MANUFACTURING

AmInvestment Bank

Company report

ANCOM NYLEX

(ANCOMNY MK EQUITY, ANCM.KL) **14 Oct 2022**

Sole large-scale agrichem ingredient manufacturer in South East Asia

BUY

(Initiation)

AmInvestment Bank

Team Coverage

03-2036 2294

Rationale for report: Initiation

Price	**RM0.96**
Fair Value	**RM1.30**
52-week High/Low	RM1.37/RM0.80

Key Changes

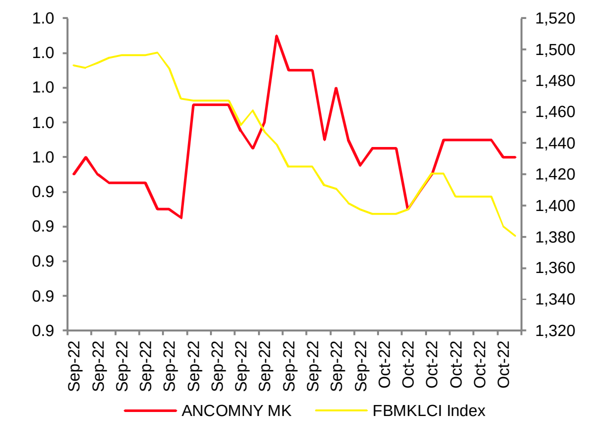
Fair value	**Initiation**
EPS	**Initiation**

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)	-	-	-	-
DPS (sen)	-	-	-	-
PE (x)	15.4	10.7	9.4	7.1
EV/EBITDA (x)	8.3	6.4	5.3	3.8
Div yield (%)	-	-	-	-
ROE (%)	18.2	19.9	20.0	21.4
Net Gearing (%)	82.7	46.9	20.1	nm

Stock and Financial Data

Shares Outstanding (million)	921.8
Market Cap (RMmil)	884.9
Book Value (RM/share)	0.44
P/BV (x)	2.2
ROE (%)	18.2
Net Gearing (%)	82.7
Major Shareholders	Dato' Siew Ka Wei (22.1%)
	Lee Cheun Wei (6.9%)
	Silver Dollars (6.6%)
Free Float	51%
Avg Daily Value (RMmil)	1.7

Price performance	**3mth**	**6mth**	**12mth**
Absolute (%)	11.0	(23.4)	13.4
Relative (%)	14.6	(11.4)	30.1



Investment Highlights

- **We initiate coverage on Ancom Nylex (Ancom) with a BUY recommendation at a fair value (FV) of RM1.30/share, pegged to FY24F PE of 12.7x which is 1 standard deviation below its 5-year mean in view of current volatile commodities market. This is also at parity with the 2-year forward PE of global agrichemical peers, without any ESG-related adjustment based on our neutral 3-star rating.**

- **Ancom has been a pioneer in the manufacturing of agricultural chemicals (agrichem) since inception. Over the years, Ancom's business model has evolved and diversified from an agrichemical manufacturer to a conglomerate with a wide range of operations, including industrial chemicals, polymers, logistics and other non-core activities which management now plans to eventually exit.**

- **ANB's agrichem division is the only large-scale manufacturer of active ingredients (AIs) for herbicides in Southeast Asia and also a major operator in Asia Pacific.**

- **The manufacturing and formulation of products are carried out in 2 production plants in Malaysia located in Shah Alam and Port Klang with a combined annual capacity of 42mt.**

- **Recently, the company completed the acquisition of 80% equity stakes each in Shennong Animal Health and Vemedim for RM24mil cash, solidifying its leading position in agrichem by providing an integrated solution across the food supply chain.**

- **Moving forward, the management guided that the company intends to devote all of its resources to the agrichem division, which will enhance efficiency with an expanded scale.**

- **With the ban of paraquat in Malaysia, Thailand and Brazil, we believe Ancom, which offers AIs for alternative herbicides, is a proxy to several long-tern positive structural trends:**

  (a) increasing global food demand;

  (b) reliance of global crop yields on herbicides; and

  (c) multinationals' China+1 strategy.

- **Supported by a net gearing level that is expected to improve from 0.83x in FY22 to net cash in FY25F, we expect Ancom to register a revenue growth of 7–12% in FY23F–25F, translating to a stronger core net profit increase of 15–31%. This is attributable to the organic growth in industrial chemical business and surge in agrichem sales from the paraquat replacement market.**

- **The stock currently trades at a compelling FY24F PE of 9.4x, which is 26% below the 2-year forward sector average of 12.7x.**

COMPANY OVERVIEW

❑ *Pioneer in agricultural chemicals industry*

Ancom Nylex (Ancom) has been a pioneer in the manufacturing of agricultural chemicals (agrichem) since inception, established in 1969 under the name Ansul (Malaysia). The company's name changed to Ancom in 1989, following its listing on the Main Market of Bursa Malaysia in 1990.

Following the acquisition of the entire business of Nylex (M) on Jan 2022, the company has assumed its present name on Apr 2022 after acquiring the remaining 49.7% stake in Nylex. Subsequently, the group has 2 subsidiaries listed on Bursa Malaysia: Nylex on the Main Market and Ancom Logistics (ALB) on the ACE Market (Exhibit 13).

