RESULTS REPORT

27 Feb 2015

PRG Holdings Berhad#		**Market Price:**	*RM0.64*
		Market Capitalisation:	*RM92.7m*
		Board:	*Main Market*
Recommendation:	*HOLD*	**Sector:**	*Industrial Products*
Target Price:	*RM0.73*	**Stock Code/Name:**	*7168 / PRG*

#PRG was fka Furniweb Industrial Products Bhd

KEY FINANCIALS

Key Stock Statistics	2015F
Earnings/Share (sen)	5.2
P/E Ratio (x)	12.3
Dividend/Share (sen)	1.5
NTA/Share (RM)	0.73
Book Value/Share (RM)	0.74
Issued Capital (mil shares)	144.9
52-weeks share price (RM)	0.575 – 0.935
Major Shareholders (>5%):	% (est)
. Yeoh Soo Ann*	17.6
. Wee Cheng Kwan*	8.8
. Dato' Lua Choon Han*	8.1
. Cheah Eng Chuan, Jimmy (MD)	5.4

** Wee (Aug 2013), Lua (Nov 2013), Yeoh (Sep 2014) have been appointed as Executive Directors.*

Ratios Analysis	2012	2013	2014	2015F
Book Value/Sh. (RM)	0.51	0.53	0.75	0.74
Earnings/Sh. (sen)	2.8	3.3	1.6	5.2
Gross Dividend/Sh. (sen)	2.5	0.9	1.0	1.5
Div. Payout Ratio (%)	66.4	28.7	61.0	28.9
P/E Ratio (x)	22.7	19.6	39.1	12.3
P/Book Value (x)	1.26	1.20	0.86	0.86
Dividend Yield (%)	3.9	1.5	1.6	2.3
ROE (%)	5.6	6.1	2.2	7.0
Net Gearing (or Cash) (x)	(0.10)	(0.02)	0.46	0.41

** Any future dividends and 2015 figures are our estimates*
**2012-2013 per share figs adjusted for rights issue*

P&L Analysis (RM mil)	2012	2013	2014	2015F
Year end: Dec 31				
Revenue	84.6	78.8	92.3	119.8
Operating Profit	5.7	5.9	2.9	8.2
Depreciation	(3.7)	(3.4)	(3.5)	(3.7)
Interest Expenses	(0.8)	(0.5)	(0.9)	(1.2)
Pre-tax Profit (PBT)	5.3	5.9	2.4	7.6
Effective Tax Rate (%)	24.4	20.5	41.6	16.4
Net Profit after Tax & MI	4.1	4.7	2.4	7.6
Operating Margin (%)	6.7	7.4	3.1	6.9
Pre-tax Margin (%)	6.3	7.5	2.6	6.4
Net Margin (%)	4.8	6.0	2.6	6.3

**RM0.50 par value*

CHANGE OF COMPANY NAME

In December 2014, the group had proposed a change of company name from Furniweb Industrial Products Bhd to **PRG Holdings Bhd** (in conjunction with its diversification into Property Development & Construction. The proposed change of name of the company was approved by the group's shareholders at an EGM held on **26th January 2015.**

On the same day, the group received the Certificate of Incorporation of Change of Name of Company (Form 13) from the Companies Commission of Malaysia. Meanwhile, on Bursa Malaysia, the group's shares traded under the new name with effect from **9th February 2015.**

PERFORMANCE – 4Q/FY14

4Q/ 31 Dec	4Q14	4Q13	yoy %	3Q14	qoq%
Rev (RMm)	30.0	20.9	43.7	22.7	32.4
EBIT (RMm)	1.0	0.7	47.0	1.0	(2.0)
NPAT^(RMm)	2.1	1.1	100.3	1.5	44.4
EPS* (sen)	1.5	0.7	100.3	1.0	44.4

12M/ 31 Dec	FY14	FY13	yoy %
Rev (RMm)	92.3	78.8	17.1
EBIT (RMm)	0.6	3.7	(83.9)
NPAT (RMm)	2.4	4.7	(50.0)
EPS* (sen)	1.6	3.3	(50.0)

**based on 144.9 million shares (post 3-for-5 rights issue)*
^NPATMI (net profit after tax & minority interest)

"Q4 results – revenue within expectation, but NPATMI below"

For 4Q/FY14 (quarter ended 31st December 2014), PRG's revenue was within our earlier expectations. However, the group's NPATMI and margins were still below our earlier expectations.

