

Recommendation: **HOLD**

Stock Code: **8702**

Bloomberg: **TEX MK**

Price: **MYR0.95**

12-Month Target Price: **MYR1.00**

Date: **August 4, 2009**

Board: Main

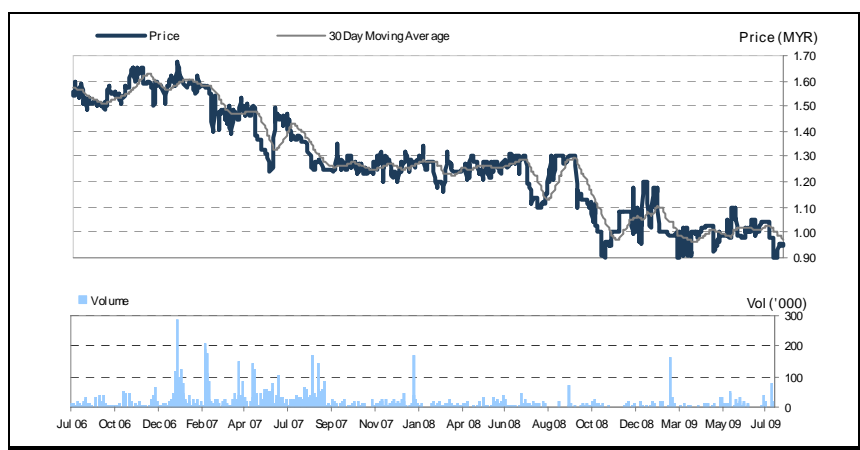
Sector: Trading/Services

GICS: Industrials/Trading Companies & Distributors

Market Value - Total: MYR118.5 mln

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

Analyst: Alexander Chia, ACA



Results Review & Earnings Outlook

- TRB reported disappointing a 2Q09 net loss of MYR15,000 vs. a net profit of MYR468,000 in the previous corresponding period. However, this was a significant improvement to the 1Q09 net loss of MYR9.2 mln. The cumulative results are still proportionately below our previous forecast for the company to break-even in 2009.
- TRB reported a sequential improvement in 2Q09 sales across all its business divisions, with the sharpest improvement coming from its packaging division that grew 47.5% QoQ. Revenue for the quarter was 26% higher sequentially but 21% lower YoY, reflecting the contraction in domestic and global economic activity.
- The industrial and packaging divisions both reported an operating profit during the quarter from a loss in 1Q09. This contributed to a group operating profit of MYR6.4 mln that is still 38% lower YoY but a sharp improvement from the 1Q09 operating loss of MYR5.1 mln. TRB enjoyed lower finance costs, reflecting the lower interest rate environment, but continued to suffer from a high effective tax rate in the absence of group relief.
- We concur with management's view that the worst is over for TRB and expect a much improved operational performance in 2H09 although it is not expected to overturn the cumulative net loss of MYR9.2 mln from 1H09. Accordingly, we increase our 2009 net loss forecast to MYR2.0 mln (from MYR0.2 mln) to account for the poor results YTD, but raise our 2010 net profit estimate to MYR11.0 mln (from MYR5.1 mln) with TRB's business divisions expected to benefit from the gradual recovery in the broader economy.

Recommendation & Investment Risks

- We upgrade our recommendation to Hold (from Sell) and lift our 12-month target price to MYR1.00 (from MYR0.90).
- We continue to use a relative P/B approach as a result of the low earnings visibility and low absolute level of profit being forecast. Our target price based on 0.70x (from 0.65x) forecast 2010 BVPS, plus our projected 2009 net DPS of 4 sen (from 2 sen). Our target P/B multiple is at the low end of TRB's nine-year P/B trading range of 0.63x-1.68x.
- At our target price the implied prospective 2010 PER is 9.5x, which is at a 14% discount to the average PER for a broad universe of smaller cap stocks under our coverage. We believe this is fair. We are reluctant to ascribe a more aggressive target multiple given the slow economic recovery and TRB's high net gearing of 142%.
- Risks to our recommendation and target price include a more extended economic slowdown. Its limited free float and low average traded volumes are also risks.

Key Stock Statistics

FY Dec.	2008	2009E
Reported EPS (sen)	-1.2	-1.7
PER (x)	NM	NM
Dividend/Share (sen)	10.0	5.0
NTA/Share (MYR)	0.88	0.83
Book Value/Share (MYR)	1.36	1.31
No. of Outstanding Shares (mln)	124.1	
52-week Share Price Range (MYR)	0.90 - 1.30	
Major Shareholders:	%	
Tan Sri Dato' Seri Fumihiko Konishi	56.1	
Skim Amanah Saham Bumiputera	4.4	

*Stock deemed Shariah compliant by the Securities Commission.

Per Share Data

FY Dec.	2006	2007	2008	2009E
Book Value (MYR)	1.38	1.43	1.36	1.31
Cash Flow (sen)	39.4	40.1	25.6	24.7
Reported Earnings (sen)	13.1	14.6	-1.2	-1.7
Dividend (sen)	10.0	12.0	10.0	5.0
Payout Ratio (%)	54.8	92.1	NM	NM
PER (x)	7.3	6.6	NM	NM
P/Cash Flow (x)	2.4	2.4	3.7	3.9
P/Book Value (x)	0.7	0.7	0.7	0.7
Dividend Yield (%)	10.5	12.6	10.5	5.2
ROE (%)	9.7	6.8	-0.8	-1.2
Net Gearing (%)	140.2	115.9	138.1	124.3

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Quarterly Performance

FY Dec. / MYR mln	2Q09	2Q08	% Change
Reported Revenue	306.9	386.4	-20.6
Reported Operating Profit	6.4	10.5	-38.5
Depreciation & Amortization	NA	NA	NA
Net Interest Income / (Expense)	-3.6	-4.4	-18.6
Reported Pre-tax Profit	2.1	3.1	-30.8
Reported Net Profit	0.0	0.5	NM
Reported Operating Margin (%)	2.1	2.7	-
Reported Pre-tax Margin (%)	0.7	0.8	-
Reported Net Margin (%)	0.0	0.1	-

Source: Company data

Profit & Loss

FY Dec. / MYR mln	2007	2008	2009E	2010E
Reported Revenue	1,257.0	1,431.6	1,239.0	1,331.0
Reported Operating Profit	41.2	26.0	19.2	34.3
Depreciation & Amortization	-31.7	-33.2	-32.7	-33.9
Net Interest Income / (Expense)	-16.7	-17.6	-14.8	-14.3
Reported Pre-tax Profit	29.4	2.4	2.5	19.0
Effective Tax Rate (%)	25.4	178.2	224.3	28.9
Reported Net Profit	18.1	-1.4	-2.0	11.0
Reported Operating Margin (%)	3.3	1.8	1.6	2.6
Reported Pre-tax Margin (%)	2.3	0.2	0.2	1.4
Reported Net Margin (%)	1.4	-0.1	-0.2	0.8

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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Recommendation and Target Price History

Date	Recommendation	Target Price
New	Hold	1.00
6-May-09	Sell	0.90
23-Feb-09	Sell	0.87
6-Nov-08	Sell	0.90
5-Aug-08	Hold	1.17
24-Aug-07	Buy	1.45
7-May-07	Buy	1.65
16-Feb-07	Strong Buy	1.91

