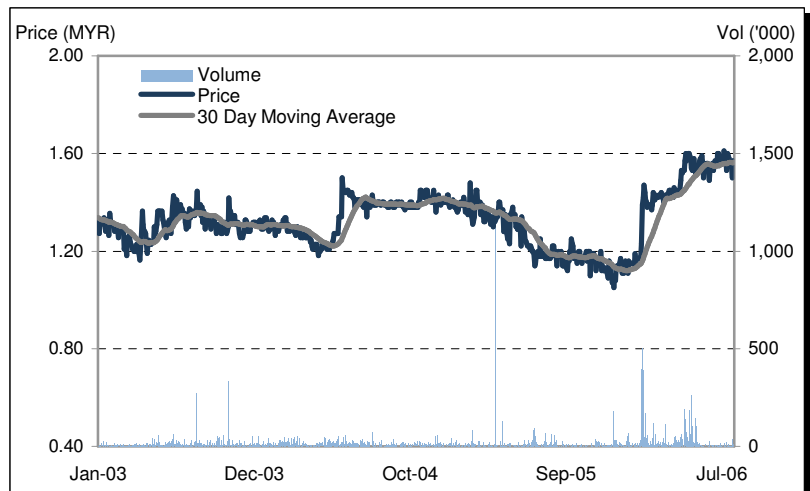


Texchem Resources

 Recommendation: **STRONG BUY**
Stock Code: **8702**Bloomberg: **TEX MK**Price: **MYR1.55**12-Month Target Price: **MYR2.00**Date: **August 2, 2006****Board:** Main**Sector:** Trading / Services**GICS:** Industrials / Industrial Conglomerates**Market Capitalization:** MYR 192.4 mln

Summary: Texchem Resources (TRB) is an investment holding company with subsidiaries engaged in four core businesses: industrial, packaging, family care and food.

Analyst: Christopher Lee

Results Review & Earnings Outlook

- Texchem's 2Q06 net profit of MYR3.2 mln vs MYR1.8 mln was in line with our expectations. Strong profit contributions from the manufacturing (i.e. packaging) business more than offset weaker consumer goods and food services profits. The industrial division's (industrial chemical trading) profit was stable despite a lower turnover. Overall, the trend of improving profits is in tact. The group declared a first interim DPS of 5 sen vs 4 sen for 1H05, which exceeded our expectation.
- The star division was the packaging business, which benefited from continued robust demand for high quality packaging from multinational IT companies. The local operations of the packaging business turned in a strong performance particularly Texchem Engineering Plastics, driven by new products while overseas operations were stable. Meanwhile, the performance of the consumer products and food services was mixed. Higher profits from the Sushi Kin restaurant chain was more than offset by larger-than-expected losses from the seafood trading and manufacturing business in Malaysia and Myanmar.
- For 1H06, the group has achieved only 39% of our full year forecast. Nevertheless, we expect a stronger 2H06 as the group tends to reverse its provisions in 4Q. Also, we expect the group's initiatives to contain fuel cost increases and new products to have a positive impact on the seafood trading contributions in 2H06. Our earnings forecasts are unchanged. DPS for 2006 has been raised to 12 sen from 10 sen.

Key Stock Statistics

FY Dec.	2005	2006F
EPS (sen)	15.0	15.7
PER (x)	10.3	9.9
Dividend/Share (sen)	10.0	12.0
NTA/Share (MYR)	0.95	0.98
Book Value/Share (MYR)	1.33	1.37
Issued Capital (mln shares)	124.1	
52-week Share Price Range (MYR)	1.04-1.61	
Major Shareholders:	%	
Texchem Holdings	33.0	
Texchem Corporation	16.7	