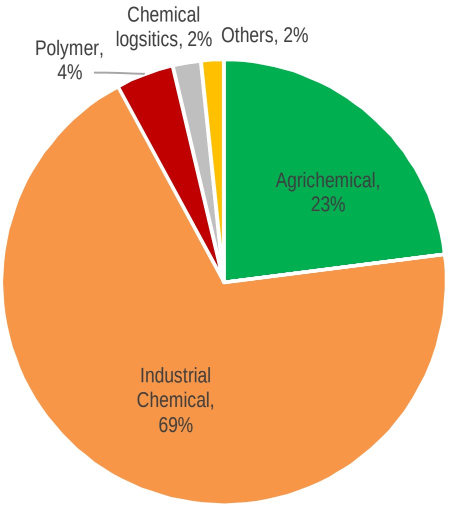
❑ *Consolidated to be the most integrated chemical player in the region*

Over the years, Ancom's business model has evolved and diversified from an agrichem manufacturer to a conglomerate with a wide range of operations. The group's business is now classified into 5 pillars: agrichem, industrial chemicals, polymers, logistics and other non-core activities, which management now plans to eventually exit.

Agrichem and industrial chemicals remain as the group's key revenue contributor, accounting to more than 92% of the total revenue in FY22, complemented by chemical logistics and polymer (Exhibit 1).

Moving forward, the group intends to integrate into an agrichemical and industrial chemical player by consolidating all non-chemical related businesses. The transition will allow the company to achieve greater efficiency and scale to source, produce, store and deliver a wider range of chemical products. Additionally, there are synergistic benefits such as economies of scale, cost reductions and stronger combined balance sheet.

EXHIBIT 1: FY22 REVENUE DISTRIBUTION



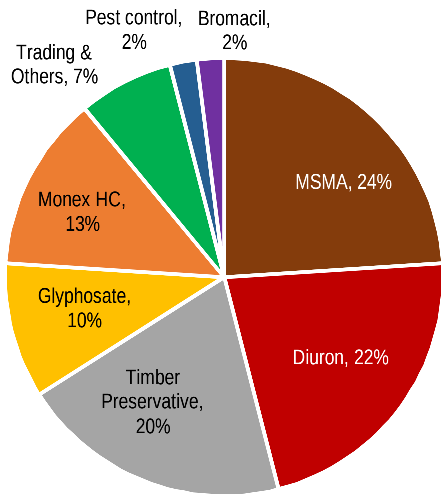
Source: Ancom Nylex Group, AmInvestment Bank

❑ *Sole large-scale producer of active Ingredients for herbicides in Southeast Asia*

Ancom's agrichem division manufactures, formulates and market herbicidal products which provide crop protection and wood preservation. The group mainly operates its agrichem business through its wholly-owned Ancom Agrichemical.

The group is the only large-scale manufacturer of active ingredients (AIs) for herbicides in Southeast Asia (SEA) and also a major operator in Asia Pacific. AIs are the active chemical compounds used in formulation of herbicides, insecticides, and fungicides. The company currently synthesises 6 AIs namely MSMA, Diuron, Monex HC, Timber Preservatives, Bromacil and Ester (Exhibit 2)

EXHIBIT 2: FY22 PRODUCT BREAKDOWN



Source: Ancom Nylex Group, AmInvestment Bank

The manufacturing and formulation of products are carried out in 2 production plants in Malaysia located in Shah Alam and Port Klang with a combined annual capacity of 42mt. With 70–80% of its capacity devoted to AIs manufacturing and the remaining 20–30% for herbicide formulation, Ancom serves the domestic market and exports to over 40 countries worldwide (Exhibit 3&4).

Ancom's products are primarily used in big-acre crop plantations such as sugar cane, corn, wheat, cotton and palm oil. Locally, the company is also engaged in downstream activities such as pest control, hygiene and fumigation.

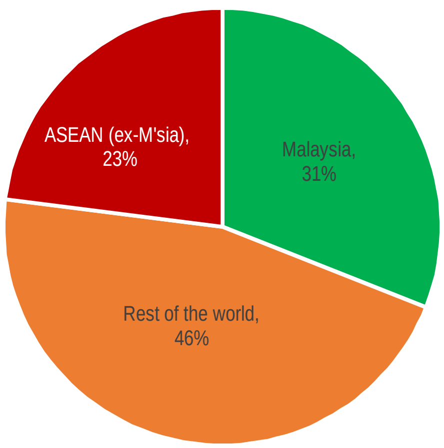
In June 2022, the company completed the acquisition of 80% equity stakes each in Shennong Animal Health and Vemedim for RM24mil cash. The 2 companies manufacture and distribute animal healthcare products, such as antibiotics, feed additives, vitamins and disinfectants, with a focus on reaching the domestic market. This allows the company to capitalise on its leading position in agrichem by providing an integrated solution across the food supply chain.

EXHIBIT 3: GLOBAL REGISTRATION AND PRESENCE

Source: AmInvestment Bank

Despite contributing only 23% of the group's total revenue in FY22, agrichem has been the group's core and most profitable business since its inception. The division posted an EBIT of RM71mil in FY22, representing 53% of the group's total EBIT.

EXHIBIT 4: FY22 GEOGRAPHICAL REVENUE BREAKDOWN



Source: Ancom Nylex Group, AmInvestment Bank

- ***Largest revenue contributor for now but not in future***

Ancom operates an industrial chemical business through its wholly-owned Nylex Holdings (Nylex). In late-Jan 2022, Ancom completed the acquisition of all industrial chemical businesses from Nylex (M) (a company listed in Main Market) and parked them under Nylex, which allowed Ancom to have full recognition of the earnings contribution of the industrial chemical segment from 50.3% previously. Its industrial chemical operation involves manufacturing and distribution.

Industrial chemical has been the group's largest revenue drivers, accounting for 66-72% of FY18–22 group revenue. Notably, the lion share of this segment came from the distribution operation, accounting for 90% of FY22 industrial chemical revenue. In terms of profitability, this segment accounted for an average of 23% of group PBT in FY18–22.

The disproportionate contribution by revenue and PBT to the group is mainly due to the lower-margin distribution operation, which generally commands a PBT margin of <5%. This stems from the low value-add characteristic of industrial chemical distribution, which is also competitive with multiple players.

