**RESULTS REPORT**

29 Aug 2012

<b>Furniweb Industrial Products Berhad</b>		<b>Market Price:</b>	RM0.375
		<b>Market Capitalisation:</b>	RM34.0m
		<b>Board:</b>	Main Market
<b>Recommendation:</b>	HOLD	<b>Sector:</b>	Industrial Products
<b>Target Price:</b>	RM0.42	<b>Stock Code/Name:</b>	7168 / FURNWEB

Analyst: Edmund Tham

**KEY FINANCIALS**

Key Stock Statistics	2013F
Earnings/Share (sen)	5.2
P/E Ratio (x)	7.2
Dividend/Share (sen)	3.3
NTA/Share (RM)	0.83
Book Value/Share (RM)	0.85
Issued Capital (mil shares)	90.7
52-weeks share price (RM)	0.19 – 0.44
Major Shareholders:	%
.Cheah Eng Chuan, Jimmy	28.5
.Chua Carmen	9.5
.Ong Lock Hoo	8.4
.Lee Sim Hak	6.2

Ratios Analysis	2010	2011	2012E	2013F
Book Value/Sh. (RM)	0.79	0.80	0.82	0.85
Earnings/Sh. (sen)	3.1	5.2	4.8	5.2
Dividend.Sh. (sen)	3.3	3.3	3.3	3.3
Div. Payout Ratio (%)	80.4	48.1	52.2	48.1
P/E Ratio (x)	12.1	7.2	7.8	7.2
P/Book Value (x)	0.48	0.47	0.45	0.44
Dividend Yield (%)	8.9	8.9	8.9	8.9
ROE (%)	3.9	6.5	5.8	6.1
Net Gearing (Cash) (x)	(0.06)	(0.05)	(0.04)	(0.03)

\*estimated dividend

P&L Analysis (RM mil)	2010	2011	2012E	2013F
<b>Year end: Dec 31</b>				
Revenue	82.0	80.7	87.9	90.8
Operating Profit	3.1	5.7	5.6	5.8
Depreciation	(3.7)	(3.4)	(3.4)	(3.4)
Interest Expenses	(1.1)	(1.1)	(0.9)	(0.9)
Pre-tax Profit (PBT)	3.0	5.6	5.2	5.5
Effective Tax Rate (%)	3.0	14.1	15.7	13.8
Net Profit after Tax & MI	2.8	4.7	4.3	4.7
Operating Margin (%)	3.8	7.1	6.3	6.4
Pre-tax Margin (%)	3.6	7.0	5.9	6.0
Net Margin (%)	3.4	5.8	4.9	5.2

\*RM0.50 par value

**PERFORMANCE – 2Q/FY12**

2Q/30 Jun	2Q12	2Q11	yoy %	1Q12	qoq %
Rev (RMm)	23.0	18.2	26.2	20.7	10.9
EBIT (RMm)	1.4	1.1	21.6	0.5	170.4
NPAT*(RMm)	1.5	1.2	19.2	0.4	284.7
EPS* (sen)	1.6	1.4	19.2	0.4	284.7

6M/30 Jun	6M/FY12	6M/FY11	yoy %
Rev (RMm)	43.7	38.8	12.7
EBIT (RMm)	1.9	1.1	62.6
NPAT (RMm)	1.87	1.94	(4.0)
EPS* (sen)	2.06	2.14	(4.0)

\*based on 90.7 million shares

^NPATMI (net profit after tax &amp; minority interest)

For 2Q/FY12 (quarter ended 30<sup>th</sup> June 2012), Furniweb's results were generally within our earlier expectations.

**“Q2 – results within expectations”**

The group recorded revenue of RM23.0 million and NPATMI of RM1.5 million during 2Q/FY12. This was an improvement of 26.2% and 19.2% y-o-y, respectively. The improved figures were due to the higher y-o-y revenue from both the “Webbing, yarn and furniture component” and “Rubber strips and fabrics” segments.

Looking at the 6-month 1H/FY12 figures, revenue was higher by 12.7% but NPATMI was slightly lower by 4.0%. The lower margins were due to higher input costs (labour wages and raw materials) and also price competition for its Webbing segment.

