

**HLIB Research**

PP 9484/12/2012 (031413)

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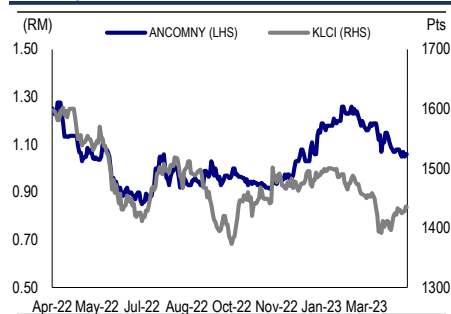
**BUY** (Maintain)

**Target Price: RM1.73**
**Previously: RM1.73**
**Current Price: RM1.06**

Capital upside	63.2%
Dividend yield	0.0%
Expected total return	63.2%

**Sector coverage:** Industrial Products & Services

**Company description:** Ancom Nylex manufactures and sells chemical products. The company is principally involved in offering agricultural and industrial chemicals.

**Share price**


Historical return (%)	1M	3M	12M
Absolute	-10.9	-7.8	-15.4
Relative	-11.7	-4.0	-5.9

**Stock information**

Bloomberg ticker	ANCOMNYMK
Bursa code	4758
Issued shares (m)	878.5
Market capitalisation (RM m)	990
3-mth average volume ('000)	2,781
SC Shariah compliant	Yes
F4GBM Index member	No
ESG rating	★★

**Major shareholders**

Siew Ka Wei	14.6%
Lee Cheun Wei	6.8%
Siew Nim Chee & Sons Sdn Bhd	5.4%

**Earnings summary**

FYE (May)	FY22	FY23f	FY24f
PATMI - core (RMm)	62.6	76.4	110.6
EPS - core (sen)	5.8	7.0	10.2
P/E (x)	18.4	15.1	10.4

# Ancom Nylex

## Acquires 70% of HJU Chemicals for RM9m

Overnight, Ancom Nylex announced that it is acquiring a 70% equity interest in HJU Chemicals for a total cash consideration of RM9.0m. The proposed acquisition is expected to complete within a period of 3 months. From our findings, HJU Chemicals is involved in the retailing and dealership of industrial chemical products. From the announcement, we highlight that there is an “irrevocable profit guarantee” of RM1.75m annually for FY24-25f (FYE May) based on a 70% equity stake. The acquisition implies a forward valuation multiple of about 5.1x on a 70% equity stake. Overall, we are neutral on this development as it will only be mildly earnings accretive. All-in, we maintain our BUY recommendation with unchanged TP of RM1.73, based on 17x FY24f EPS, which is at a c.25% discount to its global peers’ average forward P/E multiple of 23x.

**NEWSBREAK**

Overnight, Ancom Nylex announced that it is acquiring a 70% equity interest in HJU Chemicals for a total cash consideration of RM9.0m. The proposed acquisition is expected to complete within a period of 3 months.

**HLIB’s VIEW**

**Key highlights.** We note a few key salient points as below.

1) From our findings, HJU Chemicals is involved in the retailing and dealership of industrial chemical products. It is also one of the major importers of chemicals additives into Malaysia. Ancom's agrichemical division may procure adjuvants from HJ Chemical for formulation of new products, hence internalising procurement within the group. This acquisition also allows Ancom to capture certain segments in the chem supply chain that it doesn't already has as HJ's products are quite niche.

2) From the announcement, we highlight that there is an “irrevocable profit guarantee” of RM1.75m annually for FY24-25f (FYE May) based on a 70% equity stake. Based on our net profit forecasts of RM110.6m and RM130.5m for FY24-25f, the acquisition will enhance the group’s overall earnings by only 1.6% and 1.3%, respectively.

3) The acquisition implies a forward valuation multiple of about 5.1x on a 70% equity stake – which we deem to be inexpensive given the highly specialised chemical product line-up of HJU Chemicals.

3) Post-acquisition, the group’s net gearing will increase marginally to 0.64x from 0.62x (as at end-November 2022).

4) Overall, we are neutral on this development as it will only be mildly earnings accretive.

**Forecast.** No changes to our estimates – to be conservative.

**Maintain BUY; TP of RM1.73.** We maintain our BUY recommendation with unchanged TP of RM1.73, based on 17x FY24f EPS, which is at a c.25% discount to its global peers’ average forward P/E multiple of 23x.