"New segment contributes"

The group's 4Q/FY14 revenue of RM30.0 million was higher by 43.7% y-o-y, while its NPATMI of RM2.1 million was higher by 100.3% y-o-y. Group revenue was boosted by contributions from its new **Property Development & Construction Division.** The revenue contributions are from a construction project in Ipoh (Perak). The new division is however still unprofitable, due to start-up costs incurred.

"All segments recorded higher revenue during FY14)

The group's "Webbing, Yarn & Furniture Component" segment still contributes most of the group's revenue, followed by the "Rubber Strips & Fabrics" segment, and lastly, the group's new "Property & Construction" segment. All 3 segments recorded better y-o-y full-year revenues during FY14.

The group's **"Webbing, Yarn & Furniture Component"** ("Webbing", for short) business segment were affected by the sluggish demand from the US and Europe markets during the year. Margins for the Webbing segment were squeezed due to price competition (particularly from competitors in China). The group had to reduce its margins in order to defend its market share. The volatility of the Ringgit against the US Dollar also impacted earnings.

The **Rubber Strips & Fabrics** segment has now turned its losses at the PBT level to profitability. The improved performance was due to better sales volume, stable rubber prices and a more efficient production level. Previously, the under-utilization of the group's production facilities in Vietnam was the underlying reason for the continued losses in the segment.

OUTLOOK/CORP. UPDATES

"Cautious Outlook"

We remain generally cautious on PRG's overall group performance. This is due to the lacklustre demand situation across a number of regions (e.g. Europe and Japan), coupled with upward pressures on labour wages and raw material prices. Additionally, the end of QE by the US' Federal Reserve does impact global business sentiment and trade levels, to a certain extent.

We are also concerned about the level of **US Dollar (USD) versus Ringgit volatility,** which may impact PRG's level of profits. The group derives a substantial portion of its revenues in US Dollars. While a strong USD is good for the group in terms of translation of revenues into Ringgit terms, a strong USD may affect demand by customers in other countries. Meanwhile, the group would continue to improve on its operational efficiency, cost cutting and also invest in human resource development.

Approximately 80% of PRG's industrial products are for **export markets**, to areas as far as Europe, the Americas and Africa. Europe and the US are key markets for the group. The group's management plans to continue focusing on its export markets (both developed and emerging economies) for volume growth despite facing price competition. The strength of the group's exports would depend largely on the growth of the respective economies.

"**Global outlook"**

In January 2015, the International Monetary Fund (IMF) has forecasted world economic growth at 3.5% for 2015 and 3.7% to 2016. Meanwhile in September 2014, the World Trade Organization (WTO) has forecasted global trade growth of 3.1% for 2014 and 4.0% for 2015. The possibility of worsening tensions over Ukraine, a deepening Middle East conflict and increased panic caused by West Africa's Ebola outbreak have all dimmed the forecast, the WTO said.

"Potential benefits from TPPA"

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 order to put the group in a position to capture the potential market growth (the group is targeting the furniture and textiles sector) once the preferential treatment of trade is approved by the **Trans-Pacific Partnership Agreement** (TPPA) and also once global economies recover fully.

There are potential benefits from TPPA for countries with lower-labour costs. The earlier member countries of TPPA are the U.S., Chile, Peru, Australia, New Zealand, Singapore, Brunei, Malaysia and Vietnam. Subsequently Japan, Mexico and Canada have joined.

Other countries are also said to be interested in joining the TPPA grouping, including – Taiwan, South Korea, Thailand, the Philippines, Laos, Cambodia, Colombia, Costa Rica, Indonesia, Bangladesh, India and even China. However, there are competing or overlapping international trade agreements such as the **Regional Comprehensive Economic Partnership (RCEP)** that was initiated by ASEAN.

"Acquisition in Vietnam"

In September 2014, Furniweb (Vietnam) Shareholding Company ("FVSC"), a wholly-owned subsidiary company of the group had entered into a S&P agreement with Scoot Filoot Pty Ltd ("SFPL") and Ningbo Yong Ao Metal Products Co Ltd ("Ningbo" or "Vendor") for the acquisition by FVSC and SFPL of a total of 16.5% of the charter capital of Furnitech Components (Vietnam) Co Ltd ("Furnitech") currently owned by the Vendor for a total purchase consideration of USD50,000 to be satisfied in cash.