The key products under the manufacturing operation are ethanol, phosphoric acid, adhesives and sealants. Together with Perak-based Hexza Corporation, Nylex is one of 2 key manufacturers of ethanol in Malaysia. Most of Nylex's ethanol is non-food grade and used in the production of paints, coatings and local sanitiser industries. Phosphoric acid are used mostly in palm oil refineries, whereas adhesives and sealants are used in the local automotive industry.

Currently, Nylex operates an ethanol manufacturing plant with annual capacity of 6mil litres/year in Chuping, Perlis via 100%-owned Fermpro. The group is planning to double the annual capacity to 10mil litres/year by end of December 2022 or early 2023 given that Malaysia currently imports ethanol from Thailand and other international markets. Such an expansion could allow Nylex to fulfil the local demand-supply gap and enable Malaysia to be self-sufficient in ethanol production.

Separately, the distribution operation works as an industrial chemical trading house, which procures a wide range of petrochemicals and industrial chemicals (such as methanol) in bulk and then re-sells them in Malaysia, Singapore, Indonesia and Vietnam.

Industrial chemical business performance is highly correlated with commodities price trajectory. During a commodity upcycle, the distribution business tends to enjoy a higher margin and vice versa, mainly due to inventory lag effect.

Given the current volatility of commodity prices and methanol, we believe the distribution operation will be impacted slightly. Nevertheless, we believe the new ethanol manufacturing plant to be commissioned in FY23F will contribute positively by 2% to the group's earnings onwards.

INVESTMENT THESIS

❑ *Paraquat ban in Malaysia, Brazil and Thailand*

Paraquat is an extremely poisonous chemical that is widely used as an herbicide in more than 100 countries. It is an effective herbicide used for weed and grass management on cotton, rice, palm, sugarcane, maize and soybean. Due to its patent expiration, it is one of the most economical herbicides available.

Even though paraquat is harmless for soil microorganisms and plant roots, extensive applications lead to widespread residues on soil surface and aquatic environments that ultimately enter the food chain.

Research by *Advances in Weed Science* shows that paraquat causes highly acute toxicity in humans once ingested. Long-term use and exposure can potentially cause health problems and death among workers and farmers. Hence, paraquat is often used as a suicidal option in Asian countries due to its availability and toxicity. Paraquat was therefore banned in Malaysia, Brazil and Thailand in 2020 due to its negative health and environmental impact.

According to news report from *The Strait Times*, following the ban of paraquat, Thailand will experience a significant agronomic impact leading to a 3x increase in production cost and 20–30% dip in overall agricultural produce.

Meanwhile, paraquat ranked sixth on the top 10 list of best-selling pesticides in Brazil in 2018, with sales exceeding 13k tonnes, according to an article on *AgroPages*. Brazilian Agricultural Research Company (Embrapa) has estimated an additional cost of 129% after the ban of paraquat. Therefore, the ban on paraquat has dealt a heavy blow to agribusiness in both countries as farmers are forced to choose more expensive alternative products.

EXHIBIT 5: PARAQUAT REPLACEMENT

Source: Ancom Nylex Group, AmInvestment Bank

Consequently, a huge void was left in Brazil and Thailand while the demand surge has increased the urgency of finding suitable and affordable replacements. The replacement market for paraquat in Thailand is estimated to be worth USD60–80mil a year, while the market in Brazil is 5x higher.

Management has identified that 2 of Ancom's MSMA-based formulations, Dasaflo and Monex HC, are close substitutes for paraquat (Exhibit 5). In FY22, the company sold 1.8mil litres per annum of the formulations in Thailand, which represents 6–8% of the potential market. The demand of these products has risen exponentially following the ban in Thailand and is expected to grow further as these formulations are viewed as an affordable alternative to paraquat.

Meanwhile, Ancom has been present on the Brazilian market for MSMA-based herbicides in the post-emergence control of weed for over 20 years. However, paraquat was predominantly used as pre-emergence herbicides to reinforce weed clearing in soybean plantation.

Therefore, Ancom intends to register their pre-emergence formulation by Sep 2023 in order to penetrate the market and fill in the vacuum left by the paraquat ban. The company has also guided for a 50% increase in Monex HC capacity by Jan 2023 to meet rising demand. All in, we project Ancom's FY23F revenue to improve by RM50-65mil from the paraquat replacement market in both countries.

❑ *Technical-know-how and comparatively lower capex in producing new AIs*

The research and development (R&D) of new AI from laboratory to product launch is extremely expensive and demanding due to the long approval cycle and uncertainties throughout the process. According to *The Pesticide Marketplace*, it takes 8–10 years to test, develop, and register a new chemical compound. The research also estimated that the cost for R&D would exceed US$180mil, excluding the capital cost associated with building and operating highly specialised production facilities.

In addition, scientific expertise and technical proficiency are essential for the development process in order to provide insight into evolving trends and identify product possibilities. Meanwhile, market demand may shift, new regulatory requirements may be implemented, and pricing trends may fluctuate throughout the R&D cycle.

Taking advantage of its existing facilities and more than 50 years of expertise in the agrichemical industry, capex for Ancom to introduce new AI is comparatively lower compared to new domestic market players. According to management, even with technical know-how, the new AI, Bromacil, which was unveiled earlier this year, required 5 years of constant investment and RM30-40mil in cost.

Additionally, due to the hazardous properties of pesticides and their usage in crop production, the launching of new AI is governed by stringent regulations. In Malaysia, pesticides are regulated under Pesticides Act 1974, Environmental Quality Act 1974 and Food Act 1983. Several studies such as toxicity and residue tests are carried out by independent regulatory bodies before securing the approval for mass production. Validity of any pesticides are for up to 5 years and must be re-registered to ensure that all relevant risk assessments remain up to date (Exhibit 6).

