RHB Research Institute Sdn Bhd
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Company No: 233327 -M

News Update

Date: 9 February 2010

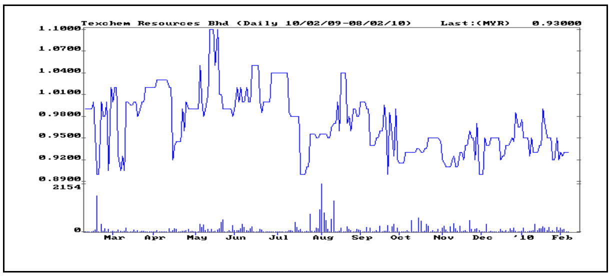
Name of PLCs: Texchem Resources *Privatising Texchem-Pack*	***Price:*** ***Market Capitalisation:***	*RM0.93* *RM115.4m*
Board: *Main Board*		
Sector: *Trading Services*		
Stock Code: *8702*		
Recommendation: *SELL*		
Index Component/Constituent : -		

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	RM0.90-1.10	
Major Shareholders:	%	
Texchem Holdings	31.4	
Texchem Corporation	20.6	
Tan Sri Dato' Seri Fumihiko	5.6	

Per Share Data	2008	2009F	2010F	2011F
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)	3.6	5.3	3.3	2.3
P/Book Value (x)	0.7	0.7	0.8	0.7
Dividend Yield (%)	10.8	7.5	10.8	10.8
ROE (%)	(0.8)	(3.3)	4.8	12.6
Net Gearing (%)	138.1	161.1	171.4	161.7

P&L Analysis (RMmil)	2008	2009F	2010F	2011F
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

Share Price Chart



To Privatise Texchem-Pack. Texchem has proposed to privatise its 70.5%-owned plastics packaging arm, Texchem Pack-Holdings (S) Ltd (Texchem-Pack, which is listed on Singapore Exchange Securities Trading Limited), for S$0.135/share in cash. In total, Texchem would need to fork out approximately S$5.5m (approximately RM13.4m) for the offer.

Rationale. The rationale for the privatisation was because management believes Texchem-Pack would not need to tap into the Singaporean capital markets for its financial needs in the foreseeable future. In addition, the trading of Texchem-Pack has generally been thin since listing (Nov 2006). Finally, with the privatisation of Texchem-Pack, the group would not need to incur additional costs associated with having two separately listed entities, i.e. Texchem and Texchem-Pack.

Offer price appears fair and likely to be accepted by minorities. The offer price of S$0.135 would be at a 42.1% premium to Texchem-Pack's last traded price of S$0.095. In addition, the offer price implies CY11 PER of 11.1x, a premium to our semiconductor industry's CY11 target PER of 8.1x. Thus, on the back of these numbers, the offer price appears fair and the offer would likely be accepted by minorities, in our view.

To fund via bank borrowings and internal funds. Texchem plans to fund the privatisation offer via bank borrowings (90%) and internal funds (10%). By our estimates, the exercise would raise Texchem's net gearing ratio to 1.6x from 1.5x as at 30 Sep 2009.

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.

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Forecasts. We are keeping our earnings forecasts unchanged for now. Assuming the privatsation exercise goes through, we estimate that Texchem's FY10 EPS could be reduced by 13.9% as we expect Texchem-Pack to remain in the red for FY10 given its high operating cost. For FY11, we expect Texchem's FY11 EPS to increase by 2.5% following the higher profit now recognised from fully-owned Texchem-Pack.

Recommendation:

Our fair value is maintained at RM0.66 based on unchanged target CY10 PER of 11x. Despite the improving outlook on the semiconductor sector, which should benefit Texchem's packaging division, we remain concerned on Texchem's high financial leverage. Our **Sell** call on the stock remains unchanged.

The recommendation framework for stocks and sectors are as follows : -

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.