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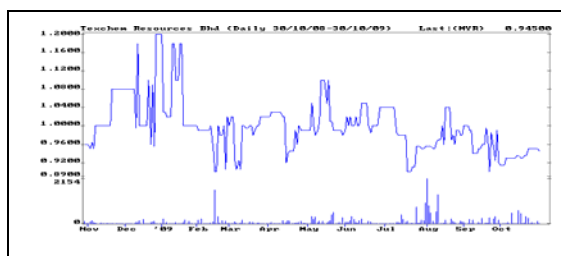
**3Q2009 Result**

Date: 2 November 2009

<b>Name of PLCs: Texchem Resources</b>	<b>Price:</b>	RM0.945
<i>Better Qoq But Not Good Enough</i>	<b>Market Capitalisation:</b>	RM117.3m
<b>Board: Main Board</b>		
<b>Sector: Trading Services</b>		
<b>Stock Code: 8702</b>		
<b>Recommendation: SELL</b>		
<b>Index Component/Constituent : -</b>		

Key Stock Statistics	2008	2009F
EPS (est.)	(1.2)	(4.3)
P/E (est.)	n.m.	n.m.
Dividend/Share (sen)	10.0	
NTA/Share (RM)	0.9	
Book Value/Share (RM)	1.4	
Issued Capital (mil shares)	124.1	
52-weeks Share Price Range	RM0.90-1.20	
Major Shareholders:	%	
Texchem Holdings	31.4	
Texchem Corporation	20.6	
Tan Sri Dato' Seri Fumihiko	5.6	

**Share Price Chart**



**1. 3Q09 Result Highlights:**

**Below expectations.** Texchem's 3QFY12/09 results were below expectations, with 9M net loss of RM8.2m. Despite the better-than-expected 9M revenue of RM868.1m, which accounted for 99.2% of our full-year forecast, this was more than offset by the lower-than-expected 9M operating margin of 0.9% (vs. our full-year operating margin projection of 1.9%).

**Qoq, revenue rose 3.7%** largely due to higher revenue from the industrial division (+21.4% qoq), partly offset by weaker topline from the family care (-15.1% qoq) and food (-11.9% qoq) divisions. 3Q operating profit also rose in tandem with the stronger revenue and the qoq improvement was once again led by the industrial division (+74.5% qoq). Coupled with lower finance cost (-1.7% qoq), lower associate losses (-38.3% qoq) and lower effective tax rate of 38.0% (vs. 2Q effective tax rate of 84.8%), 3Q net profit jumped to RM1.1m (2Q: breakeven).

**Declares interim gross DPS of 3 sen.** Texchem declared a 2nd interim gross DPS of 3 sen (3Q08: 0 sen), which brought the total YTD gross DPS to 6 sen. This translates to a gross yield of 6.3%.

**Net gearing still a concern.** As at end-Sep, total borrowings stood at RM288.3m, down from RM289.0m as at end-June. The net gearing ratio, however increased to 1.5x, up from 1.4x as at end-June (end-3Q08: 1.5x). Despite improving macro conditions, we remain concerned on Texchem's high financial leverage. We note that 3Q interest expense ate up 55% of operating profit.

<u>Per Share Data</u>	<u>2008</u>	<u>2009F</u>	<u>2010F</u>	<u>2011F</u>
Book Value (RM)	1.36	1.26	1.24	1.33
Cash Flow (sen)	25.5	17.6	28.9	40.4
Earnings (sen)	(1.2)	(4.3)	6.0	16.2
Dividend (sen)	10.0	7.0	10.0	10.0
Payout Ratio	n.m.	n.m.	n.m.	n.m.
PER (x)	n.m.	n.m.	15.9	5.9
P/Cash Flow (x)	3.7	5.4	3.3	2.4
P/Book Value (x)	0.7	0.8	0.8	0.7
Dividend Yield (%)	10.5	7.3	10.5	10.5
ROE (%)	(0.8)	(3.3)	4.8	12.6
Net Gearing (%)	138.1	161.1	171.4	161.7

<u>P&amp;L Analysis (RMmil)</u>	<u>2008</u>	<u>2009F</u>	<u>2010F</u>	<u>2011F</u>
Year-end: Dec				
Revenue	1,431.6	1,151.1	1,184.1	1,260.2
Operating profit	26.0	11.5	30.8	52.8
Depreciation	(33.1)	(27.2)	(28.3)	(30.0)
Interest Expenses	(17.6)	(16.3)	(16.3)	(16.3)
Pre-tax loss	2.4	(9.3)	12.9	34.9
Effective Tax Rate	n.m.	30.0	30.0	30.0
Net Profit	(1.4)	(5.4)	7.5	20.2
Operating Margin	1.8	1.0	2.6	4.2
Pre-tax Margin	0.2	(0.8)	1.1	2.8
Net-Margin	(0.1)	(0.5)	0.6	1.6

**Risks.** The risks include: 1) stronger-than-expected margins, which could be due to falling raw material prices; and 2) quicker-than-expected recovery in the global economy, which would aid in the recovery of the semiconductor and consumer electronics sectors.

