

**HLIB Research**

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Jeremie Yap

[jeremieyh@hlib.hongleong.com.my](mailto:jeremieyh@hlib.hongleong.com.my)

(603) 2083 1729

## NON RATED

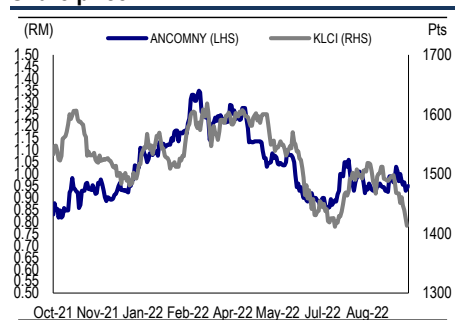
**Target Price:** **RM1.53****Previously:** **N/A****Current Price:** **RM0.95**

Capital upside	61.0%
Dividend yield	0.0%
Expected total return	61.0%

**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	0.0	7.3	14.5
Relative	4.8	7.4	25.6

### Stock information

Bloomberg ticker	ANCOMNY MK
Bursa code	4758
Issued shares (m)	878.5
Market capitalisation (RM m)	835
3-mth average volume ('000)	1,747
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)	16.5	13.5	9.3

# Ancom Nylex

## A thriving upstream agrichemical powerhouse

Ancom is an integrated chemicals group and a leading manufacturer and supplier of both agricultural and industrial chemical products. The group plays a key role in global food security with more than 50 years of track record. We deem the group to be a growing agrichemical powerhouse and is seemingly undervalued at this juncture. With that, we ascribe an indicative fair value of RM1.53 for Ancom – based on a conservative target P/E of 15x – at a c.25% discount to its peers' weighted average P/E multiple of 20x.

**Agricultural chemicals – part of a bigger picture for food security.** The United Nations projects that the world's population would grow from 7.7 billion in 2019 to reach 8.5bn in 2030, 9.7bn in 2050 and 10.5bn in 2100. Coupled with the fact that land is a scarce resource and with time, there is an increasing importance of growing reliable and consistent food supplies to have sustainable and long-term food security – inevitably increasing demand for good quality pesticides. Ancom's active ingredients (AI) are used in growing the food we eat and is the sole agrichemical AI producer in Southeast Asia and one of the largest in the Asia Pacific.

**Benefiting from Paraquat ban in Thailand and Brazil – one man's herbicide is another man's poison.** Paraquat, a deep-rooted herbicide was banned in both Thailand and Brazil in 2020 as it was classified as a class-1 poison and it was primarily used for weed and grass control. Given its highly poisonous nature, Paraquat was widely used for suicidal reasons. From our findings, the Paraquat replacement in Thailand is estimated to range from USD60-80m annually while the global market size of Paraquat was estimated to be around USD850m in 2020. As two of Ancom's formulations – Dasaflo and Monex HC are identified as close substitutes to Paraquat, the group's exports to Thailand have increased significantly in 2021 and 2022. We note that the group is also working on getting both formulations to Brazil for the soybean industry – which has a Paraquat replacement market of about 5x larger than Thailand. Ancom is also increasing its capacity for existing MSMA-based products by 25% to meet the increasing demand resulting from the ban (target completion: Oct 2022).

**Expanding annual capacity by 9.5% for two more AIs.** The group is building a new 70k sq ft facility on the land adjacent to its existing plant in Klang – which will boost the group's annual capacity by 4kMT (additional 9.5%). The new facility is slated for commencement in early 2023. Ancom plans to use this new facility to produce 2 new AIs (Chemicals T and S) with a targeted rollout in 2H23 (See Figure #7-8).

**Highly specialised AIs and the nature of business has a high barrier to entry.** As shown in Figure #2, Ancom's AIs are highly niche and specialised in nature – making them difficult to replicate or replace. The nature of the herbicide business also has a high barrier to entry and we highlight that Ancom is the sole agrichemical AI producer in Southeast Asia.

