

28 February 2024

Industrials | Industrial Products

## Texchem Resources (TEX MK)

**Buy** (Maintained)

### Recoveries In Industrial And Polymer Divisions; BUY

- **Keep BUY, with new MYR1.44 TP from MYR1.50, 49% upside.** Texchem Resources' FY23 results missed expectations on slower-than-expected recovery. That said, following a lacklustre share price performance (-56%) in FY23 due to weak results and margins compression, TEX could be a laggard play into FY24 that is poised to benefit from volume recovery, particularly from industrial and polymer engineering divisions. The current depressed valuation offers a good entry into the diverse businesses, coupled with solid balance sheet and strong cash flow generation.
- **Missed expectations.** TEX recorded FY23 core losses of MYR10.4m (vs MYR30.8m profit in FY22) after adjustments for an employee stock option scheme expense and gain on disposal of investment in associate. The disappointment came from weaker-than-expected sales and margins, and high effective tax rate – from the non-availability of tax relief from losses incurred by certain subsidiaries and under-provision from the prior period.
- **Results review.** YoY, FY23 revenue dipped 13.1% due to weaker market demand from the industrial and polymer engineering divisions, while its restaurant divisions were impacted by weaker consumer sentiment. FY23 EBITDA margin contracted 3.1ppts to 7% on the loss of economies of scale and higher input and operating costs. QoQ, 4Q23 revenue were flattish, with recovery in polymer engineering division offset by weakness seen in the restaurant division. Due to higher operating costs, the company achieved 4Q23 core losses of MYR3.2m (vs MYR2.1m in 3Q23).
- **Outlook.** We expect encouraging recovery momentum among semiconductor customers, while the medical life science customers continue to grow steadily as per guided. The execution of new high margin business since 4Q23 is expected to contribute positively into FY24. In the industrial division, the chemical prices have begun to reverse, which should lead to improved demand as customers deplete their on-hand inventory. On the other hand, expectations of contained inflation and a review of employees' salary schemes could improve consumer sentiment, benefitting the restaurant division in FY24 while competition on retail F&B scene and cost input pressure remains. However, the food division may continue to face challenges due to FX control measures in Myanmar. Management has put up contingency plans to stimulate local demand for its products while slowly diversify its supply chain away from Myanmar to mitigate the impact. All in, we look forward to a profitable FY24 year for TEX.
- **Forecast and valuations.** We maintain our FY24-25 forecast in view of a stronger FY24 outlook and guidance, and introduce FY26F earnings (+25%). We also take the opportunity to revise our ESG score to 3.0 from 3.2, given the lack of disclosure on emissions. Our SOP-derived TP is lowered to MYR1.44 (after applying a 20% conglomerate discount) – implying a blended 13.4x FY24F P/E. Key risks: Escalation of input costs, weaker-than-expected sales/orders, fluctuation of chemical prices, and unfavourable FX rates.

Forecasts and Valuation	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
Total turnover (MYRm)	1,143	994	1,139	1,189	1,239
Recurring net profit (MYRm)	31	(10)	13	19	23
Recurring net profit growth (%)	21.2	(133.6)	-	45.8	25.2
Recurring P/E (x)	3.73	na	8.94	6.13	4.90
P/B (x)	0.6	0.6	0.6	0.6	0.5
P/CF (x)	1.68	2.64	4.41	5.91	4.82
Dividend Yield (%)	13.4	na	3.9	5.7	7.2
EV/EBITDA (x)	1.72	13.97	6.44	6.24	6.17
Return on average equity (%)	9.5	(5.9)	7.0	9.7	11.3
Net debt to equity (%)	30.0	45.5	53.0	72.5	88.0

Source: Company data, RHB

Target Price (Return):	MYR1.44 (48.5%)
Price (Market Cap):	MYR0.97 (USD23.9m)
ESG score:	3.0 (out of 4)
Avg Daily Turnover (MYR/USD)	0.25m/0.05m

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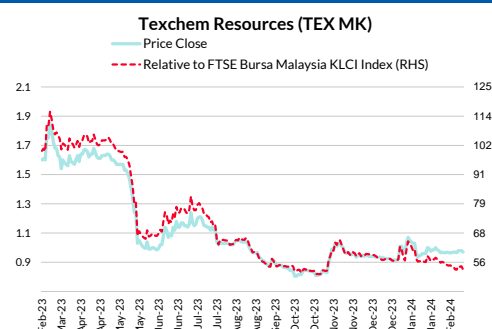


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#### Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	6.0	(3.0)	3.7	(3.0)	(40.5)
Relative	(1.2)	(6.5)	(3.9)	(10.9)	(47.6)
52-wk Price low/high (MYR)				0.81	1.85



Source: Bloomberg

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

##### E: 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: GOOD

Employee and customer safety is a top priority 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: 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.

