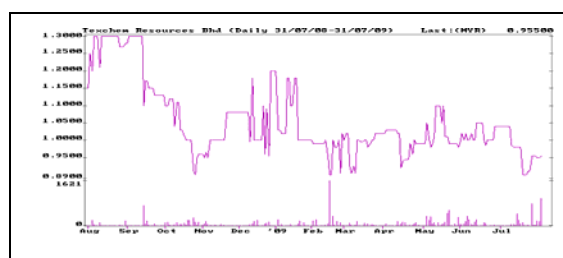


Date: 3 August 2009

Name of PLCs: Texchem Resources	Price:	RM0.955
6M Net Loss Of RM9.2M	Market Capitalisation:	RM118.5m
Board: Main Board		
Sector: Trading Services		
Stock Code: 8702		
Recommendation: SELL		
Index Component/Constituent : -		

Key Stock Statistics	2008	2009F
EPS (est.)	(1.2)	(2.1)
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	RM0.89-1.30	
Major Shareholders:	%	
Texchem Holdings	31.4	
Texchem Corporation	20.6	
Tan Sri Dato' Seri Fumihiko	5.6	

Share Price Chart



Per Share Data	2008	2009F	2010F	2011F
Book Value (RM)	1.36	1.28	1.27	1.31
Cash Flow (sen)	25.5	19.8	29.1	36.3
Earnings (sen)	(1.2)	(2.1)	6.3	12.2
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.	15.3	7.9
P/Cash Flow (x)	3.7	4.8	3.3	2.6
P/Book Value (x)	0.7	0.7	0.8	0.7
Dividend Yield (%)	10.5	7.3	10.5	10.5
ROE (%)	(0.8)	(1.6)	4.9	9.4
Net Gearing (%)	138.1	130.9	141.3	139.7

P&L Analysis (RMmil)	2008	2009F	2010F	2011F
Year-end: Dec				
Revenue	1,431.6	875.2	923.9	986.4
Operating profit	26.0	16.3	31.3	44.0
Depreciation	(33.1)	(27.2)	(28.3)	(30.0)
Interest Expenses	(17.6)	(16.3)	(16.3)	(16.3)
Pre-tax loss	2.4	(4.5)	13.4	26.1
Effective Tax Rate	n.m.	30.0	30.0	30.0
Net Profit	(1.4)	(2.6)	7.8	15.1
Operating Margin	1.8	1.9	3.4	4.5
Pre-tax Margin	0.2	(0.5)	1.5	2.6
Net-Margin	(0.1)	(0.3)	0.8	1.5

1. 2Q09 Result Highlights:

Below expectations. Texchem's 2QFY12/09 result was below our expectations, which brought 1H net loss to RM9.2m. The key variance was lower-than-expected operating margins due to operating leverage effects from the lower sales volumes recorded by the industrial and packaging segments.

Qoq, revenue jumped 26.4% largely due to higher revenue from all business segments and especially the packaging division, which jumped 47.6% qoq. We believe this was due to the stabilisation of chips demand from US as well as the resilient chips demand from China, which had potentially benefited Texchem's packaging division. Texchem reported 2Q operating profit of RM6.4m as compared to an operating loss of RM5.1m in 1Q. The qoq improvement was once again led by the packaging division, which reported an operating profit of RM1.3m for the quarter (vs. 1Q operating loss of RM6.1m). Consequently, Texchem managed to breakeven for the quarter.

Declares interim gross DPS of 3 sen. Texchem declared a 1st interim gross DPS of 3 sen (2Q08: 6 sen), which was lower than our projected gross DPS of 6 sen. This translates to a gross yield of 3.1%.

Net gearing still a concern. As at end-June, total borrowings stood at RM289.0m, up from RM279.8 as at end-Mar. The net gearing ratio remained at 1.4x (end-1Q09: 1.4x; end-2Q08: 1.4x). Despite improving macro conditions, we remained concerned on Texchem's high financial leverage. We note that 2Q interest expense ate up 56% of operating profit.

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 lower-than-expected 2Q results, we have cut our FY09 operating margin assumption to 1.9% from 2.6% previously but maintained our FY10 operating margin assumption of 3.4% on the back of an expected recovery in the global economy. We now project a net loss of RM2.6M for FY09. We have also cut our FY09 total gross DPS to 7 sen from 10 sen previously but maintained our FY10 total gross DPS of 10 sen. We introduced our FY11 numbers.

