

19 July 2024

Ancom Nylex

A Brighter FY25 Ahead

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ANCOMNY's FY24 results missed our forecast slightly (due to a high tax provision in 4Q) but met the market expectation. Its FY24 core earnings rose 8% YoY on an improved sales mix. Looking ahead, earnings growth will be driven by improving agri-chemical outlook on firm timber preservative orders and the introduction of new active ingredients (AIs). We trim our FY25F net profit forecast by 3% but keep our TP of RM1.50 and OUTPERFORM call.

Its FY24 core net profit of RM79m (after excluding RM2.4m in disposal and exchange gains) missed our forecast by 6% but met the consensus estimate. The variance against our forecast came largely from a RM6m tax provision in 4Q (vs. RM5m tax credit a year ago). It declared a final DPS of 1.0 sen, bringing FY24F DPS to 2.1 sen, better than expected.

YoY, its revenue eased 2% on softer sale performance across the board. However, its core net profit grew 8% driven by improved PBT margins from agri-chemicals on strong timber preservatives sales which attracted better margins only to be partially eroded by a higher tax provision.

QoQ, its 4QFY24 core net profit dipped 10% from a seasonally strong 3Q for agri-chemical sales, partially cushioned by robust orders for higher-margin timber preservatives.

We believe the outlook for its agri-chemicals is improving on several counts as illustrated below:

1. An alternative to highly toxic Paraquat, MSMA sales in Latin American is expected to grow as Brazil approves the use of MSMA beyond sugarcane (9m Ha) to soyabean (45m Ha) later in 2HFY25. An MSMA variant has also been approved in Indonesia, but being a new market, orders will need time to grow. Thai demand remains soft as the weather is still drier than usual hence less MSMA is needed to control weed but the weather should normalise over time.
2. Timber preservative orders are robust thanks to a strong market niche. After over six months of negotiations, a 3-year contract with a longstanding US customer is near finalisation. Due to less competition, margins for this range are usually higher than other AIs.
3. New AIs, Bromacil and Ester, launched in FY22, are still small but growing with margins. Some AI "T" production is ongoing but full production is delayed till late FY25 following the addition of a new pre-production process to ensure more secured overseas supply.

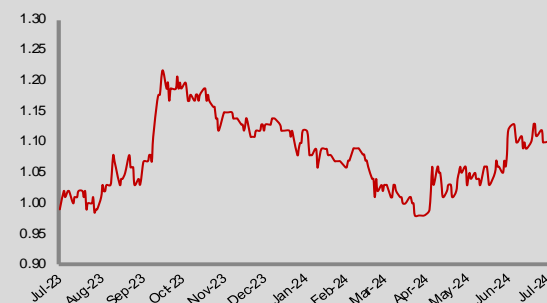
Meanwhile, its industrial-chemical margins will remain tight but cost-cutting efforts such as relocating tank storage from Singapore to Johor should bear fruit from FY25 onwards.

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 IOI, FELDA and Farm Fresh.

OUTPERFORM ↔

Price : **RM1.08**
Target Price : **RM1.50** ↔

Share Price Performance



KLCI	1,633.81
YTD KLCI chg	12.3%
YTD stock price chg	-3.5%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	ANCOMNY MK EQUITY
Market Cap (RM m)	1,020.9
Shares Outstanding	945.3
52-week range (H)	1.23
52-week range (L)	0.97
3-mth avg. daily vol.	2,645,977
Free Float	71%
Beta	0.4

Major Shareholders

Dato Siew Ka Wai	16.6%
Lee Cheun Wei	8.6%
Kenanga Growth Fund	3.6%

Summary Earnings Table

FY May (RM m)	2024	2025F	2026F
Turnover	1,996.3	2,189.4	2,308.8
EBIT	130.1	163.0	181.6
PBT	110.5	147.2	164.8
Net Profit	82.8	112.1	127.2
Core Net Profit	79.0	112.1	127.2
Consensus (NP)	83.0	105.4	118.3
Earnings Revision		-3%	NEW
Core EPS (sen)	7.8	11.0	12.5
Core EPS grwth (%)	9%	42%	13%
NDPS (sen)	2.0	2.0	2.0
BVPS (RM)	0.6	0.7	0.8
PER (x)	13.9	9.8	8.6
PBV (x)	1.9	1.6	1.3
Net Gearing (x)	0.3	0.1	(0.0)
Net Div. Yield (%)	1.9%	1.9%	1.9%

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Forecasts. We trim our FY25F net profit forecast by 3% and introduce our FY26F numbers.