Generally, we view this as an advantage to Ancom, as the high barrier of entry safeguards its industry position as an experienced small and mid-size molecules provider. Besides, the substantial risk of stranded costs associated with the investment will dissuade new domestic entrants.

INDUSTRY OUTLOOK

❑ *Increasing food demand encourage the use of agrochemicals*

Food security issues are becoming more prevalent in recent years. Growing global population, rising incomes and urbanisation drive the increase in food demand. Even the pursuit of global food security and agricultural sustainability has been incorporated into the Sustainable Development Goals (SDG) by the United Nations (UN).

According to a research paper by *Nature Food*, total global food demand is projected to increase by 35% to 56% between 2010 and 2050, while population at risk of hunger is expected to change by -91% to +8% over the same period. This will be supported by the World Bank's projection that the world's population will reach nearly 10bil by 2050 from 7.9bil in 2022.

However, increasing food output remain challenging as land and water resources become scarcer due to soil degradation and competition from non-food production uses. This is further exacerbated by changing climate conditions, which pose threats to food availability and prices.

The complexity of raising global food production to accommodate food demand is likely to create commercial opportunities for Ancom's agrichem business. FAO estimates that 80% of the increase in food production to accommodate the growing population is derived from improvements in yield and frequency of times the crops may be grown on the same land, while only 20% of the extra food production is expected to rise from an expansion of farming land. Pesticides can prevent large crop losses and will therefore continue to play a vital role in agriculture. Hence, ANB is poised to expand its agrichem business by leveraging on this global trend.

Still, we are aware that long-term exposure and excess consumption of pesticide residues potentially causes adverse human health effects.

Nonetheless, research by Interdisciplinary Toxicology shows that diet containing fresh fruit and vegetables far outweigh potential risks from eating very low residues of pesticides in crops. Even the World Health Organization's Meeting on Pesticide Residue recommended 0.02mg/kg body weight as a safe maximum residue limit.

Going forward, we expect pesticides to remain relevant in ensuring food security, despite their potentially hazardous properties.

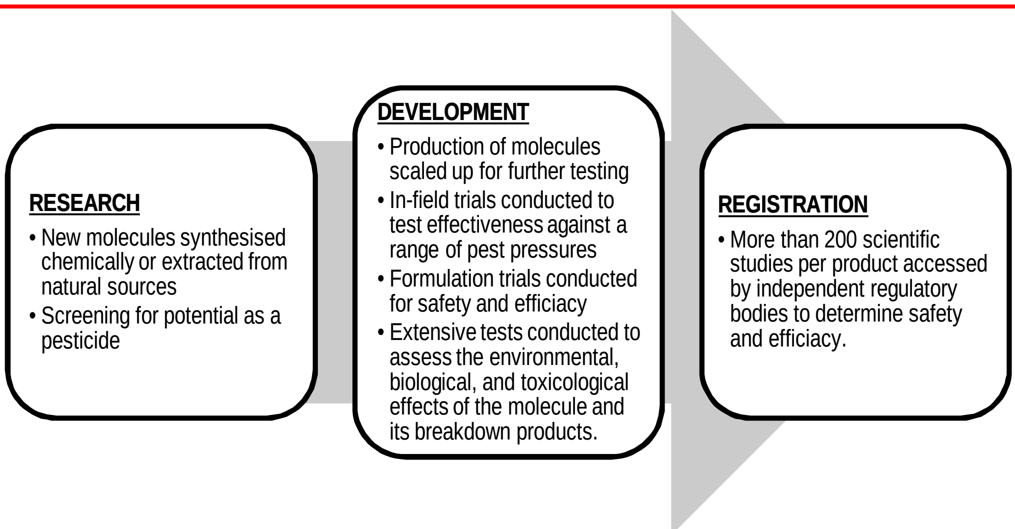
❑ *Pesticides are irreplaceable for big acre crops*

As aforementioned, the use of pesticides has led to concerns regarding unintended environmental and health effects, such as the potential of pesticide residues on food, pollution of soil/water systems and health impacts on farm workers and communities. Even investors have made efforts to support sustainable food supply chains by promoting alternatives to significantly reduce pesticide use.

In 2021, Sri Lanka's president has made a decision to ban imports of synthetic fertilizer and pesticides, forcing farmers to switch to organic farming. The ban was poised to save USD400mil yearly on these chemical products.

However, the ban proved to be disastrous as rice production drop 20% within 6 months of implementation while tea output fell by 18%. This resulted in hundreds of millions of dollars in subsidies to support food demand and compensate farmers for their productivity loss, partly contributing to Sri Lanka's catastrophic economic crisis in June this year.

EXHIBIT 6: NEW AI DEVELOPMENT PROCESS



Source: AmInvestment Bank

Herbicide usage is universally acknowledged as a convenient, cost effective and good agronomic practice which enables timeliness, replicability, specificity, predictability and availability of required manpower and materials.

Despite the use of agrichemicals, 20–40% of potential food production is still lost annually to pests. With agriculture making up a major part of society and economy, it is impossible to eliminate pesticide use in food crop such as wheat, rice and maize, while maintaining a high production rate.

Instead, the risks of pesticides can be mitigated by following the rules as directed on product labels and using integrated pest management. We are confident that Ancom's sales will continue benefiting from the reliance of global crop yields on pesticides.

❑ *Beneficiary of China+1 strategy*

In the past, most of the large and global herbicide/pesticide formulators procure AI mainly from China in view of its competitive pricing. We believe this is due to China being the biggest chemical producer in the world that allows AI manufacturers to secure lower cost of production from the high economies of scale.

