

28 February 2025

Industrials | Industrial Products

## Texchem Resources (TEX MK)

**Buy** (Maintained)

### Gearing Up For Stronger Growth; Keep BUY

- **BUY, new MYR1.58 TP (from MYR1.44), 112% upside, c.7% yield.** Texchem Resources' FY24 results exceeded expectations, driven by strong margins from the polymer engineering division. We expect continued improvement across all business units, supported by further volume recovery and operating leverage, underpinning our robust FY24-27F earnings CAGR of 28.5%. Our SOP valuation (Figure 3) conservatively factors in muted contribution from the restaurant and food divisions, while still offering significant upside to the TP, making it a compelling investment case.
- **Above expectations.** FY24 core profit of MYR11.2m (FY23: -MYR10.4m) came in above our expectations. The positive deviation was due to stronger-than-expected margins from the polymer engineering division. Note that we adjusted for unrealised FX losses and an impairment loss on property, plant, and equipment totalling MYR4.5m to derive the core profit.
- **Results review.** YoY, FY24 revenue grew 12.5% to MYR1.1bn, driven by a sales recovery in the industrial (+17.8%), polymer engineering (+25.2%), and restaurant (+4.1%) divisions, partially offset by a decline in the food division (-6.2%). FY24 EBITDA margin expanded by 1.2ppts to 8.2%, supported by operating leverage from higher sales. QoQ, 4Q24 revenue fell 5% to MYR266.8m due to weaker chemical prices affecting the industrial (-12.4%) division. However, 4Q24 core earnings rose 50% QoQ to MYR6.9m on the back of stronger product margins in the polymer engineering division and improved seasonality and operating efficiencies in the restaurant division.
- **Outlook.** Polymer engineering is set to benefit from the sustained recovery in HDD and semiconductor sales, with new high-margin projects in front-end semiconductor and medical devices expected to drive positive operating leverage. In the industrial segment, a focus on bulk chemicals is delivering positive outcomes, leading to higher sales and increased market share. In the food division, TEX diversified its supply chain to Thailand in FY24, while management continues to see easing FX controls in Myanmar. In the restaurant division, management is working to renovate outlets and refresh its brand image, aiming to capture resilient consumer spending supported by higher disposable income, while also improving margins through supply chain consolidation and better procurement cost management.
- **Forecasts.** Post results, we raise FY25-26F earnings by 13.7% and 7.8%, while introducing FY27F (+8.4%) earnings. Consequently, we raise our SOP-derived TP to MYR1.58 (includes 0% ESG premium/discount). Our TP implies a blended 11.1x FY25F P/E.
- **Risks:** Escalation of input costs, weaker-than-expected sales/orders, fluctuation of chemical prices, and unfavourable FX rates.

Target Price (Return): MYR1.58 (112%)  
Price (Market Cap): MYR0.75 (USD19.6m)  
ESG score: 3.0 (out of 4)  
Avg Daily Turnover (MYR/USD) 0.05m/0.01m

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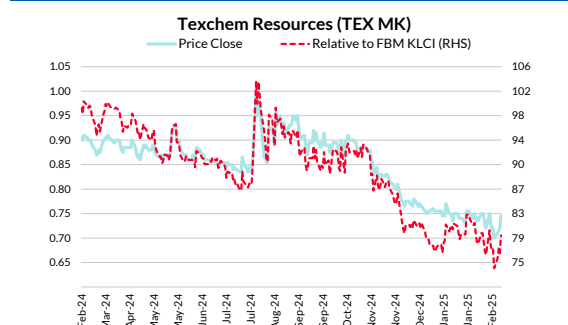


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#### Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(1.3)	2.1	(6.9)	(19.9)	(23.2)
Relative	2.1	0.3	(5.8)	(15.9)	(25.0)
52-wk Price low/high (MYR)				0.70	-0.99



Source: Bloomberg

Forecasts and Valuation	Dec-23	Dec-24	Dec-25F	Dec-26F	Dec-27F
Total turnover (MYRm)	994	1,118	1,169	1,221	1,278
Recurring net profit (MYRm)	(10)	11	17	22	24
Recurring net profit growth (%)	(132.6)	-	49.4	31.2	8.4
Recurring P/E (x)	na	7.80	5.22	3.98	3.67
P/B (x)	0.5	0.5	0.5	0.4	0.4
P/CF (x)	2.05	2.75	2.47	1.98	1.91
Dividend Yield (%)	na	na	6.7	8.8	9.6
EV/EBITDA (x)	2.80	2.25	2.09	1.64	1.25
Return on average equity (%)	(5.7)	3.8	9.0	11.1	11.2
Net debt to equity (%)	45.6	60.0	55.7	41.2	25.8

