

Texchem Resources

Recommendation: **HOLD**

Stock Code: **8702**

Bloomberg: **TEX MK**

Price: **MYR1.15**

12-Month Target Price: **MYR1.17**

Date: **August 5, 2008**

Board: Main

Sector: Trading/Services

GICS: Industrials/Trading Companies & Distributors

Market Value - Total: MYR142.7 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 2Q08 results were below expectations. Net profit for the quarter and 1H08 reached just MYR0.5 mln and MYR1.5 mln respectively compared to our previous 2008 earnings forecast of MYR12.9 mln.
- The weak performance was attributed to losses at an associate company involved in surimi production, due to a ban on seafood exports to the European Union from Malaysia. We understand that Texchem has since shut the business and the losses incurred during the quarter are not expected to recur.
- TRB's other main business divisions performed respectably with group revenue rising 20% YoY, with contributions mainly from the industrial (+44.1% YoY) and food (+11.6% YoY) businesses. Higher industrial revenue was mainly attributed to a new business acquired in 4Q07. Family care revenues were 32.6% lower YoY due to the disposal of Texchem Consumers Sdn Bhd (TCSB) in May 2007. Operating margin for the group was steady at 2.5% in 1H08. Net profit for 1H08 was 73% lower YoY due to the associate loss as well as the recognition of a MYR6.2 mln gain in 2Q07 from the disposal of TCSB.
- Management's commentary on prospects for the remainder of 2008 was cautious, and warned against potential global slowdown, a weak USD and other inflationary pressures. After factoring in the associate loss and more difficult operating conditions in 2H08, we are trimming our 2008 net profit estimate by 29% to MYR9.2 mln. We are leaving our 2009 profit forecast broadly unchanged at MYR13.0 mln.

Recommendation & Investment Risks

- We downgrade our call on TRB to Hold (from Buy) and cut our 12-month target price to MYR1.17 (from MYR1.45).
- Our target price is derived from ascribing (valuation methodology unchanged) a blend of PER (11x from 15x) and P/B (0.95x from 1x) on our 2008 EPS and BVPS respectively, plus our projected NDPS of 9 sen (unchanged). The lower target multiples reflect the limited macroeconomic clarity going forward.
- We believe TRB's industrial and packaging divisions could be susceptible to an economic slowdown and deterioration in business conditions. Currently trading at a 2009 PER of 10.2x, we believe TRB is close to being fairly valued given the challenging outlook.
- However, its 10.4% yield remains attractive and should provide support to its share price. TRB has a strong record of maintaining its payout even during periods of weak earnings.
- Risks to our recommendation and target price include sharper-than-expected deceleration in economic activity in Malaysia, which would impact demand at its Industrial and Food divisions. Its limited free float and low traded volumes are also risks.

Key Stock Statistics

FY Dec.	2007	2008E
Reported EPS (sen)	14.4	7.4
PER (x)	8.0	15.6
Dividend/Share (sen)	12.0	12.0
NTA/Share (MYR)	0.99	0.97
Book Value/Share (MYR)	1.43	1.42

No. of Outstanding Shares (mln) **124.1**

52-week Share Price Range (MYR) **1.10 - 1.35**

Major Shareholders:

Tan Sri Dato' Seri Fumihiko Konishi **55.7**

Skim Amanah Saham Bumiputera **4.4**

*Stock deemed Shariah compliant by the Securities Commission.

Per Share Data

FY Dec.	2005	2006	2007	2008E
Book Value (MYR)	1.33	1.38	1.43	1.42
Cash Flow (sen)	40.4	39.4	40.3	30.3
Reported Earnings (sen)	15.0	13.1	14.4	7.4
Dividend (sen)	10.0	10.0	12.0	12.0
Payout Ratio (%)	74.0	54.8	93.5	121.1
PER (x)	7.7	8.7	8.0	15.6
P/Cash Flow (x)	2.8	2.9	2.9	3.8
P/Book Value (x)	0.9	0.8	0.8	0.8
Dividend Yield (%)	8.7	8.7	10.4	10.4
ROE (%)	7.4	9.7	6.7	5.2
Net Gearing (%)	139.6	140.2	115.9	118.4

All required disclosures and analyst certification appear on the last two pages of this report. Additional information is available upon request.

Redistribution or reproduction is prohibited without written permission. Copyright © 2008 The McGraw-Hill Companies, Inc.

Page 1 of 4

Recommendation: **HOLD**Stock Code: **8702**Bloomberg: **TEX MK**Price: **MYR1.15**12-Month Target Price: **MYR1.17**Date: **August 5, 2008****Quarterly Performance**

FY Dec. / MYR mln	2Q08	2Q07	% Change
Reported Revenue	386.4	306.1	26.2
Reported Operating Profit	10.5	9.4	10.9
Depreciation & Amortization	NA	NA	NA
Net Interest Income / (Expense)	-4.4	-4.7	-4.8
Reported Pre-tax Profit	3.1	9.8	-68.6
Reported Net Profit	0.5	6.6	-92.9
Reported Operating Margin (%)	2.7	3.1	-
Reported Pre-tax Margin (%)	0.8	3.2	-
Reported Net Margin (%)	0.1	2.1	-

