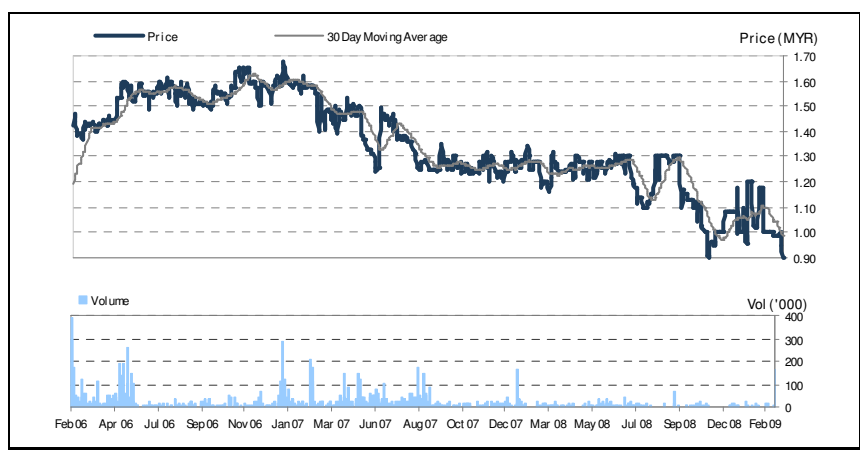


## Texchem Resources

Recommendation: **SELL**Stock Code: **8702**Bloomberg: **TEX MK**Price: **MYR0.90**12-Month Target Price: **MYR0.87**Date: **February 23, 2009****Board:** Main**Sector:** Trading/Services**GICS:** Industrials/Trading Companies & Distributors**Market Value - Total:** MYR111.7 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 &amp; Earnings Outlook

- TRB reported disappointing 4Q08 results with a net loss of MYR4.0 mln. This resulted in a cumulative 2008 net loss of MYR1.4 mln compared to a MYR18.1 mln net profit in 2007 and our profit forecast of MYR4.4 mln.
- The poor 4Q results were attributed to a sharp 44% and 28% QoQ falloff in revenues at its Industrial and Packaging divisions respectively. In addition, the Packaging division also suffered from impairment losses totaling MYR3 mln, while a further associate loss of MYR2.3 mln during the quarter took total associate losses for 2008 to MYR6 mln, mainly from the closure of the business involved in surimi production.
- This was offset by a better performance at the Food division - lower fuel prices helped to turn around the Myanmar operations as increased trawler activity resulted in the increased supply of fish. TRB's Sushi King chain of restaurants is also performing well with 53 stores at present. Plans are for another six to eight new stores this year. High financing costs were also a drag on earnings after a spike in net gearing to 141% at end-2008 from 116% a year earlier.
- The business outlook – specifically for the Industrial and Packaging divisions - looks grim, particularly in 1H09. We are lowering our 2009 net profit forecast to MYR3.1 mln (from MYR7.2 mln) and introduce our 2010 forecasts.

## Recommendation &amp; Investment Risks

- We reiterate our Sell recommendation and trim our 12-month target price to MYR0.87 (from MYR0.90).
- As a result of the low earnings visibility and low absolute level of profitability being forecast this year, we are changing our valuation methodology to a relative P/B approach (from a blend of PER and P/B) on our 2009 BVPS estimate, plus our projected 2009 net DPS of 2 sen (unchanged). Our ascribed P/B multiple of 0.63x is at the low end of TRB's P/B trading range of between 0.63x–1.86x in the past eight years, reflecting its weak prospects in 2009 coupled with a stretched balance sheet. We see little prospect for outperformance until the macroeconomic picture is clearer.
- TRB already trades at a PER of 35.8x 2009. While it declared a 10 sen GDPS for 2008 and has a strong record of maintaining its dividends, it is likely 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.

## Key Stock Statistics

FY Dec.	2008	2009E
Reported EPS (sen)	-1.2	2.5
PER (x)	NM	35.8
Dividend/Share (sen)	10.0	3.0
NTA/Share (MYR)	0.83	0.84
Book Value/Share (MYR)	1.34	1.35
No. of Outstanding Shares (mln)	124.1	
52-week Share Price Range (MYR)	0.90 - 1.32	
Major Shareholders:	%	
Tan Sri Dato' Seri Fumihiko Konishi	56.0	
Skim Amanah Saham Bumiputera	4.4	

\*Stock deemed Shariah compliant by the Securities Commission.

## Per Share Data

FY Dec.	2006	2007	2008	2009E
Book Value (MYR)	1.38	1.43	1.34	1.35
Cash Flow (sen)	39.4	40.1	25.6	28.9
Reported Earnings (sen)	13.1	14.6	-1.2	2.5
Dividend (sen)	10.0	12.0	10.0	3.0
Payout Ratio (%)	54.8	92.1	NM	89.5
PER (x)	6.8	6.2	NM	35.8
P/Cash Flow (x)	2.3	2.2	3.5	3.1
P/Book Value (x)	0.6	0.6	0.7	0.7
Dividend Yield (%)	11.1	13.3	11.1	3.3
ROE (%)	9.7	6.8	-0.8	1.9
Net Gearing (%)	140.2	115.9	141.0	92.8

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## Texchem Resources

Recommendation: **SELL**Stock Code: **8702**Bloomberg: **TEX MK**Price: **MYR0.90**12-Month Target Price: **MYR0.87**Date: **February 23, 2009****Quarterly Performance**

FY Dec. / MYR mln	4Q08	4Q07	% Change
Reported Revenue	291.9	325.6	-10.4
Reported Operating Profit	-1.0	15.2	NM
Depreciation & Amortization	NA	NA	NA
Net Interest Income / (Expense)	-4.5	-3.5	28.5
Reported Pre-tax Profit	-7.7	11.6	NM
Reported Net Profit	-4.0	8.8	NM
Reported Operating Margin (%)	-0.3	4.7	-
Reported Pre-tax Margin (%)	-2.6	3.6	-
Reported Net Margin (%)	-1.4	2.7	-

Source: Company data

**Profit & Loss**

FY Dec. / MYR mln	2007	2008	2009E	2010E
Reported Revenue	1,257.0	1,431.6	1,227.2	1,284.8
Reported Operating Profit	41.2	26.0	24.1	25.9
Depreciation & Amortization	-31.7	-33.2	-32.7	-33.9
Net Interest Income / (Expense)	-16.7	-17.6	-16.7	-13.7
Reported Pre-tax Profit	29.4	2.4	6.9	11.7
Effective Tax Rate (%)	25.4	178.2	40.0	40.0
Reported Net Profit	18.1	-1.4	3.1	5.0
Reported Operating Margin (%)	3.3	1.8	2.0	2.0
Reported Pre-tax Margin (%)	2.3	0.2	0.6	0.9
Reported Net Margin (%)	1.4	-0.1	0.3	0.4

Source: Company data, S&amp;P Equity Research

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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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**Recommendation and Target Price History**

Date	Recommendation	Target Price
New	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

