RHB Research Institute Sdn Bhd
A member of the RHB Banking Group
Company No: 233327 -M

4Q08 Results

Date: 20 Feb. 2009

Name of PLCs: Texchem Resources *Showing Signs Of Strain From Economic Downturn*	***Price:***	*RM0.90*
	Market Capitalisation:	*RM111.7m*
Board: *Main Board*		
Sector: *Trading Services*		
Stock Code: *8702*		
Recommendation: *SELL*		
Index Component/Constituent : -		

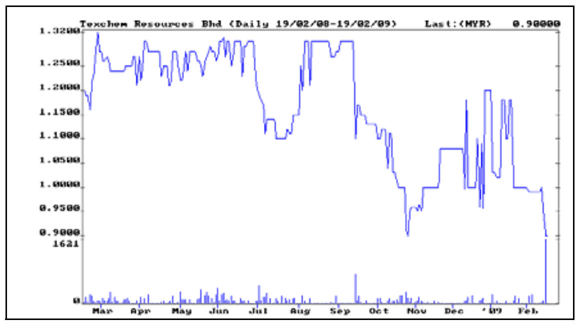
Key Stock Statistics	2008	2009F
EPS (est.)	(1.2)	6.5
P/E (est.)	n.m.	13.8

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	RM0.90 – 1.19
Major Shareholders:	%
Texchem Holdings	31.4
Texchem Corporation	20.6
Tan Sri Dato' Seri Fumihiko	5.6

Per Share Data	2007	2008	2009F	2010F
Book Value (RM)	1.43	1.34	1.35	1.41
Cash Flow (sen)	44.5	28.0	36.8	42.9
Earnings (sen)	14.4	(1.2)	6.5	11.8
Dividend (sen)	12.0	10.0	8.0	8.0
Payout Ratio	93.5	n.m.	92.0	51.1
PER (x)	6.2	n.m.	13.8	7.7
P/Cash Flow (x)	2.0	3.2	2.4	2.1
P/Book Value (x)	0.6	0.7	0.7	0.6
Dividend Yield (%)	13.3	11.1	8.9	8.9
ROE (%)	6.7	(0.8)	4.8	8.5
Net Gearing (%)	113.5	141.0	139.5	130.4

P&L Analysis (RM mil)	2007	2008	2009F	2010F
Year-end: Dec				
Revenue	1,258.6	1,431.6	1,207.2	1,263.6
Operating profit	41.6	26.0	34.8	43.1
Depreciation	(37.3)	(36.2)	(37.6)	(38.7)
Interest Expenses	(17.1)	(17.6)	(16.3)	(16.3)
Pre-tax profit	29.7	2.4	14.0	25.3
Effective Tax Rate	26.7	n.m.	30.0	30.0
Net Profit	17.9	(1.4)	8.1	14.6
Operating Margin	3.3	1.8	2.9	3.4
Pre-tax Margin	2.4	0.2	1.2	2.0
Net-Margin	1.4	(0.1)	0.7	1.2

Share Price Chart



1. 4Q08 Result Highlights:

Below expectations. Texchem reported 4Q net loss of RM4m, which dragged full-year results into the red (net loss of RM1.4m). This compares against our net profit forecast of RM5.7m. We believe the key variances were weaker-than-expected results from the industrial and packaging divisions as well as impairment losses of assets in subsidiaries, although Texchem did not disclose the quantum of these losses.

Qoq, revenue fell 28.2% largely due to lower revenue from the industrial segment (-44% qoq) following the deterioration in global economic conditions. Texchem reported an operating loss during the quarter due to the above-mentioned impairment losses and weaker performances by the industrial, packaging and family care divisions, although the food division's results were stronger qoq. Coupled with weaker contribution from associates and stable interest cost, bottom-line plunged into the red.

2nd interim gross dividend of 4 sen. Texchem declared a 2nd interim gross DPS of 4 sen (4Q07: 6 sen), which brought full-year gross DPS to 10 sen (FY07:12 sen). This translates to a gross yield of 11.1%.