Recommendation & Investment Risks

- We maintain our Strong Buy recommendation on Texchem. Our unchanged 12-month target price of MYR2.00 is based on a target PER of 15x and P/B of 1.0x on our 2006 EPS and BVPS, respectively, plus our projected DPS. The target multiples are within their historical ranges.
- We believe Texchem combines the appeal of a strong dividend yield and potential upside from the recovery in profits to a multi-year high and the imminent spin-off of its packaging business. The group has received all approvals for the listing of its packaging business on the Singapore Stock Exchange (SGX, Not Ranked) expected to be in October. The spin-off will provide the capital for expansion and a separate channel to raise capital. In our opinion, the spin-off should not affect the earnings contributions of the packaging business to the group significantly.
- Risks to our recommendation and target price include a delay in the listing and a lower-than-expected valuation for the packaging business, larger than expected losses from the seafood trading and manufacturing business due to a further delay in the roll out of new products and teething problems with the fuel saving boiler, a slower than expected economic activity in Malaysia which could impact the demand for industrial chemicals.

Per Share Data

FY Dec.	2003	2004	2005	2006F
Book Value (MYR)	1.33	1.28	1.33	1.37
Cash Flow (sen)	17.1	24.0	40.5	38.9
Earnings (sen)	3.7	3.2	15.0	15.7
Dividend (sen)	8.0	8.0	10.0	12.0
Payout Ratio (%)	217.1	247.1	66.5	76.6
PER (x)	42.1	47.9	10.3	9.9
P/Cash Flow (x)	9.0	6.5	3.8	4.0
P/Book Value (x)	1.2	1.2	1.2	1.1
Dividend Yield (%)	5.2	5.2	6.5	7.7
ROE (%)	2.8	2.5	11.5	11.6
Net Gearing (%)	128.3	152.5	139.6	138.2

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12-Month Target Price: MYR2.00

Date: August 2, 2006

Quarterly Performance

FY Dec. / MYR mln	2Q06	2Q05	% Change
Revenue	320.7	288.5	11.1
Operating Profit (EBIT)	10.1	8.9	13.3
Depreciation	NA	NA	NM
Net Interest Income / (Expense)	-3.9	-4.0	-1.3
Pre-tax Profit	5.5	4.2	31.6
Net Profit	3.2	1.8	81.9
Operating Margin (%)	3.1	3.1	-
Pre-tax Margin (%)	1.7	1.5	-
Net Margin (%)	1.0	0.6	-

Source: Company data

Profit & Loss

FY Dec. / MYR mln	2004	2005	2006F	2007F
Revenue	1,056.8	1,187.8	1,281.0	1,335.3
Operating Profit (EBIT)	23.5	33.8	42.1	45.6
Depreciation	-25.2	-31.5	-28.9	-31.5
Net Interest Income / (Expense)	-11.9	-13.5	-13.5	-12.6
Pre-tax Profit	11.0	25.5	29.1	33.6
Effective Tax Rate (%)	66.4	25.4	33.0	33.0
Net Profit	3.9	18.7	19.5	22.5
Operating Margin (%)	2.2	2.8	3.3	3.4
Pre-tax Margin (%)	1.0	2.1	2.3	2.5
Net Margin (%)	0.4	1.6	1.5	1.7

Source: Company data, S&P Equity Research

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Glossary

Strong Buy: Total return is expected to outperform the total return of the KLCI or KL Emas Index respectively, by a wide margin over the coming 12 months, with shares rising in price on an absolute basis.

Buy: Total return is expected to outperform the total return of the KLCI or KL Emas Index respectively, over the coming 12 months, with shares rising in price on an absolute basis.

Hold: Total return is expected to closely approximate the total return of the KLCI or KL Emas Index respectively, over the coming 12 months with shares generally rising in price on an absolute basis.

Sell: Total return is expected to underperform the total return of the KLCI or KL Emas Index respectively, over the coming 12 months and share price is not anticipated to show a gain.

Strong Sell: Total return is expected to underperform the total return of the KLCI or KL Emas Index respectively, over the coming 12 months by a wide margin, with shares falling in price on an absolute basis.

S&P 12 Month Target Price – The S&P equity analyst's projection of the market price a given security will command 12 months hence, based on a combination of intrinsic, relative, and private market valuation metrics.

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