**Impressive earnings growth with no signs of slowing down.** Ancom raked in a record high core net profit of RM62.6m in FY22. Going forward, we project the group's net profits to further grow by 22%, 45% and 18% for FY23-25f respectively – representing a CAGR of 28%, based on our projections.

**Indicative fair value of RM1.53 – NOT RATED.** Our indicative fair value of RM1.53 is derived from FY24f (FYE May) earnings with a conservative target P/E of 15x – at a c.25% discount to its peers' average P/E of 20x (see Figure #14) to reflect its relatively smaller market capitalisation vs its peers.

## 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	-1.6	-5.6	0.0	0.0	0.0
<b>Core PATMI</b>	<b>22.1</b>	<b>62.6</b>	<b>76.4</b>	<b>110.6</b>	<b>130.5</b>
Consensus core PATMI			N/A	N/A	N/A
HLIB/ Consensus			N/A	N/A	N/A

## Valuation &amp; Ratios

FYE May	FY21	FY22	FY23f	FY24f	FY25f
Core EPS (sen)	2.0	5.8	7.0	10.2	12.0
P/E (x)	46.6	16.5	13.5	9.3	7.9
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)	3.4	3.9	3.3	2.7	2.2
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

# Company Background

Ancom Nylex Berhad (“Ancom”) is an integrated chemicals group and a leading manufacturer and supplier of both agricultural and industrial chemical products. Ancom was established in 1969 under the name Ansul (Malaysia) Sdn Bhd as a pioneer in manufacturing of agricultural chemicals in the region. The group went for listing in 1990 on the Main Market of Bursa Malaysia under its former name Ancom Berhad (pre-acquisition of Nylex (Malaysia) Berhad’s businesses). It assumed the current name since April 2022 following acquisition of Nylex’s business. The group’s core businesses revolves around its two main divisions: (i) agricultural chemicals; and (ii) industrial chemicals. Ancom plays a key role in the global food security with more than 50 years of track record.



**Agricultural Chemicals division – the sole large-scale producer of Active Ingredients (AI) for herbicides in Southeast Asia.** The group’s Agricultural Chemicals division is in the business of manufacturing, formulation and sale of agricultural chemicals, focusing on crop protection and timber preservatives. Ancom is the sole large-scale producer of AI for herbicides in Southeast Asia and a key player in Asia Pacific. AIs are the key chemical compound used in herbicides, insecticides and fungicides.

The division has two production plants in Malaysia, serving both the local and overseas markets. Ancom’s products are exported to more than 40 countries across continents in North and South America, Asia, Africa and Oceania. Locally, the group has a presence in downstream activities as well, offering services that include pest control, hygiene, sanitisation and fumigation.

**Figure #1** Agricultural chemicals division

Integrated Agricultural Chemicals Value Chain	
<b>Synthesis</b>	MSMA, Diuron, Monex, Timber Preservatives, Bromacil, Ester
<b>Formulation</b>	MSMA 720, Glyphosate IPA, Diuron SC & WP, Monex HC, Dasatox, Glufosinate, Ammonium, 2,4D Amine
<b>Trading</b>	Herbicide, Insecticide, Fungicide
<b>Distribution</b>	Domestic, Export

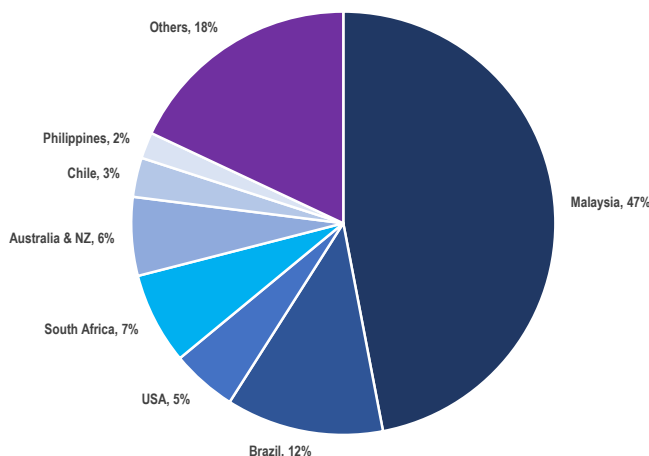
Active Ingredients	Examples of End Products
<p><b>MSMA</b></p> <p>Has ~50% of global market share</p>	 <p>GENEE 15 - Glufosinate Ammonium</p>  <p>Monex HC - MSMA, Diuron</p>
<p><b>Diuron</b></p> <p>One of the only 7 Diuron producers worldwide</p>	