Source: Company data

Profit & Loss

FY Dec. / MYR mln	2006	2007	2008E	2009E
Reported Revenue	1,267.7	1,258.6	1,298.1	1,310.1
Reported Operating Profit	40.7	41.6	36.4	38.0
Depreciation & Amortization	-32.5	-32.1	-28.4	-28.0
Net Interest Income / (Expense)	-16.6	-17.1	-17.4	-16.9
Reported Pre-tax Profit	22.5	29.7	15.8	20.6
Effective Tax Rate (%)	29.3	26.7	32.0	32.0
Reported Net Profit	16.3	17.9	9.2	13.0
Reported Operating Margin (%)	3.2	3.3	2.8	2.9
Reported Pre-tax Margin (%)	1.8	2.4	1.2	1.6
Reported Net Margin (%)	1.3	1.4	0.7	1.0

Source: Company data, S&P Equity Research

Standard & Poor's Equity Research Services

Standard & Poor's Equity Research Services U.S. includes Standard & Poor's Investment Advisory Services LLC; Standard & Poor's Equity Research Services Europe includes Standard & Poor's LLC- London; Standard & Poor's Equity Research Services Asia includes Standard & Poor's LLC's offices in Hong Kong and Singapore, Standard & Poor's Malaysia Sdn Bhd, and Standard & Poor's Information Services (Australia) Pty Ltd.

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.

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

Required Disclosures

All of the views expressed in this research report accurately reflect the research analyst's personal views regarding any and all of the subject securities or issuers. No part of analyst compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this research report.

Additional information is available upon request.

Other Disclosures

This report has been prepared and issued by Standard & Poor's and/or one of its affiliates. In the United States, research reports are prepared by Standard & Poor's Investment Advisory Services LLC ("SPIAS"). In the United States, research reports are issued by Standard & Poor's ("S&P"); in the United Kingdom by Standard & Poor's LLC ("S&P LLC"), which is authorized and regulated by the Financial Services Authority; in Hong Kong by Standard & Poor's LLC, which is regulated by the Hong Kong Securities Futures Commission; in Singapore by Standard & Poor's LLC, which is regulated by the Monetary Authority of Singapore; in Malaysia by Standard & Poor's Malaysia Sdn Bhd ("S&PM"), which is regulated by the Securities Commission; in Australia by Standard & Poor's Information Services (Australia) Pty Ltd ("SPIS"), which is regulated by the Australian Securities & Investments Commission; and in Korea by SPIAS, which is also registered in Korea as a cross-border investment advisory company.

The research and analytical services performed by SPIAS, S&P LLC, S&PM, and SPIS are each conducted separately from any other analytical activity of Standard & Poor's.

A reference to a particular investment or security by Standard & Poor's and/or one of its affiliates is not a recommendation to buy, sell, or hold such investment or security, nor is it considered to be investment advice.

Standard & Poor's and its affiliates provide a wide range of services to, or relating to, many organizations, including issuers of securities, investment advisers, broker-dealers, investment banks, other financial institutions and financial intermediaries, and accordingly may receive fees or other economic benefits from those

organizations, including organizations whose securities or services they may recommend, rate, include in model portfolios, evaluate or otherwise address.

CMDF-Bursa Research Scheme ("CBRS")

This report has been prepared by S&PM for purposes of CBRS administered by Bursa Malaysia Berhad, independent from any influence from CBRS or the subject company. S&P will receive total compensation of RM15,000 each year for each company covered by it under CBRS. For more information about CBRS, please visit Bursa Malaysia's website at: <http://www.bursamalaysia.com/website/bm/>

Disclaimers

This material is based upon information that we consider to be reliable, but neither S&P nor its affiliates warrant its completeness, accuracy or adequacy and it should not be relied upon as such. With respect to reports issued to clients in Japan and in the case of inconsistencies between the English and Japanese version of a report, the English version prevails. Neither S&P nor its affiliates guarantee the accuracy of the translation. Assumptions, opinions and estimates constitute our judgment as of the date of this material and are subject to change without notice. Neither S&P nor its affiliates are responsible for any errors or omissions or for results obtained from the use of this information. Past performance is not necessarily indicative of future results.

This material is not intended as an offer or solicitation for the purchase or sale of any security or other financial instrument. Securities, financial instruments or strategies mentioned herein may not be suitable for all investors. Any opinions expressed herein are given in good faith, are subject to change without notice, and are only correct as of the stated date of their issue. Prices, values, or income from any securities or investments mentioned in this report may fall against the interests of the investor and the investor may get back less than the amount invested. Where an investment is described as being likely to yield income, please note that the amount of income that the investor will receive from such an investment may fluctuate. Where an investment or security is denominated in a different currency to the investor's currency of reference, changes in rates of exchange may have an adverse effect on the value, price or income of or from that investment to the investor. The information contained in this report does not constitute advice on the tax consequences of making any particular investment decision. This material is not intended for any specific investor and does not take into account your particular investment objectives, financial situations or needs and is not intended as a recommendation of particular securities, financial instruments or strategies to you. Before acting on any recommendation in this material, you should consider whether it is suitable for your particular circumstances and, if necessary, seek professional advice.

For residents of the U.K. This report is only directed at and should only be relied on by persons outside of the United Kingdom or persons who are inside the United Kingdom and who have professional experience in matters relating to investments or who are high net worth persons, as defined in Article 19(5) or Article 49(2) (a) to (d) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005, respectively.

For residents of Malaysia. All queries in relation to this report should be referred to Alexander Chia, Desmond Ch'ng or Ching Wah Tam.

Recommendation and Target Price History

Date	Recommendation	Target Price
New	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
31-Oct-05	Buy	1.36
15-Sep-05	Hold	1.25

