

**RESULTS REPORT**

28 Nov 2014

Furniweb Industrial Products Berhad		Market Price:	RM0.70
		Market Capitalisation:	RM101.4m
		Board:	Main Market
Recommendation:	HOLD	Sector:	Industrial Products
Target Price:	RM0.76	Stock Code/Name:	7168 / FURNWEB

KEY FINANCIALS

Key Stock Statistics	2014E
Earnings/Share (sen)	2.8
P/E Ratio (x)	24.9
Dividend/Share (sen)	1.5
NTA/Share (RM)	0.75
Book Value/Share (RM)	0.76
Issued Capital (mil shares)	144.9
52-weeks share price (RM)	0.635 – 0.935
Major Shareholders (>5%):	% (est)
. Yeoh Soo Ann*	17.1
. Wee Cheng Kwan*	8.7
. 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	2011	2012	2013	2014E
Book Value/Sh. (RM)	0.50	0.51	0.53	0.76
Earnings/Sh. (sen)	3.2	2.8	3.3	2.8
Gross Dividend.Sh. (sen)	2.1	2.5	0.9	1.5
Div. Payout Ratio (%)	48.1	66.4	28.7	53.3
P/E Ratio (x)	21.6	24.8	21.4	24.9
P/Book Value (x)	1.40	1.38	1.32	0.92
Dividend Yield (%)	3.0	3.6	1.3	2.1
ROE (%)	6.5	5.6	6.1	3.7
Net Gearing (Cash) (x)	(0.05)	(0.10)	(0.02)	0.36

* Any future dividends and 2014 figures are our estimates

*RM0.50 par value

P&L Analysis (RM mil)	2011	2012	2013	2014E
Year end: Dec 31				
Revenue	80.7	84.6	78.8	85.5
Operating Profit	5.7	5.7	5.9	4.5
Depreciation	(3.4)	(3.7)	(3.4)	(3.2)
Interest Expenses	(1.1)	(0.8)	(0.5)	(0.6)
Pre-tax Profit (PBT)	5.6	5.3	5.9	4.5
Effective Tax Rate (%)	14.1	24.4	20.5	20.4
Net Profit after Tax & MI	4.7	4.1	4.7	4.1
Operating Margin (%)	7.1	6.7	7.4	5.3
Pre-tax Margin (%)	7.0	6.3	7.5	5.3
Net Margin (%)	5.8	4.8	6.0	4.8

PERFORMANCE – 3Q/FY14

3Q/ 30 Sep	3Q14	3Q13	yoy %	2Q14	qoq%
Rev (RMm)	22.7	19.6	15.7	20.5	10.4
EBIT (RMm)	1.0	1.2	(15.7)	(1.0)	205.6
NPAT^(RMm)	1.5	1.7	(12.4)	(0.8)	291.2
EPS* (sen)	1.0	1.2	(12.4)	(0.5)	291.2

9M/ 30 Sep	9M/FY14	9M/FY13	yoy %
Rev (RMm)	62.3	57.9	7.5
EBIT (RMm)	-0.4	3.0	(113.9)
NPAT (RMm)	0.3	3.7	(93.2)
EPS* (sen)	0.2	2.5	(93.2)

*based on 144.9 million shares (post 3-for-5 rights issue)

^NPATMI (net profit after tax & minority interest)

“Q3 results – revenue within expectation, but NPATMI below”

For 3Q/FY14 (quarter ended 30th September 2014), Furniweb's revenue was within our earlier expectations. Eventhough the group managed to record a net profit (NPATMI) instead of net losses (NLATMI) like in the past 2 quarters, it was still below our earlier expectations.

“Rubber product segment did well”

The group's 3Q/FY14 revenue of RM22.7 million was higher by 15.7% y-o-y, while its NPATMI of RM1.5 million was lower by 12.4% y-o-y. The group's revenue figure was enhanced by a strong performance by the group's **Rubber Strips & Fabrics** segment, and also the start of contributions (a project in Ipoh) from group's new property construction/ development division.

“Start of new property division”

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Nevertheless, group profits were affected by an increase in administrative expenses (attributable to the expenses incurred on corporate exercises and the setting-up of the group's new property development segment.

The group's "**Webbing, Yarn & Furniture Component**" ("Webbing", for short) business segment were affected by the sluggish demand from the US and Europe markets. 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 impacts earnings.

The group's "**Webbing, Yarn & Furniture Component**" segment still contributes most of the group's revenue, followed by the "**Rubber Strips & Fabrics**" segment. The Rubber Strips & Fabrics segment has now turned its losses at the PBT level to profitability. The improved performance was due to stable rubber prices and a more efficient production level for Fabrics. 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 Furniweb's overall group performance. This is due to the lacklustre demand situation across a number of regions (e.g. Europe), coupled with upward pressures on labour wages and raw material prices. Additionally, the end of QE by the US' Federal Reserve does impact business sentiment and trade levels, to a certain extent.

We are also concerned about the level of **US Dollar versus Ringgit volatility**, which may impact Furniweb's level of profits. The group derives a substantial portion of its revenues in US Dollars. Meanwhile, the group would continue to improve on its operational

efficiency, cost cutting and also invest in human resource development.

Approximately 80% of Furniweb'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 October 2014, the International Monetary Fund (IMF) has forecasted world economic growth at 3.3% for 2014 and 3.8% to 2015. 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 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.

“Rights Issue with Free Warrants done”

On 11th July 2014, the group’s Rights Issue with Warrants had been completed following the listing of 54,320,100 Rights Issue and 54,320,100 Warrants on the Main Market of Bursa Malaysia.

“Contract in Ipoh”

Meanwhile on 31st July 2014, the group announced that its wholly-owned subsidiary, Valencia Glade Sdn Bhd, has on 31 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.

“New directors”

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.

“Acquisition in Vietnam”

On 24th 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

16.51% 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 10.44% 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 71.57% to 82.01%.

“Condo project at Jelatek”

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.

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 on 23rd September 2014, amounting to approximately RM2.2 million. We expect the group to maintain the same DPS level for its FY14 as well.

“Underperformed the KLCI”

Furniweb’s stock price (-20.5% YTD) has **underperformed the KLCI** (-2.53% YTD) in 2014 thus far. Market conditions have also been volatile since the past year. Nevertheless, as

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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 FY14 BV and an estimated P/BV of 1.0 times, we set a **FY14-end Target Price (TP) of RM0.76**. This TP is slightly higher than the stock price on the date of our report. Our TP for Furniweb reflects a P/E of 27.0 times over its FY14F earnings/share. For our forecast, we have not factored in much numbers for its property development business segment.

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

“Positive move – Diversification into Property Development”

We view Furniweb’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.

Furniweb’s 2 new executive directors, **Wee Cheng Kwan** and **Dato’ Lua Choon Han** do have extensive experience in property development and construction. The group has appointed **Hooi Kok Hoe** as the CEO of Property and Construction Division of the group. He has more than 26 years in these industries.

More recently in September 2014, **Yeoh Soo Ann** has been appointed to the group’s BOD. Yeoh was previously at Encorp Bhd, a property

developer that was subsequently taken over by Felda’s investment arm.

“Possible risk factors”

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

For property development, 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.

Furniweb: Share Price



Source: Bursa