Valuations. However, we maintain our TP of RM1.50 based on 13x FY25F PER, about half the forward PER (25x) 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)	4Q24	3Q24	QoQ	4Q23	YoY	FY24	FY23	YoY
Revenue	487.0	516.8	-6%	478.2	2%	1,996.3	2,043.3	-2%
Gross Profit	77.4	83.1	-7%	65.3	19%	312.8	296.4	6%
EBIT	28.1	32.6	-14%	18.7	51%	128.7	111.1	16%
Interest	(5.0)	(5.3)	-7%	(5.6)	-12%	(20.6)	(20.2)	2%
Associates	(0.0)	(0.0)	0%	(0.0)	-97%	(0.0)	(0.0)	68%
EI	1.5	1.3	19%	6.7	-78%	2.435	5.0	-51%
Pre-tax Profit (PBT)	24.7	28.5	-13%	19.7	25%	110.5	95.8	15%
Taxation	(7.7)	(8.1)	-5%	(0.9)	750%	(29.6)	(19.0)	56%
Minority Interest	1.5	(0.3)	-701%	(0.6)	-358%	0.6	(1.7)	-137%
Net Profit	18.4	20.1	-8%	18.2	1%	81.5	75.1	8%
Core Net Profit (CNP)	16.9	18.9	-10%	11.5	47%	79.0	70.1	13%
EPS (sen)	1.9	2.1	-8%	2.04	-5%	8.6	8.4	2%
CEPS (sen)	1.7	1.8	-10%	1.17	43%	7.8	7.1	9%
DPS (sen)	1.0	-	N.A.	1.0	0%	2.1	1.0	109%
GP margin	16%	16%		14%		16%	15%	
EBIT margin	6%	6%		4%		6%	5%	
PBT margin	5%	6%		4%		6%	5%	
CNP margin	3%	4%		2%		4%	3%	
Effective tax rate	-31%	-29%		-5%		-27%	-20%	

Source: Company, Kenanga Research

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Segmental Breakdown								
FYE May (RM m)	4Q24	3Q24	QoQ	4Q23	YoY	FY24	FY23	Yoy
Revenue								
Agriculture chemicals	116.3	138.1	-16%	109.3	6%	521.0	549.3	-5%
Industrial chemicals	328.4	335.7	-2%	322.4	2%	1292.2	1304.6	-1%
Logistics	12.0	12.2	-2%	11.6	4%	48.5	52.5	-7%
Polymer	19.1	19.0	0%	24.2	-21%	77.6	85.6	-9%
Investments & others	11.2	11.9	-6%	10.7	4%	56.9	51.2	11%
Total	487.0	516.8	-6%	478.2	2%	1,996.3	2,043.3	-2%
Profit Before Tax								
Agriculture chemicals	27.1	27.6	-2%	20.7	31%	106.5	85.0	25%
Industrial chemicals	4.7	5.8	-19%	7.5	-37%	22.0	22.5	-2%
Logistics	2.3	3.3	-31%	5.1	-55%	11.0	12.2	-10%
Polymer	1.6	2.6	-38%	1.9	-13%	8.6	7.3	17%
Assoc, invest. & others	(6.1)	(5.5)	10%	(9.8)	-38%	(17.0)	(11.0)	55%
Finance cost	(5.0)	(5.3)	-7%	(5.6)	-12%	(20.6)	(20.2)	2%
Total	24.7	28.5	-13%	19.7	25%	110.5	95.8	15%
PBT margins								
Agriculture chemicals	23%	20%		19%		20%	15%	23%
Industrial chemicals	1.4%	1.7%		2.3%		1.7%	1.7%	1.4%
Logistics	19%	27%		44%		23%	23%	19%
Polymer	8%	14%		8%		11%	9%	8%
Total	5.1%	5.5%		4.1%		5.5%	4.7%	5.1%

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.
MANUFACTURING																	
ANCOM NYLEX BHD	OP	1.08	1.50	38.9%	1,020.9	Y	05/2025	11.0	12.5	41.9%	13.5%	9.8	8.6	1.5	16.9%	2.0	1.9%
BM GREENTECH BHD	UP	2.04	1.30	-36.3%	1,052.6	Y	03/2025	8.6	9.0	32.1%	4.7%	23.7	22.6	3.9	17.1%	1.8	0.9%
BP PLASTICS HOLDINGS BHD	MP	1.37	1.42	3.6%	385.6	Y	12/2024	12.1	14.1	1.5%	16.8%	11.3	9.7	1.4	12.5%	6.5	4.7%
HPP HOLDINGS BHD	MP	0.385	0.320	-16.9%	149.5	Y	05/2024	0.7	2.2	-69.9%	203.6%	53.4	17.6	1.2	2.3%	0.5	1.3%
KUMPULAN PERANGSANG SELANGOR	UP	0.775	0.450	-41.9%	416.5	Y	12/2024	2.0	4.4	158.5%	125.5%	39.3	17.4	0.4	1.0%	2.0	2.6%
SCIENTEX BHD	UP	4.33	4.00	-7.6%	6,717.0	Y	07/2024	35.3	36.6	32.2%	3.6%	12.3	11.8	1.7	14.5%	12.0	2.8%
SLP RESOURCES BHD	OP	0.950	1.16	22.1%	301.1	Y	12/2024	5.8	7.0	68.8%	20.7%	16.4	13.6	1.6	9.6%	6.0	6.3%
TECHBOND GROUP BHD	OP	0.525	0.500	-4.8%	306.1	Y	06/2024	3.7	4.3	112.8%	14.0%	14.0	12.3	1.4	10.9%	1.3	2.4%
THONG GUAN INDUSTRIES BHD	OP	1.91	2.86	49.7%	767.1	Y	12/2024	25.5	29.8	22.1%	16.6%	7.5	6.4	0.7	10.3%	5.5	2.9%
Sector Aggregate					11,116.5					49.0%	9.6%	12.5	11.4	1.4	11.4%		2.9%

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	★	★	☆	
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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