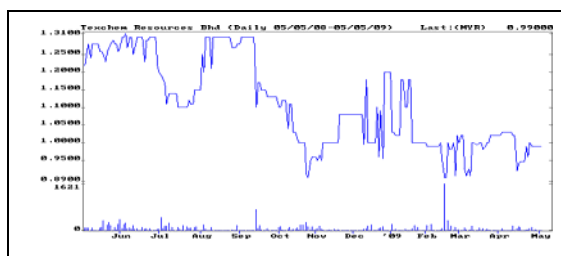


Date: 6 May 2009

<b>Name of PLCs: Texchem Resources</b>	<b>Price:</b>	RM0.99
<i>Strains From Economic Downturn Continue</i>	<b>Market Capitalisation:</b>	RM122.9m
<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)	0.7
P/E (est.)	n.m.	140.7
Dividend/Share (sen)	10.0	
NTA/Share (RM)	0.9	
Book Value/Share (RM)	1.3	
Issued Capital (mil shares)	124.1	
52-weeks Share Price Range	RM0.89-1.31	
Major Shareholders:	%	
Texchem Holdings	31.4	
Texchem Corporation	20.6	
Tan Sri Dato' Seri Fumihiko	5.6	

Share Price Chart



<u>Per Share Data</u>	2007	2008	2009F	2010F
Book Value (RM)	1.43	1.34	1.29	1.28
Cash Flow (sen)	44.5	28.0	23.9	29.1
Earnings (sen)	14.4	(1.2)	0.7	6.3
Dividend (sen)	12.0	10.0	10.0	10.0
Payout Ratio	93.5	n.m.	+>100	+>100
PER (x)	6.9	n.m.	140.7	15.8
P/Cash Flow (x)	2.2	3.5	4.4	3.4
P/Book Value (x)	0.7	0.7	0.8	0.8
Dividend Yield (%)	12.1	10.1	10.1	10.1
ROE (%)	6.7	(0.8)	0.5	4.9
Net Gearing (%)	113.5	141.0	128.0	137.8

<u>P&amp;L Analysis (RMmil)</u>	2007	2008	2009F	2010F
Year-end: Dec				
Revenue	1,258.6	1,431.6	875.2	923.9
Operating profit	41.6	26.0	22.3	31.3
Depreciation	(37.3)	(36.2)	(27.2)	(28.3)
Interest Expenses	(17.1)	(17.6)	(16.3)	(16.3)
Pre-tax loss	29.7	2.4	1.5	13.4
Effective Tax Rate	26.7	50.0	30.0	30.0
Net Profit	17.9	(1.4)	0.9	7.8
Operating Margin	3.3	1.8	2.9	3.4
Pre-tax Margin	2.4	0.2	0.2	1.5
Net-Margin	1.4	(0.1)	0.1	0.8

**1. 1Q09 Result Highlights:**

**Below expectations.** Texchem reported a poor set of 1QFY12/09 results with its net loss of RM9.2m below our expectations. We believe the key variances were lower-than-expected demand from the industrial and packaging segments. No dividends were declared during the quarter.

**Qoq, revenue fell 16.8%** largely due to lower revenue from all business segments except for the family care division, which experienced an increase in revenue of 17.3% qoq. Generally, management attributed the drop in revenue to the deterioration in global economic conditions. 1Q operating loss widened further to RM5.1m from a loss of RM1m in 4Q08 due to the weaker performances by the industrial, packaging and food divisions. As a result, bottom-line stayed in the red.

**Net gearing still a concern.** As at end-Mar, total borrowings stood at RM279.8m, down from RM293.6 as at end-Dec. The net gearing ratio remained at 1.4x (end-4Q08: 1.4x; end-1Q08: 1.6x). We reiterate our concerns on Texchem's high financial leverage as the challenging operating environment could hamper cash flows and Texchem's ability to meet its debt obligations.