For illustration, Chinese AI manufacturers are selling Esther at prices of US$3.60-3.70/litres, at 16%-22% discount to Ancom's US$4.40-4.60/litres. However, global formulators that solely procure AI from China have been struggling over the past 3–4 years, given a series of supply chain issues from:

(a) the aggressive push for various new environmental policies to tackle industrial pollution, ie. the rapid shut-down, relocation and transformation of 134 petrochemical plants near the Yangtze river, which disrupted chemical supplies to Chinese AI manufacturers; and more recently

(b) the various waves of lockdowns since the Covid-19 outbreak in late 2019, coupled with the continued adoption of zero-Covid policy, which heigthened AI supply uncertainties from Chinese players. As a result, many global formulators have been seeking alternative AI suppliers outside China (China+1 strategy).

Over the last 2 years, management claimed that Ancom is a key beneficiary of this structural China+1 trend, given that the group is the largest AI producer in the SEA region (outside China). Furthermore, Ancom expects the momentum of such trends to continue for the next 2 years. To capture this structural trend, Ancom developed new AI products T and S to cater for more global formulators' demand.

FINANCIAL PERFORMANCE

❑ *Unparalleled in 5-year earnings history*

In FY22, Ancom's revenue grew 30.5% YoY to RM2.01bil in tandem with an astounding 91% surge in core net profit to RM55mil. The 5-year high in both top and bottom line was mostly driven by higher sales volume in agricultural and industrial chemicals divisions, as increasing food consumption and economic recovery boosted demand for the group's products.

Likewise, the group has recorded a higher FY22 PBT of RM78mil compared to RM51mil in FY21, translating to a 53% YoY increase. This is partly attributable to a one-off gain of RM24.2mil from the sale of terminal assets in Vietnam but offset by a loss on disposal of RM49mil recognised by Nylex upon completion of sale of its industrial chemicals business to Ancom.

Agricultural chemicals revenue strengthened 39% YoY to RM463mil in FY22 from RM332mil in FY21. As agricultural players strived to maximise crop output and yield in the midst of growing threats to global food security, demand for agrichemicals has risen in tandem.

In addition, ban of paraquat in Thailand has ramped up demand for MSMA-based products which is one of the closest paraquat replacement available in the market. Concurrently, the surge in MSMA products from East Malaysia also boosted the division's FY22 revenue.

The industrial chemicals revenue increased by 33% YoY to RM1.39bil in FY22, supported by higher average selling prices (ASP) and volume in the distribution business after the lifting of movement restrictions across various countries. Nonetheless, manufacturing business revenue has also improved owing to supply disruptions of phosphoric acids from China and rising demand from oleo refineries, albeit at a slower growth rate dragged by higher raw material costs.

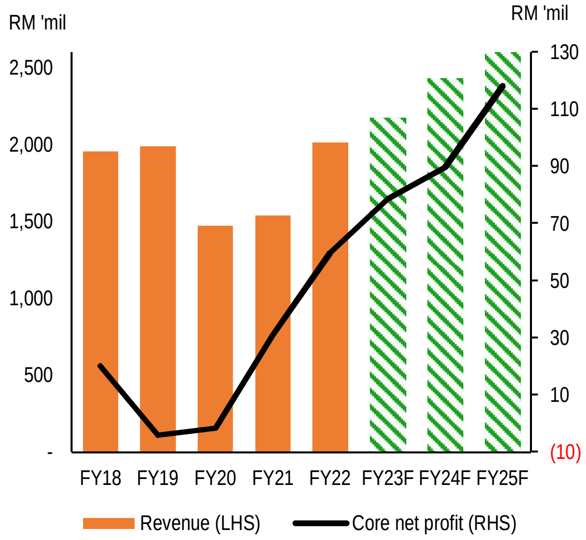
❑ *Earnings improvement supported by market expansion and sales contribution from new AI products*

We expect Ancom to register a FY23F–25F revenue growth of 7–12%, while core net profit improve by 15–31% (Exhibit 7). This is attributable to the organic growth in industrial chemical division and the surge in sales from the paraquat replacement market.

Furthermore, the rollout of additional 3 new AI products in FY23F–24F will enable Ancom to penetrate new markets by expanding their product offerings. These new AIs will be manufactured in a new plant located in Klang, with an additional 4k mt of annual capacity. The new facility is scheduled for completion in early 2023.

Nonetheless, backed by improved economies of scale from higher sales volume in both agrichemical and industrial chemical businesses, we expect the group's core net profit margin to improve from 2.7% in FY22 to 3.6–4.5% in FY23F-FY25F.

EXHIBIT 7: REVENUE & PROFIT FORECAST



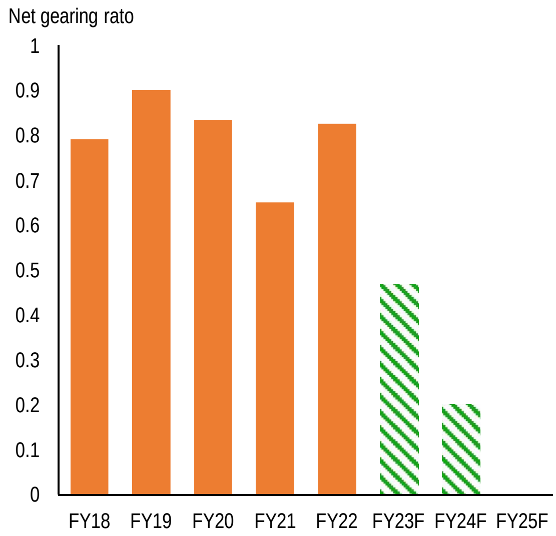
Source: Ancom Nylex Group, AmInvestment Bank

❑ *Paring down net gearing*

ANB's net gearing ratio stood at 0.83x in FY22, which was higher than 0.65x in FY21 (Exhibit 8). This was mainly attributable to higher trading activities within the industrial chemicals division's distribution arm and the RM50mil loan obtained by the group to acquire Nylex's business.

