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Investment Idea
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Investment Idea

Ancom Nylex Bhd

Resilient growth as unique agrochem player

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★★★☆☆ **BUY**

Price: RM0.935
Target price: RM1.43

Ancom-Nylex Bhd ("ANCOMNY") had in April 2022 consolidated its chemical business by taking over all the assets and liabilities of Nylex (Malaysia) Bhd ("Nylex") for RM179.3m. Post restructuring, ANCOMNY will focus being an integrated agrochemical and industrial chemical player. As ANCOMNY stand to benefit from rising global commodities price, we forecast ANCOMNY to register earnings of RM73.7m and RM86.8m in FY2023 and FY2024 respectively. BUY with a target price of RM1.43 based on 17x PER (3 years average PER) over FY23 EPS with a potential upside of more than 50%.

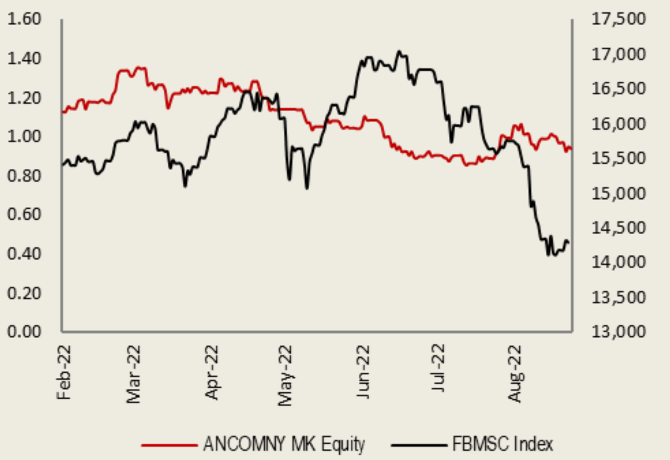
ANCOMNY is a large-scale producer of Active Ingredients (AI) for herbicides in Southeast Asia. It has 6 AIs that are also used in insecticides, fungicides and timber preservatives and supplied to major players within the agriculture and agrichemical industries globally. The ban of paraquat used in Thailand in 2020 and subsequently in Brazil has benefited ANCOMNY as its AIs are identified as close substitutes. Exports to Thailand market has increased substantially from 260k litres in FY21 to 1.5m litres in FY22. According to management, it currently captures only 10% of the estimated USD850m replacement market and orders given by customers are visibility strong in FY23.

ANCOMNY became one of the most integrated chemical groups in Southeast Asia post consolidation of Nylex which 100% of Nylex revenue will be recognised in FY22. It is known as one of the two key manufacturers of ethanol in Malaysia. The chemical products it offers are namely polymer, phosphoric acid, adhesives, methanol and other petrol chemical products which are set to capitalise from the rise of crude oil price. Note that Nylex recorded losses in FY19 and FY20 but registered a net profit of RM19.3m for FY21 on the back of higher crude oil price.

In order to meet with the rising demand of agrochemical and petrochemical products, ANCOMNY is adding 4,000 MT capacity by building a 70,000 sf facility. 2 to 3 new AIs will be added and new production lines are to be installed in 2HFY22. In addition, management is also looking to double its ethanol manufacturing from 5m litres to 10m litres. The expansion plans will contribute positively to ANCOMNY's bottomline in FY23.

Technically Speaking

Resistance level	RM1.02
Support level	RM0.92



KLCI	1,467.3
YTD FBM KLCI change	-6.4%
YTD FBM SC Index change	-8.8%
YTD stock price change	-8.9%

Stock Information

Market Cap (RM'm)	811.0
Issued Shares (m)	867.4
52-week range (H)	1.367
52-week range (L)	0.467

Major Shareholders

Siew Ka Wei	13.84%
Lee Cheun Wei	6.90%
Silver Dollars Sdn Bhd	6.68%
Siew Nim Chee & Sons Sdn Bhd	5.51%

Summary Earnings Table

FY May (RM'm)	2022A	2023F	2024F	2025F
Revenue	2,013.1	2516.4	2,893.8	3,183.2
EBITDA	126.6	148.7	171.0	188.1
Pretax profit	78.2	103.4	130.3	141.4
Net profit	68.2	72.4	91.2	99.0
Consensus net profit	n.a.	n.a	n.a	n.a
Core EPS (sen)	7.9	8.4	10.6	11.5
EPS growth (%)	143	6	26	9
DPS (sen)	0.0	0.0	0.0	0.0
PER (x)	11.7	11.0	8.8	8.1
BV/Share (RM)	0.5	0.6	0.7	0.8
ROE (%)	17.9	17.7	17.7	16.2
Div. Yield (%)	-	-	-	-

Sources: Company, Rakuten Trade Research

COMPANY	**Definition**
Buy	The stock return is expected to exceed the KLCI benchmark by more than 10% over the next 6-12 months.
Trading Buy	Short-term positive development on the stock that could lead to a re-rating in the share price and translate into an absolute return of 10% over the next 3-6 months. Trading Buy is generally for investors who are willing to take on higher risks.
Take profit	The stock return previously recommended has gained by >10%
Hold	The stock return is expected to be in line with the KLCI benchmark (+/- 5%) over the next 6-12 months.
Sell	The stock return is expected to underperform the KLCI benchmark by more than 10% over the next 6-12 months.
SECTOR	
Overweight	Industry expected to outperform the KLCI benchmark, weighted by market capitalization, over the next 6-12 months.
Neutral	Industry expected to perform in-line with the KLCI benchmark, weighted by market capitalization, over the next 6-12 months.
Underweight	Industry expected to underperform the KLCI benchmark, weighted by market capitalization, over the next 6-12 months.

Scoring model:

The in-house scoring model is derived from Rakuten Trade Research valuation matrix based on earnings growth, earnings visibility, business model, valuation, balance sheet, technical analysis, and shareholder value creation. Each parameter is given a specific weighting.

All buy calls are based on the research team's judgement. Investing is risky and trading is at your own risk. We advise investors to:

- read and understand the contents of the disclosure document or any relevant agreement or contract before investing;
- understand the risks involved in relation to the product or service;
- compare and consider the fees, charges and costs involved; and
- make your own risk assessment and seek professional advice, where necessary.

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Published:

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