



AmInvestment Bank

## Company report

## ANCOM NYLEX

(ANCOMNY MK EQUITY, ANCM.KL)

13 Apr 2023

Acquiring 70% equity stake in chemical distributor

BUY

(Maintained)

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03-20362294

Rationale for report: Company update

Price	RM1.06
Fair Value	RM1.43
52-week High/Low	RM1.31/RM0.84

## Key Changes

Fair value	↔
EPS	↔

YE to May	FY22	FY23F	FY24F	FY25F
Revenue (RM mil)	2,013.1	2,172.1	2,429.5	2,607.6
Core net profit (RM mil)	54.9	78.5	89.7	118.1
FD Core EPS (sen)	6.2	8.9	10.2	13.4
FD Core EPS growth (%)	90.8	43.2	14.2	31.8
Consensus Net Profit (RM mil)	-	74.7	100.7	124.3
DPS (sen)	0.0	0.0	0.0	0.0
PE (x)	17.1	11.9	10.4	7.9
EV/EBITDA (x)	8.7	6.8	5.7	4.1
Div yield (%)	0.0	0.0	0.0	0.0
ROE (%)	18.2	19.9	20.0	21.4
Net Gearing (%)	74.4	37.8	12.7	nm

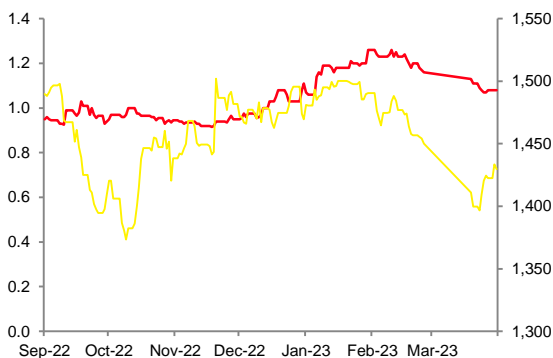
## Stock and Financial Data

Shares Outstanding (million)	878.7
Market Cap (RM mil)	931.4
Book Value (RM/share)	0.44
P/BV (x)	2.4
ROE (%)	18.2
Net Gearing (%)	74.4

Major Shareholders	Siew Ka Wei (15.6%)
	Lee Cheun Wei (7.2%)
	Siew Nim Chee & Son (4.9%)

Free Float	55%
Avg Daily Value (RM mil)	3.6

Price performance	3mth	6mth	12mth
Absolute (%)	(2.7)	14.9	(11.5)
Relative (%)	-	13.3	(1.0)

