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RHB

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A member of the
RHB Banking Group
Company No: 233327 -M

4Q2009 Results

Date: 23 February 2010

Name of PLCs: Furniweb Industrial Products <i>A Strong Finish For FY09</i>	Price:	RM0.60
	Market Capitalisation:	RM54.9
Board: Main Market		
Sector: Industrial Products		
Stock Code: 7168		
Recommendation: Hold		
Index Component/Constituent : -		

Key Stock Statistics	2009	2010F
EPS (est.)	4.1	7.7
P/E (est.)	14.7	7.8
Dividend/Share (sen)	-	-
NTA/Share (RM)	1.59	-
Book Value/Share	1.63	-
Issued Capital (mil shares)	90.7	-
52-weeks Share Price Range	0.285-0.68	-
Major Shareholders:	%	-
Cheah Eng Chuan	28.5	-
Carmen Chuah	9.5	-
Ong Lock Hoo	8.2	-

Per Share Data	2009	2010F	2011F	2012F
Book Value (RM)	1.6	1.8	2.0	2.3
Cash Flow (sen)	9.5	14.3	18.9	21.7
Earnings (sen)	4.1	7.7	10.8	12.8
Dividend (sen)	0.0	0.0	0.0	0.0
Payout Ratio (%)	0.0	0.0	0.0	0.0
PER (x)	14.7	7.8	5.6	4.7
P/Cash Flow (x)	6.4	4.2	3.2	2.8
P/Book Value (x)	0.4	0.3	0.3	0.3
Dividend Yield (%)	0.0	0.0	0.0	0.0
ROE (%)	5.1	9.0	11.4	12.0
Net Gearing (%)	net cash	net cash	net cash	net cash

P&L Analysis (RM mil)	2009	2010F	2011F	2012F
Year-end: Dec				
Revenue	80.7	118.0	163.4	181.8
Operating Profit	4.8	8.5	11.9	13.3
Depreciation	(4.9)	(6.0)	(7.3)	(8.0)
Net Interest Expense	(1.0)	(1.0)	(1.0)	(0.7)
Pre-tax Profit	4.4	8.5	11.9	14.1
Effective Tax Rate (%)	17.5	17.5	17.5	17.5
Net Profit	3.7	7.0	9.8	11.6
Operating Margin (%)	5.9	7.2	7.3	7.3
Pre-tax Margin (%)	5.5	7.2	7.3	7.7
Net-Margin (%)	4.6	5.9	6.0	6.4

PE Band Chart



1. 4Q09 Result Highlights:

Above expectations. Furniweb's 4QFY12/09 net profit of RM1.9m (+61.2 qoq; +278.6% yoy) was above our and consensus expectations with full-year net profit of RM3.7m (-42.4% yoy) accounting for 140.5% and 133.9% of our and consensus full-year estimates respectively. The key variance was a lower-than-expected full-year effective tax rate of 17.5% as compared to our full-year effective tax rate assumption of 28.5%. As expected, Furniweb did not declare any dividend for the quarter.

4Q revenue up 5.4% qoq but net profit jumped 61.2% qoq. 4Q revenue was up by 5.4%, which management attributed to a recovery in customers' orders during the quarter. 4Q EBIT margin, however, expanded by 2.0%-pts qoq due to, we believe, lower cost of materials during the quarter. Coupled with a lower effective tax rate of 4.3% (3Q:17.1%), 4Q net profit jumped 61.2% qoq.

Outlook. Furniweb's 4Q performance suggests that the worst could be over for Furniweb although we note management's expectations of a slow and gradual recovery in orders. Furniweb is the 2nd largest manufacturer of furniture webbing in the world and its plan to list in Vietnam would allow the Group to gain direct access to the Vietnamese capital market and to raise funds for future expansion plans.

Risks. 1) weaker-than-expected margins, which could be due to increase raw material prices; and 2) weaker-than-expected demand.

Forecasts. We are revising our FY10 and FY11 effective tax rate assumption to 17.5% p.a. respectively (vs. 28.5% p.a.). Consequently, our FY10 and FY11 earnings forecasts have been raised by 15.4% respectively. We introduce our FY12 numbers.

2. Recommendation

Following the earnings revision above, our indicative fair value has been raised to RM0.66 (from RM0.57) based on unchanged target FY12/10 PER of 8.5x. Our **Hold** call on the stock, however, remains unchanged.

Table 1: Earnings Review

FYE Dec (RMm)	4Q08	3Q09	4Q09	QoQ (%)	YoY (%)	FY08	FY09	YoY (%)	Comments
Revenue	22.0	20.5	21.6	5.4	(1.8)	93.6	80.7	(13.8)	Lower yoy due to the drop in demand as overall consumer confidence was weak as a result of the global economic situation.
EBIT	1.5	1.4	1.9	34.7	27.3	8.9	4.8	(46.3)	Sharper yoy decline due to margin squeeze.
Interest Expense	(0.4)	(0.2)	(0.1)	(44.4)	(68.7)	(1.3)	(1.0)	(28.5)	Total debt as at end-4Q09 was RM17.4m (vs. end-3Q09: RM17.6m; end-4Q08: RM21.3).
Associates	0.1	0.2	0.2	3.5	+>100	0.3	0.6	+>100	Higher contribution from its associate company in Vietnam.
Pretax Profit	1.2	1.4	2.0	42.8	69.7	7.8	4.4	(43.1)	
Taxation	(0.7)	(0.2)	(0.1)	(63.6)	(87.4)	(1.8)	(0.8)	(56.5)	
Minority Interest	0.0	(0.0)	(0.0)	n.m.	n.m.	0.5	0.1	(85.1)	
Net Profit	0.5	1.2	1.9	61.2	+>100	6.5	3.7	(42.4)	
Margin (%)									
EBIT	6.9	7.0	9.0			9.5	5.9		We believe the full-year margin erosion was largely on account of lower utilisation rates resulting from the drop in demand.
Pre-tax margin	5.4	6.9	9.4			8.3	5.5		
Effective tax rate	58.5	17.1	4.3			22.8	17.5		Full-year effective tax rate below statutory tax rate as the Group enjoys tax incentives such as reinvestment allowances and double deductions. In addition, certain overseas subsidiary companies enjoy lower corporate income tax rates.
Net profit	2.3	5.7	8.7			6.9	4.6		

Source: Company, RHBRI

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Outperform = The stock return is expected to exceed the KLCI benchmark by greater than five percentage points over the next 6-12 months.

Trading Buy = Short-term positive development on the stock that could lead to a re-rating in the share price and translate into an absolute return of 15% or more over a period of three months, but fundamentals are not strong enough to warrant an Outperform call. It is generally for investors who are willing to take on higher risks.

Market Perform = The stock return is expected to be in line with the KLCI benchmark (+/- five percentage points) over the next 6-12 months.

Underperform = The stock return is expected to underperform the KLCI benchmark by more than five percentage points over the next 6-12 months.

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Overweight = Industry expected to outperform the KLCI benchmark, weighted by market capitalisation, over the next 6-12 months.

Neutral = Industry expected to perform in line with the KLCI benchmark, weighted by market capitalisation, over the next 6-12 months.

Underweight = Industry expected to underperform the KLCI benchmark, weighted by market capitalisation, over the next 6-12 months.

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