

13 April 2023

Ancom Nylex

Acquires Industrial Chemical Distributor

By Raymond Ng | ngiy@kenanga.com.my

ANCOMNY is acquiring a 70% stake in industrial chemical distributor, H.J. Unkel Chemicals Sdn Bhd (HJUC) for RM9m cash, that comes with a profit guarantee of RM2.5m each for FY24-25. We are positive on the acquisition as HJUC's chemical distribution network complements ANCOMNY's raw material procurement process. We maintain our forecasts (as earnings enhancement from the deal is immaterial), TP of RM1.80 and OUTPERFORM call.

Reinforcing its supply chain. ANCOMNY is proposing an acquisition of 70% equity stake in HJUC from H.J. Unkel (M) Sdn Bhd (HJUM) and another two individuals (collectively referred to as Vendors) for a cash consideration of RM9m. As an industrial chemical distributor in Malaysia, HJUC supplies chemical substances to a wide range of industrial clients, namely the agrochemicals sector, rubber & gloves, and plastic industry, etc. The deal is expected to be completed by 1QFY24 and comes with a profit guarantee of RM2.5m for both FY24 and FY25.

The price tag of RM9m values the business at 5.1x FY24F PER, which is higher than the forward PER of Bursa-listed industrial chemical distributor, **TEXCHEM** which is trading at 4.4x FY24F PER. We believe the premium over **TEXCHEM** is justifiable due to HJUC's broader clientele across different industries, compared to **TEXCHEM** which only focus on the plastic and polymer industry.

This acquisition will be financed by internally generated funds and bank borrowings. While we are unable to ascertain the quantum ANCOMNY will leverage on borrowings, we believe its debt level is still highly manageable, back by net gearing of 0.23x as at end-2QFY23.

We are positive on the acquisition which will enhance the group's procurement process with better raw material control and supply security. As per company guidance, we gather that HJUC will supply input materials, namely adjuvant and surfactant which are highly essential to ANCOMNY for the manufacturing of its formulated products, i.e. 2,4-D and Glyphosate. Hence, ANCOMNY would be able to source the input materials at a lower cost as well as benefiting from the chemical distribution business.

Forecasts. The acquisition will increase ANCOMNY's FY24-25F net profit by c.1.6% each.

We maintain our 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).

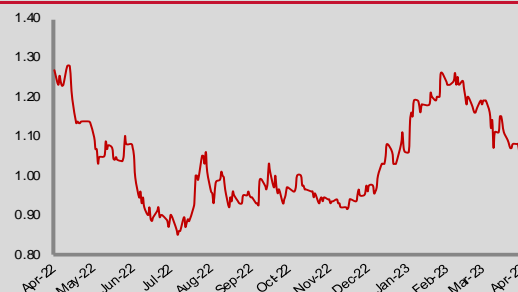
We continue to like ANCOMNY for its position as: (i) the largest herbicide active ingredients (AI) producer in South-East Asia, (ii) a beneficiary of the widening ban on the paraquat use, and (iii) a proxy to global food production and food security goal. Maintain **OUTPERFORM**.

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 : **RM1.06**
Target Price : **RM1.80** ↔

Share Price Performance



KLCI 1,434.74
YTD KLCI chg -4.1%
YTD stock price chg 2.9%

Stock Information

Shariah Compliant Yes
Bloomberg Ticker ANCOMNY MK Equity
Market Cap (RM m) 989.8
Shares Outstanding 933.8
52-week range (H) 1.30
52-week range (L) 0.84
3-mth avg daily vol 2,781,468
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
Turnover	2,013.1	2,168.8	2,367.3
EBIT	90.2	136.1	190.6
PBT	78.2	115.6	170.9
Net Profit	68.2	73.7	110.6
Core Net Profit	53.2	73.7	110.6
Consensus (NP)	-	74.7	100.7
Earnings Revision	-	-	+1.6%
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)	20.1	14.5	8.8
PBV (x)	2.8	2.3	1.7
Net Gearing (x)	0.7	0.5	0.2
Net Div. Yield (%)	-	-	-

13 April 2023

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	19.8	67.8	90.2	136.1	190.6
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	-0.8	53.4	78.2	115.6	170.9
Taxation	-18.1	-18.4	-49.1	-34.7	-51.3
Minority interest	9.2	-8.8	39.1	-7.3	-10.8
Net Profit	-9.7	23.8	68.2	73.7	110.6
Core Net Profit	-9.7	23.8	53.2	73.7	110.6

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
Total Assets	959.3	1,068.3	1,123.8	1,229.8	1,383.6
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
Net Assets	423.6	482.4	428.3	501.9	610.8
Shareholders' Equity	311.7	362.2	387.6	461.3	570.1
Minority Interests	111.9	120.2	40.7	40.7	40.7
Total Equity	423.6	482.4	428.3	501.9	610.8

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
Growth					
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%
Profitability					
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%
DuPont Analysis					
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
Leverage					
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
Valuations					
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	18.4	13.3	8.8
Div. Yield (%)	0.0	0.0	0.0	0.0	0.0
PBV (x)	0.8	0.7	2.5	2.1	1.7
EV/EBITDA (x)	(0.4)	1.6	1.8	1.9	2.8

Source: Kenanga Research

13 April 2023

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	1.06	1.80	69.81%	989.8	Y	05/2023	8.0	11.8	38.5%	47.8%	13.3	9.0	1.9	15.8%	0.0	0.0%
BOILERMECH HOLDINGS BHD	UP	0.715	0.700	-2.10%	368.9	Y	03/2023	2.3	4.3	-31.2%	89.7%	31.5	16.6	1.4	4.6%	1.8	2.5%
BP PLASTICS HOLDINGS BHD	OP	1.23	1.63	32.52%	346.2	Y	12/2023	13.6	15.1	23.9%	10.7%	9.0	8.1	1.4	15.8%	5.5	4.5%
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	0.300	0.530	76.67%	116.5	Y	05/2023	3.2	4.1	48.8%	28.0%	9.3	7.3	0.9	10.2%	2.0	6.7%
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	3.49	2.99	-14.33%	5,413.2	Y	07/2023	30.6	35.5	15.0%	16.0%	11.4	9.8	1.7	15.5%	7.4	2.1%
SLP RESOURCES BHD	MP	0.915	1.09	19.13%	290.0	Y	12/2023	6.8	7.4	33.3%	8.8%	13.4	12.3	1.5	11.5%	5.5	6.0%
THONG GUAN INDUSTRIES BHD	OP	2.25	3.28	45.78%	880.6	Y	12/2023	30.3	35.3	4.7%	16.4%	7.4	6.4	1.0	14.4%	5.5	2.4%
SECTOR AGGREGATE					9,109.3							11.2	9.3	1.3	11.7%		3.3%

Source: Kenanga Research

This section is intentionally left blank

13 April 2023

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.**

This document has been prepared for general circulation based on information obtained from sources believed to be reliable but we do not make any representations as to its accuracy or completeness. Any recommendation contained in this document does not have regard to the specific investment objectives, financial situation and the particular needs of any specific person who may read this document. This document is for the information of addressees only and is not to be taken in substitution for the exercise of judgement by addressees. Kenanga Investment Bank Berhad accepts no liability whatsoever for any direct or consequential loss arising from any use of this document or any solicitations of an offer to buy or sell any securities. Kenanga Investment Bank Berhad and its associates, their directors, and/or employees may have positions in, and may effect transactions in securities mentioned herein from time to time in the open market or otherwise, and may receive brokerage fees or act as principal or agent in dealings with respect to these companies.

Published by:

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