

**RESULTS REPORT**

21 May 2012

<b>Furniweb Industrial Products Berhad</b>		<b>Market Price:</b>	RM0.36
		<b>Market Capitalisation:</b>	RM32.7m
		<b>Board:</b>	Main Market
<b>Recommendation:</b>	HOLD	<b>Sector:</b>	Industrial Products
<b>Target Price:</b>	RM0.40	<b>Stock Code/Name:</b>	7168 / FURNWEB

Analyst: Edmund Tham

**KEY FINANCIALS**

Key Stock Statistics	2012E
Earnings/Share (sen)	5.7
P/E Ratio (x)	6.3
Dividend/Share (sen)	3.3
NTA/Share (RM)	0.81
Book Value/Share (RM)	0.83
Issued Capital (mil shares)	90.7
52-weeks share price (RM)	0.30 – 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	2009	2010	2011	2012E
Book Value/Sh. (RM)	0.82	0.79	0.80	0.83
Earnings/Sh. (sen)	4.2	3.1	5.2	5.7
Dividend.Sh. (sen)	4.0	3.3	3.3	3.3
Div. Payout Ratio (%)	72.1	80.4	48.1	44.0
P/E Ratio (x)	8.6	11.6	6.9	6.3
P/Book Value (x)	0.44	0.46	0.45	0.43
Dividend Yield (%)	11.1	9.3	9.3	9.3
ROE (%)	5.1	3.9	6.5	6.8
Net Gearing (Cash) (x)	(0.01)	(0.06)	(0.05)	(0.04)

\*estimated FY11 dividend

P&L Analysis (RM mil)	2009	2010	2011	2012E
<b>Year end: Dec 31</b>				
Revenue	80.8	82.0	80.7	84.1
Operating Profit	4.7	3.1	5.7	6.5
Depreciation	(3.9)	(3.7)	(3.4)	(3.3)
Interest Expenses	(1.2)	(1.1)	(1.1)	(1.4)
Pre-tax Profit (PBT)	4.5	3.0	5.6	6.0
Effective Tax Rate (%)	17.3	3.0	14.1	14.3
Net Profit after Tax & MI	3.8	2.8	4.7	5.2
Operating Margin (%)	5.8	3.8	7.1	7.7
Pre-tax Margin (%)	5.5	3.6	7.0	7.2
Net Margin (%)	4.7	3.4	5.8	6.1

\*RM0.50 par value

**PERFORMANCE – 1Q/FY12**

1Q/31 Mar	1Q12	1Q11	yoy %	4Q11	qoq%
Rev (RMm)	20.7	20.6	0.7	21.2	(2.4)
EBIT (RMm)	0.5	0.03	1,751.9	1.0	(50.0)
NPAT*(RMm)	0.4	0.7	(45.1)	0.9	(58.6)
EPS* (sen)	0.4	0.8	(45.1)	1.0	(58.6)

\*based on 90.7 million shares

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

For 1Q/FY12 (quarter ended 31<sup>st</sup> March 2012), Furniweb's **revenue was within our earlier expectations, while its NPATMI was below.**

**“Q1 – revenue within, NPATMI below”**

The group recorded revenue of RM20.7 million during 1Q/FY12, an increase of 0.7% y-o-y. Group NPATMI was RM0.4 million, a decrease of 45.1% y-o-y. The group's overall margins were affected by higher input costs (labour and raw materials).

**“Impacted by higher input costs & price competition”**

Revenue for the group's core **Webbing, Yarn & Furniture Component** business segment were flattish due to the sluggish demand from the export markets. The segment remained profitable but margins were squeezed due to higher input costs and price competition.

Revenue for the group's **“Rubber Strips & Fabrics”** business segment was marginally higher y-o-y. However, this segment remained unprofitable at the PBT (profit before tax) level. Losses at the PBT level were slightly lower y-o-y, mitigated by the higher revenue and more

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stable USD-VND exchange rate during the quarter.

Comparing versus the preceding 4Q/FY12, group revenue was lower by 2.4% q-o-q while NPATMI was lower by 58.6% q-o-q. The lower revenue was due to weaker revenue from its “Rubber Strips & Fabrics” business segment. The lower profit was due to an increase in input costs and also lower prices for some of its products (due to price competition).

## OUTLOOK/CORP. UPDATES

We remain cautious on Furniweb’s overall group performance during its FY12 ending 31<sup>st</sup> December 2012. This is due to the lacklustre demand situation across a number of regions, coupled with increasing 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.

### “We remain Cautious on 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 1Q/FY12 revenues.

### “IMF: Growth resuming, risks remain”

According to the IMF’s latest World Economic Outlook (WEO-April 2012), global prospects are gradually strengthening again, but downside risks remain elevated. Improved economic activity in the U.S. during the second half of

2011 and better policies in the Euro area in response to its deepening economic crisis have reduced the threat of a sharp global slowdown. Accordingly, weak recovery is likely to resume in the major advanced economies, and economic activity is expected to remain relatively solid in most emerging and developing economies.

Overall global economic growth is projected to drop from about 4% in 2011 to about 3.5% in 2012, but to recover to 4% in 2012. Given the sovereign debt crisis, the **Euro area economy is still expected to go into a mild recession in 2012** as a result of the rise in sovereign yields, the effects of bank de-leveraging on the real economy, and the impact of additional fiscal consolidation. Real GDP growth in the emerging and developing economies is projected to slow (due to policy tightening, external environment and weak demand) from 6.25% in 2011 to 5.75% in 2012 but then to reaccelerate to 6% in 2013, helped by easier macroeconomic policies and strengthening foreign demand.

### IMF data: GDP growth

Area	2010	2011	2012E	2013E
U.S.	3.0	1.7	2.1	2.4
Euro Area	1.9	1.4	-0.3	0.9
Japan	4.4	-0.7	2.0	1.7
China	10.4	9.2	8.2	8.8
India	10.6	7.2	6.9	7.3
Malaysia	7.2	5.1	4.4	4.7

## VALUATION/CONCLUSION

### “We await its dividend proposal”

Dividends for its FY11 have not been proposed yet but we expect it to be the same as for FY10 (2.5 sen tax exempt). We note that Furniweb’s FY12F **dividend yield % is quite attractive.**

Furniweb’s stock has been **trading relatively range-bound** this year (-2.7% YTD) and has slightly underperformed the KLCI (+0.5% YTD) in 2012. Market conditions have also been volatile during the past year, impacted by the “Arab Spring” political uprisings in the

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#### Results Report

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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 FY12 EPS and an estimated P/E of 7 times (within its historical range), we set a **FY12-end Target Price (TP) of RM0.40**. This TP is 11.1% above its stock price on the date of our report. Our TP for Furniweb reflects a P/BV of just 0.48 times over its FY12F BV/share.

We note that Furniweb is in a net cash position and it also has reasonable P/E, P/BV and ROE levels. We are still concerned over its weak revenue and earnings growth, amidst the 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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