

Furniweb Industrial Products

Recommendation: **HOLD**

Stock Code: 7168

Bloomberg: FURN MK

Price: MYR0.60

12-Month Target Price: MYR0.67

Date: February 23, 2010

Board: Main

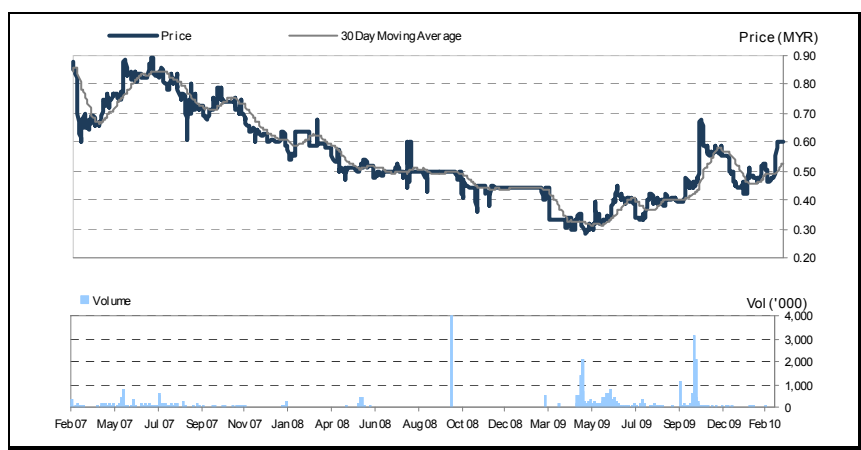
Sector: Industrial Products

GICS: Consumer Discretionary/Textiles

Market Value - Total: MYR54.8 mln

Summary: Listed on the Second Board of Bursa Malaysia in Oct. 2003, Furniweb Industrial Products (Furniweb) is an industrial textile manufacturer which supplies semi-finished products to the furniture, apparel, food, medical and auto industries.

Analyst: Sharon Wong, CFA



Results Review & Earnings Outlook

- Furniweb's 2009 results exceeded our expectations due to higher-than-expected margin in 4Q09. 4Q09 gross margin improved 5.2 %-point and 4.7 %-point YoY and QoQ respectively to 26.8% due to an improved product mix. Full year net profit of MYR3.7 mln came in 25% above our forecast of MYR3 mln.
- Earnings were down by 42% in 2009 due to the economic downturn which resulted in a 13.8% YoY contraction in revenue and a 1.5 %-point YoY decline in gross margin to 21.2%.
- Included in the 2009 results were charges (e.g. stock write-offs, retrenchment benefit costs) relating to the closure of its elastics manufacturing operations in Malaysia. The elastics manufacturing unit made a loss of MYR1.8 mln in 2009 due to the closure of the operations but the loss will not be repeated in 2010.
- Although Furniweb has seen a sequential improvement in its earnings over the past three quarters, management remains cautious and believes that it may take awhile for earnings to return to pre-financial crisis levels.
- We raise our 2010 net profit forecast by 10% after raising our revenue and margin assumptions. We also introduce our 2011 forecast. We expect demand to improve as the global economy recovers and have factored in a continued improvement in Furniweb's operations and earnings in 2010. We project a 73% increase in 2010 net profit with earnings returning to 2008 levels but remaining below 2007 levels.

Recommendation & Investment Risks

- We maintain our Hold recommendation on Furniweb. With the global economic recovery underway, Furniweb should see continued improvement in its operations. Given improving earnings, low gearing and positive cash flow from operations, we believe that Furniweb will maintain its DPS of 3 sen, which translates to a reasonable dividend yield of 5%.
- We have raised our 12-month target price to MYR0.67 from MYR0.61 after raising our earnings projections. Our target price continues to be based on a target 2010 earnings multiple of 9x (unchanged), which is close to its historical average. We have also included projected net DPS of 3 sen in our valuation.
- Risks to our recommendation and target price include: (i) a sluggish economic recovery which results in continued soft demand, (ii) sharp increases in raw material prices which cannot be fully passed on to customers, (iii) more intense competition, and (iv) failure to maintain the 3 sen per share gross dividend.

