

24 July 2024

Ancom Nylex

Multiple Earning Drivers Ahead

By Khoo Teng Chuan / khootc@kenanga.com.my

ANCOMNY's earnings guidance for FY25-26 is in line with our estimates. It expects stronger agri-chemicals contributions on robust timber preservative orders, better sales of MSMA along with newer active ingredients (AIs). Its industrial chemicals margins should also improve on cost cuts. We maintain our forecasts, TP of RM1.50 and OUTPERFORM rating.

We came away from ANCOMNY's analyst briefing feeling reassured of the group's prospects over FY25-26. Its earnings growth will be driven by:

- 1. Robust timber preservative orders.** After nearly a year of negotiations, ANCOMNY has finally signed a 3-year supply contract for timber preservatives in June 2024 to a long-standing US customer. The customer already raised their purchase throughout FY24 and orders are expected to stay healthy over FY25-26. As timber preservatives enjoy good margins, such orders should translate to better overall profit margins for the agri-chemicals segment.
- 2. Stronger MSMA sales ahead.** Having expanded its annual MSMA capacity from 12m to 15m litres two years ago, ANCOMNY is looking to grow MSMA sales from: (a) broader application beyond sugarcane to include soyabean in Brazil where the planted area is 4x-5x larger, (b) entry into Indonesia, and (c) potential recovery in Thailand from the need to restock after a dry spell which had impeded herbicide demand.
- 3. Scaling up of AI "T".** After much delays, scaled-up production of AI "T" is now scheduled to start after Aug. The latest delay of six months was due the adding of another processing step (phosgenation) to allow for easier sourcing of input raw materials. As such, more meaningful AI "T" sales should start in FY25 with full year impact from FY26.
- 4. Streamlining of industrial chemicals** to improve from current thin, trading dominated margins. Cost streamlining (such as relocating southern peninsular storage facility from Singapore to Johor) are ongoing with savings of RM5m-RM10m expected from FY25 onwards.

Reverse takeover (RTO) of Green Lagoon Technology (GLT). 34%-owned Ancom Logistics Bhd (ALB, Non-Rated) is proposing to issue 1b new shares valued at RM120m to buy Green Lagoon Technology Sdn Bhd (GLT). ANCOMNY will then subscribes for 183m new ALB shares for RM22m cash to ensure ALB remains an associate (c.21% stake). ANCOMNY will also buy back ALB's logistics assets for cash, estimated at RM30m-RM40m (ALB's 3QFY24 non-current asset stood at RM33m).

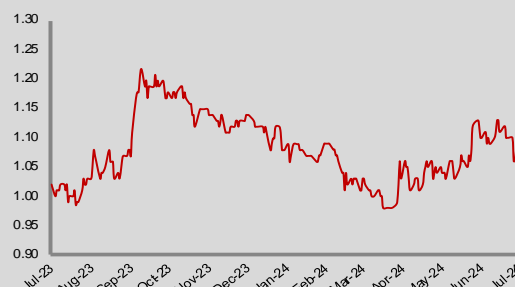
GLT operates its own biogas-to-electric concessions (26MW YTD) as well as designs, constructs and/or operates third party biogas projects including those of IOI, SD Guthrie and Farm Fresh. As GLT is providing RM8m and RM10m PAT guarantees for year 1 and year 2 after the takeover, the RTO is expected be incremental to ANCOMNY's earnings.

GLT also captures about 500k MT of CO2 equivalent a year though its biogas operations. This translates to an effective share of 70k-80k MT for ANCOMNY to more than offset its current annual emission of 40k MT CO2 equivalent. Thus, the RTO will also help turn ANCOMNY into a net carbon-zero entity. ANCOMNY is targeting to complete the RTO in June 2025.

OUTPERFORM ↔

Price : RM1.07
Target Price : RM1.50 ↔

Share Price Performance



KLCI	1,629.68
YTD KLCI chg	12.0%
YTD stock price chg	-4.4%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	ANCOMNY MK EQUITY
Market Cap (RM m)	1,009.8
Shares Outstanding	943.8
52-week range (H)	1.23
52-week range (L)	0.97
3-mth avg. daily vol.	2,579,523
Free Float	71%
Beta	0.3

Major Shareholders

Siew Ka Wei	16.9%
Lee Cheun Wei	8.7%
Kenanga Growth Fund	3.6%

Summary Earnings Table

FY May (RM m)	2024A	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)	-	109.0	126.3
Earnings Revision	-	-	-
Core EPS (sen)	7.8	11.0	12.5
CNP Growth (%)	9	42	13
NDPS (sen)	2.0	2.0	2.0
BVPS (RM)	0.6	0.7	0.8
PER (x)	13.8	9.7	8.6
PBV (x)	1.9	1.6	1.3
Net Gearing (x)	0.3	0.1	-
Net Div. Yield (%)	1.9	1.9	1.9

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Forecasts. Maintained.

Valuations. We also keep our TP of RM1.50 based on 13x FY25F PER, which is at only 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) being a beneficiary of the widening ban on Paraquat use, (iii) being 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.

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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	1.07	1.50	40.2%	1,009.8	Y	05/2025	11.0	12.5	41.9%	13.5%	9.7	8.6	1.5	16.9%	2.0	1.9%
BM GREENTECH BHD	UP	2.10	1.30	-38.1%	1,083.6	Y	03/2025	8.6	9.0	32.1%	4.7%	24.4	23.3	4.0	17.1%	1.8	0.9%
BP PLASTICS HOLDINGS BHD	MP	1.36	1.42	4.4%	382.8	Y	12/2024	12.1	14.1	1.5%	16.8%	11.3	9.6	1.4	12.5%	6.5	4.8%
HPP HOLDINGS BHD	MP	0.395	0.290	-26.6%	153.4	Y	05/2025	2.2	3.0	107.3%	38.8%	18.0	13.0	1.2	6.8%	1.5	3.8%
KUMPULAN PERANGSANG SELANGOR BHD	UP	0.780	0.450	-42.3%	419.2	Y	12/2024	2.0	4.4	158.5%	125.5%	39.5	17.5	0.4	1.0%	2.0	2.6%
SCIENTEX BHD	UP	4.32	4.00	-7.4%	6,701.5	Y	07/2024	35.3	36.6	32.2%	3.6%	12.2	11.8	1.7	14.5%	12.0	2.8%
SLP RESOURCES BHD	OP	0.930	1.16	24.7%	294.8	Y	12/2024	5.8	7.0	68.8%	20.7%	16.0	13.3	1.5	9.6%	6.0	6.5%
TECHBOND GROUP BHD	OP	0.525	0.500	-4.8%	322.9	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	1.93	2.86	48.2%	775.2	Y	12/2024	25.5	29.8	22.1%	16.6%	7.6	6.5	0.7	10.3%	5.5	2.8%
Sector Aggregate					11,143.1					51.2%	9.3%	12.4	11.4	1.4	11.5%		3.1%

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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KENANGA INVESTMENT BANK BERHAD (15678-H)

Level 17, Kenanga Tower, 237, Jalan Tun Razak, 50400 Kuala Lumpur, Malaysia
 Telephone: (603) 2172 0880 Website: www.kenanga.com.my E-mail: research@kenanga.com.my