Company, HLIB Research

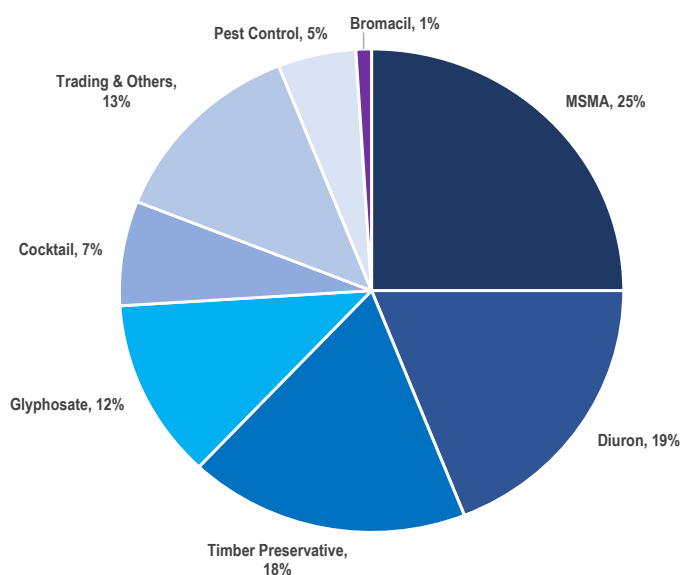
**Figure #2** Agricultural chemicals division – Products and Usage

	MSMA	Diuron	2,4-D	Glyphosate	Monex	Timber Preservatives	Bromacil	Ester
Cereal	/	/	/	/	/	/	/	/
Cotton	/	/	/	/	/	/	/	/
Sugarcane	/	/	/	/	/	/	/	/
Pineapple	/	/	/	/	/	/	/	/
Palm Oil / Rubber	/	/	/	/	/	/	/	/
Corn	/	/	/	/	/	/	/	/
Citrus	/	/	/	/	/	/	/	/
Tea / Coffee / Cocoa	/	/	/	/	/	/	/	/
Turf	/	/	/	/	/	/	/	/
Forestry	/	/	/	/	/	/	/	/
Timber Preservatives	/	/	/	/	/	/	/	/
<b>Producers in the world</b>	<b>1 of 2</b>	<b>1 of 7</b>			<b>The only</b>	<b>1 of 4</b>	<b>1 of 5</b>	

Company, HLIB Research

**Figure #3 Sales breakdown by customers' location (FY21) – Agrichemical division**

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**Figure #4 Product breakdown (FY21) – Agrichemical division**

HLIB Research, Ancom Nylex

**Industrial Chemicals division – one of the two key manufacturers of ethanol in Malaysia.** The manufacturing portion of this division specialises in the production of ethanol, phosphoric acid, adhesives and sealants while the distribution business supplies a wide range of petrochemicals and industrial chemicals within the Asia Pacific region. Ancom is one of the two key manufacturers of ethanol in Malaysia – with the other being Hexza Corporation (listed on Bursa Malaysia as well).