Net gearing still high. As at end-Dec, total borrowings stood at RM293.6m while the net gearing ratio was 1.4x (end-3Q08: 1.5x; end-4Q07: 1.2x). We remain concerned on Texchem's high financial leverage as the challenging operating environment could hamper cash flows and Texchem's ability to meet its debt obligations.

Analyst – David Chong, CFA ☎ (603) 9280 2179 david.chong@rhb.com.my

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 4Q results, we have cut our FY09 and FY10 EBITDA projections for the industrial division by 25.4% and our FY09 EBITDA projection for the packging division by 23.7%. This is partly mitigated by an upward revision in our FY09-10 EBITDA projections for the food segment by 18-18.5%. All in, we have cut our FY09 net profit forecast by 32.4% but our FY10 forecast remains relatively unchanged.

2. Recommendation:

Following the earnings revision, our fair value has been lowered to RM0.91 after ascribing a target PER of 10x to the average EPS for FY09 and FY10 (previous fair value of RM1.00 based on 10x CY09 EPS). We have used the average EPS figure as we believe this is a better indicator of "normalised earnings". No change, however, to our **Sell** call on the stock.

Table 2 : Earnings Review

FYE Dec (RMm)	4Q07	3Q08	4Q08	QoQ (%	YoY (%)	FY07	FY08	YoY (%)	Comments
Revenue	**327.2**	**406.3**	**291.9**	(28.2)	(10.8)	**1,257.0**	**1,431.6**	13.9	Qoq drop mainly due to drop in demand faced by the industrial and packaging segments.
Operating profit	**15.6**	**8.5**	**(1.0)**	->100	->100	**41.2**	**37.6**	(8.8)	Qoq and yoy drop due to weaker results across the segments (except food division) and impairment loss of assets in subsidiaries.
Interest expense	(3.9)	(4.7)	(4.5)	(5.1)	(14.9)	(16.7)	(17.6)	5.6	
Associates	0.2	(0.7)	(2.3)	->100	+>100	(1.3)	(6.0)	>100	Yoy mainly hit by, we believe, suspension of seafood exports to EU during the year.
Exceptionals	0.0	0.0	0.0	nm	nm	6.2	0.0	nm	Relates to gain on disposal of the FMCG business in FY07.
Pre-tax profit	**11.9**	**3.1**	**(7.7)**	->100	->100	**29.4**	**2.3**	(92.0)	
Tax	(1.4)	(1.8)	2.3	->100	->100	(7.5)	(4.2)	(43.6)	
Minority interest	(1.1)	(0.0)	(0.3)	->100	->100	(2.0)	(1.0)	(48.9)	
Net profit	**8.6**	**1.0**	**(3.9)**	->100	->100	**18.1**	**(1.4)**	->100	
Margins (%)									
Op profit	4.8	2.1	(0.3)			3.3	2.6		
Pre-tax	3.6	0.8	(2.6)			2.3	0.2		
Effective tax rate	11.9	57.8	30.0			25.4	+>100		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	0.3	(1.4)			1.4	(0.1)		
Segmental revenue									
Industrial	168.4	224.9	125.9	(44.0)	(25.2)	596.9	746.2	25.0	
Packaging	62.1	61.0	44.2	(27.6)	(28.8)	227.9	220.8	(3.1)	
Family care	28.6	36.5	32.6	(10.8)	13.8	156.6	135.8	(13.3)	Lower yoy due to sale of the FMCG business.
Food	76.4	85.0	90.0	5.9	17.8	303.1	332.6	9.7	
Eliminations	(8.3)	(1.1)	(0.8)	(31.7)	(90.8)	(27.5)	(3.8)	(86.1)	
Total	**327.2**	**406.3**	**291.9**	(28.2)	(10.8)	**1,257.0**	**1,431.6**	13.9	
Segmental results									
Industrial	5.5	5.7	1.0	(83.2)	(82.7)	15.7	15.5	(1.0)	
Packaging	5.8	2.7	(3.4)	->100	->100	14.8	4.9	(66.7)	
Family care	3.5	1.4	(1.3)	->100	->100	12.1	3.7	(69.5)	
Food	2.0	0.4	3.8	+>100	87.5	3.5	7.5	+>100	FY08 improvement due to, we believe, better all-round performance from the seafood processing business and Sushi King chain of restaurants
Eliminations	(1.2)	(1.6)	(1.0)	(37.3)	(11.9)	(4.9)	(5.6)	15.9	
Total	15.6	8.5	(1.0)			41.2	26.0	(37.0)	
Segmental margins (%)									
Industrial	3.3	2.5	0.8			2.6	2.1		
Packaging	9.3	4.4	(7.7)			6.5	2.2		Affected by higher material and operating costs.
Family care	12.1	3.8	(3.9)			7.8	2.7		Weak margins due to cost pressures.
Food	14.1	0.4	4.2			1.1	2.2		Improved margins due to better performance from the seafood processing business and Sushi King chain of restaurants