Source: Company data, RHB

#### Overall ESG Score: 3.0 (out of 4)

**E Score: 3.0 (GOOD)**

**S Score: 3.0 (GOOD)**

**G Score: 3.0 (GOOD)**

Please refer to the ESG analysis on the next page

#### Note:

Small cap stocks are defined as companies with a market capitalisation of less than USD0.5bn.

## Emissions And ESG

### Trend analysis

TEX will continue deploying solar-based energy in its operations to reduce emissions.

Emissions (tCO <sub>2</sub> e)	Dec-22	Dec-23	Dec-24	Dec-25
Scope 1	-	-	-	-
Scope 2	1,528	2,585	-	-
Scope 3	-	-	-	-
Total emissions	1,528	2,585	na	na

Source: Company data, RHB

## Latest ESG-Related Developments

Developments at TEXa have contributed to a reduction in fossil energy consumption, resulting in a decrease in CO<sub>2</sub> emissions.

The group entered into Power Purchase Agreements for the procurement of electricity generated from solar photovoltaic (PV) systems installed on the rooftops of its building sites.

## ESG Unbundled

**Overall ESG Score: 3.0 (out of 4)**

**Last Updated: 30 April 2024**

**E Score: 3.0 (GOOD)**

TEX remains committed to its efforts towards environmental sustainability through the development of biopolymer TEXa which reduces carbon footprint and is energy saving. TEXa recorded reduction of 2.8m MJ of fossil energy vs virgin PP compared to 1.9m MJ in 2020.

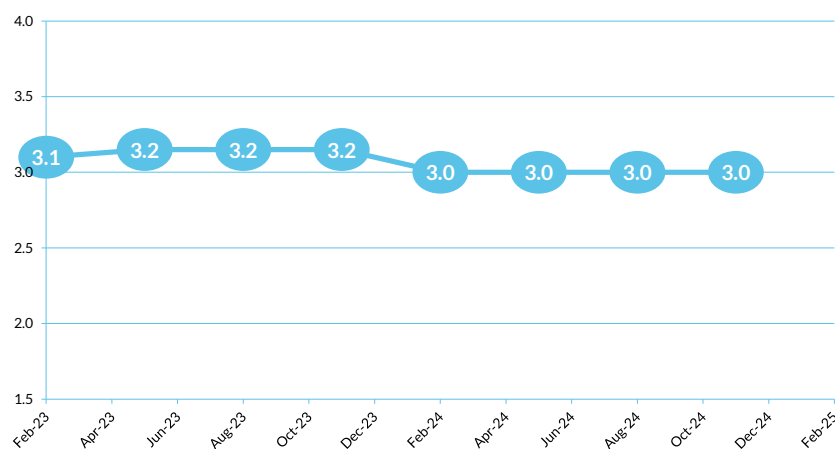
**S Score: 3.0 (GOOD)**

Employee and customer safety are top priorities in TEX's operations. The four key areas of focus are: Food safety, halal, employee safety, and COVID-19 prevention. In 2021, TEX achieved 'zero' food poisoning cases and no food safety issues in these operations. It will continue to monitor diligently, identify potential food safety issues, and tighten the risk controls to maintain the status quo.

**G Score: 3.0 (GOOD)**

TEX has applied and adopted the majority of the best practices of the Malaysian Code on Corporate Governance. Directors are skilled and from diverse backgrounds. Women are also represented, at more than 30% of the Board. It provides timely, consistent, and accurate information to shareholders.

