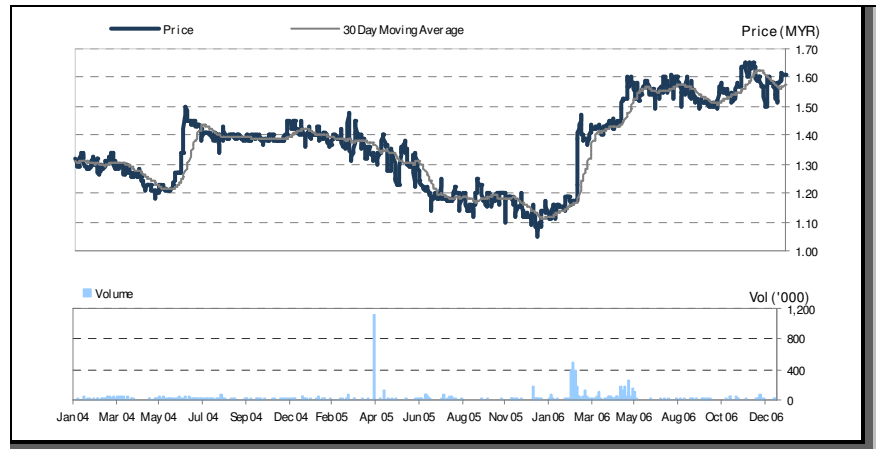


## Texchem Resources

Recommendation: **STRONG BUY**Stock Code: **8702**Bloomberg: **TEX MK**Price: **MYR1.61**12-Month Target Price: **MYR2.00**Date: **January 3, 2007****Board:** Main**Sector:** Trading/Services**GICS:** Industrials/Trading Companies & Distributors**Market Value - Total:** MYR199.8 mln

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

**Analyst:** Alexander Chia, ACA

## Results Review &amp; Earnings Outlook

- Texchem's 3Q06 results were below our expectations, accounting for only 62% of our previous 2006 net profit of MYR19.5 mln. Pre-tax profit for 3Q06 rose 26.1% YoY on the back of a 5.1% rise in revenue. Although revenue and EBIT were in line with our forecasts, higher interest expense and a higher effective tax rate of 39% (compared with 33% in our forecast) due to non-deductible losses adversely affected the bottom-line.
- The packaging business continued its good performance, benefiting from robust demand for high quality packaging from multinational IT companies, whilst profit contribution from its industrial chemical trading division remained stable. Higher profits from these divisions were however dragged down by poorer performances at the family care and food businesses. The food division continued to turn in losses due to higher fuel costs, despite higher profits from Sushi King and Sea Master.
- We have made some adjustments to our assumptions, (upward revision in the effective tax rate from 33% to 35% and higher interest expense), resulting in minor changes to our net profit forecasts. Our new net profit forecasts are MYR18.4 mln (vs. MYR19.5 previously) and MYR21.1 mln (vs. MYR22.5 mln previously) for 2006 and 2007, respectively.

## Recommendation &amp; Investment Risks

- We maintain our Strong Buy recommendation on Texchem. Our 12-month target price of MYR2.00 remains unchanged and is based on a target PER of 12x and P/B of 1.0x on our 2006 EPS and BVPS respectively, both of which are within the historical range for these multiples. It also includes our projected DPS.
- We believe that Texchem combines the appeal of strong dividend yield and upward profit trend from its profit recovery plan laid down in 2002. The listing of its packaging subsidiary Texchem-Pack Holdings (S) (TEX SP, SGD0.33, Not Ranked) on the Singapore Stock Exchange in Nov. 2006 can now provide the capital for expansion and a separate channel to raise capital. Plans are underway to expand the businesses via overseas investment and acquisitions.
- Risks to our recommendation and target price include slower-than-expected economic activity in Malaysia, which would impact the demand for Texchem's industrial and food businesses. Continued increases in petrol prices and a slower-than-expected rollout of its biomass boilers would negatively impact its seafood business resulting in larger-than-expected losses from the seafood trading and manufacturing business.

## Key Stock Statistics

FY Dec.	2005	2006E
Reported EPS (sen)	15.0	14.8
PER (x)	10.7	10.8
Dividend/Share (sen)	10.0	12.0
NTA/Share (MYR)	0.95	0.98
Book Value/Share (MYR)	1.33	1.36
No. of Outstanding Shares (mln)	124.1	
52-week Share Price Range (MYR)	1.04 - 1.65	
Major Shareholders:	%	
Texchem Holdings	33.0	
Texchem Corporation	16.7	

## Per Share Data

FY Dec.	2003	2004	2005	2006E
Book Value (MYR)	1.33	1.28	1.33	1.36
Cash Flow (sen)	17.1	24.0	40.5	38.7
Reported Earnings (sen)	3.7	3.2	15.0	14.8
Dividend (sen)	8.0	8.0	10.0	12.0
Payout Ratio (%)	NM	138.4	74.0	58.2
PER (x)	43.7	49.7	10.7	10.8
P/Cash Flow (x)	9.4	6.7	4.0	4.2
P/Book Value (x)	1.2	1.3	1.2	1.2
Dividend Yield (%)	5.0	5.0	6.2	7.5
ROE (%)	-1.6	3.2	7.4	11.0
Net Gearing (%)	128.3	152.5	139.6	145.0

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## Texchem Resources

Recommendation: **STRONG BUY**Stock Code: **8702**Bloomberg: **TEX MK**Price: **MYR1.61**12-Month Target Price: **MYR2.00**Date: **January 3, 2007****Quarterly Performance**

FY Dec. / MYR mln	3Q06	3Q05	% Change
Reported Revenue	149.0	155.1	-3.9
Reported Operating Profit	12.8	13.9	-7.7
Depreciation & Amortization	NA	NA	NA
Net Interest Income / (Expense)	-3.7	-4.4	-15.7
Reported Pre-tax Profit	8.8	9.6	-8.2
Reported Net Profit	7.8	7.3	5.7
Reported Operating Margin (%)	8.6	9.0	-
Reported Pre-tax Margin (%)	5.9	6.2	-
Reported Net Margin (%)	5.2	4.7	-

Source: Company data

**Profit & Loss**

FY Dec. / MYR mln	2004	2005	2006E	2007E
Reported Revenue	1,056.8	1,187.8	1,281.0	1,335.3
Reported Operating Profit	23.5	33.8	42.1	45.6
Depreciation & Amortization	-23.2	-28.5	-25.5	-28.2
Net Interest Income / (Expense)	-11.9	-13.5	-14.2	-13.8
Reported Pre-tax Profit	11.0	25.5	28.3	32.4
Effective Tax Rate (%)	66.4	25.4	35.0	35.0
Reported Net Profit	3.9	18.7	18.4	21.1
Reported Operating Margin (%)	2.2	2.8	3.3	3.4
Reported Pre-tax Margin (%)	1.0	2.1	2.2	2.4
Reported Net Margin (%)	0.4	1.6	1.4	1.6

Source: Company data, S&amp;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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For residents of Malaysia. All queries in relation to this report should be referred to Alexander Chia, Lee Leng Hoe or Ching Wah Tam.

**Recommendation and Target Price History**

<b>Date</b>	<b>Recommendation</b>	<b>Target Price</b>
10-May-06	Strong Buy	2.00
16-Feb-06	Strong Buy	1.80
31-Oct-05	Buy	1.36
15-Sep-05	Hold	1.25