Source : Company , RHBRI

IMPORTANT DISCLOSURES

This report has been prepared by RHB Research Institute Sdn Bhd (RHBRI) and is for private circulation only to clients of RHBRI and RHB Investment Bank Berhad (previously known as RHB Sakura Merchant Bankers Berhad). It is for distribution only under such circumstances as may be permitted by applicable law. The opinions and information contained herein are based on generally available data believed to be reliable and are subject to change without notice, and may differ or be contrary to opinions expressed by other business units within the RHB Group as a result of using different assumptions and criteria. This report is not to be construed as an offer, invitation or solicitation to buy or sell the securities covered herein. RHBRI does not warrant the accuracy of anything stated herein in any manner whatsoever and no reliance upon such statement by anyone shall give rise to any claim whatsoever against RHBRI. RHBRI and/or its associated persons may from time to time have an interest in the securities mentioned by this report.

This report does not provide individually tailored investment advice. It has been prepared without regard to the individual financial circumstances and objectives of persons who receive it. The securities discussed in this report may not be suitable for all investors. RHBRI recommends that investors independently evaluate particular investments and strategies, and encourages investors to seek the advice of a financial adviser. The appropriateness of a particular investment or strategy will depend on an investor's individual circumstances and objectives. Neither RHBRI, RHB Group nor any of its affiliates, employees or agents accepts any liability for any loss or damage arising out of the use of all or any part of this report.

RHBRI and the Connected Persons (the "RHB Group") are engaged in securities trading, securities brokerage, banking and financing activities as well as providing investment banking and financial advisory services. In the ordinary course of its trading, brokerage, banking and financing activities, any member of the RHB Group may at any time hold positions, and may trade or otherwise effect transactions, for its own account or the accounts of customers, in debt or equity securities or loans of any company that may be involved in this transaction.

"Connected Persons" means any holding company of RHBRI, the subsidiaries and subsidiary undertaking of such a holding company and the respective directors, officers, employees and agents of each of them. Investors should assume that the "Connected Persons" are seeking or will seek investment banking or other services from the companies in which the securities have been discussed/covered by RHBRI in this report or in RHBRI's previous reports.

This report has been prepared by the research personnel of RHBRI. Facts and views presented in this report have not been reviewed by, and may not reflect information known to, professionals in other business areas of the "Connected Persons," including investment banking personnel.

The research analysts, economists or research associates principally responsible for the preparation of this research report have received compensation based upon various factors, including quality of research, investor client feedback, stock picking, competitive factors and firm revenues.

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.

RHBRI is a participant of the CMDF-Bursa Research Scheme and will receive compensation for the participation. Additional information on recommended securities, subject to the duties of confidentiality, will be made available upon request.