Mercury Securities Sdn Bhd

RESULTS REPORT

27 May 2013

Furniweb Industrial Products Berhad		Market Price:	RM0.475
		Market Capitalisation:	RM43.1m
		Board:	Main Market
Recommendation:	HOLD	**Sector:**	Industrial Products
Target Price:	RM0.47	**Stock Code/Name:**	7168 / FURNWEB

***Analyst**: Edmund Tham*

KEY FINANCIALS

Key Stock Statistics	2013E
Earnings/Share (sen)	4.7
P/E Ratio (x)	10.1
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)	0.19 – 0.55
Major Shareholders:	%
.Cheah Eng Chuan, Jimmy	28.5
.Chua Carmen	9.5
.Ong Lock Hoo	8.4
.Lee Sim Hak	6.2

Ratios Analysis	2010	2011	2012	2013E
Book Value/Sh. (RM)	0.79	0.80	0.81	0.83
Earnings/Sh. (sen)	3.1	5.2	4.5	4.7
Dividend.Sh. (sen)	3.3	3.3	3.3	3.3
Div. Payout Ratio (%)	80.4	48.1	55.3	53.0
P/E Ratio (x)	15.3	9.1	10.5	10.1
P/Book Value (x)	0.60	0.59	0.58	0.57
Dividend Yield (%)	7.0	7.0	7.0	7.0
ROE (%)	3.9	6.5	5.6	5.7
Net Gearing (Cash) (x)	(0.06)	(0.05)	(0.10)	(0.12)

** 2013 figures are our estimates*

P&L Analysis (RM mil)	2010	2011	2012	2013E
Year end: Dec 31				
Revenue	82.0	80.7	84.6	84.9
Operating Profit	3.1	5.7	5.7	6.0
Depreciation	(3.7)	(3.4)	(3.7)	(3.9)
Interest Expenses	(1.1)	(1.1)	(0.8)	(0.8)
Pre-tax Profit (PBT)	3.0	5.6	5.3	5.7
Effective Tax Rate (%)	3.0	14.1	24.4	24.5
Net Profit after Tax & MI	2.8	4.7	4.1	4.3
Operating Margin (%)	3.8	7.1	6.7	7.1
Pre-tax Margin (%)	3.6	7.0	6.3	6.7
Net Margin (%)	3.4	5.8	4.8	5.0

**RM0.50 par value*

PERFORMANCE – 1Q/FY13

1Q/ 31 Mar	1Q13	1Q12	yoy %	4Q12	qoq%
Rev (RMm)	19.2	20.7	(7.4)	19.1	0.5
EBIT (RMm)	0.45	0.50	(10.2)	1.8	(74.5)
NPAT^(RMm)	0.44	0.39	14.3	1.2	(64.4)
EPS* (sen)	0.48	0.42	14.3	1.4	(64.4)

**based on 90.7 million shares*
^NPATMI (net profit after tax & minority interest)

"Q1 results – in line"

For 1Q/FY13 (quarter ended 31st March 2013), Furniweb's **results were generally within our earlier expectations.**

The group's 1Q/FY13 revenue of RM19.2 million was lower by 7.4% y-o-y, while its NPATMI of RM1.2 million was higher by 14.3% y-o-y. The lower revenue was mainly due to the lower contribution from its "Webbing, Yarn & Furniture Component" business segment. Demand from the US and Europe was sluggish.

"Sluggish demand from the West"

The better y-o-y NPATMI was aided by lower Other Expenses, lower Interest Expense, higher Other Income and a stronger USD (versus the Ringgit) during the quarter. Margins for the "Webbing, Yarn & Furniture Component" business segment were slightly squeezed due to price competition. For the "Rubber Strips & Fabrics" business segment, margins improved but the segment was still loss making at the PBT level. The margins were aided by the relatively stable rubber prices and an overall improvement in operational efficiency.

Comparing q-o-q versus the preceding 4Q/FY12, the group's 1Q/FY13 revenue was 0.5% higher, while its NPATMI was 64.4% lower. The lower NPATMI was partly due to the higher Cost of Sales and Other Expenses.

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.

Furniweb: 1Q/FY13 y-o-y growth by segment

Segments	Webbing, yarn and furniture component	Rubber strips and fabrics
Revenue	-9.5%	-1.7%
PBT	-18.2%	+34.8%#

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

OUTLOOK/CORP. UPDATES

We remain generally 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 April 2013), global economic prospects have improved, but the recovery for advance economies will be bumpy. Private demand looks robust in the US but sluggish in the Euro Area. GDP growth projections for Japan have been increased. In emerging and developing markets, activity is already picking up. IMF expects World Trade Volume to be up by 3.6% in 2013 and 5.3% in 2014.

IMF GDP growth data/forecasts

Area	2011	2012	2013F	2014F
U.S.	1.8	2.2	1.9	3.0
Euro 4	1.4	-0.6	-0.3	1.1
UK	0.9	0.2	0.7	1.5
Japan	-0.6	2.0	1.6	1.4
China	9.3	7.8	8.0	8.2
India	7.7	4.0	5.7	6.2
ASEAN 5	4.5	6.1	5.9	5.5

**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 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 country **Trans-Pacific Partnership** (TPP) and also once global economic conditions revive. 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"

Furniweb's first and final dividend (2.5 sen tax exempt) for its FY11 was paid out in July 2012. We note that its FY11 **dividend yield of 7.0% is quite attractive** (based on the market price on the date of this report). Currently, we expect the group to maintain the dividend per share (DPS) level for its FY12-FY13.

"Recent price surge"

With a recent surge, Furniweb's stock has done well this year (+28.4% YTD) and has **outperformed the KLCI** (+4.6% YTD) in 2013 thus far. 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 10 times, we set a **FY13-end Target Price (TP) of RM0.47.** This TP is approximate to its stock price on the date of our report. Our TP for Furniweb reflects a P/BV of just 0.57 times over its FY13F BV/share.

We note that Furniweb is in a net cash position and it also has reasonable ROE and 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