Notwithstanding the group's ability to generate robust operating cash flows throughout the years, management does not have plans to declare cash dividends in the near future. This is congruent to the company's strategy on leveraging their competitive advantage in integrating all chemical businesses and paring down debt with surplus cash. By FY25F, we estimate that the group to reverse to a net cash position of RM29mil.

EXHIBIT 8: NET GEARING RATIO FORECAST



FY25F at net cash position.
Source: Ancom Nylex Group, AmInvestment Bank

MANAGEMENT

❑ *Shrewd management team*

Dato' Siew Ka Wei, executive chairman, aged 66. Siew joined the board in October 1985 and was appointed as Managing Director in July 2004 before being elected Executive Chairman in January 2018. He has over 30 years of expertise in the petrochemical industry, both locally and abroad. Currently, Siew is the Group Managing Director of Nylex (Malaysia) and Executive Vice Chairman of Ancom Logistics, both of which are listed subsidiaries of the company. He is a substantial shareholder of the company with a direct equity stake of 14.6% and indirect 7.5%.

Lee Cheun Wei, managing director and group chief executive officer (CEO), aged 48. Lee has over 10 years of finance-related experience before joining the group as chief financial officer in 2009. He was appointed as the group CEO in 2018 while retaining his managing director in Ancom Crop Care (ACC) since July 2014, before being appointed Managing Director on 28 Mar 2022. Lee has a direct equity stake of 6.9% in Ancom.

Robin Ling Seng Chiong, deputy CEO of Nylex, aged 52. Robin has been involved in industrial chemical business since 1994 before joining PKG, a subsidiary of Nylex as executive director. He was promoted to deputy CEO of Nylex in Jan 2018 to assist the group managing director in overseeing the industrial chemical business operations.

Datuk Hasnul bin Hassan, deputy CEO of ALB, aged 60. Hasnul has more than 23 years of experience with several reputable multinational companies in marketing and management. He joined the group in 2014 as executive director and was deputy CEO of ALB in 2019.

Lim Chang Meng, chief financial officer (CFO), aged 50. Lim joined the group's subsidiary, ALB, in 2005 and was promoted to CFO in 2011 before being appointed as group CFO in 2014. Prior to joining the company, he has 12 years of expertise in accounting and finance.

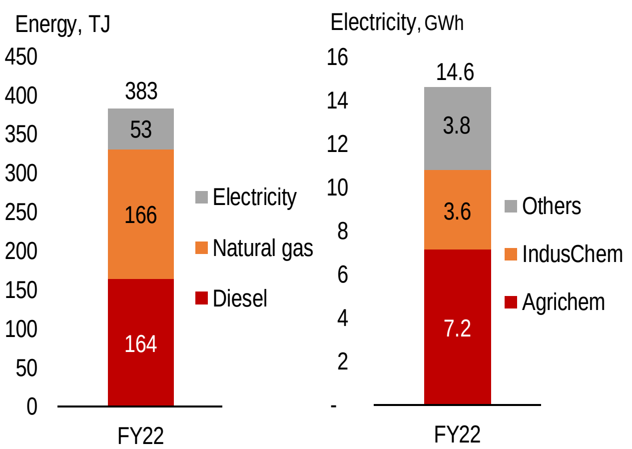
Choo Se Eng, company secretary, aged 61. Choo is the company secretary of Ancom, Nylex, ALB and their subsidiaries. Involved in accounting, taxation and secretarial practices since 1981, he held the position from 1996 until his departure in 2016 and rejoined the company in April 2018.

ENVIRONMENTAL, SOCIAL & CORPORATE GOVERNANCE

❑ *Ambition to be benchmarked in industry's operational eco-efficiency*

Energy-saving initiatives. Given that chemical manufacturing is an energy-intensive industry, Ancom's approach to energy-saving focuses primarily on reducing direct and indirect energy consumption. Ancom started its monitoring effort in 2020, and the energy consumption was first disclosed in FY22 annual report. Moving forward, the group intends to integrate its operations into more renewable energy sources, specifically solar and other hybrid sources.

EXHIBIT 9: ENERGY CONSUMPTION IN FY22



Source: Ancom Nylex Group, AmInvestment Bank

Reduce carbon footprint. Ancom supports Malaysia's efforts to lower the carbon intensity of its economy in accordance with its Nationally Determined Contribution (NDC). This commitment aims to achieve 45% carbon intensity reduction against country's GDP by 2030 compared to 2005. The company has implemented following measures to reduce its carbon footprint.

i. Performs quarterly stack gas emission tests according to the Environmental Quality Act, 1974 (EQA) to achieve 0% black smoke from its boiler.
ii. Installing gas detectors for monitoring and data analysis.
iii. Improve boiler efficiency through temperature control and chemicals used.
iv. Replacing fuel with environmental-friendly fossil fuel – natural gas, and improving fuel combustion.
v. Timely maintenance of machineries and vehicles.
vi. Recycling nitric oxide gases for nitric acid recovery.
vii. Investment in biogas projects.

Water management. The group seeks to achieve sustainable water consumption by monitoring water consumption on a regular basis and implementing measures to reduce water usage while increasing productivity. Various other initiatives were implemented throughout the manufacturing facilities to reduce water demand (Exhibit 10).

Effluent management. The chemical industry is inherently prone to generating high volumes of hazardous waste. The group strictly adhere to all laws and regulations by Department of Environment (DOE) in disposing and handling waste. An Online Environmental Reporting (OER) module was used to track and report waste generation and disposal. Treatment was also done on the effluent to minimise contaminants being discharged into the environment

EXHIBIT 10: WATER CONSERVATION MEASURES

Source: Ancom Nylex Group, AmInvestment Bank

❑ *Continuing social efforts*

Diversity and inclusion. We observe that Ancom has a considerable distance to go before achieving gender equality in their employment. Currently, only 28% of the company's workforce are female with 21% holding key senior management role. However, Ancom is involved in manufacturing, transportation, and logistics industries, which is historically male-dominated. Management assert that their hiring process is transparent and that they do not discriminate against applicants during recruitment and subsequent employment.