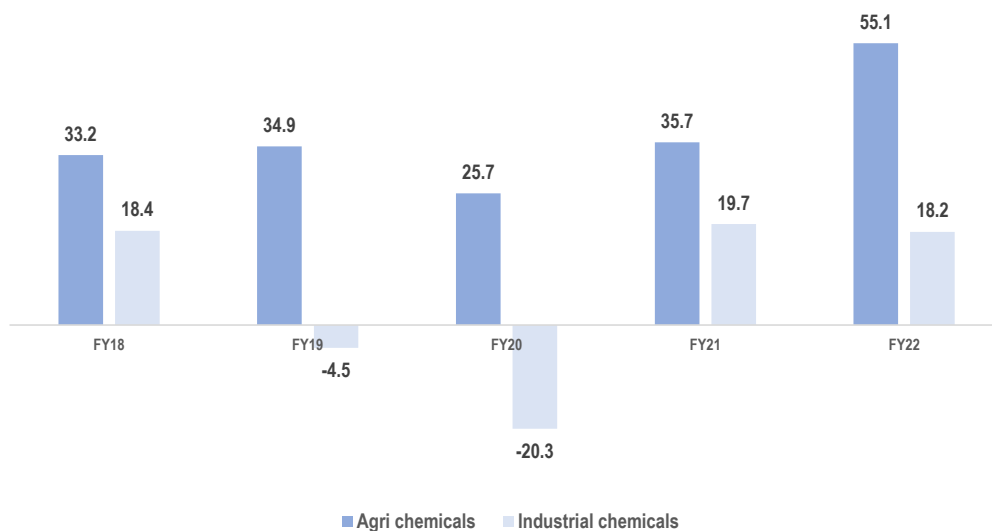
**Figure #5 Industrial chemicals division overview**

- Exports to Europe, the Middle East, Africa and more than 15 countries in Asia Pacific / Oceania
- Has operations in Malaysia, Singapore, Indonesia and Vietnam
- **One of the only 2** key manufacturers of ethanol in Malaysia
- Uses advanced US distillation technology to produce high quality ethanol
- Conforms to British Pharmacopoeia Standards
- Used in hand sanitizers, sterilising and sanitising solution, cosmetics, toiletries, personal care products, pharmaceuticals, health tonics, food flavours, paints, printing inks, and for other electronic & industrial uses
- Production output: 30% food grade, 70% non-food grade
- Annual capacity: ~6million litres; running at **FULL** capacity
- Plant location: Chuping, Perlis
- Land size / Built-up Area: 14 acres / 54,000 square feet

Company, HLIB Research

As at end-January 2022, Ancom completed the remaining acquisition of Nylex's business (FY22 – FYE May) and recognised 100% of the unit's profits in 4QFY22 onwards. With the completion of the acquisition, Ancom is now one of the most integrated chemical groups in Southeast Asia. From our understanding, we highlight that Ancom benefits from synergies via economies of scale and cost-savings with chemical businesses under one roof. Note that throughout this report, we will be mainly focusing on its agricultural chemicals division – which represents the bulk of profits historically (Figure #6) and the group's growth prospects in FY23-24f.

**Figure #6** Segmental Profit Breakdown (RM million)



Company, HLIB Research

## Key Management Personnel

### Lee Cheun Wei (Group CEO)

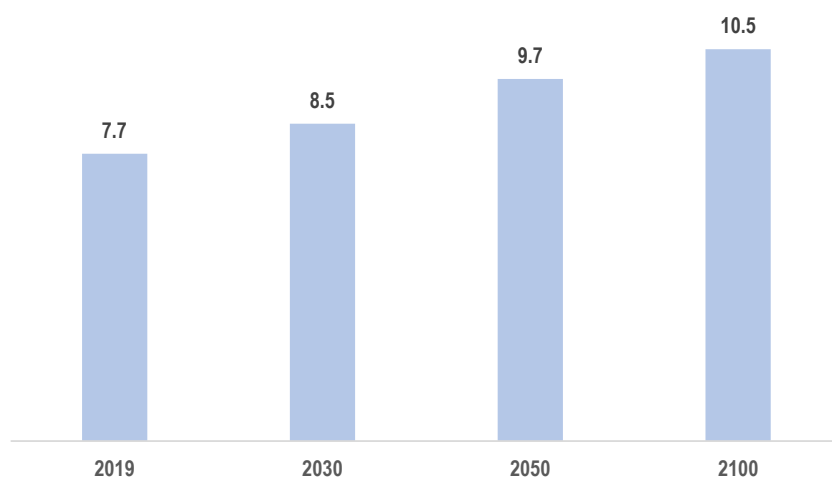
- Appointed as the Group CEO in January 2018 and the MD of Ancom Crop Care (ACC) Sdn Bhd in July 2014.
- Graduated with Bachelor of Arts (Hons) in Accounting and Finance from Lancaster University, UK.
- Holds a Master of Science in Finance (Distinction) from Cass Business School, London.
- Was awarded full scholarships for both degrees – from the Renong/UEM Group and British Chivening/HSBC respectively.
- Member of the Association of Chartered Certified Accountants and the Malaysia Institute of Accountants.