#### Note:

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

## Financial Exhibits

<b>Asia</b>	<b>Financial summary (MYR)</b>	<b>Dec-22</b>	<b>Dec-23</b>	<b>Dec-24F</b>	<b>Dec-25F</b>	<b>Dec-26F</b>
Malaysia	Recurring EPS	0.26	(0.09)	0.11	0.16	0.20
Industrials	DPS	0.13	-	0.04	0.06	0.07
<b>Texchem Resources</b>	BVPS	1.61	1.52	1.59	1.69	1.82
TEX MK	Return on average equity (%)	9.5	(5.9)	7.0	9.7	11.3
Buy						
<b>Valuation basis</b>	<b>Valuation metrics</b>	<b>Dec-22</b>	<b>Dec-23</b>	<b>Dec-24F</b>	<b>Dec-25F</b>	<b>Dec-26F</b>
SOP Valuation	Recurring P/E (x)	3.73	na	8.94	6.13	4.90
	P/B (x)	0.6	0.6	0.6	0.6	0.5
	FCF Yield (%)	39.5	24.1	9.5	3.7	7.6
	Dividend Yield (%)	13.4	-	3.9	5.7	7.2
<b>Key drivers</b>	EV/EBITDA (x)	1.72	13.97	6.44	6.24	6.17
i. Volume recovery;	EV/EBIT (x)	3.12	13.97	6.44	6.24	6.17
ii. New business/contract wins.						
<b>Key risks</b>	<b>Income statement (MYRm)</b>	<b>Dec-22</b>	<b>Dec-23</b>	<b>Dec-24F</b>	<b>Dec-25F</b>	<b>Dec-26F</b>
i. Escalation of raw material cost;	Total turnover	1,143	994	1,139	1,189	1,239
ii. Fluctuation of chemical prices; and	Gross profit	283	248	208	225	241
iii. Competition.	EBITDA	114	16	38	47	55
	Depreciation and amortisation	(51)	0	0	0	0
	Operating profit	63	16	38	47	55
	Net interest	(15)	(19)	(15)	(15)	(16)
	Pre-tax profit	39	(2)	21	31	39
	Taxation	(15)	(8)	(9)	(12)	(16)
	Reported net profit	22	(11)	13	19	23
	Recurring net profit	31	(10)	13	19	23
<b>Company Profile</b>	<b>Cash flow (MYRm)</b>	<b>Dec-22</b>	<b>Dec-23</b>	<b>Dec-24F</b>	<b>Dec-25F</b>	<b>Dec-26F</b>
Founded in 1973, Texchem Resources (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	5	25	7	(3)	(3)
	Cash flow from operations	69	43	26	19	24
	Capex	(23)	(16)	(15)	(15)	(15)
	Cash flow from investing activities	(48)	(40)	27	(34)	(35)
	Dividends paid	(21)	0	(4)	(7)	(8)
	Cash flow from financing activities	(69)	(47)	(62)	(25)	(28)
	Cash at beginning of period	108	96	89	90	61
	Net change in cash	(48)	(44)	(9)	(40)	(40)
	Ending balance cash	60	52	80	49	20
	<b>Balance sheet (MYRm)</b>	<b>Dec-22</b>	<b>Dec-23</b>	<b>Dec-24F</b>	<b>Dec-25F</b>	<b>Dec-26F</b>
	Total cash and equivalents	96	89	90	61	33
	Tangible fixed assets	295	312	357	402	447
	Total investments	5	5	4	3	3
	Total assets	744	733	797	822	850
	Short-term debt	138	142	142	142	142
	Total long-term debt	22	38	58	78	98
	Total liabilities	530	533	589	602	615
	Total equity	214	200	208	220	236
	Total liabilities & equity	744	733	797	822	850
	<b>Key metrics</b>	<b>Dec-22</b>	<b>Dec-23</b>	<b>Dec-24F</b>	<b>Dec-25F</b>	<b>Dec-26F</b>
	Revenue growth (%)	5.2	(13.1)	14.7	4.3	4.3
	Recurrent EPS growth (%)	21.2	(133.8)	0.0	45.8	25.2
	Gross margin (%)	24.7	24.9	18.3	18.9	19.4
	Operating EBITDA margin (%)	10.0	1.6	3.3	3.9	4.4
	Net profit margin (%)	1.9	(1.1)	1.1	1.6	1.9
	Dividend payout ratio (%)	70.3	0.0	35.2	35.2	35.2
	Capex/sales (%)	2.0	1.6	1.3	1.3	1.2
	Interest cover (x)	4.11	0.85	2.47	3.18	3.41

