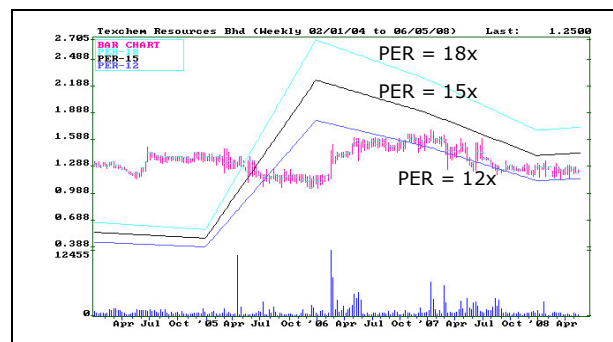


Date: 7 May 2008

Texchem Resources	Price:	RM1.25
<i>Weaker-Than-Expected Results From Industrial Division Drags IQ Results</i>	Market Capitalisation:	RM155.1m
	Board:	Main Board
	Sector:	Trading Services
	Stock Code:	8702
	Recommendation:	HOLD

<u>Key Stock Statistics</u>	2007	2008F
EPS (est.)	14.4	9.9
P/E (est.)	8.7	12.6
Dividend/Share	12.0	12.0
NTA/Share (RM)	1.02	1.03
Book Value/Share	1.43	1.44
Issued Capital (mil shares)		124.1
52-weeks Share Price Range		155.1
<u>Major Shareholders:</u>		%
Texchem Holdings		31.4
Texchem Corporation		20.6
Tan Sri Dato' Seri Fumihiko Konishi		5.6

PE Band Chart



<u>Per Share Data</u>	2007	2008F	2009F	2010F
Book Value (RM)	1.43	1.44	1.47	1.49
Cash Flow (sen)	44.5	39.1	41.3	43.0
Earnings (sen)	14.4	9.9	11.0	11.8
Dividend (sen)	12.0	12.0	12.0	12.0
Payout Ratio	93.5	89.3	81.6	76.0
PER (x)	8.7	12.6	11.3	10.6
P/Cash Flow (x)	2.8	3.2	3.0	2.9
P/Book Value (x)	0.9	0.9	0.9	0.8
Dividend Yield (%)	9.6	9.6	9.6	9.6
ROE (%)	6.7	6.9	7.6	8.0
Net Gearing (%)	113.5	139.8	135.7	129.4

<u>P&L Analysis</u> (RM mil)	2007	2008F	2009F	2010F
Year-end: Dec				
Revenue	1,258.6	1,348.3	1,383.1	1,415.7
Operating Profit	41.6	39.2	41.6	43.3
Depreciation	(37.3)	(36.2)	(37.6)	(38.7)
Interest Expenses	(17.1)	(16.3)	(16.3)	(16.3)
Pre-tax Profit	29.7	21.4	23.7	25.4
Effective Tax Rate	26.7	30.0	30.0	30.0
Net Profit	17.9	12.3	13.7	14.7
Operating Margin	3.3	2.9	3.0	3.1
Pre-tax Margin	2.4	1.6	1.7	1.8
Net-Margin	1.4	0.9	1.0	1.0

1. Highlights:

Industrial division drags 1Q results. Texchem's reported 1Q08 net profit of RM1.1m was below expectations. Although revenue from the industrial division was higher than expected (accounted for 35.6% of our full-year forecast), this was offset by its weaker-than-expected margins as a result of unrealised forex losses and allowance for doubtful debts. As expected, Texchem did not declare any dividend.

Better yoy results lifted by food division ... Yoy, Texchem returned to the black, as compared to the net loss of RM0.9m in 1Q07. This was largely due to the turnaround in the food division, which posted an operating profit of RM1.9m during the quarter (1Q07: operating loss of RM0.4m), partially offset by weaker results from the industrial division. We believe the better yoy results from the food division were mainly due to improvement from its upstream business over in Myanmar.

... but down qoq due to weaker performance from packaging and industrial divisions. Qoq, net profit slipped 87.7% largely due to weaker operating results from the packaging (-51% qoq) and industrial (-53.5% qoq) divisions. Recall that the packaging division reported better-than-expected 4Q numbers due to an uptick in orders from the thermoforming segment.