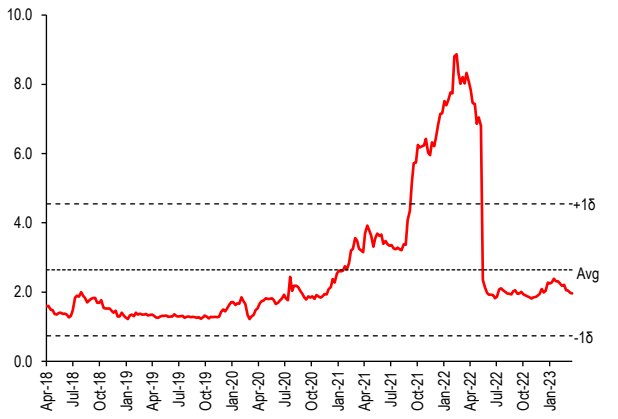


— ANCOMNY MK — FBMKLCI Index

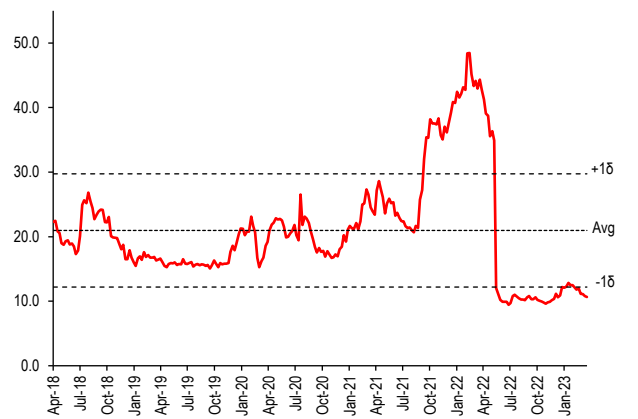
## Investment Highlights

- We maintain our BUY call on Ancom Nylex (Ancom) with an unchanged fair value (FV) of RM1.43/share. This is pegged to an unchanged target FY24F PE of 14x, 0.75 standard deviation (SD) below its 5-year mean of 21x. No ESG-related FV adjustment based on an unchanged 3-star rating.
- Our earnings forecast is maintained given the negligible impact from the acquisition of industrial chemical distributor, H.J. Unkel Chemicals (HJU Chemicals), for a consideration of RM9mil.
- Yesterday, Ancom entered into an agreement with H.J. Unkel (M), Chong Sau Kin and Ye Suping to acquire a 70% equity interest in HJU Chemicals for a cash consideration of RM9mil. The acquisition should be finalised within 3 months from the date of agreement.
- HJU Chemicals was founded in 2009 as a distributor of industrial chemicals focusing on the Malaysian market. The company has a diversified customer base with exposures to agrichemicals, construction materials, cosmetic, leather & textile, paint & coatings, plastics & masterbatch, polish, printing ink, rubber and gloves.
- The 2 most prominent customers of HJU Chemicals are CCM Chemicals and GOVI Chemicals, highlighting the recognition accorded to the company by industrial chemical players. In the past 3 years, HJU Chemicals has consistently generated PAT of RM2.3mil-2.6mil per year.
- Notably, the chief executive officer (CEO) of HJU Chemicals provided an irrevocable PAT guarantee of RM2.5mil in FY24F and FY25F, providing visibility to earnings contribution. However, this could only increase Ancom's earnings slightly by 2% in FY24F and 1.5% in FY25F.
- Nevertheless, we regard HJU Chemicals' acquisition PE of 4.9x as a bargain in comparison to Ancom's FY24F PE of 10.4x. There will be no material increase in gearing from this acquisition in view of the relatively small size of the acquisition.
- We view this acquisition in line with the group's intention to become one of the major integrated chemical groups in the Southeast Asian region.
- In the near term, we believe Ancom's revenue prospects will continue to benefit from the ban on paraquat, especially in Thailand and Malaysia. Over the medium-to-long term, the introduction of new active agrichemical ingredients will further underpin the upward trajectory of the group's FY23F-25F earnings.
- The stock currently trades at an unjustified FY24F PE of 10.4x, half of its 5-year mean of 21x, for the largest agrichemical manufacturer in ASEAN.

**EXHIBIT 1: PB BAND CHART**



**EXHIBIT 2: PE BAND CHART**



**EXHIBIT 3: ESG MATRIX**

<b>Overall</b>	★	★	★		
Zero-carbon initiatives	★	★			
Waste management	★	★	★		
Pollution control	★	★	★		
Employees welfare	★	★	★		
Diversity and inclusion	★	★			
Occupational safety and health	★	★	★		
Corruption free pledge	★	★	★		
Accessibility & transparency	★	★	★		
Supply chain auditing	★	★	★		

We accord a discount/premium of **-6%**, **-3%**, **0%**, **+3%** and **+6%** on fundamental fair value based on the overall ESG rating as appraised by us, from 1-star to 5-stars.

