**INITIATION REPORT**

17 Mar 2011

<b>Furniweb Industrial Products Berhad</b>	<i>Market Price:</i>	RM0.35	
	<i>Market Capitalisation:</i>	RM31.8m	
	<i>Board:</i>	Main Market	
<i>Recommendation:</i>	HOLD	<i>Sector:</i>	Industrial Products
<i>Target Price:</i>	RM0.35	<i>Stock Code/Name:</i>	7168 / FURNWEB

Analyst: Edmund Tham



Source: Furniweb

**Furniweb: Range of Products Manufactured**

Product type	Description
Covered Elastic Yarn	Used widely in stretch fabric, narrow elastic fabrics, socks, gloves, bandages and other apparel.
Furniture Webbing	Used mainly in the furniture industry as support for seats and the back of sofas.
Industrial and Safety Webbing	Used in lifting, lashing and safety applications such as cargo slings, tie downs, industrial safety harness and helmet straps.
Seat Belt Webbing	Used as important safety device in an automobile for both adults and children.
Rubber Strips and Sheets	Used mainly for items that requires elasticity like sportswear, underwear and swimwear.
Narrow Elastic Fabrics	Used widely for intimate apparels.
Meat, Rootball Netting and Chicken Loop	Meat netting is used in the packing of meat before cooking, to maintain its shape for better presentation and hygienic handling. Rootball netting provides a natural way to transplant trees and shrubs.
Recliner	Besides the standard accessory for each recliner mechanism model, wooden frames and webbing.

Source: Furniweb

**BACKGROUND**

Furniweb Industrial Products Berhad was listed on the Second Board of Bursa Malaysia back in October 2003. The group was subsequently transferred to the Main Board of Bursa Malaysia. Furniweb's corporate headquarters is based in Balakong, Seri Kembangan in Selangor. Meanwhile, the group also has offices and manufacturing operations located in Balakong, Shah Alam and Beranang in Selangor and also in Dong Nai Province of Vietnam.

**“Wide range of products”**

Furniweb started operations in 1983 in Malaysia as a partnership producing furniture webbing and is now reputedly one of the top manufacturers in the world. The group has since diversified into niche products for the textile and apparel, furniture, automotive, food packaging and medical industries. These products include covered elastic yarn, industrial webbing, rubber strips and sheets, narrow fabric, seat belt webbing, meat netting and sofa components. Today, the group is internationally recognized for a wide range of products that are exported to more than 40 countries.

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**Furniweb : Subsidiaries/Associate Companies**

Location	Company
Malaysia	Furniweb Manufacturing Sdn Bhd
	Furniweb Safety Webbing Sdn Bhd
	Texstrip Manufacturing Sdn Bhd
	Webtex Trading Sdn Bhd
	Syarikat Sri Kepong Sdn Bhd
	Premier Gesture Sdn Bhd
	First Elastic Corporation (M) Sdn Bhd
Vietnam	Furniweb (Vietnam) Shareholding Company
	Premier Elastic Webbing & Accessories (Vietnam) Co Ltd
	Furnitech Components (Vietnam) Co Ltd (72% stake)
	Trunet (Vietnam) Co Ltd (50% stake)

Source: Furniweb

The group's Vietnam manufacturing operations are involved in the production of some products for the food (e.g. meat netting), textile (e.g. yarn, elastic laces and trimmings) and furniture (e.g. sofa recliners) sectors. Currently, more than half of Furniweb's production is based in Vietnam.

**“Vietnam operations”**

Furniweb has a trading arm named Webtex Trading Sdn Bhd. Webtex mainly trades in textile raw materials and is also the agent for textile related machineries and the local distributor for INVISTA Lycra elastane yarn.

Furniweb's group management is led by its managing director (MD) Mr Jimmy Cheah Eng Chuan. Mr Cheah is also a substantial shareholder of the company and was first appointed as MD back in July 2003.

