

13 October 2022

Ancom Nylex Bhd

A Proxy to Global Food Security Goal

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INVESTMENT MERIT

We recommend ADD for ANCOMNY with an FV of RM1.77. ANCOMNY is the sole producer of agrichemicals' active ingredients (AIs) in Southeast Asia and a key player in Asia. Founded in 1969, it has since expanded into the production of industrial, polymer and livestock chemicals. Currently, agrichemicals AIs contribute to >70% of its group PBT.

In 2020, Malaysia, Thailand and Brazil joined 29 other countries in banning the use of paraquat, a widely used herbicide that is highly toxic to people and animals. ANCOMNY is a beneficiary of the paraquat ban as its MSMA-based AI is a close but safer substitute. Its FY22 overseas sales surged 58% YoY as orders from Thailand almost doubled whilst overall exports, including to the US, Brazil and Australia, continued to climb. The aim is to grow its 10% presence in Thailand further while strengthening its distribution network in Brazil. Within the MSMA-based AI segment, ANCOMNY has only one competitor worldwide as legal, regulatory and technical barriers into the herbicide AI segment are high. Meanwhile, the group has added two more AIs in FY22, and a new plant is already under construction. Dedicated to the production of higher margin AI products, the new facility is expected to be completed in early CY23 (i.e. 2H of FY23F).

The takeover of Nylex (Malaysia) Bhd's entire operations in Jan 2022 has allowed the group to consolidate and scale up its industrial chemical's operations. Coupled with favourable prices, industrial chemicals PBT jumped 123% YoY in FY22 to RM58m. Moving forward, a full recognition of Nylex's earnings along with better cost control should see higher contribution from the industrial chemical segment. Likewise, the polymer segment is likely to enjoy better scale, cost management and earnings.

ANCOMNY has also been streamlining its various investment holdings. Loss-making media investments have been pared down, hence a smaller operating loss of RM15m is likely over FY23F-24F compared to a RM42m loss in FY22. Meanwhile, the group has increased its stake in the logistics-cum-chemical tank farm business under Ancom-Chemquest Terminals Sdn Bhd (ACT) to 42% from 17%. In June 2022, the group also bought 80% of Shennong Group for RM24m to gain a foothold in the growing livestock solution segment. Following the takeover of Nylex's business and the restructuring of its listed chemical logistics arm, the group currently has two listed shell companies. One of them, Nylex (Malaysia) Bhd, is part of the Johor Bahru LRT consortium while the other, Ancom Logistics Bhd, is awaiting a fresh proposal after a previous corporate exercise lapsed

We expect an EPS growth of 38%/48% over FY23F/FY24F, mainly driven by its expanding agrichemical business. Not only are its existing AIs growing well, the group is also introducing more AIs as well as entering new markets. Competition in the industry is limited due to high entry barriers. Demand for the products will be underpinned by the global goal of achieving food security. Oil palm, sugar cane, grains and even fruits such as pineapples are some of the food crops that could use ANCOMNY's agrichemicals in their cultivation.

	Rating	Fair Value
Last Price	-	RM0.96
Kenanga	ADD	RM1.77
Consensus	-	-

Stock Information

Shariah Compliant	Yes
Stock Name	ANCOM NYLEX BHD
CAT Code	4758
Industry	Chemicals
Industry Sub-sector	Chemicals-Diversified
YTD stock price chg	-6.49%
Market Cap (RM'm)	843.67
Shares Outstanding (m)	878.82
52-week range (Hi)	1.367
52-week range (Low)	0.81
3-mth avg daily vol:	1,735,400
Free Float	51.0%
Beta	0.78
Altman's Z-score	3.17

Major Shareholders

Siew Ka Wei	14.8%
Lee Cheun Wei	6.8%
Siew Nim Chee & Sons	5.4%

Financials

FYE Dec (RM m)	2022A	2023F	2024F
Operating Revenue	2,013.1	2,168.8	2,367.3
Operating Profit	290.5	323.3	352.9
Profit Before Tax	78.2	115.6	170.9
PATAMI	68.2	73.7	108.9
Core PATAMI	53.2	73.7	108.9
Core EPS (sen)	5.8	8.0	11.8
BV/Share (RM)	0.4	0.5	0.6
PER (x)	16.8	12.1	8.2
Price/BV (x)	2.3	1.9	1.6
Net Gearing (x)	0.7	0.5	0.2
DPS (sen)	0.0	0.0	0.0
Div. Yield (%)	0.0%	0.0%	0.0%

Quarterly Financial Data (RM'm)