### Lim Chang Meng (Group CFO)

- Joined Tamco Corporate Holdings in 2005 and became Head of Corporate Finance of the Company in 2010. He was then promoted to Chief Financial Officer of Ancom Logistics Berhad in 2011 and for the group in 2014.
- Member of the Malaysia Institute of Accountants.

## Investment Thesis

**Agricultural chemicals – part of a bigger picture for food security.** The United Nations projected that the world's population would grow from 7.7 billion in 2019 to reach 8.5bn in 2030, 9.7bn in 2050 and 10.5bn in 2100 (See Figure #7). Coupled with the fact that land is a scarce resource and with time, there is an increasing importance of growing reliable and consistent food supplies to have sustainable and long-term food security – inevitably increasing demand for good quality pesticides. Ancom's active ingredients are used in growing the food we eat and is the sole agrichemical AI producer in Southeast Asia and one of the largest in the Asia Pacific.

**Figure #7** Projected world population by United Nations (in billion)

United Nations, HLIB Research

### Benefitting from Paraquat ban in Thailand and Brazil – one man’s herbicide is another man’s poison.

Paraquat, a deep-rooted herbicide was banned in both Thailand and Brazil in 2020 as it was classified as a class-1 poison and it was primarily used for weed and grass control. Given its highly poisonous nature, Paraquat was widely used for suicidal reasons. From our findings, the Paraquat replacement in Thailand is estimated to range from USD60-80m annually while the global market size of Paraquat was estimated to be around USD850m in 2020. As two of Ancom’s formulations – Dasaflo and Monex HC – are identified as close substitutes to Paraquat, the group’s exports to Thailand have increased significantly in 2021 and 2022. We note that the group is also working on getting both formulations to Brazil for the soybean industry – which has a Paraquat replacement market of about 5x larger than the Thailand market. Ancom is also increasing its capacity for existing MSMA-based products by 25% to meet the increasing demand resulting from the ban (target completion: October 2022).

**Expanding annual capacity by 9.5% for two more AIs.** The group is building a new 70k sq ft facility on the land adjacent to its existing plant in Klang, which will boost the group’s annual capacity by 4kMT (additional 9.5%). The new facility is slated for commencement in early 2023. Ancom plans to use this new facility to produce 2 new AIs (Chemicals T and S) with a targeted rollout in 2H23 (See Figure #7-8).

**Figure #8** Current manufacturing facilities

	Shah Alam	Klang
<b>Built-up Area</b>	173k sq ft	20k sq ft
<b>Annual capacity (MT)</b>	30,000	12,000
<b>Function</b>	Synthesis, Formulation	Formulation

Ancom Nylex, HLIB Research

**Figure #9** Agrichemical capacity expansion

### TO FACILITATE THE PRODUCTION OF 2-3 NEW ACTIVE INGREDIENTS (AIs)



Ancom Nylex, HLIB Research

**Figure #10** New Active Ingredients – Chemicals T and S

Active Ingredients (AIs)	Bromacil	Ester	Chemical T	Chemical S
<b>Crop</b>	Pineapples, non-crop	Cereal	Cane, non-crop	TBA
<b>Markets</b>	US, Mexico, Japan, Indonesia	Australia	Brazil, South Africa, Australia, US	TBA
<b>Estimated Market Size</b>	1,000-1,500 MT	4,000 MT	5,000 MT	TBA
<b>Annual Target (Ancom)</b>	400 MT	1,000 MT	1,000 MT	TBA
<b>Sales Potential</b>	RM20m	RM16m	RM64m	TBA
<b>Target GP Margin</b>	> 15%	> 15%	> 15%	TBA
<b>Target Rollout</b>	In Production	In Production	2HCY23	2HCY23