Source: Company data, RHB

## Results at a Glance

Figure 1: Earnings review

FYE Dec (MYRm)	4Q22	3Q23	4Q23	QoQ (%)	YoY (%)	FY22	FY23	YoY (%)	Comments
Revenue	251.8	243.3	241.3	(0.8)	(4.2)	1,143.3	993.5	(13.1)	Lower sales due to demand weakness from all divisions.
Gross profit	63.3	61.9	61.8	(0.2)	(2.3)	282.8	247.6	(12.5)	
GP margin (%)	25.1	25.4	25.6			24.7	24.9		
Adjusted EBITDA	23.5	16.5	18.6	12.4	(21.1)	115.8	69.9	(39.7)	
Adjusted EBITDA margin (%)	9.3	6.8	7.7			10.1	7.0		
Depreciation	(13.8)	(14.0)	(14.2)	1.3	3.2	(51.2)	(54.0)	5.4	
Adjusted EBIT	9.8	2.5	4.4	74.9	(55.4)	64.6	15.9	(75.3)	
EBIT margin (%)	3.9	1.0	1.8			5.6	1.6		
Interest expense	(4.2)	(4.4)	(5.7)	30.4	36.1	(15.8)	(18.8)	19.1	
Share of associate	(0.4)	1.1	(0.0)	N.m.	(89.7)	(0.9)	1.0	N.m.	
El/Others	(3.5)	1.7	(0.7)	N.m.	(79.0)	(8.9)	(0.5)	(94.5)	ESOS expenses and gain on disposal of investment in associate.
Reported PBT	1.7	1.0	(1.4)	N.m.	N.m.	39.0	(2.4)	N.m.	
Tax	(2.3)	(1.5)	(1.3)	(10.9)	(42.9)	(14.7)	(8.1)	(44.4)	Higher effective tax rate due to certain non-deductive expenses at subsidiary level.
Effective tax rate (%)	138.2	147.2	(97.9)			37.6	(334.6)		
Minority interest	0.4	0.1	(0.5)	N.m.	N.m.	(2.5)	(0.3)	(88.8)	
Net profit	(0.3)	(0.4)	(4.0)	(961.8)	(1,404.2)	21.9	(10.8)	N.m.	
Core profit	3.3	(2.1)	(3.2)	(52.4)	N.m.	30.8	(10.4)	N.m.	Below expectations.
Core net margin (%)	1.3	(0.9)	(1.3)			2.7	(1.0)		

