

**RESULTS REPORT**

01 Mar 2013

Furniweb Industrial Products Berhad		Market Price:	RM0.38
		Market Capitalisation:	RM34.5m
		Board:	Main Market
Recommendation:	HOLD	Sector:	Industrial Products
Target Price:	RM0.40	Stock Code/Name:	7168 / FURNWEB

Analyst: Edmund Tham

KEY FINANCIALS

Key Stock Statistics	2013F
Earnings/Share (sen)	5.6
P/E Ratio (x)	6.8
Dividend/Share (sen)	3.3
NTA/Share (RM)	0.82
Book Value/Share (RM)	0.84
Issued Capital (mil shares)	90.7
52-weeks share price (RM)	0.19 – 0.45
Major Shareholders:	%
.Cheah Eng Chuan, Jimmy	28.5
.Chua Carmen	9.5
.Ong Lock Hoo	8.4
.Lee Sim Hak	6.2

PERFORMANCE – 4Q/FY12

4Q/ 31 Dec	4Q12	4Q11	yoy %	3Q12	qoq%
Rev (RMm)	19.1	21.2	(10.0)	21.8	(12.4)
EBIT (RMm)	1.8	1.0	76.1	1.2	41.2
NPAT^(RMm)	1.2	0.9	32.7	1.0	23.7
EPS* (sen)	1.4	1.0	32.7	1.1	23.7

12M/ 31 Dec	FY12	FY11	yoy %
Rev (RMm)	84.6	80.7	4.8
EBIT (RMm)	4.9	3.3	45.5
NPAT (RMm)	4.1	4.7	(13.0)
EPS* (sen)	4.5	5.2	(13.0)

*based on 90.7 million shares

^NPATMI (net profit after tax & minority interest)

Ratios Analysis	2010	2011	2012	2013F
Book Value/Sh. (RM)	0.79	0.80	0.81	0.84
Earnings/Sh. (sen)	3.1	5.2	4.5	5.6
Dividend.Sh. (sen)	3.3	3.3	3.3	3.3
Div. Payout Ratio (%)	80.4	48.1	55.3	44.7
P/E Ratio (x)	12.2	7.3	8.4	6.8
P/Book Value (x)	0.48	0.47	0.47	0.45
Dividend Yield (%)	8.8	8.8	8.8	8.8
ROE (%)	3.9	6.5	5.6	6.6
Net Gearing (Cash) (x)	(0.06)	(0.05)	(0.10)	(0.11)

* 2013 figures are our estimates

P&L Analysis (RM mil)	2010	2011	2012	2013F
Year end: Dec 31				
Revenue	82.0	80.7	84.6	85.4
Operating Profit	3.1	5.7	5.7	7.1
Depreciation	(3.7)	(3.4)	(3.7)	(4.0)
Interest Expenses	(1.1)	(1.1)	(0.8)	(0.8)
Pre-tax Profit (PBT)	3.0	5.6	5.3	6.7
Effective Tax Rate (%)	3.0	14.1	24.4	24.5
Net Profit after Tax & MI	2.8	4.7	4.1	5.1
Operating Margin (%)	3.8	7.1	6.7	8.3
Pre-tax Margin (%)	3.6	7.0	6.3	7.9
Net Margin (%)	3.4	5.8	4.8	5.9

*RM0.50 par value

“Q4 results – in line”

For 4Q/FY12 (quarter ended 31st December 2012), Furniweb's results were generally within our earlier expectations.

“Margins improving”

The group's 4Q/FY12 revenue of RM19.1 million was lower by 10.0% y-o-y, while its NPATMI of RM1.2 million was higher by 32.7% y-o-y. Margins were aided by the lower Cost Of Sales and Administrative Expenses. This situation seems to be reverse of the growth trend for its full-year FY12 (higher revenue but lower NPAT).

The group's higher FY12 revenues were aided by a strong performance in export markets, as the group attempted to maintain its market position by pushing sales at lower margins (particularly for its “Webbing, Yarn & Furniture Component” segment). Profits were also

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affected by the weaker USD against the Ringgit and lower contribution by an Associate Company.