## ESG Rating History



Source: RHB

## Financial Exhibits

<b>Asia</b>	<b>Financial summary (MYR)</b>	<b>Dec-23</b>	<b>Dec-24</b>	<b>Dec-25F</b>	<b>Dec-26F</b>	<b>Dec-27F</b>
Malaysia	Recurring EPS	(0.09)	0.10	0.14	0.19	0.20
Industrials	DPS	-	-	0.05	0.07	0.07
<b>Texchem Resources</b>	BVPS	1.52	1.54	1.63	1.75	1.88
TEX MK	Return on average equity (%)	(5.7)	3.8	9.0	11.1	11.2
Buy						
<b>Valuation basis</b>	<b>Valuation metrics</b>	<b>Dec-23</b>	<b>Dec-24</b>	<b>Dec-25F</b>	<b>Dec-26F</b>	<b>Dec-27F</b>
SOP Valuation	Recurring P/E (x)	na	7.80	5.22	3.98	3.67
	P/B (x)	0.5	0.5	0.5	0.4	0.4
	FCF Yield (%)	30.9	17.6	23.3	33.4	35.2
	Dividend Yield (%)	-	-	6.7	8.8	9.6
<b>Key drivers</b>	EV/EBITDA (x)	2.80	2.25	2.09	1.64	1.25
i. Volume recovery;	EV/EBIT (x)	12.29	5.36	4.62	3.56	2.73
ii. New business/contract wins.						
<b>Key risks</b>	<b>Income statement (MYRm)</b>	<b>Dec-23</b>	<b>Dec-24</b>	<b>Dec-25F</b>	<b>Dec-26F</b>	<b>Dec-27F</b>
i. Escalation of raw material costs;	Total turnover	994	1,118	1,169	1,221	1,278
ii. Fluctuation of chemical prices;	Gross profit	248	275	274	293	312
iii. Competition.	EBITDA	70	92	99	110	120
	Depreciation and amortisation	(54)	(53)	(54)	(59)	(65)
	Operating profit	16	39	45	51	55
	Net interest	(19)	(21)	(16)	(17)	(18)
	Pre-tax profit	(2)	15	28	34	37
	Taxation	(8)	(10)	(11)	(12)	(13)
	Reported net profit	(11)	7	17	22	24
	Recurring net profit	(10)	11	17	22	24
<b>Company Profile</b>	<b>Cash flow (MYRm)</b>	<b>Dec-23</b>	<b>Dec-24</b>	<b>Dec-25F</b>	<b>Dec-26F</b>	<b>Dec-27F</b>
Founded in 1973, Texchem is a Malaysia-based multinational group that comprises five diverse businesses - Industrial, Polymer Engineering, Restaurant, Food and Venture Business - that encompass the trading of industrial chemicals, design and manufacturing of various polymer-related parts and components, packaging solutions, managing a restaurant chain, processing and marketing of marine products, aquaculture activities, and R&D.	Change in working capital	25.3	(13.4)	(7.0)	(3.8)	(4.6)
	Cash flow from operations	42.9	31.8	35.4	44.2	45.8
	Capex	(15.8)	(16.4)	(15.0)	(15.0)	(15.0)
	Cash flow from investing activities	(44.2)	(44.5)	(14.0)	(15.0)	(15.0)
	Dividends paid	0.0	0.0	(5.9)	(7.7)	(8.4)
	Cash flow from financing activities	(42.5)	(26.9)	(42.8)	(34.7)	(36.8)
	Cash at beginning of period	96.0	89.2	92.1	114.6	159.5
	Net change in cash	(43.7)	(39.6)	(21.5)	(5.5)	(5.9)
	Ending balance cash	52.3	49.6	70.6	109.1	153.6
	<b>Balance sheet (MYRm)</b>	<b>Dec-23</b>	<b>Dec-24</b>	<b>Dec-25F</b>	<b>Dec-26F</b>	<b>Dec-27F</b>
	Total cash and equivalents	89	92	115	160	210
	Tangible fixed assets	312	315	306	291	272
	Total investments	5	20	19	19	19
	Total assets	738	768	790	831	875
	Short-term debt	142	162	162	162	162
	Total long-term debt	38	51	71	91	111
	Total liabilities	539	567	579	606	634
	Total equity	200	201	212	226	241
	Total liabilities & equity	738	768	790	831	875
	<b>Key metrics</b>	<b>Dec-23</b>	<b>Dec-24</b>	<b>Dec-25F</b>	<b>Dec-26F</b>	<b>Dec-27F</b>
	Revenue growth (%)	(13.1)	12.5	4.5	4.5	4.7
	Recurrent EPS growth (%)	(132.8)	0.0	49.4	31.2	8.4
	Gross margin (%)	24.9	24.6	23.4	24.0	24.4
	Operating EBITDA margin (%)	7.0	8.2	8.4	9.0	9.4
	Net profit margin (%)	(1.1)	0.6	1.4	1.8	1.9
	Dividend payout ratio (%)	0.0	0.0	35.2	35.2	35.2
	Capex/sales (%)	1.6	1.5	1.3	1.2	1.2
	Interest cover (x)	0.85	1.86	2.86	2.99	2.99

