

**RESULTS REPORT**

28 Nov 2013

Furniweb Industrial Products Berhad		Market Price:	RM0.88
		Market Capitalisation:	RM79.9m
		Board:	Main Market
Recommendation:	HOLD	Sector:	Industrial Products
Target Price:	RM0.87	Stock Code/Name:	7168 / FURNWEB

KEY FINANCIALS

Key Stock Statistics	2013E
Earnings/Share (sen)	5.8
P/E Ratio (x)	15.2
Dividend/Share (sen)	4.0
NTA/Share (RM)	0.83
Book Value/Share (RM)	0.86
Issued Capital (mil shares)	90.7
52-weeks share price (RM)	0.33 – 0.995
Major Shareholders (>5%):	%
. Cheah Eng Chuan, Jimmy (MD)	15.1
. Pacific Vintage S/B*	12.2
. PMC Global Services S/B*	8.8
. Wee Cheng Kwan*	8.2
. Dato' Lua Choon Han*	7.1

*Relatively new substantial shareholders. Wee (Aug 2013) and Lua (Nov 2013) have been appointed as Executive Directors.

Ratios Analysis	2010	2011	2012	2013E
Book Value/Sh. (RM)	0.79	0.80	0.81	0.86
Earnings/Sh. (sen)	3.1	5.2	4.5	5.8
Gross Dividend.Sh. (sen)	3.3	3.3	4.0	4.0
Div. Payout Ratio (%)	80.4	48.1	66.4	51.7
P/E Ratio (x)	28.3	16.9	19.5	15.2
P/Book Value (x)	1.12	1.10	1.08	1.03
Dividend Yield (%)	3.8	3.8	4.5	4.5
ROE (%)	3.9	6.5	5.6	6.8
Net Gearing (Cash) (x)	(0.06)	(0.05)	(0.10)	(0.14)

* 2013 figures are our estimates

*RM0.50 par value

P&L Analysis (RM mil)	2010	2011	2012	2013E
Year end: Dec 31				
Revenue	82.0	80.7	84.6	78.0
Operating Profit	3.1	5.7	5.7	6.5
Depreciation	(3.7)	(3.4)	(3.7)	(3.5)
Interest Expenses	(1.1)	(1.1)	(0.8)	(0.5)
Pre-tax Profit (PBT)	3.0	5.6	5.3	6.6
Effective Tax Rate (%)	3.0	14.1	24.4	20.4
Net Profit after Tax & MI	2.8	4.7	4.1	5.3
Operating Margin (%)	3.8	7.1	6.7	8.4
Pre-tax Margin (%)	3.6	7.0	6.3	8.5
Net Margin (%)	3.4	5.8	4.8	6.8

PERFORMANCE – 3Q/FY13

3Q/ 30 Sep	3Q13	3Q12	yov %	2Q13	qoq %
Rev (RMm)	19.6	21.8	(10.0)	19.1	2.4
EBIT (RMm)	1.22	1.25	(2.5)	1.32	(7.9)
NPAT^(RMm)	1.7	1.0	68.2	1.6	7.1
EPS* (sen)	1.9	1.1	68.2	1.7	7.1

9M/ 30 Sep	9M/FY13	9M/FY12	yov %
Rev (RMm)	57.9	65.5	(11.5)
EBIT (RMm)	3.0	3.1	(3.6)
NPAT (RMm)	3.7	2.9	28.7
EPS* (sen)	4.1	3.2	28.7

*based on 90.7 million shares

^NPATMI (net profit after tax & minority interest)

“Q3 results – within expectations”

For 3Q/FY13 (quarter ended 30th September 2013), Furniweb’s results were generally within our earlier expectations.

“Lower revenue, but higher margins”

The group’s 3Q/FY13 revenue of RM19.6 million was lower by 10.0% y-o-y, while its NPATMI of RM1.6 million was higher by 68.2% y-o-y. Despite of the lower revenue, margins were generally better, aided by lower expenses and higher Other Income.

The “Rubber Strips & Fabrics” (“Rubber”, for short) segment had performed better while Foreign Exchange gains were higher (the USD had appreciated against the Ringgit). The group’s “Rubber” business segment had performed creditably, aided by the relatively stable rubber prices and a stronger contribution from Rubber Fabric sales.

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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.

Furniweb: 9M/FY13 y-o-y growth by segment

Segments	Webbing, yarn and furniture component	Rubber strips and fabrics
Revenue	-14.4%	-2.7%
PBT	-8.5%	+126.2% #

Source: Furniweb; Mercury extrapolation

#Improved from a Loss Before Tax position, to PBT

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, coupled with upward pressures on labour wages and raw material prices. Additionally, the QE tapering by the US' Federal Reserve, the Sovereign Debt issue in Europe and weak growth in various regions do 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 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 during the year.

"IMF's latest outlook"

According to IMF's latest World Economic Outlook (WEO October 2013), global economic growth appears to be subdued, with 2013 growth +2.9% (versus 2012's +3.2%), while 2014 growth is estimated to be at 3.6%. Recovery in the Euro Area remains slow while emerging markets in Asia are recording slower growth rates. Japan will record slower growth in 2014 due to fiscal policy tightening. Expectations of QE tapering by the US' Federal Reserve have caused yields everywhere to be higher. IMF expects World Trade Volume to be up by 2.9% in 2013 and 4.9% in 2014.

IMF GDP growth data/forecasts

Area	2011	2012	2013F	2014F
U.S.	1.8	2.8	1.6	2.6
Euro 4	1.5	-0.6	-0.4	1.0
UK	1.1	0.2	1.4	1.9
Japan	-0.6	2.0	2.0	1.2
China	9.3	7.7	7.6	7.3
India	6.3	3.2	3.8	5.1
ASEAN 5	4.5	6.2	5.0	5.4

*EURO 4 - Germany, France, Italy, Spain

*ASEAN 5 - Indonesia, Malaysia, Philippines, Thailand, Vietnam

“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, Colombia, Costa Rica, Indonesia, Bangladesh, India and even China.

VALUATION/CONCLUSION

“FY13 DPS expected to be the same”

Furniweb paid out 2.5 sen tax exempt first and final dividend per share (DPS) for its FY11. The group then paid out a higher 3 sen single tier first and final DPS for its FY12 in July 2013. Currently, we expect the group to maintain the same net DPS level of 3 sen (4 sen gross) for its FY13.

“YTD: positive price movement”

With a recent surge, Furniweb’s stock has done well this year (+137.8% YTD) and has **outperformed the KLCI** (+6.6% YTD) in 2013 thus far. Market conditions have also been volatile since the past year, impacted by the “Arab Spring” political uprisings in the Middle East/North Africa, Sovereign Debt issue in Europe, and the Debt Ceiling & Fiscal Cliff issues in the US. 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 FY13 EPS and an estimated P/E of 15 times, we set a **FY13-end Target Price (TP) of RM0.87**. This TP is approximate to the stock price on the date of our report. Our TP for Furniweb reflects a P/BV of just 1.02 times over its FY13F BV/share.

We note that Furniweb is in a net cash position and it also has an **attractive dividend yield**, and reasonable ROE, P/E and P/BV 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.

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), labour costs and stiff competition from other global manufacturers.

Furniweb: Share Price



Source: NextView

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