	2Q22	3Q22	4Q22
Operating Revenue	532.9	510.0	565.5
PBT	24.0	26.6	14.9
PATAMI	12.1	15.1	31.9
Basic EPS (sen)	4.9	6.12	12.61
Revenue Growth (QoQ)	31.7%	-4.3%	10.9%
EPS growth (QoQ)	32.4%	24.9%	106%
Net Profit Margin	2.3%	2.9%	5.6%

	PER (FY24F)	CEPS Growth (FY24F)
FBMSC Index	8.44	9.33%

13 October 2022

Its FY23F and FY24F earnings growth should be robust backed by its growing market share in Thailand's paraquat-replacement market that worth an average US\$70m a year, a reflection of its enhanced distributing network. Also, the commencement of a new plant is anticipated to lift its AI capacity by another of 50%, thus contributing to the scale and margin improvement in FY24F. Furthermore, ANCOMNY's newly acquired livestock chemicals business can bring in a PATAMI of RM4m annually which is backed by a profit guarantee.

ADD with a fair value of RM1.77, premised on a 15x FY24E PER, which is at a 25% discount to its regional agrichemical peers' two-year forward PER mean of 20.3x. This is reflective of its smaller market capitalization and lower ROE of c 17% compared to its peers' 21%. We believe the valuation is inexpensive given the stock's higher earnings growth potential (38%/48% in FY23F/FY24F) compared to peers' average earnings growth (25%/16% in FY23F/FY24F) relative to the market (i.e. FBMSCAP's single-digit EPS growth). While prospects for dividend payment is uncertain for now, a payout policy could be drafted in FY24.

There is no change to our TP based on ESG given a 3-star rating as appraised by us (see Page 5).

Regional Peers Comparison										
Company	Region	Market Cap (USD 'm)	EPS (USD)			EPS Growth (%)		PE (x)		ROE (%)
			1 Yr Hist.	1 Yr Fwd.	2 Yr Fwd.	1 Yr Fwd.	2 Yr Fwd.	1 Yr Fwd.	2 Yr Fwd.	
UPL Limited	India	6,055.0	0.62	0.77	0.91	25.3%	18.4%	10.5	8.9	15.9
Adama Ltd	China	2,907.7	0.01	0.07	0.09	N.M.	22.5%	18.5	15.1	2.4
Hextar Global Bhd	Malaysia	472.2	0.03	0.05	0.06	73.3%	5.8%	32.9	31.1	24.0
Bayer Cropscience Ltd	India	2,578.5	1.81	1.97	2.31	9.0%	17.2%	30.1	25.7	25.4
FMC Corp	US	14,160.0	6.93	7.42	8.39	7.0%	13.1%	15.2	13.4	22.2
Lonza Group AG	Switzerland	36,095.0	13.86	15.10	17.80	8.9%	17.9%	32.3	27.4	36.1
Average		10,378.1				24.7%	15.8%	23.25	20.3	21.0

Source: Bloomberg

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Comment: From a peak of RM1.37 in end-Feb this year, the stock has since moved in a downtrend channel, retracing 39% before reaching the crucial support level at the 61.8% Fibonacci retracement level of RM0.835. Subsequently, the share price bounced off from the support level, forming a sequence of lower highs and higher lows to plot a symmetrical triangle pattern. On the chart, the stock has crossed above the 200-day EMA, which hinted that the stock is poised to shift upwards. Hence, we believe the share price's positive momentum will continue to be driven by: (i) the stochastic indicator's reversal from the oversold zone, and (ii) an anticipated breakout from the descending resistance line. Ergo, the share price could climb towards our resistance levels of RM1.20 (R1) and RM1.36 (R2). On the flipside, downside support can be found at RM0.78 (S1) and RM0.66 (S2).

Source: Kenanga Research

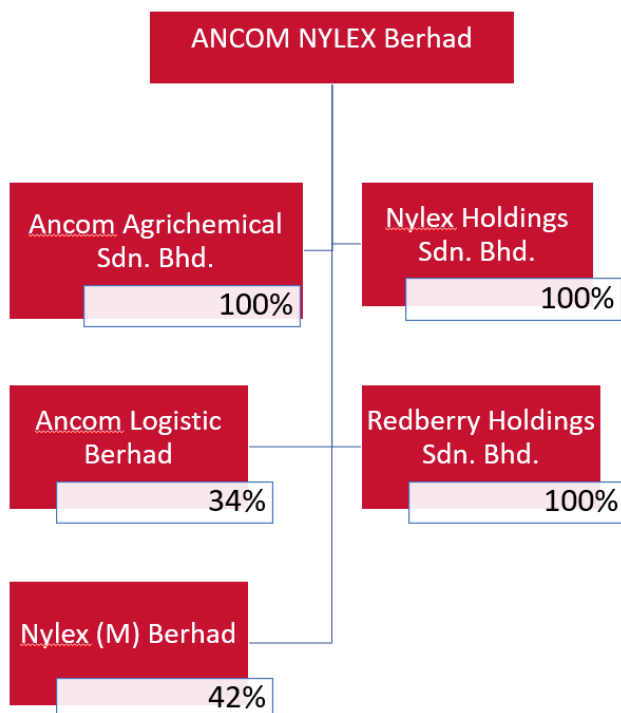
About the stock:

