



RESULTS REPORT

24 May 2011

Furniweb Industrial Products Berhad		Market Price:	RM0.39
		Market Capitalisation:	RM35.4m
		Board:	Main Market
Recommendation:	HOLD	Sector:	Industrial Products
Target Price:	RM0.40	Stock Code/Name:	7168 / FURNWEB

Analyst: Research Team/Edmund Tham

KEY FINANCIALS

Key Stock Statistics	2011E
EPS (sen)	3.6
P/E (x)	10.8
Dividend/Share (sen)	4.0
NTA/Share (RM)	0.75
Book Value/Share (RM)	0.77
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

Per Share Data	2008	2009	2010	2011E
Book Value (RM)	0.81	0.82	0.79	0.77
Earnings (sen)	7.1	4.2	3.1	3.6
Dividend (sen)	4.1	4.0	4.0	4.0
Payout Ratio (%)	42.1	72.1	96.5	83.4
PER (x)	5.5	9.4	12.5	10.8
P/Book Value (x)	0.5	0.5	0.5	0.5
Dividend Yield (%)	10.4	10.3	10.3	10.3
ROE (%)	8.8	5.1	3.9	4.7
Net Gearing (cash) (x)	0.05	(0.01)	(0.06)	(0.01)

P&L Analysis (RM mil)	2008	2009	2010	2011E
Year end: Dec 31				
Revenue	93.6	80.8	82.0	83.8
Operating Profit	8.9	4.7	3.1	4.3
Depreciation	(3.9)	(3.9)	(3.9)	(3.9)
Interest Expenses	(1.7)	(1.2)	(1.1)	(1.1)
Pre-tax Profit	7.8	4.5	3.0	4.3
Effective Tax Rate (%)	22.8	17.3	3.0	21.6
Net Profit	6.5	3.8	2.8	3.3
Operating Margin (%)	9.5	5.8	3.8	5.1
Pre-tax Margin (%)	8.3	5.5	3.6	5.1
Net Margin (%)	6.9	4.7	3.4	3.9

*RM0.50 par value

PERFORMANCE – 1Q/FY11

1Q/ 31 Mar	1Q11	1Q10	yov %	4Q10	qoq%
Rev (RMm)	20.6	20.9	(1.6)	19.1	7.5
EBIT (RMm)	0.0	0.1	(50.9)	(0.3)	110.1
NPAT^(RMm)	0.7	0.3	134.4	1.0	(31.2)
EPS* (sen)	0.8	0.3	134.4	1.1	(31.2)

*based on 90.7 million shares

^NPATMI

Furniweb's 1Q/FY11 (quarter ended 31st March 2011) results were generally within our earlier expectations.

“Q1 within expectations”

Furniweb's 1Q/FY11 revenue of RM20.6 million was 1.6% lower than the RM20.9 million reported in the corresponding 1Q/FY10. Furniweb's customers worldwide remain cautious in their purchasing policies as a result of increases in global materials prices. The group's 1Q/FY11 NPATMI (net profit after tax and minority interest) had increased by 134.4% y-o-y to RM0.7 million.

“Weaker USD and VND a concern”

As the group has a fair amount of inter-company balances owing from its Vietnamese subsidiaries to their Malaysian counterparts, the strengthening of the Ringgit against the US Dollar inevitably results in foreign exchange losses. However, the Ringgit strengthened by only 2% against the US Dollar during 1Q/FY11 as opposed to 5% during 1Q/FY10, resulting in lower foreign exchange losses.

All information, views and advice are given in good faith but without legal responsibility. Mercury Securities Sdn. Bhd. or companies or individuals connected with it may have used research material before publication and may have positions in or may be materially interested in any stocks in the markets mentioned.