Occupational safety. Ancom's health and safety practices apply to all contractors and stakeholders. Management is committed to continuous improvement and compliance with OHSA 1994, FMA 1967, EQA 1974. Additionally, Ancom provides periodic workshops and training to enhance safety consciousness and knowledge of employees and contractors.

❑ *Corporate governance*

Independent directors. 7 out of 3 directors are independent. This conforms with the Malaysian Code on Corporate Governance's (MCCG) recommendation that 50% of the board should comprise independent directors.

Gender diversity in the boardroom. With just 1 female director on the board, the organisation falls short of MCCG's guideline of at least 30% female board members.

VALUATION

❑ ***Initiate BUY with fair value of RM1.30/share***

We initiate coverage on ANB with a BUY recommendation at a fair value (FV) of RM1.30/share, pegged to FY24F PE of 12.7x which is 1 standard deviation below its 5-year mean in view of current volatile commodities market. This is also at parity with the 2-year forward PE average of global agrichem peers (Exhibit 11). There is no ESG-related adjustment based on our neutral 3-star rating.

We believe the valuation is justified given the robust core earnings projections for the next 3 years (FY22–25F earnings CAGR of 29%) on the back of the introduction of new AI products, capturing new market share and better economies of scale from the consolidation of Nylex's business.

In addition, we believe a conglomerate discount was given to the stock prior to consolidation due to Ancom's involvement in multiple non-core industries. Going forward, management guided that the company plans to devote all of its resources to the chemical division, translating to improved efficiency from an expanded scale.

Additionally, we expect margins to remain resilient due to the group's ability to pass on costs to customers since herbicides are considered non-discretionary or irreplaceable in the plantation sector.

The stock currently trades at a compelling FY24F PE of 9.4x, 26% below its 2-year forward sector average of 12.7x.

INVESTMENT RISK:

The downside risks to our investment thesis are:

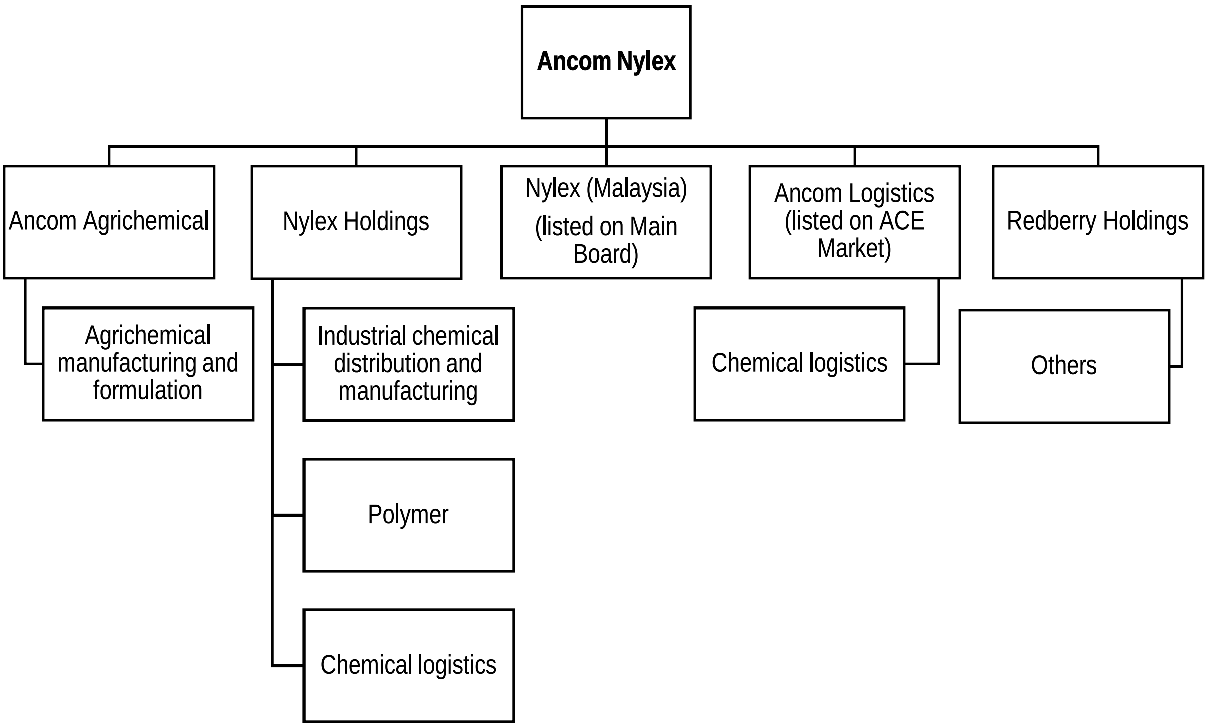
1) Environmental and social risk arises from operation due to the hazardous effluent from the manufacturing process.
2) Ongoing global supply chain disruption which might lead to operational disruption.
3) Sustained elevated maritime freight rates that could reduce earnings due to higher import and export costs.
4) Changes in regulations and government policies in nations where the company operates that may have a substantial impact on product sales.
5) Adverse weather conditions such as droughts or floods in the region where Ancom's client operate, which could lead to crop failures, resulting a slide in demand for agricultural chemical products.