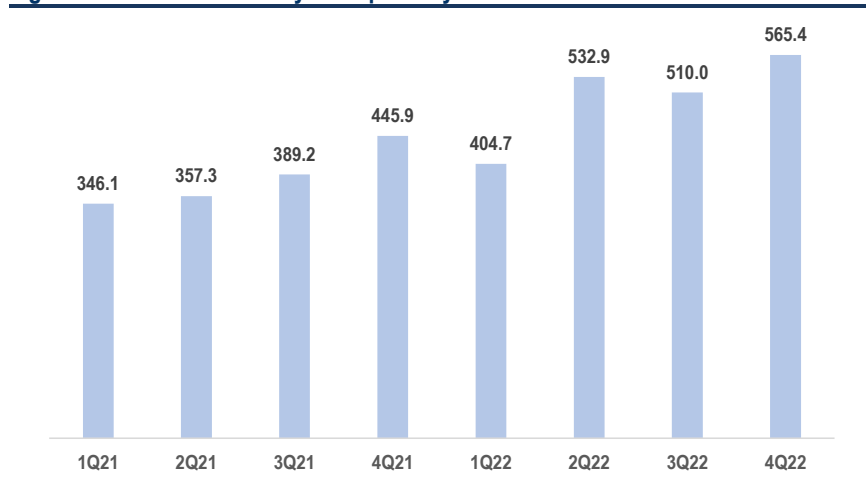
Note: Bromacil and Ester are already in production, Chemicals T and S will be introduced in 2H2023

Ancom Nylex, HLIB Research

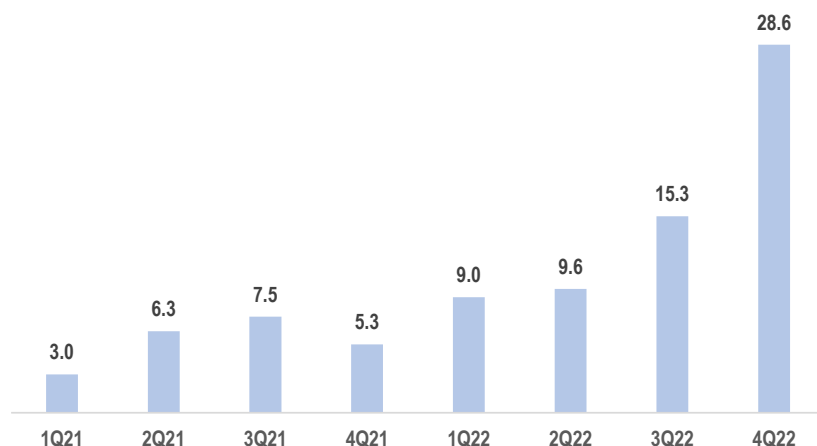
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## Financial Overview

**FY22 results review.** Ancom Nylex has been showing significant earnings improvement in the past 2 years – mainly due to the growth from the group's agrichemical business. The group's FY22 core net profit of RM62.6m was at a record high and we expect this to continue, on the back of organic growth and margin improvement from the development of its new AIs, capacity expansion and rising ASPs for both its Dasaflo and Monex HC products (benefitting from the Paraquat ban).