The group's "**Webbing, Yarn & Furniture Component**" segment still contributes most of the group's revenue, followed by the "**Rubber Strips & Fabrics**" segment. However, the Rubber Strips & Fabrics segment is still experiencing losses at the PBT level, in spite of an improved performance (aided by better FY12 sales and relatively stable rubber prices).

Furniweb: 4Q/FY12 v-o-v growth by segment

Segments	Webbing, yarn and furniture component	Rubber strips and fabrics
Revenue	-11.2%	-5.9%
PBT	10.5%	+60.0%#

Source: Furniweb; Mercury extrapolation
#Still in Loss Before Tax position, but lesser loss!

OUTLOOK/CORP. UPDATES

We remain cautious on Furniweb's overall group performance during its FY13. This is due to the lacklustre demand situation across a number of regions, coupled with upward pressures on labour wages and 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 level of **USD versus Ringgit volatility**, which would impact Furniweb's level of profits.

"Cautious 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 (both developed and emerging economies) for volume growth despite facing price competition. 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.

"IMF's latest outlook"

According to IMF's latest World Economic Outlook (WEO January 2013), global growth is projected to increase during 2013, as the factors underlying soft global activity are expected to subside. However, this upturn is projected to be more gradual than previously thought. Recovery in the Euro Area will be painfully slow. While Japan has slid into recession, stimulus efforts are expected to boost growth in the near term.

At the same time, IMF views that policies have supported a modest growth pickup in some emerging market economies, although others continue to struggle with weak external demand and domestic bottlenecks. Downside risks remain significant, including renewed setbacks in the Euro Area and risks of excessive near-term fiscal consolidation in the US.

IMF GDP growth data/forecasts

Area	2011	2012	2013F	2014F
U.S.	1.8	2.3	2.0	3.0
Euro 4	1.4	-0.4	-0.2	1.0
UK	0.9	-0.2	1.0	1.9
Japan	-0.6	2.0	1.2	0.7
China	9.3	7.8	8.2	8.5
India	7.9	4.5	5.9	6.4
ASEAN 5	4.5	5.7	5.5	5.7

*EURO 4 - Germany, France, Italy, Spain
*ASEAN 5 - Indonesia, Malaysia, Philippines, Thailand, Vietnam

"Investment in Vietnam"

Back in 2010, the group had taken the decision to invest in a new 3-storey factory cum warehouse at the wholly owned subsidiary, Premier Elastic Webbing & Accessories (Vietnam) Co Ltd ("PEWA"), in 2010 in order to put the group in a position to capture the potential market growth once the preferential treatment of trade is approved by the 9-member

Results Report

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country **Trans-Pacific Partnership** (TPP) and also once global economic conditions stabilise. Current member countries of TPP are the U.S., Chile, Peru, Australia, New Zealand, Singapore, Brunei, Malaysia and Vietnam. Japan, Mexico and Canada are also said to be interested in joining the TPP grouping.

VALUATION/CONCLUSION

“Constant DPS expected”

The first and final dividend (2.5 sen tax exempt) for its FY11 was paid out in July 2012. We note that Furniweb’s FY11 **dividend yield of 8.9% is quite attractive**. We expect the group to maintain the dividend per share (DPS) rate for its FY12 and FY13.

“Steady price”

Furniweb’s stock has been **trading relatively steady** this year (+2.7% YTD) and has outperformed the KLCI (-3.0% YTD) in 2013. Market conditions have also been volatile during the past year, impacted by the “Arab Spring” political uprisings in the Middle East/North Africa, Sovereign Debt issue in Europe, and the Debt Ceiling & Fiscal Cliff issues in the US. 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 FY13 EPS and an estimated P/E of 8 times, we set a **FY13-end Target Price (TP) of RM0.40**. This TP is slightly 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 FY13F BV/share.

We note that Furniweb is in a net cash position and it also has undemanding P/E and P/BV ratios. Nevertheless, on the macro level – we are still concerned over its weak earnings growth, amidst the cautious sentiment, price competition and dismal export market environment.

Furniweb 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), labour costs and stiff competition from other global manufacturers.

Furniweb: Share Price



Source: NextView

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