

RESULTS REPORT

02 Aug 2011

Furniweb Industrial Products Berhad		Market Price:	RM0.36
		Market Capitalisation:	RM32.7m
		Board:	Main Market
Recommendation:	HOLD	Sector:	Industrial Products
Target Price:	RM0.40	Stock Code/Name:	7168 / FURNWEB

Analyst: Edmund Tham

KEY FINANCIALS

Key Stock Statistics	2011E
Earnings/Share (sen)	4.4
P/E Ratio (x)	8.2
Dividend/Share (sen)	3.3
NTA/Share (RM)	0.76
Book Value/Share (RM)	0.78
Issued Capital (mil shares)	90.7
52-weeks share price (RM)	0.34 – 0.50
Major Shareholders:	%
.Cheah Eng Chuan, Jimmy	28.5
.Chua Carmen	9.5
.Ong Lock Hoo	8.4
.Lee Sim Hak	6.2

PERFORMANCE – 2Q/FY11

2Q/ 30 Jun	2Q11	2Q10	yov %	1Q11	qoq%
Rev (RMm)	18.2	22.2	(18.2)	20.6	(11.5)
EBIT (RMm)	1.1	1.7	(32.7)	0.0	4,018.5
NPAT^(RMm)	1.2	1.7	(24.8)	0.7	77.2
EPS* (sen)	1.4	1.8	(24.8)	0.8	77.2

6M/ 30 Jun	6M/FY11	6M/FY10	yov %
Rev (RMm)	38.8	43.1	(10.2)
EBIT (RMm)	1.1	1.2	(8.0)
NPAT (RMm)	1.9	1.7	16.3
EPS* (sen)	2.1	1.8	16.3

*based on 90.7 million shares
^NPATMI

Ratios Analysis	2008	2009	2010	2011E
Book Value/Sh. (RM)	0.81	0.82	0.79	0.78
Earnings/Sh. (sen)	7.1	4.2	3.1	4.4
Dividend.Sh. (sen)	4.1	4.0	3.3	3.3
Div. Payout Ratio (%)	42.1	72.1	80.4	56.8
P/E Ratio (x)	5.1	8.6	11.6	8.2
P/Book Value (x)	0.4	0.4	0.5	0.5
Dividend Yield (%)	11.3	11.1	9.3	9.3
ROE (%)	8.8	5.1	3.9	5.6
Net Gearing (Cash) (x)	0.05	(0.01)	(0.06)	(0.01)

Furniweb's 2Q/FY11 results (quarter ended 31st June 2011) results were roughly within our earlier expectations.

“Q2 – within expectations”

The group recorded revenue of RM18.2 million during 2Q/FY11, a decrease of 18.2% y-o-y. Revenue during 1H/FY11 was RM38.8 million, which was 10.2% lower than the revenue in 1H/FY10. The reduction in revenue was primarily due to the mild slowdown observed in the global economy.

P&L Analysis (RM mil)	2008	2009	2010	2011E
Year end: Dec 31				
Revenue	93.6	80.8	82.0	82.4
Operating Profit	8.9	4.7	3.1	5.0
Depreciation	(3.9)	(3.9)	(3.9)	(3.9)
Interest Expenses	(1.7)	(1.2)	(1.1)	(1.2)
Pre-tax Profit	7.8	4.5	3.0	5.0
Effective Tax Rate (%)	22.8	17.3	3.0	20.1
Net Profit	6.5	3.8	2.8	4.0
Operating Margin (%)	9.5	5.8	3.8	6.1
Pre-tax Margin (%)	8.3	5.5	3.6	6.1
Net Margin (%)	6.9	4.7	3.4	4.8

*RM0.50 par value

Furniweb's 2Q/FY11 NPATMI (net profit after tax and minority interest) had decreased by 24.8% y-o-y to RM1.2 million. However, group NPATMI during 1H/FY11 was RM1.9 million, an increase of 16.3% from 1H/FY10. This is mainly due to the fact that the Ringgit strengthened by only 2% against the USD during 1H/FY11, as opposed to the 5% in the corresponding 1H/FY10, resulting in lower

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foreign exchange losses. This increase in profitability is pleasing to us.

