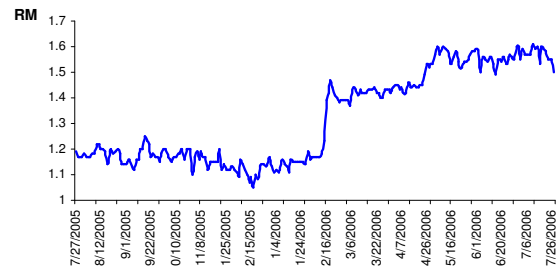


Name of PLCs: Texchem Resources Bhd.		Price:	RM1.50
		Market Capitalisation:	RM186.2m
		Board:	Main
		Sector:	Trading
Stock Code:	TEXCHEM (8702)	Recommendation:	BUY

<u>Key Stock Statistics</u>	2005	2006F
EPS (est.)	14.6	18.1
P/E (est.)	10.3	8.3
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	1.04 – 1.61	
<u>Major Shareholders:</u>	<u>%</u>	
Texchem Holdings	33.0	
Texchem Corporation	17.5	

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	10.3	8.3	6.9
P/Cash Flow (x)	3.6	3.7	4.7	4.2
P/Book Value (x)	1.1	1.1	1.1	1.0
Dividend Yield (%)	5.7	6.7	6.7	6.7
ROE (%)	2.3	11.0	12.8	15.0
Net Gearing (%)	150	141	137	138

1. 2Q 2006 Result Highlights:

	2Q 2006	2Q 2005	% Change
Revenue	320.7	288.5	11%
Operating Profit	10.1	8.9	13%
Depreciation	n.a.	n.a.	n.a.
Interest Expenses	(3.9)	(4.0)	n.a.
Pre-tax Profit	5.5	4.2	32%
Net Profit	3.2	1.7	85%
Operating Margin	3.1%	3.1%	n.a.
Pre-tax Margin	1.7%	1.5%	n.a.
Net-Margin	1.0%	0.6%	n.a.

2. Recommendation

- Texchem's 2QFY06 results were inline with our expectations. Net profit was up 85% y-o-y to RM3.2m from RM1.7m registered in 2Q05. Turnovers on the same time also registered a growth of 11% y-o-y, mainly attributed to the Manufacturing and Consumer Products & Food Services segments registering higher sales.
- Q-o-q, revenues registered a 5% increase while profit before tax was down 19% to RM35.5m

<u>P&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%

from RM6.8m registered in the previous quarter, arising from the increase loss in Myanmar's subsidiary and the share of loss in an associate.

- Operating margin is sustainable at 3.1%, a slight decrease from 3.5% in the previous quarter as the food division registered 11% decrease in profitability on the back of 44% increase in profit for the manufacturing division.
- We gather the company's performance will remain stable for the rest of current year despite of rising in raw material prices. Even though the operation in Myanmar experienced a loss, we believe it will improve on the back of increasing demand from China. Another catalyst for improvement of Texchem's performance is the contributions from industrial division's international operations that contribute positively into the company's earnings.
- The listing of Texchem-Pack Holdings (S) Ltd on the Singapore Exchange Securities Trading Limited is still pending approval. Once the listing exercise is complete, we believe it will add to other positive catalysts for the company.
- A first interim dividend of 5 sen less 28% tax was declared. We are maintaining our assumption of full year 10 sen DPS for FY06.
- We are reiterating our BUY recommendation with a target price of RM1.81 (21% potential upside), based on 10x FY06 PER. This translates to a compelling dividend yield of 6.7% which will provide enough support for 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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