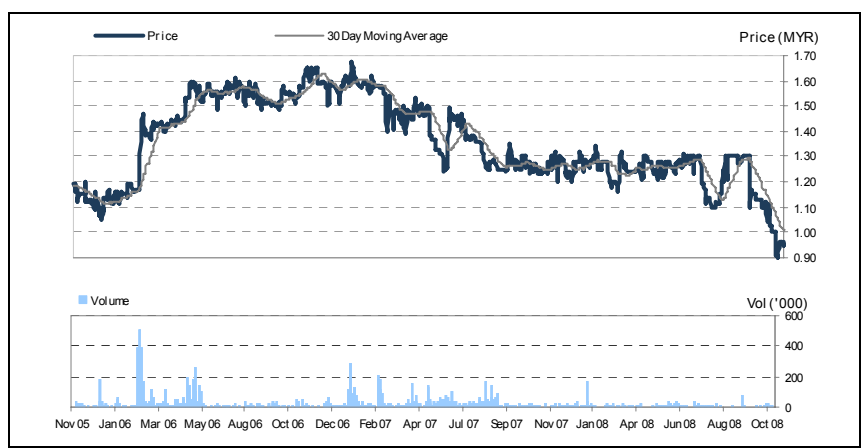


Recommendation: **SELL**Stock Code: **8702**Bloomberg: **TEX MK**Price: **MYR0.96**12-Month Target Price: **MYR0.90**Date: **November 6, 2008****Board:** Main**Sector:** Trading/Services**GICS:** Industrials/Trading Companies & Distributors**Market Value - Total:** MYR119.8 mln

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 3Q08 results were below expectations. Net profit for the quarter of MYR1.0 mln took cumulative net profit for 9M08 to MYR2.5 mln that was just 27% of our previous 2008 forecast.
- The quarter's weak performance was attributed to lower-than-expected profit at its food division, unexpected share of associate losses and a higher effective tax rate.
- The 22.24% YoY increase in 9M08 revenue to MYR1.14 bln was mainly driven by a new business acquired in 4Q07 at its industrial division, offset by lower family care revenue (-19.6% YoY) from the disposal of Texchem Consumers Sdn Bhd (TCSB) in May 2007. The food division registered revenue growth of 7.1% YoY, on the back of a stronger performance at the Sushi King restaurant business.
- However, operating margin for the quarter dipped to 2.1% from 2.7% in the preceding quarter and 3.2% a year ago, mainly because of lower contributions from its seafood business at the food division. Higher diesel prices during the quarter discouraged fishing trips, and hence, resulted in a lower catch. Associate losses involved a company undertaking surimi production that was affected by a ban on seafood exports to the European Union from Malaysia. TRB has since ceased the business. Higher effective tax rates were due to the exhaustion of carried forward tax losses and the end of tax-free incentives.
- In view of the disappointing results and the expected slowdown in Malaysia's economy in 2009 (that will impact all of TRB's business divisions), we have reduced our 2008 and 2009 net profit forecasts by 52% and 45% respectively.

Key Stock Statistics

FY Dec.	2007	2008E
Reported EPS (sen)	14.4	3.5
PER (x)	6.7	27.3
Dividend/Share (sen)	12.0	12.0
NTA/Share (MYR)	0.99	0.94
Book Value/Share (MYR)	1.43	1.38
No. of Outstanding Shares (mln)	124.1	
52-week Share Price Range (MYR)	0.90 - 1.34	
Major Shareholders:	%	
Tan Sri Dato' Seri Fumihiko Konishi	55.7	
Skim Amanah Saham Bumiputera	4.4	

*Stock deemed Shariah compliant by the Securities Commission.

Recommendation & Investment Risks

- We are downgrading our recommendation to Sell (from Hold) and lowering our 12-month target price to MYR0.90 (from MYR1.17).
- Our target price is derived from ascribing (valuation methodology unchanged) a blend of PER (8.5x from 11x) and P/B (0.81x from 0.95x) on our 2009 (rolled over from 2008) EPS and BVPS respectively, plus our projected 2008 net DPS of 9 sen (unchanged). The lower target multiples reflect the weaker macroeconomic environment going forward and the recent de-rating of the overall market.
- We believe TRB's industrial and packaging divisions will be susceptible to an economic slowdown and deterioration in business conditions. Trading at a prospective 2009 PER of 14.7x, TRB's valuations look stretched given the challenging outlook.
- While we believe management intends to maintain its 12 sen gross DPS for 2008, it is unlikely that this payout quantum will be sustained into 2009, despite TRB's strong record of maintaining its dividends, considering that gearing has spiked to 151% at end-September from 116% at end-2007.
- 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.	2005	2006	2007	2008E
Book Value (MYR)	1.33	1.38	1.43	1.38
Cash Flow (sen)	40.4	39.4	40.3	26.4
Reported Earnings (sen)	15.0	13.1	14.4	3.5
Dividend (sen)	10.0	10.0	12.0	12.0
Payout Ratio (%)	74.0	54.8	93.5	252.8
PER (x)	6.4	7.3	6.7	27.3
P/Cash Flow (x)	2.4	2.5	2.4	3.7
P/Book Value (x)	0.7	0.7	0.7	0.7
Dividend Yield (%)	10.4	10.4	12.4	12.4
ROE (%)	7.4	9.7	6.7	2.5
Net Gearing (%)	139.6	140.2	115.9	156.6

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Recommendation: **SELL**Stock Code: **8702**Bloomberg: **TEX MK**Price: **MYR0.96**12-Month Target Price: **MYR0.90**Date: **November 6, 2008****Quarterly Performance**

FY Dec. / MYR mln	3Q08	3Q07	% Change
Reported Revenue	406.3	320.2	26.9
Reported Operating Profit	8.5	10.3	-17.4
Depreciation & Amortization	NA	NA	NA
Net Interest Income / (Expense)	-4.7	-4.1	16.5
Reported Pre-tax Profit	3.1	6.7	-54.4
Reported Net Profit	1.0	3.6	-72.0
Reported Operating Margin (%)	2.1	3.2	-
Reported Pre-tax Margin (%)	0.8	2.1	-
Reported Net Margin (%)	0.3	1.1	-

Source: Company data

Profit & Loss

FY Dec. / MYR mln	2006	2007	2008E	2009E
Reported Revenue	1,267.7	1,258.6	1,506.6	1,451.5
Reported Operating Profit	40.7	41.6	36.8	34.9
Depreciation & Amortization	-32.5	-32.1	-28.4	-28.0
Net Interest Income / (Expense)	-16.6	-17.1	-17.9	-16.9
Reported Pre-tax Profit	22.5	29.7	15.0	17.5
Effective Tax Rate (%)	29.3	26.7	60.0	55.0
Reported Net Profit	16.3	17.9	4.4	7.2
Reported Operating Margin (%)	3.2	3.3	2.4	2.4
Reported Pre-tax Margin (%)	1.8	2.4	1.0	1.2
Reported Net Margin (%)	1.3	1.4	0.3	0.5

Source: Company data, S&P Equity Research

Standard & Poor's Equity Research Services

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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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Required Disclosures

Recommendation and Target Price History

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