Name : Ancom Nylex Bhd
Bursa Code : ANCOMNY
CAT Code : 4758

Key Support & Resistance level

Resistance : RM1.20 (R1) RM1.36 (R2)
Support : RM0.78 (S1) RM0.66 (S2)
Outlook : Positive

CORPORATE STRUCTURE **BUSINESS OVERVIEW**



Ancom Nylex is principally engaged in manufacturing of agricultural chemicals, specifically herbicides and active ingredients. Meanwhile, it is also involved in industrial chemicals, polymers, as well as chemical logistic and storage operation. Ancom Nylex has been reputable for its exclusive herbicide manufacturer market position in Southeast Asia for decades.

BUSINESS SEGMENTS

The group has structured its business segments as the followings:

- Agricultural Chemical
 - Ancom Agrichemical Sdn. Bhd.
- Industrial Chemicals
 - Nylex Holdings Sdn. Bhd.
- Chemical Logistics
 - Ancom Logistic Berhad
- Polymer
 - Nylex Holdings Sdn. Bhd.
- Investment Holdings
 - Nylex (M) Berhad
 - Redberry Holdings Sdn. Bhd.

Source: Company 2022 Annual Report

ANCOMNY Business Division	
Agricultural Chemical	<ul style="list-style-type: none"> - Manufacturing, formulation and distributing of agrichem products, primarily on foodcrop protection and timber preservation. - Largest herbicide Active Ingredient (AI) manufacturer in Southeast Asia. - Exports contributed more than 65% this segment's revenue from over 40 countries across the world, namely North America, South America, Asia, Africa and Oceania.
Industrial Chemicals	<ul style="list-style-type: none"> - Largest revenue contributor to the group, thanks to its manufacturing and distributing business. - On top of being one of the two key manufacturers of ethanol in Malaysia, they also produce phosphoric acid, adhesives and sealants. - As for the distributing business, it supplies wide range of petrochemicals and industrial chemicals across Asia Pacific region.
Polymer	<ul style="list-style-type: none"> - Operates two manufacturing plants that located in Shah Alam, Malaysia and Surabaya, Indonesia. - Four major business categories: <ul style="list-style-type: none"> (i) Films and coated fabrics – mostly for the automotives sector (ii) Geosynthetics – produce drainage products mainly for construction sector. (iii) Rotomoulding – customize moulds forcustomers from industrial chemicals, road safety and landscaping industries. (iv) Trading – distribute its products via a network of distributors.
Logistics	<ul style="list-style-type: none"> - Major business involves transportation as well as provision of storage facilities for liquid chemicals

Source: Company 2022 Annual Report

Agrichem's Active Ingredient (AI) ^[1] Products & Usage									
Products	MSMA	DIURON	2.4-d	GLYPHOSATE	MONEX HC	TIMBER PRESRV	BROMACIL	ESTER	
Cereal			✓	✓					✓
Cotton	✓	✓					✓		
Sugarcane	✓	✓	✓	✓	✓				
Pineapple		✓					✓		
Palm Oil/Rubber	✓	✓	✓	✓	✓				
Corn			✓						
Citrus		✓		✓					
Tea/Coffee/Cocoa				✓					
Turf	✓		✓	✓	✓				
Forestry		✓		✓	✓				
Timber Preservation						✓			

^[1] Active Ingredients (AI) in herbicide products are the chemical components that prevent, control and kill weeds from pre-emergence to post-emergence phase. It usually only makes up a small portion of the whole formulated product but high barrier to entry in results of stringent regulatory as well as technical requirement.

Source: Company

Stock ESG Ratings:

	Criterion	Rating				
GENERAL	Earnings Sustainability & Quality	★	★	★		
	Corporate Social Responsibility	★	★	★		
	Management/Workforce Diversity	★	★	★		
	Accessibility & Transparency	★	★	★	★	
	Corruption-Free Pledge	★	★	★		
	Carbon-Neutral Initiatives	★	★	☆		
	SPECIFIC	Guest Worker Welfare	★	★	★	
Sustainability Certification		★	★	☆		
Waste Management		★	★	☆		
Energy Efficiency		★	★	★		
Work Site Safety		★	★	★		
OVERALL		★	★	★		

☆ denotes half-star
 ★ -10% discount to TP
 ★★ -5% discount to TP
 ★★★ TP unchanged
 ★★★★ +5% premium to TP
 ★★★★★ +10% premium to TP

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