

**RESULTS REPORT**

03 Mar 2014

Furniweb Industrial Products Berhad		Market Price:	RM0.83
		Market Capitalisation:	RM75.3m
		Board:	Main Market
Recommendation:	HOLD	Sector:	Industrial Products
Target Price:	RM0.87	Stock Code/Name:	7168 / FURNWEB

KEY FINANCIALS

Key Stock Statistics	2014F
Earnings/Share (sen)	6.2
P/E Ratio (x)	13.4
Dividend/Share (sen)	4.0
NTA/Share (RM)	0.87
Book Value/Share (RM)	0.88
Issued Capital (mil shares)	90.7
52-weeks share price (RM)	0.33 – 0.995
Major Shareholders (>5%):	%
. Cheah Eng Chuan, Jimmy (MD)	15.1
. Pacific Vintage S/B*	11.8
. PMC Global Services S/B*	8.8
. Wee Cheng Kwan*	8.7
. Dato' Lua Choon Han*	7.2

*Relatively new substantial shareholders. Wee (Aug 2013) and Lua (Nov 2013) have been appointed as Executive Directors.

Ratios Analysis	2011	2012	2013	2014F
Book Value/Sh. (RM)	0.80	0.81	0.85	0.88
Earnings/Sh. (sen)	5.2	4.5	5.2	6.2
Gross Dividend.Sh. (sen)	3.3	4.0	4.0	4.0
Div. Payout Ratio (%)	48.1	66.4	57.4	48.3
P/E Ratio (x)	16.0	18.4	15.9	13.4
P/Book Value (x)	1.04	1.02	0.98	0.94
Dividend Yield (%)	4.0	4.8	4.8	4.8
ROE (%)	6.5	5.6	6.1	7.0
Net Gearing (Cash) (x)	(0.05)	(0.10)	(0.02)	(0.03)

* Future dividends and 2014 figures are our estimates

*RM0.50 par value

P&L Analysis (RM mil)	2011	2012	2013	2014F
Year end: Dec 31				
Revenue	80.7	84.6	78.8	81.7
Operating Profit	5.7	5.7	5.9	6.7
Depreciation	(3.4)	(3.7)	(3.4)	(3.0)
Interest Expenses	(1.1)	(0.8)	(0.5)	(0.4)
Pre-tax Profit (PBT)	5.6	5.3	5.9	6.8
Effective Tax Rate (%)	14.1	24.4	20.5	18.7
Net Profit after Tax & MI	4.7	4.1	4.7	5.6
Operating Margin (%)	7.1	6.7	7.4	8.3
Pre-tax Margin (%)	7.0	6.3	7.5	8.3
Net Margin (%)	5.8	4.8	6.0	6.9

PERFORMANCE – 4Q/FY13

4Q/ 31 Dec	4Q13	4Q12	yoy %	3Q13	qoq %
Rev (RMm)	20.9	19.0	9.9	19.6	6.6
EBIT (RMm)	0.7	1.8	(62.1)	1.2	(43.8)
NPAT^(RMm)	1.1	1.2	(13.3)	1.7	(36.9)
EPS* (sen)	1.2	1.3	(13.3)	1.9	(36.9)

12M/ 31 Dec	FY13	FY12	yoy %
Rev (RMm)	78.8	84.6	(6.8)
EBIT (RMm)	3.7	4.9	(24.5)
NPAT (RMm)	4.7	4.1	15.8
EPS* (sen)	5.2	4.5	15.8

*based on 90.7 million shares

^NPATMI (net profit after tax & minority interest)

“Q4 results – within expectations”

For 4Q/FY13 (quarter ended 31st December 2013), Furniweb’s results were generally within our earlier expectations.

“Higher revenue, but lower NPATMI”

The group’s 4Q/FY13 revenue of RM20.9 million was higher by 9.9% y-o-y, while its NPATMI of RM116 million was lower by 13.3% y-o-y. Margins were affected by higher operating costs and administrative expenses. There was also an impairment of goodwill on the consolidation of a subsidiary.

The “Rubber Strips & Fabrics” (“Rubber”, for short) segment had performed better while Foreign Exchange gains were higher (the USD had appreciated against the Ringgit). The group’s “Rubber” business segment had performed creditably, aided by the relatively stable rubber prices and a stronger contribution from Rubber Fabric sales.