Source: Company data, RHB

## Results At a Glance

Figure 1: Earnings review

FYE Dec (MYRm)	4Q23	3Q24	4Q24	QoQ (%)	YoY (%)	FY23	FY24	YoY (%)	Comments
<b>Revenue</b>	<b>241.3</b>	<b>280.8</b>	<b>266.8</b>	<b>(5.0)</b>	<b>10.6</b>	<b>993.5</b>	<b>1,117.9</b>	<b>12.5</b>	Recovery in industrial, polymer engineering and restaurant divisions
<b>Gross Profit</b>	<b>61.8</b>	<b>71.2</b>	<b>70.2</b>	<b>(1.4)</b>	<b>13.7</b>	<b>247.6</b>	<b>275.0</b>	<b>11.1</b>	
<i>GP margin (%)</i>	<i>25.6</i>	<i>25.4</i>	<i>26.3</i>			<i>24.9</i>	<i>24.6</i>		
<b>Adjusted EBITDA</b>	<b>18.6</b>	<b>25.3</b>	<b>28.2</b>	<b>11.4</b>	<b>52.1</b>	<b>69.9</b>	<b>92.0</b>	<b>31.6</b>	Improving margins, thanks to stronger sales, leading to operating leverage.
<i>Adjusted EBITDA margin (%)</i>	<i>7.7</i>	<i>9.0</i>	<i>10.6</i>			<i>7.0</i>	<i>8.2</i>		
Depreciation	(14.2)	(13.0)	(13.9)	7.3	(2.0)	(54.0)	(53.3)	(1.3)	
<b>Adjusted EBIT</b>	<b>4.4</b>	<b>12.4</b>	<b>14.3</b>	<b>15.6</b>	<b>228.3</b>	<b>15.9</b>	<b>38.7</b>	<b>143.0</b>	Unrealised FX losses.
<i>EBIT margin (%)</i>	<i>1.8</i>	<i>4.4</i>	<i>5.4</i>			<i>1.6</i>	<i>3.5</i>		
Interest Expense	(5.7)	(5.4)	(5.6)	3.9	(1.6)	(18.8)	(20.9)	10.7	
Share of associate	(0.0)	0.2	0.5	186.1	Nm	1.0	1.6	58.7	Above expectations.
El/Others	(0.7)	(3.5)	(1.0)	(72.7)	29.1	(0.5)	(4.5)	812.6	
<b>Reported PBT</b>	<b>(2.1)</b>	<b>3.6</b>	<b>9.2</b>	<b>152.0</b>	<b>Nm</b>	<b>(2.4)</b>	<b>14.9</b>	<b>Nm</b>	
Tax	(1.3)	(2.7)	(3.1)	12.8	133.5	(8.1)	(9.6)	18.1	
<i>Effective tax rate (%)</i>	<i>(63.1)</i>	<i>75.3</i>	<i>33.7</i>			<i>(334.6)</i>	<i>64.4</i>		
Minority Interest	(0.5)	0.2	0.9	308.6	Nm	(0.3)	1.4	Nm	
<b>Net Profit</b>	<b>(4.0)</b>	<b>1.1</b>	<b>6.0</b>	<b>439.0</b>	<b>Nm</b>	<b>(10.8)</b>	<b>6.7</b>	<b>Nm</b>	
<b>Core Profit</b>	<b>(3.2)</b>	<b>4.6</b>	<b>6.9</b>	<b>50.0</b>	<b>Nm</b>	<b>(10.4)</b>	<b>11.2</b>	<b>Nm</b>	
<i>Core net margin (%)</i>	<i>(1.3)</i>	<i>1.6</i>	<i>2.6</i>			<i>(1.0)</i>	<i>1.0</i>		