## Financial Forecast

All items in (RM m)

### Balance Sheet

FYE May	FY21	FY22	FY23f	FY24f	FY25f
Cash	105.8	123.2	199.3	338.9	496.5
Receivables	355.2	410.0	445.4	467.7	493.4
Inventories	175.0	179.1	194.6	204.4	215.6
PPE	189.7	199.2	165.4	130.4	94.2
Others	348.4	336.0	425.5	562.0	716.6
<b>Assets</b>	<b>1,068.3</b>	<b>1,124.4</b>	<b>1,230.9</b>	<b>1,364.5</b>	<b>1,519.9</b>
Payables	218.0	225.1	244.6	256.8	270.9
Debt	300.8	411.4	421.4	431.4	441.4
Others	67.1	57.7	57.7	57.7	57.7
<b>Liabilities</b>	<b>585.9</b>	<b>694.2</b>	<b>723.7</b>	<b>745.9</b>	<b>770.0</b>
Shareholder's equity	362.2	397.9	474.2	584.8	715.3
Minority interest	120.2	32.3	33.0	33.7	34.5
<b>Equity</b>	<b>482.4</b>	<b>430.1</b>	<b>507.2</b>	<b>618.6</b>	<b>749.8</b>

### Cash Flow Statement

FYE May	FY21	FY22	FY23f	FY24f	FY25f
Profit before tax	51.0	78.2	101.5	146.5	172.7
D&A	41.5	40.8	40.8	42.0	43.2
Working capital	-58.6	-55.5	-31.5	-19.8	-22.8
Taxation	-21.3	-35.7	-24.4	-35.2	-41.4
Others	18.9	-5.0	0.0	0.0	0.0
<b>CFO</b>	<b>31.5</b>	<b>22.7</b>	<b>86.4</b>	<b>133.6</b>	<b>151.6</b>
Capex	-11.9	-13.6	-7.0	-7.0	-7.0
Others	25.2	-10.1	0.0	0.0	0.0
<b>CFI</b>	<b>13.3</b>	<b>-23.7</b>	<b>-7.0</b>	<b>-7.0</b>	<b>-7.0</b>
Changes in debt	-5.9	49.1	10.0	10.0	10.0
Shares issued	9.8	13.4	0.0	0.0	0.0
Dividends	0.0	0.0	0.0	0.0	0.0
Others	-27.9	-49.5	3.0	3.0	3.0
<b>CFF</b>	<b>-24.1</b>	<b>13.0</b>	<b>13.0</b>	<b>13.0</b>	<b>13.0</b>
<b>Net cash flow</b>	<b>20.7</b>	<b>12.0</b>	<b>92.5</b>	<b>139.6</b>	<b>157.6</b>
Forex	-0.8	1.9	0.0	0.0	0.0
Others	0.0	1.0	2.0	3.0	4.0
Beginning cash	73.0	92.9	106.8	199.3	338.9
Ending cash	92.9	106.8	199.3	338.9	496.5

### Income Statement

FYE May	FY21	FY22	FY23f	FY24f	FY25f
Revenue	1,538.5	2,013.1	2,187.2	2,296.6	2,422.9
EBITDA	107.6	132.0	150.2	163.7	178.9
EBIT	66.1	91.2	109.4	121.7	135.7
Finance cost	-12.7	-13.7	-8.6	24.1	36.3
Associates & JV	-2.4	0.7	0.7	0.7	0.7
Profit before tax	51.0	78.2	101.5	146.5	172.7
Tax and Zakat	-18.4	-49.1	-24.4	-35.2	-41.4
Net profit	32.6	29.1	77.1	111.3	131.2
Minority interest	8.8	-39.1	0.7	0.7	0.7
Reported PATMI	23.8	68.2	76.4	110.6	130.5
Exceptionals	-1.8	-5.6	0.0	0.0	0.0
<b>Core PATMI</b>	<b>21.9</b>	<b>62.6</b>	<b>76.4</b>	<b>110.6</b>	<b>130.5</b>
Consensus core PATMI			74.8	99.4	118.7
HLIB/ Consensus			1.0	1.1	1.1

### Valuation & Ratios

FYE May	FY21	FY22	FY23f	FY24f	FY25f
Core EPS (sen)	2.0	5.8	7.0	10.2	12.0
P/E (x)	52.5	18.4	15.1	10.4	8.8
DPS (sen)	0.0	0.0	0.0	0.0	0.0
Dividend yield	0.0	0.0	0.0	0.0	0.0
BVPS (RM)	0.4	0.4	0.5	0.6	0.7
P/B (x)	3.9	4.4	3.7	3.0	2.5
EBITDA margin	7.0%	6.6%	6.9%	7.1%	7.4%
EBIT margin	4.3%	4.5%	5.0%	5.3%	5.6%
PBT margin	3.3%	3.9%	4.6%	6.4%	7.1%
PATMI margin	1.5%	3.4%	3.5%	4.8%	5.4%
Core net profit margin	1.4%	3.1%	3.5%	4.8%	5.4%
ROE	6.1%	15.7%	16.1%	18.9%	18.2%
ROA	2.1%	5.6%	6.2%	8.1%	8.6%
Net gearing (x)	0.5	0.7	0.5	0.2	CASH

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<b>BUY</b>	Expected absolute return of +10% or more over the next 12-months.
<b>HOLD</b>	Expected absolute return of -10% to +15% over the next 12-months.
<b>SELL</b>	Expected absolute return of -10% or less over the next 12-months.
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