Comparing q-o-q versus the preceding 1Q/FY12, group revenue and NPATMI was higher by

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10.9% and 284.7%, respectively. The improved performance was mainly due to higher revenue from the export markets.

#### **Furniweb: 1H/FY12 growth by segment**

Segments	Webbing, yarn and furniture component	Rubber strips and fabrics
Revenue	12.2%	14.4%
PBT	-25.3%	43.0%#

Source: Furniweb

#Still in Loss before tax position

## **OUTLOOK/CORP. UPDATES**

We remain cautious on Furniweb's overall group performance during its FY12 and FY13. This is due to the lacklustre demand situation across a number of regions, coupled with increasing labour and raw material prices. Additionally, the sovereign debt issue in Europe and weak growth in developed regions does impact business sentiment and trade levels, to a certain extent. We are also particularly concerned about the USD volatility affecting Furniweb's results.

### **“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 segment contributor to the group's 1H/FY12 revenues.

### **“IMF: further Policy Action needed”**

According to the IMF's latest **World Economic Outlook** (WEO-July 2012), overall global economic growth is projected at about 3.5% in 2012, and 3.9% in 2013. IMF expects economic growth rates in the US, China and India to be slower than their earlier projections.

Nevertheless, trade numbers had benefited from strong industrial production levels in Asia. Overall, IMF is dissatisfied with the pace of economic growth and feels that further policy actions need to be undertaken – particularly in Europe, Asia and the US.

### **IMF: GDP data**

Area	2010	2011	2012E	2013E
U.S.	3.0	1.7	2.0	2.3
Euro Area	1.9	1.5	-0.3	0.7
Japan	4.4	-0.7	2.4	1.5
China	10.4	9.2	8.0	8.5
India	10.8	7.1	6.1	6.5
ASEAN-5	7.0	4.5	5.4	6.1

\*Indonesia, Malaysia, Philippines, Thailand, and Vietnam

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 2010 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 9-member country **Trans-Pacific Partnership** (TPP) and also once global economic conditions stabilise. Current member countries of TPP are the U.S., Chile, Peru, Australia, New Zealand, Singapore, Brunei, Malaysia and Vietnam. Japan, Mexico and Canada are also said to be interested in joining the TPP grouping.

## **VALUATION/CONCLUSION**

### **“FY11 final dividend paid out”**

The first and final dividend (2.5 sen tax exempt) for its FY11 was paid out in July 2012. We note that Furniweb's FY11 **dividend yield of 8.9% is quite attractive.**

Results Report

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Furniweb's stock has been **trading relatively range-bound** this year (+1.4% YTD) and has slightly underperformed the KLCI (+7.4% YTD) in 2012. Market conditions have also been volatile during the past year, 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.

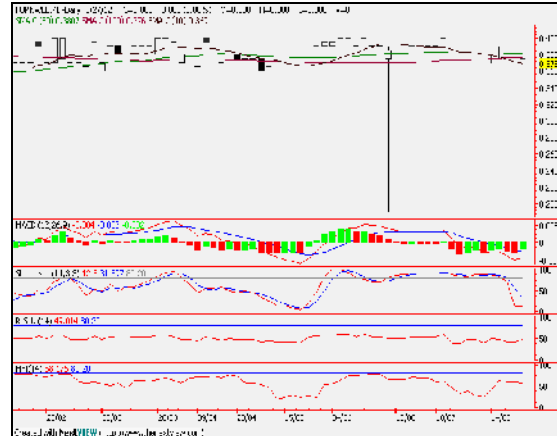
#### "Maintain Hold Call"

Based on our forecast of Furniweb's FY13 EPS and an estimated P/E of 8 times, we set a **FY13-end Target Price (TP) of RM0.42**. This TP is 12.0% above its stock price on the date of our report. Our TP for Furniweb reflects a P/BV of just 0.49 times over its FY13F BV/share.

We note that Furniweb is in a net cash position and it also has reasonable P/E and P/BV ratios. We are still concerned over its weak earnings growth, amidst the cautious sentiment and dismal export market environment.

Furniweb also 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) and stiff competition from other global manufacturers.

#### Furniweb: Share Price



Source: NextView

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