2. Recommendation:

We are maintaining our fair value of RM0.69, which is based on target CY10 PER of 11x, and our **Sell** call on the stock.

Table 1 : Earnings Review

FYE Dec (RMm)	2Q08	1Q09	2Q09	QoQ (%)	YoY (%)	1H08	1H09	YoY (%)	Comments
Revenue	386.4	242.8	306.9	26.4	(20.6)	733.4	549.7	(25.1)	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.
Operating profit	10.5	(5.1)	6.4	n.m.	(38.5)	18.5	1.3	(92.7)	Filtered down from the drop in sales volume in the industrial and packaging divisions.
Interest expense	(4.4)	(4.1)	(3.6)	(11.8)	(18.6)	(8.3)	(7.8)	(7.8)	Total borrowings as at 2Q09:RM289.0 (1Q09:RM279.8 and 2Q08:RM297.5)
Associates	(3.0)	(0.8)	(0.7)	(9.5)	(76.0)	(3.1)	(1.5)	(51.3)	
Pre-tax profit	3.1	(10.0)	2.1	n.m.	(30.8)	7.0	(7.9)	(92.7)	
Tax	(2.6)	(1.3)	(1.8)	n.m.	(30.4)	(4.8)	(3.1)	(35.1)	
Minority interest	(0.0)	2.0	(0.3)	n.m.	n.m.	(0.8)	1.7	n.m.	
Net profit	0.5	(9.2)	0.0	99.8	n.m.	1.5	(9.2)	n.m.	
Margins (%)									
Op profit	2.7	(2.1)	2.1			2.5	0.2		
Pre-tax	0.8	(4.1)	(0.7)			1.0	(1.4)		
Effective tax rate	84.3	(13.0)	84.8			67.7	(39.4)		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	0.1	(3.8)	0.0			0.2	(1.7)		
Segmental revenue									
Industrial	210.3	96.6	131.0	35.7	(37.7)	395.4	227.6	(42.4)	
Packaging	57.7	32.0	47.2	47.6	(18.2)	115.7	79.2	(31.5)	
Family care	38.8	38.2	44.5	16.4	14.6	66.6	82.8	24.2	
Food	80.5	76.9	85.4	11.1	6.1	157.7	162.3	2.9	
Eliminations	(1.0)	(0.9)	(1.3)	42.1	30.4	(1.9)	(2.1)	10.2	
Total	386.4	242.8	306.9	26.4	(20.6)	733.4	549.7	(25.1)	
Segmental results									
Industrial	6.3	(0.4)	2.4	n.m.	(61.6)	8.9	2.0	(77.2)	Impacted by economic condition.
Packaging	2.8	(6.1)	1.3	n.m.	(54.2)	5.7	(4.8)	n.m.	Impacted by economic condition.
Family care	1.4	1.3	2.1	63.3	42.6	3.6	3.3	(7.3)	
Food	1.5	1.5	2.0	36.2	37.5	3.3	3.5	5.0	
Eliminations	(1.6)	(1.3)	(1.4)	2.0	(14.3)	(3.0)	(2.7)	(10.0)	
Total	10.5	(5.1)	6.4	n.m.	(38.5)	18.5	1.3	92.7	
Segmental margins (%)									
Industrial	3.0	(0.4)	1.8			2.2	0.9		
Packaging	4.9	(19.1)	2.7			4.9	(6.1)		
Family care	3.7	3.3	4.6			5.4	4.0		
Food	1.8	1.9	2.4			2.1	2.1		

Source: Company, RHBRI

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Outperform = The stock return is expected to exceed the FBM KLCI benchmark by greater than five percentage points over the next 6-12 months.

Trading Buy = Short-term positive development on the stock that could lead to a re-rating in the share price and translate into an absolute return of 15% or more over a period of three months, but fundamentals are not strong enough to warrant an Outperform call. It is generally for investors who are willing to take on higher risks.

Market Perform = The stock return is expected to be in line with the FBM KLCI benchmark (+/- five percentage points) over the next 6-12 months.

Underperform = The stock return is expected to underperform the FBM KLCI benchmark by more than five percentage points over the next 6-12 months.

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

Neutral = Industry expected to perform in line with the FBM KLCI benchmark, weighted by market capitalisation, over the next 6-12 months.

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

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