Risks. The risks include: 1) weaker-than-expected margins, which could be due to rising raw material prices or pricing pressures arising from intense competition (mainly for the industrial and packaging divisions); and 2) prolonged

downturn in the global economy, which would affect the semiconductor and consumer electronics sectors.

Forecasts. We have raised our FY08-10 revenue forecasts by 10.8-11.3% due to the better-than-expected 1Q08 revenue from the industrial division. However, after cutting our FY08-10 EBIT margin projections by 0.4-0.5%-pts. (mainly to reflect weaker margins from the industrial division), we have lowered our FY08-10 net profit forecasts by RM0.9-1.1m.

2. Recommendation:

On the back of the abovementioned revision in earnings forecasts, we have lowered our indicative fair value to RM1.30 (from RM1.40) based on unchanged target FY08 PER of 13x. However, we are maintaining our **Hold** call on the stock. Texchem's gross yields are attractive and should provide downside support, in our view.

Table 1 : Earnings Review

FYE Dec (RMm)	1Q07	4Q07	1Q08	QoQ (%)	YoY (%)	Comments
Revenue	305.1	327.2	347.1	6.1	13.8	Higher yoy due to consolidation of a subsidiary that was acquired by the industrial division in Oct 2007, partially offset by the sale of the FMCG business (in May 2007).
Operating profit	6.3	15.6	8.0	(48.7)	27.7	Higher yoy thanks to stronger results from the food division, which helped offset the weaker performance from the industrial division. Sharply lower qoq due to weaker results from the packaging and industrial divisions.
Interest exp	(4.4)	(3.9)	(3.9)	0.1	(11.7)	
Associates	(0.5)	0.2	(0.1)	>100	(75.0)	
Exceptionals	0.0	0.0	0.0	nm	nm	
Pre-tax profit	1.4	11.9	4.0	(66.6)	>100	
Tax	(2.1)	(1.4)	(2.2)	53.8	5.9	
Minority interest	(0.2)	(1.9)	(0.7)	(61.3)	>100	
Net profit	(0.9)	8.6	1.1	(87.7)	>100	
Margins (%)						
Op profit	2.1	4.8	2.3			Yoy, stronger margins from family care division and turnaround of food division helps offset weaker margin from industrial division
Pre-tax	0.4	3.6	1.1			
Effective tax rate	151.0	11.9	54.9			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	2.6	0.3			
Segmental Revenue						
Industrial	136.8	168.4	185.1	9.9	35.3	Higher yoy due to consolidation of subsidiary acquired in Oct
Packaging	55.4	62.1	58.0	(6.6)	4.6	
Family care	54.7	28.6	27.8	(2.9)	(49.2)	Lower yoy due to sale of the FMCG business
Food	63.8	76.4	77.2	1.1	21.1	Yoy improvement due to, we believe, better all-round performance from the seafood processing business and Sushi King chain of restaurants
Eliminations	(5.6)	(8.3)	(1.0)	(88.1)	(82.4)	
Total	305.1	327.2	347.1	6.1	13.8	
Segmental Results						
Industrial	3.4	5.5	2.6	(53.5)	(24.4)	Higher revenue eroded by weaker margins (see below)
Packaging	2.7	5.8	2.8	(51.0)	4.8	
Family care	1.6	3.5	2.1	(38.1)	34.8	Yoy growth largely due to stronger performance from the manufacture of household insecticide products
Food	(0.4)	2.0	1.9	(7.1)	>100	
Eliminations	(1.1)	(1.2)	(1.4)	20.1	30.8	
Total	6.3	15.6	8.0	(48.7)	27.7	
Segmental Margins (%)						
Industrial	2.5	3.3	1.4			Weaker due to unrealised forex losses and allowance for doubtful debts
Packaging	4.9	9.3	4.9			
Family care	2.9	12.1	7.7			Higher yoy due to stronger margins from the household insecticide products and the absence of low margin FMCG business
Food	(0.6)	2.6	2.4			

Source: Company, RHBRI

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Buy = 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 a Buy call. It is generally for investors who are willing to take on higher risks.

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

Sell = 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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