STANDARD & POOR'S

Texchem Resources

Recommendation: **STRONG BUY**

Stock Code: 8702	Bloomberg: TEX MK	Price: MYR1.58	12-Month Target Price: MYR1.91	Date: February 16, 2007

Board: Main

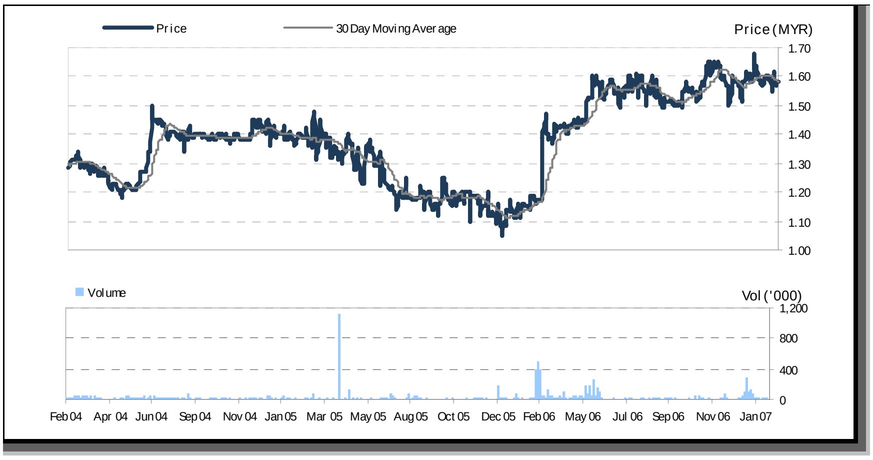
Sector: Trading/Services

GICS: Industrials/Trading Companies & Distributors

Market Value - Total: MYR196.1 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

- Texchem's 4Q06 results were below our expectations, accounting for only 82% of our net profit forecast. On a YoY basis, revenue rose by 15.4% to MYR1.3 bln whilst operating profits rose 18.8%. However, pretax profit fell by 13.8% YoY due a gain in disposal of an associate of MYR6.6 mln in the previous year. Excluding the gain, Texchem's pretax profits would have risen by 16.2% YoY on a normalized basis. Sequentially, revenue was down 10.3% for the quarter, whilst a lower EBIT margin of 2.6% compared to 3.4% in 3Q06 resulting in EBIT declining by 31.6%.

- The packaging business was the star performer, with revenues 11.5% YoY and EBIT margins improving to 12.9% in 2006 from 10.1% in 2005, resulting in EBIT rising 42% YoY, benefiting from robust demand for high quality packaging from multinational IT companies. Profit contribution from its industrial chemical trading division also improved by 7% on the back of higher EBIT margin of 3.2%, up from 3.0% in 2005. The family care business also registered a 7.1% revenue growth YoY and 22% higher EBIT on the back of stronger margins of 4.9%, up from 4.5% previously. The food division turned in a larger loss of MYR3.2 mln from MYR0.3 mln in 2005, due to higher fuel costs that ate into margins, despite higher profits from Sushi King and Sea Master.

- We have lowered our 2007 net profit forecast to MYR18.2 mln (-13.7%) and introduce our 2008 forecast of MYR21.1 mln.

Recommendation & Investment Risks

- We maintain our Strong Buy recommendation on Texchem. Our lower 12-month target price of MYR1.91 (from MYR2.00) is based on a target PER of 15x (up from 12x as the market has risen) and P/B of 1.0x on our 2007 EPS and BVPS respectively, plus our projected DPS. The target price has been revised down in tandem with the downward revision in our 2007 forecast.

- We believe that Texchem combines the appeal of a strong dividend yield and is poised to enjoy an upward profit trend from its profit recovery plan laid down in 2002. The listing of its packaging business on the Singapore Stock Exchange (SGX, S$6.80, Not Ranked) in Nov. 2006 can now provide the capital for expansion and a separate channel to raise capital. Plans are underway to expand the business via overseas investments and acquisitions.

- Risks to our recommendation and target price include slower than expected economic activity in Malaysia, which would impact the demand for Texchem's industrial and Sushi King businesses. Continued rise in petrol prices and a slower than expected rollout of its biomass boilers would negatively impact its seafood business resulting in larger-than-expected losses from the seafood trading and manufacturing business.

Key Stock Statistics

FY Dec.	2006	2007E
Reported EPS (sen)	12.1	14.7
PER (x)	13.0	10.8
Dividend/Share (sen)	10.0	12.0
NTA/Share (MYR)	0.98	1.01
Book Value/Share (MYR)	1.39	1.41
No. of Outstanding Shares (mln)	124.1	
52-week Share Price Range (MYR)	1.37 - 1.68	
Major Shareholders:	%	
Texchem Holdings	33.0	
Texchem Corporation	16.7	

Per Share Data

FY Dec.	2004	2005	2006	2007E
Book Value (MYR)	1.28	1.33	1.39	1.41
Cash Flow (sen)	24.0	40.5	34.1	37.9
Reported Earnings (sen)	3.2	15.0	12.1	14.7
Dividend (sen)	8.0	10.0	10.0	12.0
Payout Ratio (%)	138.4	74.0	59.5	58.8
PER (x)	48.8	10.5	13.0	10.8
P/Cash Flow (x)	6.6	3.9	4.6	4.2
P/Book Value (x)	1.2	1.2	1.1	1.1
Dividend Yield (%)	5.1	6.3	6.3	7.6
ROE (%)	3.2	7.4	8.9	10.5
Net Gearing (%)	152.5	139.6	141.3	135.5

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

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Quarterly Performance

FY Dec. / MYR mln	4Q06	4Q05	% Change
Reported Revenue	301.4	298.7	0.9
Reported Operating Profit	7.9	7.0	12.6
Depreciation & Amortization	NA	NA	NA
Net Interest Income / (Expense)	-4.8	-3.9	23.5
Reported Pre-tax Profit	2.3	8.0	-71.3
Reported Net Profit	2.6	8.7	-69.8
Reported Operating Margin (%)	2.6	2.4	-
Reported Pre-tax Margin (%)	0.8	2.7	-
Reported Net Margin (%)	0.9	2.9	-

Source: Company data

Profit & Loss

FY Dec. / MYR mln	2005	2006	2007E	2008E
Reported Revenue	1,187.8	1,267.0	1,319.4	1,366.0
Reported Operating Profit	33.8	40.2	44.0	47.8
Depreciation & Amortization	-28.5	-23.3	-23.8	-26.1
Net Interest Income / (Expense)	-13.5	-16.9	-14.6	-13.8
Reported Pre-tax Profit	25.5	22.0	28.0	32.5
Effective Tax Rate (%)	25.4	31.8	35.0	35.0
Reported Net Profit	18.7	15.0	18.2	21.1
Reported Operating Margin (%)	2.8	3.2	3.3	3.5
Reported Pre-tax Margin (%)	2.1	1.7	2.1	2.4
Reported Net Margin (%)	1.6	1.2	1.4	1.5

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.

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For residents of Malaysia. All queries in relation to this report should be referred to Alexander Chia, Lee Leng Hoe or Ching Wah Tam.

Recommendation and Target Price History

Date	Recommendation	Target Price
New	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