

Texchem Resources

Recommendation: **BUY**

Stock Code: **8702**

Bloomberg: **TEX MK**

Price: **MYR1.25**

12-Month Target Price: **MYR1.45**

Date: **May 7, 2008**

Board: Main

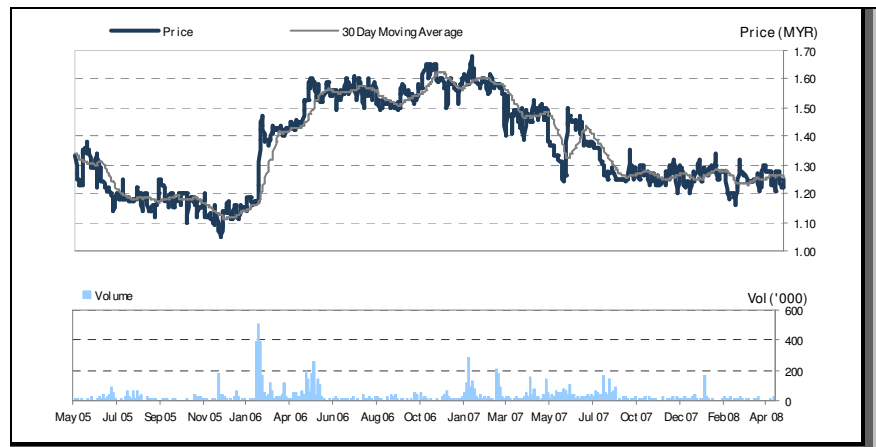
Sector: Trading/Services

GICS: Industrials/Trading Companies & Distributors

Market Value - Total: MYR155.1 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 1Q08 results that were below expectations. Net profit of MYR1.1 mln represents only 8.2% of our 2008 forecast.
- Revenue for the quarter of MYR347.1 mln was broadly in line with our forecasts across all business divisions and is up 13.8% YoY and 6.1% QoQ. Revenues during the quarter were boosted by a newly-acquired (in early 4Q07) subsidiary in the Industrials division as well as a 21% YoY jump at the Food division from an increased number of Sushi King outlets.
- Operating margin for the quarter fell to 2.3% from 4.8% in the preceding quarter, due to higher unrealized foreign exchange losses as well as provisioning for doubtful debts totaling approximately MYR1 mln. However, it is an improvement over the 2.1% recorded in 1Q07, due mainly to the disposal of loss-making consumer marketing and distribution business Texchem Consumers in 2Q07. The effective 1Q08 tax rate was also substantially higher at 55%, compared with 26.7% recorded in 2007.
- Management confirmed that its Myanmar operations were not seriously affected by the recent natural disaster caused by Cyclone Nargis, with only minor damage to property. However, management has been unable to confirm the safety of its employees.
- We expect TRB to record improved financial performance in subsequent quarters and leave our earnings estimates unchanged.

Recommendation & Investment Risks

- We reiterate our Buy recommendation and 12-month target price of MYR1.45. TRB is attractive for its strong dividend track record and gross yield of 7.8%. No dividend was declared for 1Q08, same as for 1Q07.
- Our valuation methodology is unchanged and our target price is derived from ascribing a blend of PER (15x) and P/B (1x) on our 2008 EPS and BVPS respectively, plus our projected NDPS.
- TRB's gearing level crept higher to 129% at end-March 2008 compared with 116% at end-2007. Financing costs remain high and are a drag on profitability.
- Risks to our recommendation and target price include slower-than-expected economic activity in Malaysia, which would impact demand at TRB's Industrial and Food divisions. Further increases in fuel prices could also negatively affect its seafood trading and manufacturing businesses, in our view. Its limited free float and low traded volumes also make the share price vulnerable to high volatility.

Key Stock Statistics

FY Dec.	2007	2008E
Reported EPS (sen)	14.4	10.4
PER (x)	8.7	12.0
Dividend/Share (sen)	12.0	12.0
NTA/Share (MYR)	0.99	1.00
Book Value/Share (MYR)	1.43	1.45
No. of Outstanding Shares (mln)	124.1	
52-week Share Price Range (MYR)	1.16 - 1.49	
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	1.45
Cash Flow (sen)	40.4	39.4	40.3	33.3
Reported Earnings (sen)	15.0	13.1	14.4	10.4
Dividend (sen)	10.0	10.0	12.0	12.0
Payout Ratio (%)	74.0	54.8	93.5	86.0
PER (x)	8.3	9.5	8.7	12.0
P/Cash Flow (x)	3.1	3.2	3.1	3.8
P/Book Value (x)	0.9	0.9	0.9	0.9
Dividend Yield (%)	8.0	8.0	9.6	9.6
ROE (%)	7.4	9.7	6.7	7.2
Net Gearing (%)	139.6	140.2	115.9	111.7

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FY Dec. / MYR mln	1Q08	1Q07	% Change
Reported Revenue	347.1	305.1	13.8
Reported Operating Profit	8.0	6.3	27.7
Depreciation & Amortization	NA	NA	NA
Net Interest Income / (Expense)	-3.9	-4.4	-11.7
Reported Pre-tax Profit	4.0	1.4	>100
Reported Net Profit	1.1	-0.9	NM
Reported Operating Margin (%)	2.3	2.1	-
Reported Pre-tax Margin (%)	1.1	0.4	-
Reported Net Margin (%)	0.3	-0.3	-

Source: Company data

Profit & Loss

FY Dec. / MYR mln	2006	2007	2008E	2009E
Reported Revenue	1,267.7	1,258.6	1,282.2	1,318.0
Reported Operating Profit	40.7	41.6	42.7	42.8
Depreciation & Amortization	-32.5	-32.1	-28.4	-28.0
Net Interest Income / (Expense)	-16.6	-17.1	-16.8	-16.3
Reported Pre-tax Profit	22.5	29.7	24.8	25.6
Effective Tax Rate (%)	29.3	26.7	32.0	32.0
Reported Net Profit	16.3	17.9	12.9	13.4
Reported Operating Margin (%)	3.2	3.3	3.3	3.2
Reported Pre-tax Margin (%)	1.8	2.4	1.9	1.9
Reported Net Margin (%)	1.3	1.4	1.0	1.0

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

Required Disclosures

Recommendation and Target Price History

Date	Recommendation	Target Price
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