**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 weaker-than-expected 1Q results, we have cut our FY09 and FY10 revenue projections by 27.5% and 26.9% respectively. At the same time, we have lowered our FY09 EBITDA margin for packaging division to 5.7% (from 6.0% previously). Consequently, our FY09 and FY10 net profit forecasts have been slashed by 89.2% and 46.8% respectively. Despite the 1Q net loss, we expect Texchem to post a stronger set of results in the coming quarters ahead as management has started to see signs of a recovery

**2. Recommendation:**

We have rolled-forward valuations and following the earnings revision, our fair value has been lowered to RM0.63 based on target FY10 PER of 10x (previous fair value of RM0.91 based on 10x average EPS for FY09 and FY10). No change, however, to our **Sell** call on the stock.

Table 1: Earnings Review						
FYE Dec (RMm)	1Q08	4Q08	1Q09	QoQ (%)	YoY (%)	Comments
<b>Revenue</b>	<b>347.1</b>	<b>291.9</b>	<b>242.2</b>	(16.8)	(30.0)	Qoq and yoy drop mainly due to drop in demand faced by the industrial, packaging and food segments.
<b>Operating profit</b>	<b>8.0</b>	<b>(1.0)</b>	<b>(5.1)</b>	->100	->100	Qoq and yoy drop mainly due to weaker results from the same three business divisions, i.e. industrial, packaging and food.
Interest expense	(3.9)	(4.5)	(4.1)	(9.1)	4.3	
Associates	(0.1)	(2.3)	(0.8)	(64.9)	n.m	
<b>Pre-tax profit</b>	<b>4.0</b>	<b>(7.7)</b>	<b>(10.0)</b>	29.0	->100	
Tax	(2.2)	2.3	(1.3)	->100	(40.7)	
Minority interest	(0.7)	1.4	2.0	->100	->100	
<b>Net profit</b>	<b>1.1</b>	<b>(4.0)</b>	<b>(9.2)</b>	->100	->100	
<b>Margins (%)</b>						
Op profit	2.3	(0.3)	(2.1)			
Pre-tax	1.1	(2.6)	(4.1)			
Effective tax rate	54.9	30.0	(13.0)			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	2.6	(1.4)	(1.4)			
<b>Segmental revenue</b>						
Industrial	185.1	125.9	96.6	(23.3)	(47.2)	Impacted by economic condition.
Packaging	58.0	44.2	32.0	(27.6)	(44.8)	Impacted by economic condition.
Family care	27.8	32.6	38.2	17.3	37.6	Higher yoy due to maiden contribution from its Indonesia subsidiary.
Food	77.2	90.0	76.9	(14.6)	(0.5)	
Eliminations	(1.0)	(0.8)	(0.9)	17.2	(9.8)	
<b>Total</b>	<b>347.1</b>	<b>291.9</b>	<b>242.8</b>	(16.8)	(30.0)	
<b>Segmental results</b>						
Industrial	2.6	1.0	(0.4)	n.m	n.m	
Packaging	2.8	(3.4)	(6.1)	80.0	n.m	Further deterioration as utilisation was low and hence, unable to fully cover fixed overheads.
Family care	2.1	(1.3)	1.3	n.m	(41.1)	
Food	1.9	3.8	1.5	(60.7)	(20.6)	
Eliminations	(1.4)	(1.0)	(1.3)	29.2	(5.2)	
<b>Total</b>	<b>8.0</b>	<b>(1.0)</b>	<b>(5.1)</b>	<b>n.m</b>	<b>n.m</b>	
<b>Segmental margins (%)</b>						
Industrial	1.4	0.8	(0.4)			
Packaging	4.9	(7.7)	(19.1)			
Family care	7.7	(3.9)	3.3			Improved qoq margins due to easing of cost pressures during the year.
Food	2.4	4.2	1.9			

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*Stock Ratings*

**Outperform** = The stock return is expected to exceed the 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 KLCI benchmark (+/- five percentage points) over the next 6-12 months.

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

**Industry/Sector Ratings**

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

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

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

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