Source: Company, RHB

Figure 2: Segmental earnings

FYE Dec (MYRm)	4Q22	3Q23	4Q23	QoQ (%)	YoY (%)	FY22	FY23	YoY (%)
<b>Revenue</b>								
Industrial	95.8	102.3	93.6	(8.5)	(2.3)	483.2	417.8	(13.5)
Polymer engineering	49.6	47.9	49.7	3.9	0.2	240.1	184.0	(23.4)
Food	26.1	26.4	30.0	13.8	15.2	110.2	126.9	15.1
Restaurant	79.6	66.1	66.7	0.8	(16.2)	306.3	261.8	(14.5)
Venture business	0.3	0.1	0.7	452.3	161.3	1.5	0.9	(35.2)
Others	0.4	0.4	0.5	9.5	20.5	2.0	2.2	7.2
<b>Total</b>	<b>251.8</b>	<b>243.3</b>	<b>241.3</b>	<b>(0.8)</b>	<b>(4.2)</b>	<b>1143.3</b>	<b>993.5</b>	<b>(13.1)</b>
<b>Adjusted PBT</b>								
Industrial	2.1	0.4	0.3	(25.0)	(86.7)	12.7	3.3	(74.0)
Polymer engineering	2.4	1.5	2.8	82.3	17.2	16.3	3.0	(81.6)
Food	(4.9)	(1.4)	(1.2)	(19.2)	(76.3)	9.0	2.9	(67.8)
Restaurant	8.6	0.1	(1.6)	(1836.7)	(118.1)	18.7	(2.3)	(112.3)
Venture business	(1.0)	(1.0)	(0.6)	(36.0)	(39.6)	(2.6)	(3.4)	31.3
Others	(1.9)	2.2	(1.2)	(156.8)	(36.3)	(5.6)	(3.1)	(44.6)
<b>Total</b>	<b>5.2</b>	<b>(0.7)</b>	<b>(0.6)</b>	<b>(16.9)</b>	<b>(111.7)</b>	<b>47.9</b>	<b>(1.9)</b>	<b>(104.1)</b>
<b>PBT Margin</b>								
Industrial	2.2	0.4	0.3			2.6	0.8	
Polymer engineering	4.8	3.2	5.6			6.8	1.6	
Food	(18.8)	(5.4)	(3.9)			8.2	2.3	
Restaurant	10.8	0.1	(2.3)			6.1	(0.9)	
Venture business	(368.5)	(734.8)	(85.2)			(179.3)	(363.7)	
Others	(483.5)	492.7	(255.6)			(274.6)	(142.1)	
<b>Total</b>	<b>2.1</b>	<b>(0.3)</b>	<b>(0.3)</b>			<b>4.2</b>	<b>(0.2)</b>	

Source: Company, RHB

Figure 3: SOP valuation

	FY24F EPS (sen)	Ascribed P/E (x)	Value (MYR)
Food	0.04	17	0.67
Industrial	0.03	8	0.25
Polymer engineering	0.05	13	0.62
Restaurant	0.02	15	0.37
<b>Value per share</b>			<b>1.91</b>
Net debt at holding company			-0.11
20% conglomerate discount			-0.36
<b>Value per share</b>			<b>1.44</b>
ESG premium (+4%)			0.00
<b>TP</b>			<b>1.44</b>

Source: RHB

## Emissions And ESG

### Trend analysis

The decrease in emissions was due to installation of solar panels.

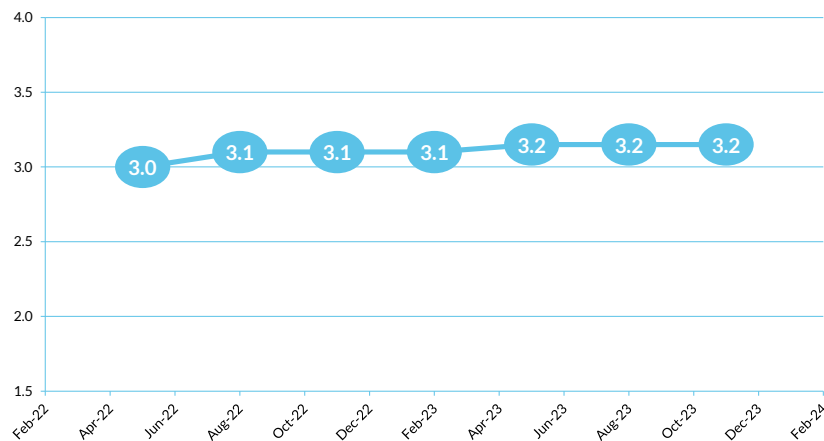
Emissions (tCO2e)	Dec-21	Dec-22	Dec-23
Scope 1	-	-	-
Scope 2	2,505	1,528	-
Scope 3	-	-	-
Total emissions	2,505	1,528	na

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 CO2 emissions.
- Texchem entered into a Power Purchase Agreements for the procurement of electricity generated from solar photovoltaic (PV) systems installed on the rooftops of its building sites.

## ESG Rating History



Source: RHB

## Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
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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