Mr Cheah is also a founder member of Furniweb Manufacturing Sdn Bhd, Webtex Trading Sdn Bhd and Texstrip Manufacturing Sdn Bhd, wholly-owned subsidiaries of the company. Overall, he has accumulated more than 30 years of experience in the rubber threads and furniture webbing industries.

**PERFORMANCE – FY10**

Furniweb's group revenue of RM19.1 million for its 4Q/FY10 ended 31<sup>st</sup> December 2010 was lower by 12.2% y-o-y, compared to the RM21.8 million reported during its 4Q/FY09. Full year FY10 revenue was RM82.0 million, which was 1.4% higher y-o-y than its FY09 revenue of RM80.8 million.

12M/ 31 Dec	FY10	FY09	yoy %
Rev (RMm)	82.0	80.8	1.4
EBIT (RMm)	1.0	1.8	(48.0)
NPAT (RMm)	2.8	3.8	(25.3)
EPS (sen)	3.1	4.2	(25.3)

4Q/ 31 Dec	4Q10	4Q09	yoy %	3Q10	qoq%
Rev (RMm)	19.1	21.8	(12.2)	19.7	(2.9)
EBIT (RMm)	(0.27)	1.9	(114.1)	(0.01)	(2,570)
NPAT (RMm)	1.0	1.9	(47.6)	0.1	672.0
EPS (sen)	1.1	2.1	(47.6)	0.1	672.0

**“Positive contribution from Webbing & Yarn operations”**

The overall increase in revenue for FY10 was mainly due to the higher turnover recorded by the group's Webbing and Yarn operations during the year. The group's 4Q/FY10 revenue was nevertheless lower y-o-y, as customers worldwide remained cautious in the purchasing policies, due to the continuous increase in global raw material prices.

Furniweb's NPATMI (net profit after tax and minority interest) had decreased from RM1.9 million in 4Q/FY09 to RM1.0 million in 4Q/FY10. The group NPATMI was RM2.8 million for FY10, compared to RM3.8 in FY09.

Comparing q-o-q, the group's 4Q/FY10 revenue was 2.9% lower than the revenue of RM19.7 million recorded in the preceding 3Q/FY10. However, group NPATMI in 4Q/FY10 was RM0.9 million higher than the RM0.1 million recorded in 3Q/FY10. This was mainly due to the reversal of RM0.8 million of over provision in deferred tax from prior years, during the quarter.

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The strengthening of the Ringgit against the US Dollar by approximately 10% during the group's FY10 had resulted in net foreign exchange losses of approximately RM3 million during the year. This scenario came about as the group has a fair amount of inter-company balances owing from its Vietnamese subsidiaries to their Malaysian counterparts and also due to the fact that a sizeable portion of the group's revenue is generated in US Dollars.

## OUTLOOK/CORP. UPDATES

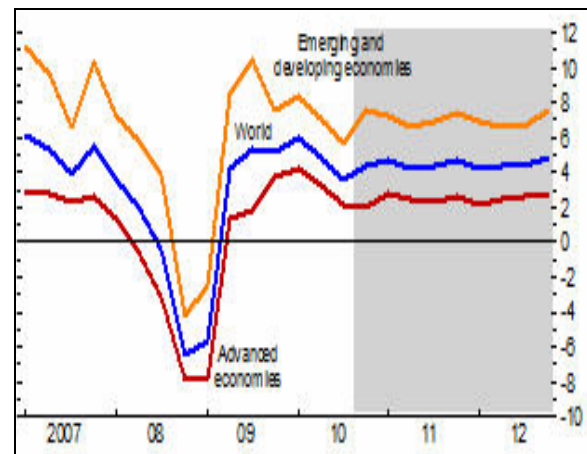
We remain cautious on Furniweb's overall group performance during its FY11 ending 31<sup>st</sup> December 2011. This is due to the lacklustre demand situation across a number of regions, coupled with increasing raw material prices. Additionally, the recent political upheavals in the Middle East/North Africa and major earthquake does impact business sentiment and trade levels, to a certain extent. We note that approximately 80% of Furniweb's products are for export markets, to areas as far as Europe, the Americas and Africa.

