil where soya hectareage is 4x-5x larger than sugarcane, entry into Indonesia, and (b) recovery in Thailand after a dull season.
- Streamlining of industrial chemicals** which suffers from thin trading margins. To improve margins, ANCOMNY is reviewing its cost base. Relocation of its southern peninsular storage facility from Singapore to Johor is due to start in 1HFY25 but will need 2-3 years for full relocation.
- Contributions from recent acquisitions**. ANCOMNY acquired an animal health and feed business in Dec 2021 (Shennong and Vemedim) and aims to grow their profit-base by venturing beyond livestock into pets. Last April, ANCOMNY bought 70% of HJ Unkel and is now growing HJ Unkel's adjuvant segment which is used to enhance chemical properties such as to disperse herbicides more evenly, better adherence to leaf surface or cut evaporation loss.

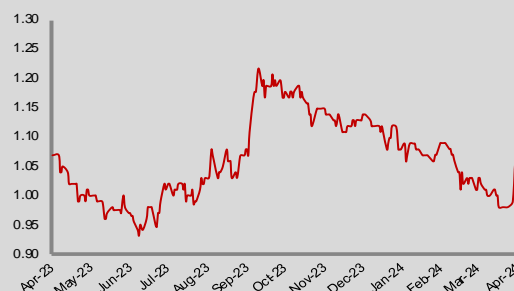
Reverse takeover (RTO) of Green Lagoon Technology (GLT). 34%-owned Ancom Logistics Bhd (ALB, Non-Rated) has proposed the following: (a) acquire Green Lagoon Technology Sdn Bhd (GLT) for RM120m by issuing 1b new shares at RM0.12 per share (b) as ANCOMNY is eyeing GLT to cut the group's carbon footprint and contribute to profits, ANCOMNY will subscribe 183m new ALB shares for RM22m cash or RM0.12 per share to retain ALB as an associate, albeit at 21% rather than 34% pre-RTO (c) post-RTO, ANCOMNY will buy back ALB's logistics assets for cash, estimated at RM30-40m (ALB's 3QFY24 non-current asset stood at RM33m).

Since inception in 2010, GLT has grown to become one of Malaysia's leading independent biogas players with involvement in over 60 biogas projects in Malaysia and Indonesia. It designs, constructs, operates and manages biogas plants but also owns 26 MW of biogas-to-electric concessions.

OUTPERFORM ↔

Price : **RM1.05**
Target Price : **RM1.50** ↔

Share Price Performance



KLCI	1,561.64
YTD KLCI chg	7.4%
YTD stock price chg	-6.2%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	ANCOMNY MK Equity
Market Cap (RM m)	1,008.4
Shares Outstanding	960.4
52-week range (H)	1.23
52-week range (L)	0.93
3-mth avg. daily vol.	1,804,369
Free Float	60%
Beta	0.6

Major Shareholders

Siew Ka Wei	13.0%
Lee Cheun Wei	8.5%
Kenanga Growth Fund	3.9%

Summary Earnings Table

FY May (RM m)	2023A	2024F	2025F
Turnover	2,043.3	2,045.9	2,184.6
EBIT	116.0	128.7	164.6
PBT	95.8	109.1	148.7
Net Profit	75.1	84.5	115.5
Core Net Profit	70.1	84.5	115.5
Consensus (NP)	-	82.2	107.3
Earnings Revision	-	0%	0%
Core EPS (sen)	7.6	8.7	11.5
CNP Growth (%)	32%	15%	32%
NDPS (sen)	1.0	1.0	1.0
BVPS (RM)	0.5	0.6	0.7
PER (x)	13.8	12.0	9.1
PBV (x)	2.0	1.8	1.5
Net Gearing (x)	0.4	0.3	0.1
Net Div. Yield (%)	1.0%	1.0%	1.0%

24 April 2024

Its existing PAT is about RM3m-RM5m but with more concessions due, GLT is providing guarantees of RM8m and RM10m in PAT for the first and second year after the RTO is completed. We expect the proposal to be concluded in 1HFY25, possibly in 2HFY25.

Forecasts. Maintained.

Valuations. Our TP of RM1.50 is also kept intact. Based on 13x FY25F PER, which is at only about half the forward PER of much larger regional agriculture chemical peers. 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: (i) its position as the largest herbicide active ingredients producer in South-East Asia, (ii) a beneficiary of the widening ban on Paraquat use, (iii) a beneficiary of US-China trade tension as well as (iv) being 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.

24 April 2024

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.
MANUFACTURING																	
ANCOM NYLEX BHD	OP	1.05	1.50	42.9%	1,008.4	Y	05/2024	8.5	11.2	20.5%	36.7%	12.3	9.4	1.7	14.9%	1.0	1.0%
BM GREENTECH BHD	UP	1.15	0.810	-29.6%	593.4	Y	03/2024	5.2	5.1	91.5%	-2.8%	22.0	22.6	2.2	10.4%	1.8	1.6%
BP PLASTICS HOLDINGS BHD	OP	1.28	1.42	10.9%	360.3	Y	12/2024	14.2	16.4	19.7%	15.5%	9.0	7.8	1.3	14.6%	6.5	5.1%
HPP HOLDINGS BHD	MP	0.320	0.320	0.0%	124.3	Y	05/2024	0.7	2.2	-69.9%	203.6%	44.4	14.6	1.0	2.3%	0.5	1.6%
KUMPULAN PERANGSANG SELANGOR BHD	UP	0.735	0.450	-38.8%	395.0	Y	12/2024	4.0	4.7	422.0%	18.7%	18.5	15.6	0.4	2.0%	2.0	2.7%
SCIENTEX BHD	MP	4.09	3.68	-10.0%	6,344.7	Y	07/2024	35.3	36.5	32.1%	3.5%	11.6	11.2	1.6	14.5%	11.0	2.7%
SLP RESOURCES BHD	OP	0.955	1.06	11.0%	302.7	Y	12/2024	5.2	6.3	50.5%	21.3%	18.5	15.2	1.6	8.6%	6.0	6.3%
TECHBOND GROUP BHD	OP	0.430	0.500	16.3%	230.4	Y	06/2024	3.7	4.3	112.8%	14.0%	11.5	10.1	1.2	10.9%	0.8	1.7%
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%
Sector Aggregate					10,126.8					48.7%	10.3%	11.7	10.7	1.3	11.1%		2.8%

Source: Bloomberg, Kenanga Research

24 April 2024

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	★	★	☆
OVERALL		★	★	★

☆ 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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