Malaysia

MARKET DATELINE ● PP 1505(7767)/09/2008(010132)

RHB
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Company No: 233327 -M

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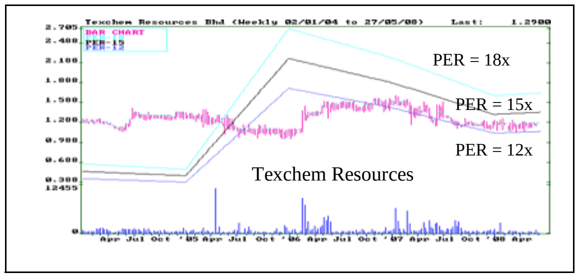
Texchem Resources	***Price:***	*RM1.29*
Consolidating Stake In PT Technopia Jakarta	***Market Capitalisation:***	*RM160.1m*
	Board:	*Main Board*
	Sector:	*Trading Services*
	Stock Code:	*8702*
	Recommendation:	*HOLD*

Key Stock Statistics	2007	2008F
EPS (est.)	14.4	9.9
P/E (est.)	8.9	13.0
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	1.14 – 1.55	
Major Shareholders:	%	
Texchem Holdings	31.4	
Texchem Corporation	20.6	
Tan Sri Dato' Seri Fumihiko Konishi	5.6	

Per Share Data	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)	8.9	13.0	11.7	10.9
P/Cash Flow (x)	2.9	3.3	3.1	3.0
P/Book Value (x)	0.9	0.9	0.9	0.9
Dividend Yield (%)	9.3	9.3	9.3	9.3
ROE (%)	6.7	6.9	7.6	8.0
Net Gearing (%)	113.5	139.8	135.7	129.4

P&L Analysis (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

PE Band Chart



1. Highlights:

Raising stake in PTTJ to 100%. Texchem announced yesterday it had entered into a conditional share sale arrangement with Texchem Corporation (Texcorp) to acquire 49% of PT Technopia Jakarta (PTTJ) for RM13.7m, which will be satisfied by cash. This acquisition (expected to be completed by 3Q08) will further consolidate Texchem's shareholding in PTTJ following the acquisitions of a 30% stake in PTTJ in Jun 2007 and 21% stake in Feb 2008, both of which were also from Texcorp.

Acquisition not cheap, but at similar price as earlier transactions. PTTJ is involved in the manufacture and sale of household insecticides and began operations in 2002. It reported a net profit of IDR3bn (RM1.04m) in 2007, which suggests an acquisition PER of around 27x 2007 earnings. This is not cheap, but we note that: 1) PTTJ's operation is still at its initial stage and earnings should pick up over time; and 2) the acquisition price of about RM19,045/share is at the same price as the earlier mentioned acquisitions and at Texcorp's cost of investment.

Funding via debt and internally generated funds. Texchem intends to finance about 40% of the purchase consideration through internally generated funds and the balance via bank borrowings. As at end-1Q08, Texchem's net gearing ratio stood at 129% and we estimate this acquisition will raise the ratio further to 136.5%. While this appears high, it is lower than the net gearing ratio of 140% at end-2006 (2007: 116%).

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. Pending completion of the acquisition, we have kept our forecasts unchanged. A rough calculation suggests the incremental earnings from the acquisition (assuming no growth in PTTJ's earnings) less incremental interest cost will be earnings neutral to Texchem.

2. Recommendation:

We have maintained our indicative fair value of RM1.30, which is based on unchanged target FY08 PER of 13x. Despite limited upside to our fair value, dividend yields are attractive and the total return is roughly in line with our projected market return. Hence, maintain **HOLD** recommendation.

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Stock Ratings

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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