

**RESULTS REPORT**

30 Nov 2012

Furniweb Industrial Products Berhad		Market Price:	RM0.355
		Market Capitalisation:	RM32.2m
		Board:	Main Market
Recommendation:	HOLD	Sector:	Industrial Products
Target Price:	RM0.38	Stock Code/Name:	7168 / FURNWEB

Analyst: Edmund Tham

KEY FINANCIALS

Key Stock Statistics	2013F
Earnings/Share (sen)	4.7
P/E Ratio (x)	7.5
Dividend/Share (sen)	3.3
NTA/Share (RM)	0.82
Book Value/Share (RM)	0.84
Issued Capital (mil shares)	90.7
52-weeks share price (RM)	0.19 – 0.45
Major Shareholders:	%
.Cheah Eng Chuan, Jimmy	28.5
.Chua Carmen	9.5
.Ong Lock Hoo	8.4
.Lee Sim Hak	6.2

Ratios Analysis	2010	2011	2012E	2013F
Book Value/Sh. (RM)	0.79	0.80	0.82	0.84
Earnings/Sh. (sen)	3.1	5.2	4.5	4.7
Dividend.Sh. (sen)	3.3	3.3	3.3	3.3
Div. Payout Ratio (%)	80.4	48.1	55.0	53.0
P/E Ratio (x)	11.4	6.8	7.8	7.5
P/Book Value (x)	0.45	0.44	0.43	0.42
Dividend Yield (%)	9.4	9.4	9.4	9.4
ROE (%)	3.9	6.5	5.5	5.6
Net Gearing (Cash) (x)	(0.06)	(0.05)	(0.03)	(0.09)

*2012 and 2013 figures are our estimates

P&L Analysis (RM mil)	2010	2011	2012E	2013F
Year end: Dec 31				
Revenue	82.0	80.7	87.8	88.7
Operating Profit	3.1	5.7	5.4	5.5
Depreciation	(3.7)	(3.4)	(3.6)	(3.7)
Interest Expenses	(1.1)	(1.1)	(0.8)	(0.8)
Pre-tax Profit (PBT)	3.0	5.6	5.1	5.2
Effective Tax Rate (%)	3.0	14.1	18.6	17.2
Net Profit after Tax & MI	2.8	4.7	4.1	4.3
Operating Margin (%)	3.8	7.1	6.2	6.1
Pre-tax Margin (%)	3.6	7.0	5.8	5.8
Net Margin (%)	3.4	5.8	4.7	4.8

*RM0.50 par value

PERFORMANCE – 3Q/FY12

3Q/ 30 Sep	3Q12	3Q11	yoy %	2Q12	qoq%
Rev (RMm)	21.8	20.7	5.2	23.0	(5.2)
EBIT (RMm)	1.2	1.5	(15.2)	1.4	(7.8)
NPAT^(RMm)	1.0	1.9	(46.7)	1.5	(32.6)
EPS* (sen)	1.1	2.1	(46.7)	1.6	(32.6)

9M/ 30 Sep	9M/FY12	9M/FY11	yoy %
Rev (RMm)	65.5	59.5	10.1
EBIT (RMm)	3.1	2.6	18.7
NPAT (RMm)	2.9	3.8	(25.0)
EPS* (sen)	3.2	4.2	(25.0)

*based on 90.7 million shares

^NPATMI (net profit after tax & minority interest)

“Q3 results – in line”

For 3Q/FY12 (quarter ended 30th September 2012), Furniweb's results were generally within our earlier expectations.

“Lower margin sales”

The group's 3Q/FY12 revenue of RM21.8 million was higher by 5.2% y-o-y, while its NPATMI was significantly lower y-o-y. The group's revenues were aided by a strong performance in export markets, as the group attempted to maintain its market position by pushing sales at lower margins. Margins were also impacted by the strengthening of the Ringgit against the US Dollar and lower contributions from a jointly-controlled entity.

“Foreign exchange translation losses”

Comparing q-o-q versus the preceding 2Q/FY12, group revenue and NPATMI was lower by 5.2%

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and 32.6%, respectively. The lower revenue was due to the weak global sentiment affecting demand while profits were affected by **net foreign exchange translation losses** of RM0.4 million during the quarter.

The group's "**Webbing, Yarn & Furniture Component**" segment still contributes most of the group's revenue, followed by the "**Rubber Strips & Fabrics**" segment. However, the Rubber Strips & Fabrics segment is still experiencing losses at the PBT level, in spite of an improved performance (aided by better sales and relatively stable rubber prices).

