

Recommendation: **HOLD**

Stock Code: 8702

Bloomberg: TEX MK

Price: MYR0.92

12-Month Target Price: MYR1.00

Date: November 4, 2009

Board: Main

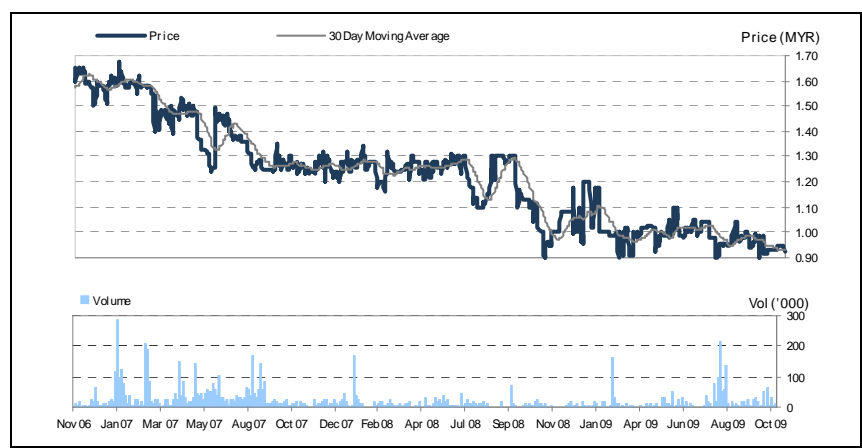
Sector: Trading/Services

GICS: Industrials/Trading Companies &amp; Distributors

Market Value - Total: MYR114.2 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's 3Q09 results disappointed after it reported a net profit of just MYR1.0 mln for the period that was flat YoY but better than the small net loss of MYR15,000 in the preceding quarter. The cumulative net loss for the 9M09 period fell to MYR8.2 mln vs. a net profit of MYR2.5 mln in the previous corresponding period and our 2009 estimate for a net loss of MYR2.0 mln.
- Group revenue for the quarter under review stayed weak, improving just 3.7% QoQ but 21.6% lower YoY. Revenues were mostly lower YoY across all its divisions. Sequentially, only the Industrial division showed an improvement rising 21.4%. Revenue at the Packaging division was flat QoQ while the Family Care and Food divisions reported declines of 15.1% and 11.9%, respectively. The numbers reflect the weak pace of recovery in the domestic economy.
- Group operating margins remained steady QoQ at 2.1% with finance costs and tax charge for the quarter in line with expectations.
- We have revised our 2009 net loss estimate to MYR6.6 mln from MYR2 mln given the slower pace of rebound in revenue and earnings seen during the quarter. We also trim our 2010 net profit estimate to MYR8 mln (from MYR11 mln).

## Recommendation & Investment Risks

- We retain our Hold recommendation and 12-month target price of MYR1.00.
- 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 is derived from using a target P/B multiple of 0.7x (unchanged) that is at the low end of TRB's P/B nine year trading range of 0.63x – 1.68x on forecast 2010 BVPS, plus our projected 2009 net DPS of 4 sen (unchanged). TRB currently trades at a prospective 2010 PER of 11.5x, which we believe is fair given that it is in the early stages of an earnings recovery in tandem with the improving macroeconomic environment. The 5.4% yield on offer should be supportive of its share price at current levels.
- Nonetheless, we remained concerned over its weak balance sheet position with onerous financing obligations. Its net gearing at end-Sep 2009 worsened to 148% from 142% at the end of the preceding quarter.
- Risks to our recommendation and target price include a more extended economic slowdown. A rising interest rate environment in 2010 will also limit the extent of TRB's earnings rebound. The limited free float and low average traded volumes are also risks.

### Key Stock Statistics

FY Dec.	2008	2009E
Reported EPS (sen)	-1.2	-5.3
PER (x)	NM	NM
Dividend/Share (sen)	10.0	5.0
NTA/Share (MYR)	0.88	0.80
Book Value/Share (MYR)	1.36	1.27
No. of Outstanding Shares (mln)	124.1	
52-week Share Price Range (MYR)	0.90 - 1.20	
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	1.27
Cash Flow (sen)	39.4	40.1	25.6	21.0
Reported Earnings (sen)	13.1	14.6	-1.2	-5.3
Dividend (sen)	10.0	12.0	10.0	5.0
Payout Ratio (%)	54.8	92.1	NM	NM
PER (x)	7.0	6.3	NM	NM
P/Cash Flow (x)	2.3	2.3	3.6	4.4
P/Book Value (x)	0.7	0.6	0.7	0.7
Dividend Yield (%)	10.9	13.0	10.9	5.4
ROE (%)	9.7	6.8	-0.8	-4.0
Net Gearing (%)	140.2	115.9	138.1	127.0

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**Quarterly Performance**

FY Dec. / MYR mln	3Q09	3Q08	% Change
Reported Revenue	318.4	406.3	-21.6
Reported Operating Profit	6.7	8.5	-21.3
Depreciation & Amortization	NA	NA	NA
Net Interest Income / (Expense)	-3.5	-4.7	-25.2
Reported Pre-tax Profit	2.7	3.1	-11.5
Reported Net Profit	1.1	1.0	2.9
Reported Operating Margin (%)	2.1	2.1	-
Reported Pre-tax Margin (%)	0.8	0.8	-
Reported Net Margin (%)	0.3	0.3	-

Source: Company data

**Profit & Loss**

FY Dec. / MYR mln	2007	2008	2009E	2010E
Reported Revenue	1,257.0	1,431.6	1,185.5	1,284.2
Reported Operating Profit	41.2	26.0	14.6	30.3
Depreciation & Amortization	-31.7	-33.2	-32.7	-33.9
Net Interest Income / (Expense)	-16.7	-17.6	-14.7	-14.4
Reported Pre-tax Profit	29.4	2.4	-2.1	15.0
Effective Tax Rate (%)	25.4	178.2	NM	33.4
Reported Net Profit	18.1	-1.4	-6.6	8.0
Reported Operating Margin (%)	3.3	1.8	1.2	2.4
Reported Pre-tax Margin (%)	2.3	0.2	-0.2	1.2
Reported Net Margin (%)	1.4	-0.1	-0.6	0.6

Source: Company data, S&amp;P Equity Research

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**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.

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**Shariah-compliant stock** - As defined by the Shariah Advisory Council of Malaysia's Securities Commission

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**Recommendation and Target Price History**

Date	Recommendation	Target Price
4-Aug-09	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
10-May-06	Strong Buy	2.00
16-Feb-06	Strong Buy	1.80