Key Stock Statistics

| FY Dec. | 2009 | 2010E |
|---------------------------------|-------------|-------|
| Reported EPS (sen) | 4.1 | 7.1 |
| PER (x) | 14.7 | 8.5 |
| Dividend/Share (sen) | 3.0 | 3.0 |
| NTA/Share (MYR) | 0.80 | 0.84 |
| Book Value/Share (MYR) | 0.82 | 0.86 |
| No. of Outstanding Shares (mln) | 90.5 | |
| 52-week Share Price Range (MYR) | 0.29 - 0.68 | |
| Major Shareholders: | % | |
| Cheah Eng Chuan | 28.8 | |
| Carmen Chua | 9.5 | |

* Stock deemed Shariah compliant by the Securities Commission

Per Share Data

| FY Dec. | 2007 | 2008 | 2009 | 2010E |
|-------------------------|------|------|------|-------|
| Book Value (MYR) | 0.77 | 0.81 | 0.82 | 0.86 |
| Cash Flow (sen) | 14.8 | 11.6 | 8.5 | 11.7 |
| Reported Earnings (sen) | 9.7 | 7.1 | 4.1 | 7.1 |
| Dividend (sen) | 3.0 | 3.0 | 3.0 | 3.0 |
| Payout Ratio (%) | 30.9 | 42.1 | 73.1 | 42.3 |
| PER (x) | 6.2 | 8.5 | 14.7 | 8.5 |
| P/Cash Flow (x) | 4.1 | 5.2 | 7.1 | 5.2 |
| P/Book Value (x) | 0.8 | 0.8 | 0.7 | 0.7 |
| Dividend Yield (%) | 5.0 | 5.0 | 5.0 | 5.0 |
| ROE (%) | 13.1 | 9.0 | 5.1 | 8.5 |
| Net Gearing (%) | 3.1 | 4.7 | 0.0 | 0.0 |

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| FY Dec. / MYR mln | 4Q09 | 4Q08 | % Change |
|---------------------------------|------|------|----------|
| Reported Revenue | 21.6 | 22.0 | -1.8 |
| Reported Operating Profit | 1.9 | 1.5 | 27.2 |
| Depreciation & Amortization | NA | NA | NA |
| Net Interest Income / (Expense) | -0.1 | -0.4 | -68.7 |
| Reported Pre-tax Profit | 2.0 | 1.2 | 71.3 |
| Reported Net Profit | 1.9 | 0.5 | >100 |
| Reported Operating Margin (%) | 9.0 | 6.9 | - |
| Reported Pre-tax Margin (%) | 9.4 | 5.4 | - |
| Reported Net Margin (%) | 8.7 | 2.3 | - |

Source: Company data

Profit & Loss

| FY Dec. / MYR mln | 2008 | 2009 | 2010E | 2011E |
|---------------------------------|------|------|-------|-------|
| Reported Revenue | 93.6 | 80.7 | 90.4 | 99.4 |
| Reported Operating Profit | 8.9 | 4.8 | 7.7 | 9.7 |
| Depreciation & Amortization | -4.0 | -4.0 | -4.2 | -4.3 |
| Net Interest Income / (Expense) | -1.3 | -1.0 | -0.7 | -0.5 |
| Reported Pre-tax Profit | 7.8 | 4.4 | 7.7 | 9.8 |
| Effective Tax Rate (%) | 22.8 | 17.5 | 16.0 | 16.0 |
| Reported Net Profit | 6.5 | 3.7 | 6.4 | 8.3 |
| Reported Operating Margin (%) | 9.5 | 5.9 | 8.5 | 9.7 |
| Reported Pre-tax Margin (%) | 8.3 | 5.5 | 8.5 | 9.9 |
| Reported Net Margin (%) | 6.9 | 4.6 | 7.1 | 8.3 |

Source: Company data, S&P Equity Research

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Glossary

Strong Buy: Total return is expected to outperform the total return of the KLCI or KL Emas Index respectively, by a wide margin over the coming 12 months, with shares rising in price on an absolute basis.

Buy: Total return is expected to outperform the total return of the KLCI or KL Emas Index respectively, over the coming 12 months, with shares rising in price on an absolute basis.

Hold: Total return is expected to closely approximate the total return of the KLCI or KL Emas Index respectively, over the coming 12 months with shares generally rising in price on an absolute basis.

Sell: Total return is expected to underperform the total return of the KLCI or KL Emas Index respectively, over the coming 12 months and share price is not anticipated to show a gain.

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Recommendation and Target Price History

| Date | Recommendation | Target Price |
|-----------|----------------|--------------|
| New | Hold | 0.67 |
| 25-Nov-09 | Hold | 0.61 |
| 24-Aug-09 | Hold | 0.43 |
| 29-May-09 | Hold | 0.37 |
| 25-Feb-09 | Hold | 0.46 |
| 13-Jun-08 | Hold | 0.51 |