### “We are cautious on outlook”

In its World Economic Outlook (WEO) report (January 2011), the International Monetary Fund (IMF) opined that global economic recovery has continued, though unevenly by regions. As expected, growth has been stronger in emerging economies, as compared to advanced economies. Global economic output is projected to expand by 4.5% in 2011, an upward revision of about 0.25% relative to IMF's previous forecast in October 2010.

Global economic activity had expanded at an annualized rate of just over 3.5% in the third quarter of 2010. This positive performance was better than forecast earlier, owing to the stronger-than-expected consumption in the United States and Japan. Growth in emerging and developing economies remained robust in the third quarter of 2011, buoyed by private demand, the still-accommodative policy stances, and resurgent capital inflows.

## GDP Growth (% , q-o-q, annualized):



Source: IMF

### “Economic conditions holding up”

The latest available Malaysian economic data (January 2011) revealed reasonably positive growth rates in y-o-y percentage terms, for instance: IPI (+1.0 y-o-y), and Manufacturing Sales (+7.7% y-o-y), Exports (+3.0% y-o-y) and Imports (+13.5% y-o-y). Malaysia had reported a very respectable 4Q/2010 GDP growth of +4.8% (+7.2% for full year 2010 GDP), stable 4Q/2010 unemployment rate of 3.2% and manageable CPI of 2.4% (January 2011). Meanwhile, Bank Negara Malaysia (BNM) had last reaffirmed its accommodative overnight policy rate (OPR) of 2.75% in March 2011.

Furniweb has sizeable manufacturing operations in Vietnam. This can be attributable to the lower labour costs, tax incentives and also the “investor friendly” central government of Vietnam. The group has plans to list its Vietnam operations, but we are not aware of the exact time frame for this.

## VALUATION

The group had declared and subsequently paid out a final tax exempt dividend of 3 sen per share (3 sen DPS) for its financial year ended 31<sup>st</sup> December 2009 (FY09). The dividend was paid out during July 2010.

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**“Consistent dividends”**

Furniweb’s management has not proposed dividends for the group’s FY10 at the date of this report. Nevertheless, given Furniweb’s consistent dividend payout track record in recent years (3 sen tax exempt), we opine that the company might decide to give out a similar amount for its FY10.

With a relatively strong adjusted beta of 1.57 to the KLCI, Furniweb has mirrored KLCI’s performance this year (by -12.5% vs. -2.06% year-to-date (YTD)). Market conditions have also been volatile lately, impacted by the recent political uprisings in the Middle East/North Africa and major earthquake 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.

**“Hold Call at present”**

Based on our forecast of Furniweb’s FY11 EPS and an estimated P/E of 10 times (within its historical range), we set a **FY11-end Target Price (TP) of RM0.35**. This TP is at the same level as its current market price. Our TP for Furniweb reflects a P/BV of just 0.44 times over its FY11F BV/share. Meanwhile, the local consumer goods sector’s average P/E and P/BV is 20.3 times and 0.5 times, respectively.

**“Concerns linger”**

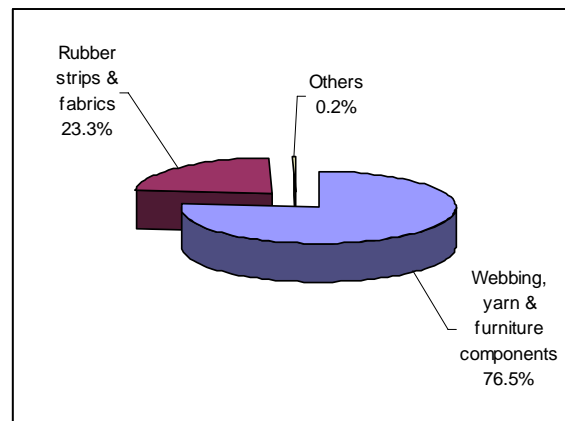
We note that Furniweb is in a net cash position and it also has a high dividend yield and an undemanding P/BV valuation. However, we are still concerned over its weak revenue and earnings growth rate and relatively slim profit margins. Furniweb’s businesses also face risks such as possible slow global economic growth, weak product demand, foreign exchange fluctuations, rising costs (oil, raw materials – e.g. rubber) and stiff competition from other manufacturers.