Furniweb: 9M/FY12 growth by segment

Segments	Webbing, yarn and furniture component	Rubber strips and fabrics
Revenue	11.0%	7.4%
PBT	-25.0%	37.4%#

Source: Furniweb

#Still in Loss Before Tax position

OUTLOOK/CORP. UPDATES

We remain cautious on Furniweb's overall group performance during its FY12 and FY13. This is due to the lacklustre demand situation across a number of regions, coupled with upward pressures on labour wages and raw material prices. Additionally, the Sovereign Debt issue in Europe and weak growth in developed regions does impact business sentiment and trade levels, to a certain extent. We are also particularly concerned about the level of **USD versus Ringgit volatility**, which would impact Furniweb's level of profits.

"Cautious Outlook"

Approximately 80% of Furniweb's products are for export markets, to areas as far as Europe, the Americas and Africa. The group's management plans to continue focusing on its export markets for volume growth despite facing price competition. The strength of the group's exports

would depend largely on the performance of the respective economies during the year. Meanwhile, the group would continue to improve on its operational efficiency and also invest in human resource development.

"IMF outlook"

In October 2012, IMF has lowered its overall **global GDP forecasts** (to 2012: +3.3%, and 2013: +3.6%). The situation is bleak in Europe while growth rates in China and India are expected to be slower than before. Their main concerns are Euro Zone crisis and high government debt levels. Policy decisions in the US and by the ECB will further impact global growth rates.

IMF data/forecasts

Area	2010	2011	2012F	2013F
U.S.	2.4	1.8	2.2	2.1
Euro 4	2.0	1.4	-0.4	0.2
UK	1.8	0.8	-0.4	1.1
Japan	4.5	-0.8	2.2	1.2
China	10.4	9.2	7.8	8.2
India	10.1	6.8	4.9	6.0
ASEAN 5	7.0	4.5	5.4	5.8

*EURO 4 - Germany, France, Italy, Spain

*ASEAN 5 - Indonesia, Malaysia, Philippines, Thailand, Vietnam

"Investment in Vietnam"

Back in 2010, the group had taken the decision to invest in a new 3-storey factory cum warehouse at the wholly owned subsidiary, Premier Elastic Webbing & Accessories (Vietnam) Co Ltd ("PEWA"), in 2010 in order to put the group in a position to capture the potential market growth once the preferential treatment of trade is approved by the 9-member country **Trans-Pacific Partnership** (TPP) and also once global economic conditions stabilise. Current member countries of TPP are the U.S., Chile, Peru, Australia, New Zealand, Singapore, Brunei, Malaysia and Vietnam. Japan, Mexico and Canada are also said to be interested in joining the TPP grouping.

Results Report

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VALUATION/CONCLUSION

“Constant DPS expected”

The first and final dividend (2.5 sen tax exempt) for its FY11 was paid out in July 2012. We note that Furniweb's FY11 **dividend yield of 8.9% is quite attractive**. We expect the group to maintain the dividend per share (DPS) rate for its FY12 and FY13.

Furniweb's stock has been **trading relatively range-bound** this year (-4.1% YTD) and has underperformed the KLCI (+5.2% YTD) in 2012. Market conditions have also been volatile during the past year, impacted by the “Arab Spring” political uprisings in the Middle East/North Africa, Sovereign Debt issue in Europe, Debt Ceiling & Fiscal Cliff issues in the US and the Tohoku disaster in Japan. Nevertheless, as Furniweb is not a particularly large market-cap stock, this may put a dampener on its market visibility and trading volume.

“Maintain Hold Call”

Based on our forecast of Furniweb's FY13 EPS and an estimated P/E of 8 times, we set a **FY13-end Target Price (TP) of RM0.38**. This TP is 7.0% above its stock price on the date of our report. Our TP for Furniweb reflects a P/BV of just 0.45 times over its FY13F BV/share.

We note that Furniweb is in a net cash position and it also has undemanding P/E and P/BV ratios. Nevertheless, on the macro level – we are still concerned over its weak earnings growth, amidst the cautious sentiment and dismal export market environment.

Furniweb faces **possible routine risks** such as slower global economic growth, weak product demand, foreign exchange fluctuations, rising costs (oil and raw materials – e.g. rubber and plastics) and stiff competition from other global manufacturers.

Furniweb: Share Price



Source: NextView

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