

**RESULTS REPORT**

08 Nov 2011

Furniweb Industrial Products Berhad		Market Price:	RM0.35
		Market Capitalisation:	RM31.8m
		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	2011E
Earnings/Share (sen)	5.5
P/E Ratio (x)	6.4
Dividend/Share (sen)	3.3
NTA/Share (RM)	0.79
Book Value/Share (RM)	0.81
Issued Capital (mil shares)	90.7
52-weeks share price (RM)	0.30 – 0.50
Major Shareholders:	%
.Cheah Eng Chuan, Jimmy	28.5
.Chua Carmen	9.5
.Ong Lock Hoo	8.4
.Lee Sim Hak	6.2

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Ratios Analysis	2008	2009	2010	2011E
Book Value/Sh. (RM)	0.81	0.82	0.79	0.81
Earnings/Sh. (sen)	7.1	4.2	3.1	5.5
Dividend.Sh. (sen)	4.1	4.0	3.3	3.3
Div. Payout Ratio (%)	42.1	72.1	80.4	45.6
P/E Ratio (x)	4.9	8.4	11.3	6.4
P/Book Value (x)	0.4	0.4	0.4	0.4
Dividend Yield (%)	11.6	11.4	9.5	9.5
ROE (%)	8.8	5.1	3.9	6.8
Net Gearing (Cash) (x)	0.05	(0.01)	(0.06)	(0.03)

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	6.9
Depreciation	(3.9)	(3.9)	(3.9)	(3.9)
Interest Expenses	(1.7)	(1.2)	(1.1)	(1.0)
Pre-tax Profit	7.8	4.5	3.0	7.0
Effective Tax Rate (%)	22.8	17.3	3.0	14.4
Net Profit	6.5	3.8	2.8	5.0
Operating Margin (%)	9.5	5.8	3.8	8.4
Pre-tax Margin (%)	8.3	5.5	3.6	8.5
Net Margin (%)	6.9	4.7	3.4	6.0

*RM0.50 par value

PERFORMANCE – 3Q/FY11

3Q/ 30 Sep	3Q11	3Q10	yoy %	2Q11	qoq%
Rev (RMm)	20.7	19.7	5.1	18.2	13.8
EBIT (RMm)	1.5	(0.0)	14,810.0	1.1	32.3
NPAT^(RMm)	1.9	0.1	1,319.7	1.2	50.9
EPS* (sen)	2.1	0.1	1,319.7	1.4	50.9

9M/ 30 Sep	9M/FY11	9M/FY10	yoy %
Rev (RMm)	59.5	62.9	(5.4)
EBIT (RMm)	2.6	1.2	112.5
NPAT (RMm)	3.8	1.8	111.8
EPS* (sen)	4.2	2.0	111.8

*based on 90.7 million shares

^NPATMI

Furniweb's 9M/FY11 results (9-month period ended 30th September 2011) were **within our earlier expectations.**

“Q3 – improved performance”

The group's 3Q/FY11 revenue of RM20.7 million was higher by 5.1% y-o-y. NPATMI (net profit after tax and minority interest) of RM1.9 million was much higher than in the corresponding 3Q/FY10. This was mainly due to the strengthening of the US Dollar against the Ringgit during the quarter.

Looking at 9M/FY11 figures, group revenue of RM59.5 million was slightly lower by 5.4%. This was due to lower sales from its “webbing and yarn” business segment, which was affected by the global economic weakness.

Comparing q-o-q, group revenue was up by 13.8% while NPATMI was up by 50.9% to RM1.9 million. This was due to improved q-o-q performance across all business segments.

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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, sovereign debt issue in Europe and weak growth in developed regions 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 (about 79%) to group revenues.

“Global growth to moderate”

According to the IMF's September 2011 **World Economic Outlook** (WEO), projections indicate that global growth will moderate to about 4% through 2012, from over 5% in 2010. Real GDP in the advanced economies is projected to expand at an anaemic pace of about 1.5% in 2011 and 2% in 2012, helped by a gradual unwinding of the temporary forces that have held back activity during much of the second quarter of 2011.

However, IMF assumes that European policymakers contain the crisis in the euro area periphery, that U.S. policymakers strike a judicious balance between support for the economy and medium-term fiscal consolidation, and that volatility in global financial markets does not escalate. Moreover, the removal of monetary accommodation in advanced

economies is now expected to pause. Under such a scenario, emerging capacity constraints and policy tightening, much of which has already happened, would lower growth rates in emerging and developing economies to a still very solid pace of about 6% in 2012.

Malaysia had reported a reasonable 2Q/2011 unemployment rate of 3.0% and CPI of 3.4% (September 2011). In early September 2011, Bank Negara Malaysia (BNM) had maintained its accommodative overnight policy rate (OPR) at 3.0%. Meanwhile, Malaysia's GDP growth in 2Q/2011 amounted to 4.0%, amidst more uncertainty in the developed regions (US, Europe and Japan).

VALUATION/CONCLUSION

“High dividend yield”

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 in June 2011 and was duly paid in 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 **FY11E dividend yield and dividend payout is still quite attractive.**

Even with a close adjusted beta (correlation factor) of 1.04 to the KLCI, Furniweb (-12.5% YTD) has underperformed KLCI's (-2.5% 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 7 times (within its historical range), we set a **FY11-end Target**

Price (TP) of RM0.38. This TP is 9.7% 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 14.3 times and 0.5 times, respectively.

We note that Furniweb is in a net cash position and it also has reasonable P/E, P/BV and ROE levels. Though margins had improved somewhat in recent quarters, we are still concerned over its weak revenue and earnings growth, amidst the dismal export market environment. 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 global manufacturers.

Furniweb: Share Price



Source: NextView

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