**Furniweb: 6-month Share Price**



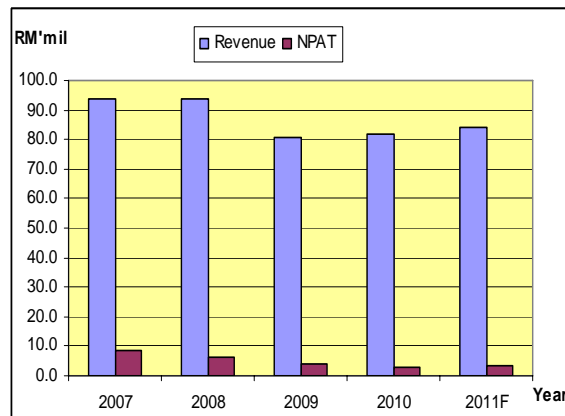
Source: NextView

**Furniweb: Breakdown of FY10 revenue by business segment**



Source: Furniweb

**Furniweb: Revenue and NPAT trend**



Source: Furniweb



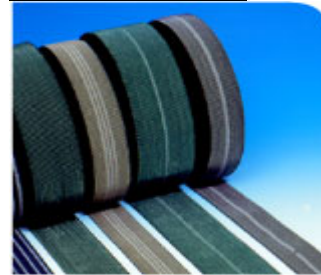
**KEY FINANCIALS**

<b>Key Stock Statistics</b>	<b>2011F</b>
EPS (sen)	3.5
P/E (x)	10.0
Dividend/Share (sen)	4.0
NTA/Share (RM)	0.77
Book Value/Share (RM)	0.79
Issued Capital (mil shares)	90.7
52-weeks share price (RM)	0.35 – 0.50
Major Shareholders:	%
Cheah Eng Chuan, Jimmy	28.4
Chua Carmen	9.5
Ong Lock Hoo	8.4
Lee Sim Hak	6.1

<b>Per Share Data</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011F</b>
Book Value (RM)	0.81	0.82	0.79	0.79
Earnings (sen)	7.1	4.2	3.1	3.5
Dividend (sen)	4.1	4.0	4.0	4.0
Payout Ratio (%)	42.1	72.1	96.5	86.1
PER (x)	4.9	8.4	11.3	10.0
P/Book Value (x)	0.4	0.4	0.4	0.4
Dividend Yield (%)	11.6	11.4	11.4	11.4
ROE (%)	8.8	5.1	3.9	4.4
Net Gearing (cash) (x)	0.05	(0.01)	(0.06)	(0.03)

<b>P&amp;L Analysis (RM mil)</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011F</b>
<b>Year end: Dec 31</b>				
Revenue	93.6	80.8	82.0	84.0
Operating Profit	8.9	4.7	3.1	3.6
Depreciation	(3.9)	(3.9)	(3.9)	(3.9)
Interest Expenses	(1.7)	(1.2)	(1.1)	(0.9)
Pre-tax Profit	7.8	4.5	3.0	3.8
Effective Tax Rate (%)	22.8	17.3	3.0	14.4
Net Profit	6.5	3.8	2.8	3.2
Operating Margin (%)	9.5	5.8	3.8	4.3
Pre-tax Margin (%)	8.3	5.5	3.6	4.5
Net Margin (%)	6.9	4.7	3.4	3.8

\*RM0.50 par value

**Covered elastic yarn****Furniture webbing****Industrial & safety webbing****Rubber strips & sheets****Meat netting**

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