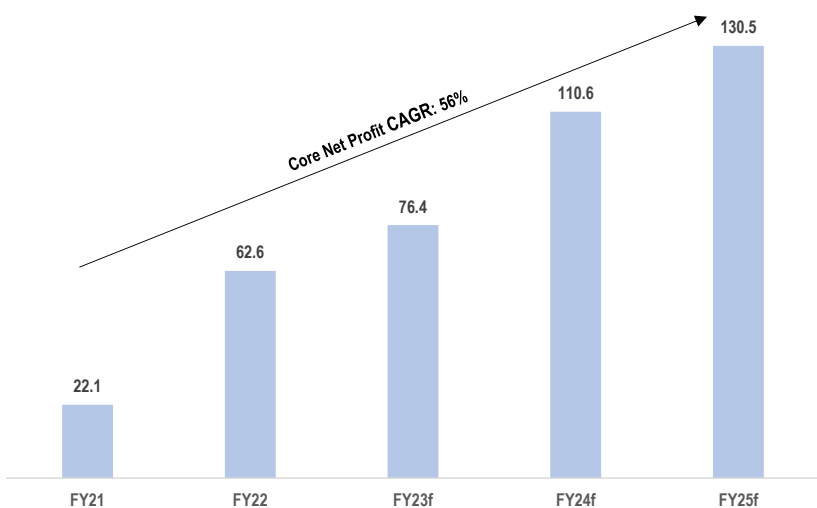
**Figure #11** Ancom Nylex's quarterly revenue trend

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**Figure #12** Ancom Nylex's quarterly core net profit trend

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**Impressive earnings growth with no signs of slowing down.** Ancom raked in a record high core net profit of RM62.6m in FY22. Going forward, we project the group's net profit to further grow by 22%, 45% and 18% for FY23-25f respectively – signifying back-to-back record high profits annually, based on our projections. This represents an impressive CAGR of 28%.

**Figure #13** Core PAT forecasts FY22-25f

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## Valuations and Recommendation

**Indicative fair value of RM1.53.** Our indicative fair value of RM1.53 is derived from FY24f (FYE May) earnings with a conservative and prudent target P/E of 15x – at a c.25% discount to its peers' one-year forward P/E multiple of 20x (see Figure #14) to reflect its relatively smaller market capitalisation vs. its peers. We believe that P/E would be the best valuation methodology for Ancom due to its ability to consistently generate profits and it allow us to capture the group's future earnings prospects and growth.

**Figure #14** Peers comparison

Company	FYE	Country	Price	Mkt Cap (USDm)	PER (x)			Div. Yield (%)	ROE (%)	PBV (x)
			3-Oct-22 (Local Currency)		Actual	1 Yr Fwd	2 Yr Fwd			
<b>Regional</b>										
BAYER CROPSCIENCE LTD	March	IN	4988.15	12,750	35.3	34.9	28.4	1.4	25.7	N/A
BASF SE	December	GE	39.21	164,444	6.1	6.3	8.6	8.8	12.4	0.9
LONZA GROUP AG-REG	December	SZ	486.30	17,1047	12.8	32.5	27.6	0.7	10.4	3.5
CORTEVA INC	December	US	57.15	192,673	26.4	22.8	19.6	1.0	6.6	1.7
FMC CORP	December	US	105.70	61,884	20.3	14.4	13.0	2.0	28.5	4.3
HEXTAR GLOBAL BHD	December	MA	1.75	2,250	57.0	32.8	31.0	1.8	27.2	9.2
<b>Mkt. Cap Weighted Avg.</b>				<b>605,049</b>	<b>16.5</b>	<b>20.3</b>	<b>18.3</b>	<b>3.1</b>	<b>11.9</b>	<b>2.2</b>

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#### Hong Leong Investment Bank Berhad (10209-W)

Level 28, Menara Hong Leong,  
No. 6, Jalan Damanela,  
Bukit Damansara,  
50490 Kuala Lumpur  
Tel: (603) 2083 1800  
Fax: (603) 2083 1766

### Stock rating definitions

<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.
<b>UNDER REVIEW</b>	Rating on the stock is temporarily under review which may or may not result to a change from the previous rating.
<b>NOT RATED</b>	Stock is not or no longer within regular coverage.

### Sector rating definitions

<b>OVERWEIGHT</b>	Sector expected to outperform the market over the next -12 months.
<b>NEUTRAL</b>	Sector expected to perform in-line with the market over the next -12 months.
<b>UNDERWEIGHT</b>	Sector expected to underperform the market over the next -12 months.