The translation of the statements of financial position of the Vietnamese subsidiaries from their financial positions as at 31st December 2010 as compared to their financial positions as at 30th June 2011 resulted in an exchange translation loss of RM2.1 million because of the depreciation of the Vietnamese Dong (VND) against Ringgit Malaysia by approximately 10%, i.e. the value of the group's investment in Vietnam had depreciated by 10% in Ringgit terms.

OUTLOOK/CORP. UPDATES

We remain cautious on Furniweb's overall group performance during its FY11 ending 31st December 2011. This is due to the lacklustre demand situation across a number of regions, coupled with increasing raw material prices. Additionally, the political upheavals in the Middle East/North Africa and major Tohoku disaster in Japan does impact business sentiment and trade levels, to a certain extent.

“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. However, 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. “Webbing, yarn and furniture components” remain the main contributor to group revenues.

“Weak external environment”

According to the IMF's June 2011 **World Economic Outlook** (WEO), economic activity is slowing down temporarily, downside risks have increased again and global expansion remains unbalanced. Growth in many advanced

economies is still weak, considering the depth of the recent recession. In addition, the mild slowdown observed in the second quarter of 2011 is not reassuring. Growth in most emerging and developing economies continues to be strong. Overall, the global economy expanded at an annualized rate of 4.3% in the first quarter, and forecasts for 2011–12 are broadly unchanged.

However, IMF views that greater-than-anticipated weakness in U.S. activity and renewed financial volatility from concerns about the depth of fiscal challenges in the Euro area pose greater downside risks. Risks also draw from persistent fiscal and financial sector imbalances in many advanced economies, while signs of overheating are becoming increasingly apparent in many emerging and developing economies.

The latest available Malaysian economic data (May 2011) seemed to reveal a weakening external demand environment. These data include: IPI (-5.2% y-o-y), Manufacturing Sales (+8.0% y-o-y), Exports (+5.4% y-o-y) and Imports (+5.6% y-o-y). Malaysia had reported stable 1Q/2011 unemployment rate of 3.1% and a CPI of 3.5% (June 2011). In early July 2011, Bank Negara Malaysia (BNM) had maintained its overnight policy rate (OPR) at 3.0% but raised the statutory reserve requirement (SRR) of 3% to 4%.

VALUATION/CONCLUSION

“Y-o-y decrease in DPS”

A final dividend of 2.5 sen tax exempt for the group's FY10 ended 31st December 2010 was approved by the group's shareholders at its AGM held on 23rd June 2011 and was paid duly on 22nd July 2011. This was slightly lower than the 3 sen tax exempt dividend per share (DPS) for its FY09. We nevertheless note that Furniweb's FY10 dividend yield and dividend payout is still quite high.

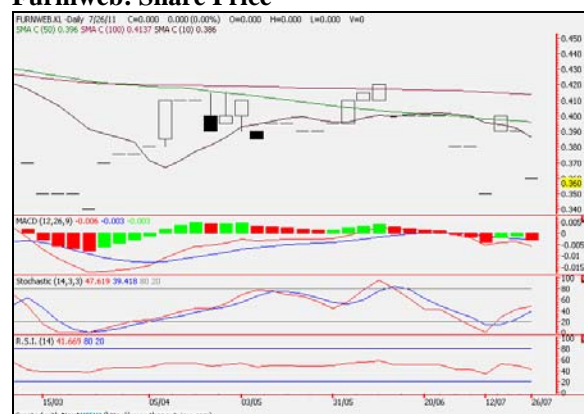
Even with a relatively strong adjusted beta (correlation factor) of 1.30 to the KLCI, Furniweb (-10.0% YTD) has underperformed KLCI's (+2.4% YTD) performance this year. Market conditions have also been volatile in recent months, impacted by the "Arab Spring" political uprisings in the Middle East/North Africa, sovereign debt issue in Europe, "debt ceiling" issue 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 FY11 EPS and an estimated P/E of 11 times (within its historical range), we set a **FY11-end Target Price (TP) of RM0.40**. This TP is 9.9% above its current market price. Our TP for Furniweb reflects a P/BV of just 0.5 times over its FY11F BV/share. Meanwhile, the local consumer goods sector's average P/E and P/BV is 15.8 times and 0.6 times, respectively.

We note that Furniweb is in a net cash position and it also has reasonable P/E and P/BV valuations. Though margins had improved slightly, we are still concerned over its weak revenue and earnings growth. Furniweb also face 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 manufacturers.

Furniweb: Share Price



Source: NextView

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