This report has been prepared by Mercury Securities Sdn Bhd for purposes of CMDF-Bursa Research Scheme ("CBRS") administered by Bursa Malaysia Berhad and has been compensated to undertake the scheme. Mercury Securities Sdn Bhd has produced this report independent of any influence from CBRS or the subject company. For more information about CBRS and other research reports, please visit Bursa Malaysia's website at: http://www.bursamalaysia.com/website/bm/listed_companies/cmdf_bursa_research_scheme/



During the quarter, the Vietnamese Dong (VND) had depreciated against the Ringgit by approximately 11%. This meant that the value of the group's investment in its Vietnamese subsidiaries in Ringgit terms had depreciated in tandem by 11%, which translates to RM2.2 million in terms of valuation.

The group's 1Q/FY11 revenue of RM20.6 million was 7.5% higher q-o-q than the RM19.1 million recorded during 4Q/FY10. Group 1Q/FY11 NPATMI of RM0.7 million was 31.2% lower q-o-q versus 4Q/FY10. This was largely due to the reversal of RM0.8 million of deferred-tax over-provision from prior years during the preceding quarter.

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 recent political upheavals in the Middle East/North Africa and major Tohoku tsunami/earthquake in Japan does impact business sentiment and trade levels, to a certain extent.

“Cautious on Furniweb's outlook”

We note that 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.

According to the IMF's April 2011 **World Economic Outlook** (WEO), world real-GDP growth is forecast to be about 4.5% in 2011 and 2012, slightly lower from 5% in 2010. Real GDP in advanced economies and, emerging and

developing economies is expected to expand by about 2.5% and 6.5%, respectively. Downside risks continue to outweigh upside risks. In advanced economies, weak sovereign balance sheets and still-weak real estate markets continue to present major concerns, especially in certain European economies. Financial risks appear to be on the downside as a result of the high funding requirements of banks and sovereigns.

The IMF also views that new downside risks are building on account of commodity prices (notably for oil), geopolitical uncertainty as well as the overheating and booming asset markets in emerging market economies. However, there is also the potential for upside surprises to growth in the short term, owing to the strong corporate balance sheets in advanced economies and buoyant demand in emerging and developing economies.

On the local front, **Malaysia** had reported a respectable 1Q/2011 GDP growth of +4.6%, stable 4Q/2010 unemployment rate of 3.2% and CPI of 3.2% (April 2011). Meanwhile, Bank Negara Malaysia (BNM) had raised its overnight policy rate (OPR) of 2.75% to 3.0% and the statutory reserve requirement (SRR) of 2% to 3% to rein-in inflationary pressures.

VALUATION/CONCLUSION

The group had declared and subsequently paid out a final tax exempt dividend of 3 sen per share (3 sen DPS) for its FY09 ended 31st December 2009. The dividend was paid out during July 2010.

“Consistent dividends”

Furniweb's management has not proposed dividends for the group's FY10 at the date of this report. Nevertheless, given Furniweb's consistent dividend payout track record in recent years (3 sen tax exempt), we opine that the company might decide to give out a similar amount for its FY10-FY11. Furniweb's dividend yield and dividend payout appears quite high.

Even with a relatively strong adjusted beta (correlation factor) of 1.41 to the KLCI, Furniweb (-2.5% YTD) has slightly outperformed KLCI's (+0.9% YTD) performance this year. Market conditions have also been volatile in recent months, impacted by the political uprisings in the Middle East/North Africa, sovereign debt issue in Europe and the Tohoku tsunami/ earthquake 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 approximate to 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 23.0 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. However, we are still concerned over its weak revenue and earnings growth and relatively slim profit margins. Furniweb also face routine risks such as a possible slow 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

All information, views and advice are given in good faith but without legal responsibility. Mercury Securities Sdn. Bhd. or companies or individuals connected with it may have used research material before publication and may have positions in or may be materially interested in any stocks in the markets mentioned.

This report has been prepared by Mercury Securities Sdn Bhd for purposes of CMDF-Bursa Research Scheme ("CBRS") administered by Bursa Malaysia Berhad and has been compensated to undertake the scheme. Mercury Securities Sdn Bhd has produced this report independent of any influence from CBRS or the subject company. For more information about CBRS and other research reports, please visit Bursa Malaysia's website at: http://www.bursamalaysia.com/website/bm/listed_companies/cmdf_bursa_research_scheme/