

**Date: 10 May 2006**

<b>Name of PLCs: Texchem Resources Bhd.</b>		<b>Price:</b>	RM1.60
		<b>Market Capitalisation:</b>	RM198.6m
		<b>Board:</b>	Main
		<b>Sector:</b>	Trading
<b>Stock Code:</b>	TEXCHEM (8702)	<b>Recommendation:</b>	BUY

<u>Key Stock Statistics</u>	2005	2006F
EPS (est.)	14.6	18.1
P/E (est.)	11.0	8.8
Dividend/Share	8.0	
NTA/Share (RM)	0.95	
Book Value/Share	1.3	
Issued Capital (mil shares)	124.1	
52-weeks Share Price Range	1.18 – 1.50	
<u>Major Shareholders:</u>	<u>%</u>	
Texchem Holdings	33	
Texchem Corporation	18	

**Share Price Chart**


Source: Bloomberg

<u>Per Share Data</u>	2004	2005	2006F	2007F
Book Value (RM)	1.3	1.3	1.4	1.4
Cash Flow (sen)	39.1	40.7	31.8	35.4
Earnings (sen)	3.1	14.6	18.1	21.8
Dividend (sen)	8.0	10.0	10.0	10.0
Payout Ratio	1.9	0.5	0.4	0.3
PER (x)	45.6	11.0	8.8	7.4
P/Cash Flow (x)	3.6	3.9	5.0	4.5
P/Book Value (x)	1.1	1.2	1.1	1.1
Dividend Yield (%)	5.7	6.3	6.3	6.3
ROE (%)	2.3	11.0	12.8	15.0
Net Gearing (%)	150	141	137	138

**1. 1Q 2006 Result Highlights:**

	1Q 2006	1Q 2005	% Change
Revenue	304.2	294.3	3%
Operating Profit	10.6	9.6	11%
Depreciation	n.a.	n.a.	n.a.
Interest Expenses	(3.9)	(3.7)	n.a.
Pre-tax Profit	6.8	4.9	39%
Net Profit	4.4	3.0	48%
Operating Margin	3.5%	3.2%	n.a.
Pre-tax Margin	2.3%	1.7%	n.a.
Net-Margin	1.5%	1.0%	n.a.

<u>P&amp;L Analysis (RM mil)</u>	2004	2005	2006F	2007F
Year-end: December				
Revenue	1,051.5	1,189.7	1,258.1	1,340.7
Operating Profit	25.3	43.4	34.2	40.8
Depreciation	-16.2	-16.2	-16.2	-16.2
Interest Expenses	-14.0	-14.2	0.0	0.0
Pre-tax Profit	10.3	27.9	34.2	40.8
Effective Tax Rate	68%	32%	32%	32%
Net Profit	3.3	18.8	23.2	27.8
Operating Margin	2.4%	3.6%	2.7%	3.0%
Pre-tax Margin	1.0%	2.3%	2.7%	3.0%
Net-Margin	0.4%	1.5%	1.8%	2.0%

**2. Recommendation**

- Texchem's 1QFY06 results were inline with our expectations. Turnover registered a growth of 3% y-o-y and 2% q-o-q respectively. The strong growth in the existing and new operations, especially the manufacturing division (11% growth), helped propelled pretax profit and net profit increase to 39% and 48%, respectively.
- Operating margin improved marginally to 3.5%, 3.3% in 1Q05 and 3.4% in the previous quarter.

- Pretax profit for 1Q06 is lower by 42% from the proceeding quarter due to the gain on the disposal of an associate company, Ojitex, amounting to RM6.6m. Stripping away the exceptional gain, Texchem would have registered 28% and 57% growth in pretax profit and net profit respectively.
- On corporate proposal updates, the proposed listing of Texchem-Pack Holdings (S) Ltd is pending the eligibility-to-list approval from the Singapore Exchange Securities Trading Limited. To recap, the listing was postponed on 2 occasions due to unfavorable market conditions.
- No dividend is declared for the current quarter. We however are of the opinion that Texchem could maintain the 10 sen DPS for FY076.
- We believe Texchem has the potential to further accelerate the growth of its earnings. Manufacturing division earnings continued to grow on the back of support from Consumer Products and Food services division which began to show a sign of turn around. Although the Industrial division experienced a decrease in earnings compared to last year, we expect it to stabilise going forward.
- Once the listing status of Texchem-Pack Holdings (S) Ltd is approved, we believe it will add to other positive catalysts for the company.
- We are upgrading our recommendation to BUY with target price of RM1.81 (13% upside), based on 10x FY06f PER. This translates to a dividend yield of 5.5% which will provide sufficient support to the stock.

**Key to investment rankings:** **Buy** = Expected share price to appreciate by >10%; **Hold** = Expected share price to move by less than 10%; **Sell** = Expected share price to decline by >10%.

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