

Recommendation: **SELL**

Stock Code: 8702

Bloomberg: TEX MK

Price: MYR0.99

12-Month Target Price: MYR0.90

Date: May 6, 2009

Board: Main

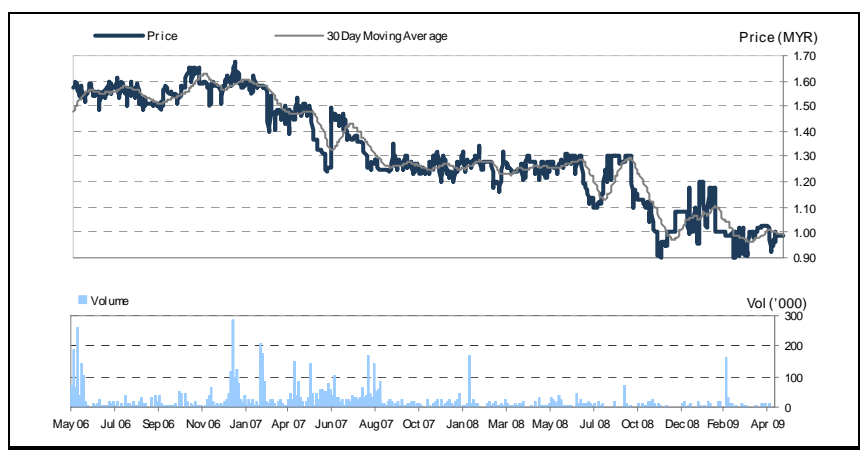
Sector: Trading/Services

GICS: Industrials/Trading Companies &amp; Distributors

Market Value - Total: MYR122.9 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 had another disappointing quarter and reported a worse-than-expected net loss of MYR9.2 mln for 1Q09. Our previous forecast was for a 2009 net profit of MYR3.1 mln. The net loss for the quarter widened from a MYR4.0 mln loss reported in the preceding quarter and a net profit of MYR1.1 mln a year ago.
- The weak performance was mainly due to low demand at its industrial and packaging businesses where revenues contracted 23.3% and 27.6%, respectively on a sequential basis reflecting the weak macroeconomic environment. Despite stable contributions from the food division and an improved performance at the family care division, group revenue for the quarter fell 30% YoY and 16.8% QoQ to MYR242.8 mln.
- The industrial and packaging divisions reported operating losses of MYR0.4 mln and MYR6.1 mln, respectively. Its packaging business – mainly carried out under 70.48%-owned Singapore listed Texchem-Pack Holdings (S) – reported significantly lower business activity, resulting in lower capacity utilization. It also incurred retrenchment costs amounting to MYR0.6 mln during the period and warned that operating conditions in the next 12 months were expected to remain challenging with current demand still low.
- After factoring in the 1Q09 loss and assuming a gradual improvement in business conditions in later quarters, we cut our 2009 net profit forecast to MYR0.2 mln and leave our 2010 forecast largely unchanged.

### Key Stock Statistics

FY Dec.	2008	2009E
Reported EPS (sen)	-1.2	0.2
PER (x)	NM	650.5
Dividend/Share (sen)	10.0	3.0
NTA/Share (MYR)	0.83	0.82
Book Value/Share (MYR)	1.34	1.32
No. of Outstanding Shares (mln)	124.1	
52-week Share Price Range (MYR)	0.90 - 1.31	
Major Shareholders:	%	
Tan Sri Dato' Seri Fumihiko Konishi	56.0	
Skim Amanah Saham Bumiputera	4.4	

\*Stock deemed Shariah compliant by the Securities Commission.

## Recommendation & Investment Risks

- We reiterate our Sell recommendation but raise our 12-month target price to MYR0.90 (from MYR0.87).
- We continue to use a relative P/B approach as a result of the low earnings visibility and low absolute level of profitability being forecast. Our target price is derived from using a target P/B multiple of 0.65x (from 0.63x) that is at the low end of TRB's P/B eight year trading range on forecast 2010 BVPS (rolled over from 2009), plus our projected 2009 net DPS of 2 sen (unchanged). The low target multiple reflects our assessment for weak growth prospects for earnings in 2009 and 2010, coupled with a stretched balance sheet. We see little prospect for outperformance until the macroeconomic picture is clearer.
- TRB already trades at a 2010 PER of 15.8x. While it declared a 10 sen GDPS for 2008 and has a strong record of maintaining its dividends, we expect TRB to cut the payout in 2009 to conserve cash and protect its balance sheet.
- Risks to our recommendation and target price include a shallower-than-expected economic slowdown. Its limited free float and low traded volumes are also risks.

### Per Share Data

FY Dec.	2006	2007	2008	2009E
Book Value (MYR)	1.38	1.43	1.34	1.32
Cash Flow (sen)	39.4	40.1	25.6	26.5
Reported Earnings (sen)	13.1	14.6	-1.2	0.2
Dividend (sen)	10.0	12.0	10.0	3.0
Payout Ratio (%)	54.8	92.1	NM	1,478.3
PER (x)	7.5	6.8	NM	650.5
P/Cash Flow (x)	2.5	2.5	3.9	3.7
P/Book Value (x)	0.7	0.7	0.7	0.7
Dividend Yield (%)	10.1	12.1	10.1	3.0
ROE (%)	9.7	6.8	-0.8	0.1
Net Gearing (%)	140.2	115.9	141.0	96.0

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**Quarterly Performance**

FY Dec. / MYR mln	1Q09	1Q08	% Change
Reported Revenue	242.8	347.1	-30.0
Reported Operating Profit	-5.1	8.0	NM
Depreciation & Amortization	NA	NA	NA
Net Interest Income / (Expense)	-4.1	-3.9	4.3
Reported Pre-tax Profit	-10.0	4.0	NM
Reported Net Profit	-9.2	1.1	NM
Reported Operating Margin (%)	-2.1	2.3	-
Reported Pre-tax Margin (%)	-4.1	1.1	-
Reported Net Margin (%)	-3.8	0.3	-

Source: Company data

**Profit & Loss**

FY Dec. / MYR mln	2007	2008	2009E	2010E
Reported Revenue	1,257.0	1,431.6	1,149.2	1,222.9
Reported Operating Profit	41.2	26.0	12.5	22.4
Depreciation & Amortization	-31.7	-33.2	-32.7	-33.9
Net Interest Income / (Expense)	-16.7	-17.6	-16.9	-14.2
Reported Pre-tax Profit	29.4	2.4	-4.8	7.7
Effective Tax Rate (%)	25.4	178.2	NM	15.0
Reported Net Profit	18.1	-1.4	0.2	5.1
Reported Operating Margin (%)	3.3	1.8	1.1	1.8
Reported Pre-tax Margin (%)	2.3	0.2	-0.4	0.6
Reported Net Margin (%)	1.4	-0.1	0.0	0.4

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.

**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
New	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