FVSC will acquire 10.4% of the charter capital in Furnitech equivalent to 63.2% of all the charter capital owned by Ningbo in Furnitech for a purchase consideration of USD31,617. Thereafter, the charter capital owned by FVSC in Furnitech has been increased from 71.6% to 82.0%.

"Positive move – Diversification into Property Development"

We view PRG's move to look out for and diversify into other business segments that may be lucrative as a positive move. We look forward for further progress on this front. The move into property development is looked upon favourably.

PRG's new executive directors, **Wee Cheng Kwan** (appointed Aug 2013) and **Dato' Lua Choon Han** (Nov 2013) do have extensive experience in property development and construction. The group has appointed **Hooi Kok Hoe** (Aug 2014) as the CEO of the Property and Construction Division of the group. He has more than 26 years of experience in these industries.

In September 2014, there were 2 new additions to the group's BOD (board of directors). The group had appointed **Dato' Lim Heen Peok** as an Independent Non-Executive Director, while **Yeoh Soo Ann** was appointed as an Executive Director. Dato' Lim is from the automobile industry while Yeoh was previously involved with GW Plastics Holdings Bhd and Encorp Bhd. Encorp, a property developer, was subsequently taken over by Felda's investment arm.

"Picasso project at Jelatek, KL"

In December 2013, the group's wholly-owned subsidiary Premier Gesture S/B has proposed a 60:40 JV with Almaharta S/B for the development of a parcel of leasehold land along Jalan Jelatek (off Jalan Ampang), Kuala Lumpur. The JV company is named Premier De Muara S/B.

The proposed residential development will comprise 2 blocks of 38-storey condominium consisting of 472 units. Now named as **The Picasso Residence**, the launch is expected during the first quarter of 2015. The GDV (gross development value) for this project is estimated at RM560 million, with an estimated GP margin of 32% over its 4-year development period.

"Construction project in Ipoh"

Meanwhile on 31st July 2014, the group announced that its wholly-owned subsidiary, Valencia Glade Sdn Bhd, has on 31st July 2014 accepted a Letter of Award for the construction and completion of 4 blocks of 9-Storey Apartment Type A, 1 block of 9-Storey Apartment Type A1, a 1-storey gymnasium and swimming Pool and other common facilities in Pasir Putih, Ipoh. The contract is worth approximately RM50.2 million. This construction is now on-going and is expected to be completed by May 2016.

VALUATION/CONCLUSION

"FY13 dividend paid out"

Earlier on, the group's BOD (Board of Directors) had proposed a final single tier dividend of 1.5 sen per ordinary share (1.5 sen DPS) for its FY13 ended 31st December 2013. The dividend payment was duly made in September 2014, amounting to approximately RM2.2 million.

PRG's stock price (-1.5% YTD) has **trailed the KLCI** (+3.4% YTD) in 2015 thus far. Market conditions have also been volatile during the past year. Nevertheless, as PRG 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 PRG's FY15 EPS and an estimated P/E of 14.0 times, we set a **FY15-end <u>Target Price (TP) of RM0.73</u>** (representing a Hold Call). Our TP for PRG reflects a P/BV of 1.0 time over its FY15F BV/share. We look forward to seeing stronger contributions from the group's new Property & Construction segment.

"Drawdowns – for Property Development"

We note that PRG has gone from a net cash position to a net gearing position during its FY14, with its venture into property development and thus drawdown of borrowings. The group has reasonable P/E, P/BV, ROE and dividend ratios. Nevertheless, on the macro level – we are still concerned over its weak revenue and earnings growth (manufacturing division), amidst the cautious business sentiment, global price competition and dismal export market environment.

"Risk factors"

In the industrial product market, PRG 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), hike in labour costs and stiff competition from other global manufacturers.

For property development and construction, there are also risk factors, such as fluctuating demand, higher costs in labour and building materials, and regulatory measures by BNM and the federal government aimed at reducing speculation and high household debt levels.

PRG: Share Price

Source: Bursa