

Furniweb Industrial Products

Recommendation: **HOLD**

Stock Code: 7168

Bloomberg: FURN MK

Price: MYR0.39

12-Month Target Price: MYR0.51

Date: May 27, 2010

Board: Main

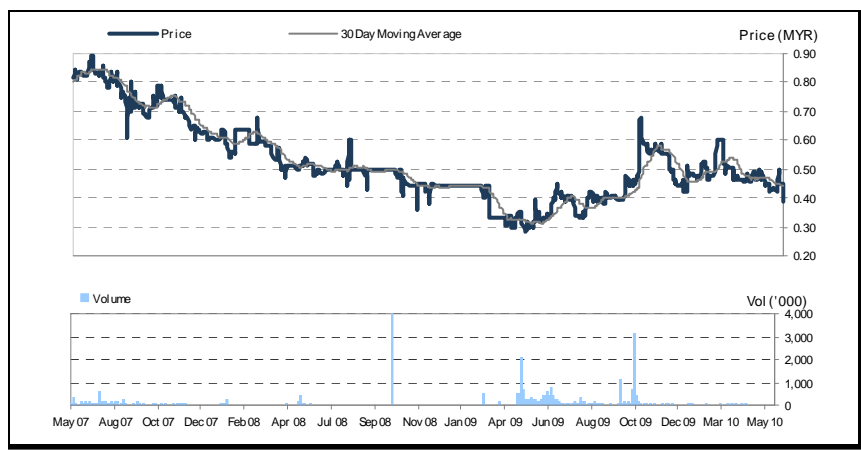
Sector: Industrial Products

GICS: Consumer Discretionary/Textiles

Market Value - Total: MYR35.3 mln

Summary: Listed on the Second Board of Bursa Malaysia in Oct. 2003, Furniweb Industrial Products (Furniweb) is an industrial textile manufacturer which supplies semi-finished products to the furniture, apparel, food, medical and auto industries.

Analyst: Sharon Wong, CFA



Results Review & Earnings Outlook

- Furniweb's 1Q10 results were below our expectations largely due to lower-than-expected operating margin and forex losses. 1Q10 net profit accounted for only 5% of our original full-year forecast.
- 1Q10 net profit rose to MYR0.299 mln from MYR0.154 mln on the back of improving demand. Revenue grew 13.5% YoY while gross margin improved to 23.8% in 1Q10 from 14.9% in 1Q09. The revenue and gross margin achieved in 1Q10 is consistent with our expectations for the full-year.
- The improvement in earnings would have been better if not for a MYR1.3 mln forex loss and lower other income, which resulted in operating margin declining slightly to 2.7% in 1Q10 from 2.9% in 1Q09. The forex loss relates to the inter-company balances owing from its Vietnamese subsidiaries to their Malaysian counterparts.
- 1Q is a seasonally low quarter and we expect stronger earnings in subsequent quarters. Nonetheless, given the weaker-than-expected results, we have fine-tuned our assumptions, resulting in a 10% downward revision in our recurring net profit (excluding forex losses) projections for 2010 and 2011. We have also incorporated the 1Q10 forex loss in our 2010 net profit forecast. We expect earnings to gradually improve, albeit at a slower pace than we initially envisaged.

Recommendation & Investment Risks

- We maintain our Hold recommendation on Furniweb. With the global economic recovery underway, Furniweb should see continued improvement in its operations. Given improving earnings, low gearing and positive cash flow from operations, we believe that Furniweb will maintain its DPS of 3 sen, which translates to an attractive dividend yield of 7.7%.
- We have lowered our 12-month target price to MYR0.51 from MYR0.67 after lowering our earnings projections and reducing our target multiple. Our target price is based on a target 2010 earnings multiple of 7.5x (previously 9x), which is at the lower end of its historical range. We have lowered our target earnings multiple given that the recovery in earnings is slower than we initially envisaged. We have also included projected net DPS of 3 sen in our valuation.
- Risks to our recommendation and target price include: (i) a sluggish economic recovery which results in continued soft demand, (ii) sharp increases in raw material prices which cannot be fully passed on to customers, (iii) more intense competition, and (iv) failure to maintain the 3 sen per share gross dividend.

Key Stock Statistics

FY Dec.	2009	2010E
Reported EPS (sen)	4.1	5.0
PER (x)	9.5	7.9
Dividend/Share (sen)	3.0	3.0
NTA/Share (MYR)	0.80	0.81
Book Value/Share (MYR)	0.82	0.84
No. of Outstanding Shares (mln)	90.5	
52-week Share Price Range (MYR)	0.33 - 0.68	
Major Shareholders:	%	
Cheah Eng Chuan	28.8	
Carmen Chua	9.5	

* Stock deemed Shariah compliant by the Securities Commission

Per Share Data

FY Dec.	2007	2008	2009	2010E
Book Value (MYR)	0.77	0.81	0.82	0.84
Cash Flow (sen)	14.8	11.6	8.5	11.0
Reported Earnings (sen)	9.7	7.1	4.1	5.0
Dividend (sen)	3.0	3.0	3.0	3.0
Payout Ratio (%)	30.9	42.1	73.1	46.9
PER (x)	4.0	5.5	9.5	7.9
P/Cash Flow (x)	2.6	3.4	4.6	3.6
P/Book Value (x)	0.5	0.5	0.5	0.5
Dividend Yield (%)	7.7	7.7	7.7	7.7
ROE (%)	13.1	9.0	5.1	7.7
Net Gearing (%)	3.1	4.7	0.0	0.0

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Quarterly Performance

FY Dec. / MYR mln	1Q10	1Q09	% Change
Reported Revenue	20.9	18.4	13.5
Reported Operating Profit	0.6	0.5	6.9
Depreciation & Amortization	NA	NA	NA
Net Interest Income / (Expense)	-0.2	-0.4	-51.9
Reported Pre-tax Profit	0.5	0.2	>100
Reported Net Profit	0.3	0.2	94.2
Reported Operating Margin (%)	2.7	2.9	-
Reported Pre-tax Margin (%)	2.6	1.0	-
Reported Net Margin (%)	1.4	0.8	-

Source: Company data

Profit & Loss

FY Dec. / MYR mln	2008	2009	2010E	2011E
Reported Revenue	93.6	80.7	90.4	99.4
Reported Operating Profit	8.9	4.8	5.4	8.7
Depreciation & Amortization	-4.0	-4.0	-4.2	-4.3
Net Interest Income / (Expense)	-1.3	-1.0	-0.7	-0.5
Reported Pre-tax Profit	7.8	4.4	5.4	8.9
Effective Tax Rate (%)	22.8	17.5	16.0	16.0
Reported Net Profit	6.5	3.7	4.5	7.4
Reported Operating Margin (%)	9.5	5.9	6.0	8.8
Reported Pre-tax Margin (%)	8.3	5.5	5.9	8.9
Reported Net Margin (%)	6.9	4.6	5.0	7.5

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.

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.

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	Hold	0.51
23-Feb-10	Hold	0.67
25-Nov-09	Hold	0.61
24-Aug-09	Hold	0.43
29-May-09	Hold	0.37
25-Feb-09	Hold	0.46
13-Jun-08	Hold	0.51

