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RHB 

**RHB Research
Institute Sdn Bhd**
A member of the
RHB Banking Group
Company No: 233327 -M

1Q2010 Results

Date: 24 May 2010

Name of PLCs: Furniweb Industrial Products <i>Above Expectations</i>	Price:	RM0.71
	Market Capitalisation:	RM40.8
Board: Main Market		
Sector: Industrial Products		
Stock Code: 7168		
Recommendation: Buy		
Index Component/Constituent : -		

<u>Key Stock Statistics</u>	2009	2010F
EPS (est.)	4.1	8.4
P/E (est.)	10.9	5.4
Dividend/Share (sen)	-	-
NTA/Share (RM)	1.76	-
Book Value/Share	1.63	-
Issued Capital (mil shares)	90.7	-
52-weeks Share Price Range	0.285-0.68	-
<u>Major Shareholders:</u>	%	
Cheah Eng Chuan	28.5	-
Carmen Chuah	9.5	-
Ong Lock Hoo	8.2	-

<u>Per Share Data</u>	2009	2010F	2011F	2012F
Book Value (RM)	1.6	1.8	2.0	2.3
Cash Flow (sen)	9.5	15.0	18.5	21.1
Earnings (sen)	4.1	8.4	10.4	12.2
Dividend (sen)	0.0	0.0	0.0	0.0
Payout Ratio (%)	0.0	0.0	0.0	0.0
PER (x)	10.9	5.4	4.3	3.7
P/Cash Flow (x)	4.8	3.0	2.4	2.1
P/Book Value (x)	0.3	0.2	0.2	0.2
Dividend Yield (%)	0.0	0.0	0.0	0.0
ROE (%)	5.1	9.7	10.9	11.5
Net Gearing (%)	net cash	net cash	net cash	net cash

<u>P&L Analysis (RM mil)</u>	2009	2010F	2011F	2012F
Year-end: Dec				
Revenue	80.7	118.0	163.4	181.8
Operating Profit	4.8	10.9	13.5	15.0
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	10.8	13.4	15.8
Effective Tax Rate (%)	17.5	30.0	30.0	30.0
Net Profit	3.7	7.6	9.4	11.1
Operating Margin (%)	5.9	9.2	8.2	8.2
Pre-tax Margin (%)	5.5	9.2	8.2	8.7
Net-Margin (%)	4.6	6.4	5.7	6.1

PE Band Chart



1. 1Q10 Result Highlights:

1Q core net profit jumps to RM1.9m. Furniweb's 1QFY12/10 core net profit of RM1.6m (-15.4% qoq) accounted for 22.9% and 23.8% of our and consensus full-year estimates respectively. We consider this to be above our expectations given that 1Q is typically the weakest quarter. The key variance was due to higher-than-expected core EBIT margin achieved of 9.1% in 1Q10 vs. our full-year forecast of 7.2%, offset partially by a higher-than-expected effective tax rate of 31.9% (vs. our full-year assumption of 17.5%) during the quarter. As expected, no dividend was declared for the quarter.

Revenue fell 3.3% qoq. 1Q revenue dropped marginally (-3.3% qoq) due to lower contribution from its rubber strips and fabrics division (-23.8% qoq), partly offset by a higher contribution by its webbing, yarn and furniture components division (+6.2% qoq) as well as seasonal factors due to a shorter working period in Feb. Coupled with higher finance cost (+71.8% qoq) and higher effective tax rate of 39.1% (vs. 4Q09 effective tax rate of 4.3%), 1Q10 core net profit remained flat qoq. 1Q reported profit (-84.2% qoq) was affected by forex losses of RM1.3m resulting from the strengthening of the RM against US\$ (+5.0% qoq).

Outlook. We believe the worse could be over for Furniweb given its better 1Q performance from a year ago. Going forward, we expect Furniweb to register stronger sales, on the back of the recovering economy. However, in the near term, earnings could remain volatile due to fluctuating raw material prices, which could adversely impact margins. Separately, Furniweb's plan to list in Vietnam has hit a snag as the listing requirements have been made stricter by the Vietnamese authorities. This could potentially dampened Furniweb's plan to raise funds for future capacity 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 have raised our FY10-12 EBIT margin assumptions slightly to 8.2-9.2% (vs. 7.2-7.3% previously) and raised our effective tax rate assumption to 30% p.a. (vs. 17.5% p.a. previously). Consequently, our FY10 earnings have been raised by 8.5%, while our FY11-12 earnings have been trimmed by 4.1% and 4.3% respectively.

2. Recommendation

Following the earnings revision above, our indicative fair value has been raised to RM0.71 (from RM0.66) based on unchanged target FY12/10 PER of 8.5x. Our **Buy** call on the stock remains unchanged.

Table 1: Earnings Review

FYE Dec (RMm)	1Q09	4Q09	1Q10	QoQ (%)	YoY (%)	Comments
Revenue	18.4	21.6	20.9	(3.3)	13.5	Higher yoy was due to the stronger demand as overall consumer confidence improved on the back of the economic recovery.
EBIT	0.5	1.9	1.9	(3.0)	+>100	Largely due to the expansion in margin.
Interest Expense	(0.4)	(0.1)	(0.2)	71.8	(51.9)	Total debt as at end-1Q10 was RM16.2m (vs. end-4Q10: RM17.4m; end-1Q10: RM18.8).
Associates	0.1	0.2	0.2	(15.1)	93.3	Higher yoy contribution from its associate company in Vietnam.
Exceptionals	-	-	(1.3)	->100	->100	Relates to forex loss during the quarter.
Pretax Profit	0.2	2.0	0.6	(70.4)	+>100	
Taxation	(0.2)	(0.1)	(0.2)	+>100	29.8	
Minority Interest	0.1	(0.0)	(0.0)	(43.8)	->100	
Net Profit	0.2	1.9	0.3	(84.2)	94.2	
Core Net Profit	0.2	1.9	1.6	(15.4)	+>100	
Margin (%)						
EBIT	2.9	9.0	9.1			Yoy margin expansion due to operating leverage effects on account of higher yoy revenue as well as lower cost of raw materials.
Pre-tax margin	1.0	9.4	8.8			
Effective tax rate	87.5	4.3	39.1			Above statutory tax rate as certain expenses were non-deductible for tax purposes
Net Profit margin	0.8	8.7	1.4			
Core NP margin	0.8	8.7	7.6			

Source: Company, RHBRI

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Outperform = The stock return is expected to exceed the FBM 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 FBM KLCI benchmark (+/- five percentage points) over the next 6-12 months.

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

Industry/Sector Ratings

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

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

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

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