**Forecasts.** Following the better-than-expected 9M revenue, we have revised up our FY09-11 revenue projections by 27.8-31.5%. However, this is more than offset by the downward revisions in our FY09-11 operating margin assumptions to 1.0-4.2% (1.9-4.5% previously) to reflect the weaker-than-expected 9M operating margin. All-in, we now project a net loss of RM5.4M for FY09 (from RM2.6 previously) while our FY10 net profit forecast has been lowered by 3.9%. Our FY11 earnings forecast, however, has been raised by 33.6% on the back of the higher revenue now projected.

**2. Recommendation:**

Following the earnings revision above, our fair value has been lowered slightly to RM0.66 (from RM0.69) based on unchanged target CY10 PER of 11x. Our **Sell** call on the stock remains unchanged.

## 3Q2009 Result

**Table 1 : Earnings Review**

FYE Dec (RMm)	3Q08	2Q09	3Q09	QoQ (%)	YoY (%)	9M08	9M09	YoY (%)	Comments
<b>Revenue</b>	<b>406.3</b>	<b>306.9</b>	<b>318.4</b>	3.7	(21.6)	<b>1,139.7</b>	<b>868.1</b>	(23.8)	Yoy decline due to lower contribution from the industrial and packaging divisions as a result of the global economic downturn, partly mitigated by stronger contribution from the family care division.
<b>Operating profit</b>	<b>8.5</b>	<b>6.4</b>	<b>6.7</b>	3.8	(21.3)	<b>27.0</b>	<b>8.0</b>	(70.2)	9M lower yoy mainly due to weaker contribution from the industrial segment while the packaging segment was in the red.
Interest expense	(4.7)	(3.6)	(3.5)	(1.7)	(25.2)	(13.1)	(11.2)	(14.1)	Total borrowings as at 3Q09:RM288.3m (2Q09:RM289.0m and 3Q08:RM309.7m)
Associates	(0.7)	(0.7)	(0.4)	(38.3)	(37.2)	(3.8)	(1.9)	(48.7)	
<b>Pre-tax profit</b>	<b>3.1</b>	<b>2.1</b>	<b>2.7</b>	27.3	(11.5)	<b>10.1</b>	<b>(5.2)</b>	n.m.	
Tax	(1.8)	(1.8)	(1.0)	(42.9)	(41.8)	(6.5)	(4.1)	(36.9)	
Minority interest	(0.3)	(0.3)	(0.6)	84.9	n.m.	(1.0)	1.1	n.m.	
<b>Net profit</b>	<b>1.0</b>	<b>0.0</b>	<b>1.1</b>	99.8	n.m.	<b>2.5</b>	<b>(8.2)</b>	n.m.	
<b>Margins (%)</b>									
Op profit	2.1	2.1	2.1			2.4	0.9		
Pre-tax	0.8	0.7	0.8			0.9	(0.6)		
Effective tax rate	57.8	84.8	38.0			64.7	(79.9)		Above statutory rate as losses by certain subsidiaries could not be offset against the taxable profits made by other subsidiaries as well as non-deductibility of certain expenses.
Net profit	0.3	0.0	0.3			0.2	(0.9)		
<b>Segmental revenue</b>									
Industrial	224.9	131.0	159.0	21.4	(29.3)	620.3	386.6	(37.7)	
Packaging	61.0	47.2	46.8	(0.8)	(23.2)	176.6	126.0	(28.7)	
Family care	36.5	44.5	37.8	(15.1)	3.4	103.2	120.5	16.8	
Food	85.0	85.4	75.3	(11.9)	(11.4)	242.7	237.5	(2.1)	
Eliminations	(1.1)	(1.3)	(0.5)	(62.6)	(57.5)	(3.1)	(2.6)	(14.4)	
<b>Total</b>	<b>406.3</b>	<b>306.9</b>	<b>318.4</b>	3.7	(21.6)	<b>1,139.7</b>	<b>868.1</b>	(23.8)	
<b>Segmental results</b>									
Industrial	5.7	2.4	4.2	74.5	(26.0)	14.6	6.3	(57.1)	Impacted by economic condition.
Packaging	2.7	1.3	1.2	(5.2)	(53.8)	8.3	(3.6)	n.m.	Impacted by economic condition.
Family care	1.4	2.1	1.6	(24.3)	12.5	5.0	4.9	(1.8)	
Food	0.4	2.0	2.1	4.2	n.m.	3.7	5.6	51.1	
Eliminations	(1.6)	(1.4)	(2.4)	79.4	48.2	(4.6)	(5.1)	10.7	
<b>Total</b>	<b>8.5</b>	<b>6.4</b>	<b>6.7</b>	3.8	(21.3)	<b>27.0</b>	<b>8.0</b>	(70.2)	
<b>Segmental margins (%)</b>									
Industrial	2.5	1.8	2.7			2.4	1.6		
Packaging	4.4	2.7	2.6			4.7	(2.8)		
Family care	3.8	4.6	4.1			4.8	4.1		
Food	0.4	2.4	2.8			1.5	2.4		

Source: Company, RHBRI

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**Underweight** = Industry expected to underperform the FBM KLCI benchmark, weighted by market capitalisation, over the next 6-12 months.

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