Source: Company, RHB

Figure 2: Segmental earnings

FYE Dec (MYRm)	4Q23	3Q24	4Q24	QoQ (%)	YoY (%)	FY23	FY24	YoY (%)	Comments
<b>Revenue</b>									
Industrial	93.6	124.5	109.0	(12.4)	16.4	417.8	492.3	17.8	Higher demand thanks to recovery of global trade Robust demand from its main business segments in semiconductor, hard disk drive, and medical /life sciences
Polymer Engineering	49.7	64.0	60.4	(5.7)	21.3	184.0	230.3	25.2	
Food	30.0	24.4	27.9	14.7	(7.0)	126.9	119.0	(6.2)	
Restaurant	66.7	67.2	68.7	2.2	3.0	261.8	272.5	4.1	
Venture Business	0.7	0.2	0.3	35.4	(64.9)	0.9	1.6	68.3	Adverse impact of FX controls in Myanmar Higher sales thanks to efforts to refresh the brand image
Others	0.5	0.6	0.5	(17.6)	0.0	2.2	2.2	2.9	
<b>Total</b>	<b>241.3</b>	<b>280.8</b>	<b>266.8</b>	<b>(5.0)</b>	<b>10.6</b>	<b>993.5</b>	<b>1117.9</b>	<b>12.5</b>	
<b>Adjusted PBT</b>									
Industrial	0.3	1.6	1.4	(15.6)	384.2	3.3	6.5	97.5	Better product margins and improvements in operational efficiencies
Polymer Engineering	2.8	4.5	7.2	59.8	160.6	3.0	19.2	541.6	
Food	(1.2)	(1.1)	(0.3)	(71.1)	(73.6)	2.9	(3.3)	Nm	
Restaurant	(1.6)	0.3	1.5	407.9	Nm	(2.3)	(0.5)	(76.4)	
Venture Business	(0.6)	(0.9)	(0.8)	(12.2)	21.6	(3.4)	(3.0)	(12.3)	Improvements in product margins and efforts to optimise operating efficiencies
Others	(1.2)	(0.9)	(0.9)	(2.1)	(28.2)	(3.1)	(4.0)	28.7	
<b>Total</b>	<b>(1.4)</b>	<b>7.2</b>	<b>10.1</b>	<b>41.6</b>	<b>Nm</b>	<b>(1.9)</b>	<b>19.4</b>	<b>Nm</b>	
<b>PBT Margin</b>									
Industrial	0.3	1.3	1.3			0.8	1.3		
Polymer Engineering	5.6	7.1	12.0			1.6	8.4		
Food	(3.9)	(4.4)	(1.1)			2.3	(2.8)		
Restaurant	(2.3)	0.5	2.3			(0.9)	(0.2)		
Venture Business	(85.2)	(455.0)	(294.9)			(363.7)	(189.6)		
Others	(255.6)	(154.5)	(183.6)			(142.1)	(177.8)		
<b>Total</b>	<b>(0.6)</b>	<b>2.6</b>	<b>3.8</b>			<b>(0.2)</b>	<b>1.7</b>		

Source: Company, RHB

Figure 3: SOP valuation

	FY25F EPS (sen)	Ascribed P/E (x)	Value (MYR)
Food	0.00	17	0.03
Industrial	0.07	8	0.47
Polymer engineering	0.12	13	1.54
Restaurant	0.00	15	0.05
<b>Value per share</b>			<b>2.09</b>
Net debt at holding company			-0.11
20% conglomerate discount			-0.40
<b>Value per share</b>			<b>1.58</b>
ESG premium (+0%)			0.00
<b>TP</b>			<b>1.58</b>

Source: RHB

## Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2024-05-02	Buy	1.44	0.88
2024-02-28	Buy	1.44	0.91
2023-10-27	Buy	1.50	0.84
2023-07-28	Buy	2.23	1.04
2023-05-22	Buy	2.77	1.03
2023-03-03	Buy	3.60	1.76
2023-02-24	Buy	3.60	1.71
2023-02-09	Buy	3.67	1.99
2022-11-03	Buy	4.40	2.42
2022-08-11	Buy	5.00	3.50
2022-05-11	Not Rated	na	2.84

Source: RHB, Bloomberg

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<b>Buy:</b>	Share price may exceed 10% over the next 12 months
<b>Trading Buy:</b>	Share price may exceed 15% over the next 3 months, however longer-term outlook remains uncertain
<b>Neutral:</b>	Share price may fall within the range of +/- 10% over the next 12 months
<b>Take Profit:</b>	Target price has been attained. Look to accumulate at lower levels
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<b>Not Rated:</b>	Stock is not within regular research coverage

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