EXHIBIT 11: PEER COMPARISON

COMPANY	COUNTRY	MKT CAP USD (bil)	FYE	EPS growth (%) 1-YR FWD	EPS growth (%) 2-YR FWD	PE (X) 1-YR FWD	PE (X) 2-YR FWD	P/BV (x) 1-YR FWD	ROE (%) 1-YR FWD	Div Yield (%) 1-YR FWD
CORTEVA INC	US	44.6	DEC	15.5	26.0	20.0	17.5	1.7	7.6	1.0
BASF	GERMAN	38.1	DEC	-22.4	11.5	8.4	7.5	0.9	-17.2	8.4
FMC	US	14.1	DEC	13.1	10.8	13.4	12.1	4.2	28.9	2.0
UPL LTD	IND	6.3	MAR	37.5	18.4	10.9	9.2	1.9	19.0	1.7
BAYER CROPSCIENCE	INDIA	2.7	MAR	16.8	17.3	30.9	26.3	7.6	25.9	1.5
LIER CHEMICAL CO	CHINA	2.0	DEC	12.7	18.6	7.4	6.2	1.7	23.2	3.7
NUFARM	AUS	1.3	SEP	-2.6	14.4	16.2	13.8	0.9	5.8	2.2
SHENZHEN NOPOSION AGROCHEMICALS CO	CHINA	0.7	DEC	40.3	31.9	11.4	8.6	1.4	13.1	0.0
AVERAGE		**13.7**		**13.9**	**18.6**	**14.8**	**12.7**	**2.5**	**13.3**	**2.6**

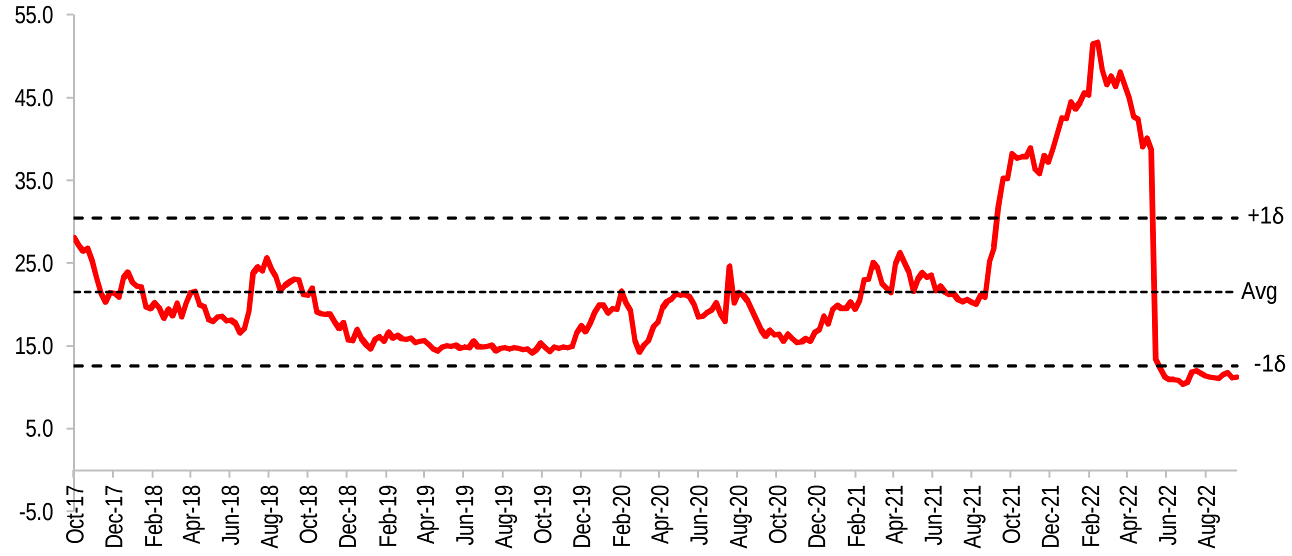
Source: AmInvestment Bank

EXHIBIT 12: CORPORATE STRUCTURE & BUSINESS



Source: AmInvestment Bank

EXHIBIT 13: PE BAND CHART (X)



Source: AmInvestment Bank

EXHIBIT 14: : ESG RATING

Overall	★	★	★		
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 15: FINANCIAL DATA

Income Statement (RMmil, 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)	-	-	-
Pretax profit	**51.0**	**78.2**	**102.3**	**116.8**	**153.9**
Taxation	(18.4)	(49.1)	(24.6)	(28.0)	(36.9)
Minorities/pref dividends	(8.8)	39.1	0.8	0.9	1.2
Net profit	23.8	68.2	78.5	89.7	118.1
Core net profit	**28.7**	**54.9**	**78.5**	**89.7**	**118.1**

Balance Sheet (RMmil, 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
Total non-current assets	**414.2**	**413.5**	**449.2**	**464.2**	**479.2**
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
Total current assets	**654.1**	**710.3**	**803.4**	**957.5**	**1,127.1**
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
Total current liabilities	**494.8**	**581.7**	**742.8**	**787.8**	**813.8**
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
Total long-term liabilities	**91.1**	**113.9**	**102.5**	**102.5**	**102.5**
Shareholders' funds	**362.2**	**387.6**	**402.9**	**492.5**	**610.6**
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 (RMmil, 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)
Cash flow from operations	**31.5**	**23.7**	**188.8**	**126.6**	**165.2**
Capital expenditure	12.6	(69.4)	(31.0)	(31.0)	(31.0)
Net investments & sale of fixed assets	-	-	-	-	-
Others	0.7	1.0	-	-	-
Cash flow from investing	**13.3**	**(68.4)**	**(31.0)**	**(31.0)**	**(31.0)**
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)
Cash flow from financing	**(24.1)**	**58.6**	**(19.8)**	**(5.7)**	**(5.7)**
Net cash flow	**20.7**	**13.9**	**138.0**	**89.8**	**128.4**
Net cash/(debt) b/f	**73.2**	**93.0**	**106.9**	**244.9**	**334.7**
Net cash/(debt) c/f	**93.0**	**106.9**	**244.9**	**334.7**	**463.2**

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, AmInvestment Bank Bhd estimates

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