Source: AmInvestment Bank

## EXHIBIT 4: FINANCIAL DATA

Income Statement (RM mil, YE 31 May)	FY21	FY22	FY23F	FY24F	FY25F
Revenue	1,538.5	2,013.1	2,172.1	2,429.5	2,607.6
EBITDA	107.2	141.6	162.7	177.2	214.3
Depreciation/Amortisation	(41.7)	(40.8)	(43.8)	(43.8)	(43.8)
Operating income (EBIT)	65.5	100.8	119.0	133.5	170.5
Other income & associates	(1.8)	(9.0)	(1.5)	(1.5)	(1.5)
Net interest	(12.7)	(13.7)	(15.2)	(15.2)	(15.2)
Exceptional items	5.0	(13.3)	-	-	-
<b>Pretax profit</b>	<b>51.0</b>	<b>78.2</b>	<b>102.3</b>	<b>116.8</b>	<b>153.9</b>
Taxation	(18.4)	(49.1)	(24.6)	(28.0)	(36.9)
Minorities/pref dividends	(8.8)	39.1	0.8	0.9	1.2
<b>Net profit</b>	<b>23.8</b>	<b>68.2</b>	<b>78.5</b>	<b>89.7</b>	<b>118.1</b>
<b>Core net profit</b>	<b>28.7</b>	<b>54.9</b>	<b>78.5</b>	<b>89.7</b>	<b>118.1</b>
Balance Sheet (RM mil, YE 31 May)	FY21	FY22	FY23F	FY24F	FY25F
Fixed assets	189.7	216.7	231.7	246.7	261.7
Intangible assets	75.9	77.1	83.1	83.1	83.1
Other long-term assets	148.6	119.8	134.4	134.4	134.4
<b>Total non-current assets</b>	<b>414.2</b>	<b>413.5</b>	<b>449.2</b>	<b>464.2</b>	<b>479.2</b>
Cash & equivalent	105.8	123.2	244.9	334.7	463.2
Stock	175.0	179.1	216.5	242.1	256.6
Trade debtors	355.2	393.3	325.7	364.3	391.0
Other current assets	18.1	14.7	16.4	16.4	16.4
<b>Total current assets</b>	<b>654.1</b>	<b>710.3</b>	<b>803.4</b>	<b>957.5</b>	<b>1,127.1</b>
Trade creditors	218.0	225.6	385.1	430.6	456.4
Short-term borrowings	250.1	332.5	332.5	332.5	332.5
Other current liabilities	26.7	23.6	25.2	24.6	24.9
<b>Total current liabilities</b>	<b>494.8</b>	<b>581.7</b>	<b>742.8</b>	<b>787.8</b>	<b>813.8</b>
Long-term borrowings	50.7	78.9	64.8	64.8	64.8
Other long-term liabilities	40.4	35.0	37.7	37.7	37.7
<b>Total long-term liabilities</b>	<b>91.1</b>	<b>113.9</b>	<b>102.5</b>	<b>102.5</b>	<b>102.5</b>
<b>Shareholders' funds</b>	<b>362.2</b>	<b>387.6</b>	<b>402.9</b>	<b>492.5</b>	<b>610.6</b>
Minority interests	120.2	40.7	4.5	38.9	79.4
BV/share (RM)	0.41	0.44	0.46	0.56	0.69
Cash Flow (RM mil, YE 31 May)	FY21	FY22	FY23F	FY24F	FY25F
Pretax profit	51.0	78.2	102.3	116.8	153.9
Depreciation/Amortisation	41.7	40.8	43.8	43.8	43.8
Net change in working capital	(58.8)	(64.9)	51.1	(22.1)	(11.7)
Others	(2.4)	(30.3)	(8.4)	(11.8)	(20.7)
<b>Cash flow from operations</b>	<b>31.5</b>	<b>23.7</b>	<b>188.8</b>	<b>126.6</b>	<b>165.2</b>
Capital expenditure	12.6	(69.4)	(31.0)	(31.0)	(31.0)
Net investments & sale of fixed assets	-	-	-	-	-
Others	0.7	1.0	-	-	-
<b>Cash flow from investing</b>	<b>13.3</b>	<b>(68.4)</b>	<b>(31.0)</b>	<b>(31.0)</b>	<b>(31.0)</b>
Debt raised/(repaid)	(37.5)	(46.3)	(14.1)	-	-
Equity raised/(repaid)	-	-	-	-	-
Dividends paid	(2.2)	(1.1)	(1.6)	(1.6)	(1.6)
Others	15.6	106.0	(4.1)	(4.1)	(4.1)
<b>Cash flow from financing</b>	<b>(24.1)</b>	<b>58.6</b>	<b>(19.8)</b>	<b>(5.7)</b>	<b>(5.7)</b>
<b>Net cash flow</b>	<b>20.7</b>	<b>13.9</b>	<b>138.0</b>	<b>89.8</b>	<b>128.4</b>
<b>Cash &amp; equivalent b/f</b>	<b>73.2</b>	<b>93.0</b>	<b>106.9</b>	<b>244.9</b>	<b>334.7</b>
<b>Cash &amp; equivalent c/f</b>	<b>93.0</b>	<b>106.9</b>	<b>244.9</b>	<b>334.7</b>	<b>463.2</b>
Key Ratios (YE 31 May)	FY21	FY22	FY23F	FY24F	FY25F
Revenue growth (%)	4.5	30.9	7.9	11.9	7.3
EBITDA growth (%)	40.7	32.2	14.9	8.9	20.9
Pretax margin (%)	3.3	3.9	4.7	4.8	5.9
Net profit margin (%)	1.5	3.4	3.6	3.7	4.5
Interest cover (x)	5.1	7.4	7.8	8.8	11.3
Effective tax rate (%)	36.1	62.8	24.0	24.0	24.0
Dividend payout (%)	-	-	-	-	-
Debtors turnover (days)	84	71	78	78	78
Stock turnover (days)	50	38	44	44	44
Creditors turnover (days)	62	48	55	55	55

Source: Company, AmlInvestment Bank Bhd estimates

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