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The group's "**Webbing, Yarn & Furniture Component**" ("Webbing", for short) business segment were affected by the sluggish demand from the US and Europe markets. Margins for the Webbing segment were squeezed due to price competition (particularly from competitors in China). The group had to reduce its margins in order to defend its market share.

Furniweb: FY13 y-o-y growth by segment

Segments	Webbing, yarn and furniture component	Rubber strips and fabrics
Revenue	-11.2%	+5.3%
PBT	-21.4%	+188.1% #

Source: Furniweb; Mercury extrapolation
#Improved from a Loss Before Tax position, to PBT

The group's "**Webbing, Yarn & Furniture Component**" segment still contributes most of the group's revenue, followed by the "**Rubber Strips & Fabrics**" segment.

The Rubber Strips & Fabrics segment has now turned its losses at the PBT level to profitability. The improved performance was due to stable rubber prices and a more efficient production level for Fabrics. Previously, the under-utilization of the group's production facilities in Vietnam was the underlying reason for the continued losses in the segment.

OUTLOOK/CORP. UPDATES

"Cautious Outlook"

We remain generally cautious on Furniweb's overall group performance. 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 QE tapering by the US' Federal Reserve, the Sovereign Debt issue in Europe and weak growth in various regions do impact business sentiment and trade levels, to a certain extent.

We are also concerned about the level of **US Dollar versus Ringgit volatility**, which may impact Furniweb's level of profits. The group derives a substantial portion of its revenues in US Dollars. Meanwhile, the group would continue to improve on its operational efficiency, cost cutting and also invest in human resource development.

Approximately 80% of Furniweb's products are for export markets, to areas as far as Europe, the Americas and Africa. Europe and the US are key markets for the group. 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 growth of the respective economies during the year.

"IMF's latest outlook – improved"

According to IMF's latest World Economic Outlook (WEO January 2014, global economic growth appears to be recovering, mainly due to better recovery in Advance Economies (e.g. the US, UK, Germany etc). Global economic growth is expected to be +3.7% in 2014, while 2015's growth is estimated to be at 3.9%.

IMF GDP growth data/forecasts

Area	2012	2013	2014F	2015F
U.S.	2.8	1.9	2.8	3.0
Euro 4	-0.7	-0.4	1.0	1.4
UK	0.3	1.7	2.4	2.2
Japan	1.4	1.7	1.7	1.0
China	7.7	7.7	7.5	7.3
India	3.2	4.4	5.4	6.4
ASEAN 5	6.2	5.0	5.1	5.6

*ASEAN 5 - Indonesia, Malaysia, Philippines, Thailand, Vietnam

*Comments – recovery in the Euro Area is still gradual; improvement in US, India projections; growth rate to be slower in Japan, China.



Recovery in the Euro Area remains slow while some emerging markets in Asia are recording slower growth rates. Japan will record slower growth in 2014 due to an upcoming hike in consumption tax. China is implementing measures to control credit growth and raise the cost of capital. Expectations of QE tapering by the US' Federal Reserve have caused yields everywhere to be higher. IMF expects World Trade Volume to be up by 4.5% in 2014 and 5.2% in 2015.

“Potential benefits from TPPA”

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 **Trans-Pacific Partnership Agreement** (TPPA) and also once global economies recover fully. There are potential benefits from TPPA for countries with lower-labour costs.

The earlier member countries of TPPA are the U.S., Chile, Peru, Australia, New Zealand, Singapore, Brunei, Malaysia and Vietnam. Subsequently Japan, Mexico and Canada have joined. Other countries are also said to be interested in joining the TPPA grouping, including – Taiwan, South Korea, Thailand, the Philippines, Laos, Colombia, Costa Rica, Indonesia, Bangladesh, India and even China.

“Proposed JV”

In December 2013, the group has proposed a JV with Almaharta S/B for the development of a parcel of leasehold land along Jalan Jelatek, Kuala Lumpur. The proposed residential development will comprise 2 blocks of condominium consisting of 472 units.

“Proposed Rights Issue with Free Warrants”

In January 2014, the group has proposed a renounceable rights issue of up to 54,445,440 new shares of RM0.50 in Furniweb at an issue

price of RM0.55 per rights share. The basis proposed is 3 rights for every 5 Furniweb shares held, together with up to 54,445,440 free detachable warrants in Furniweb (1 warrant for every 1 rights shares subscriber for).

The estimated RM29.9 million of proceeds to be raised from the rights issue are expected to be used mainly for the proposed JV in property development (with Almaharta S/B). The balance will be used to expand its factory in Vietnam, to repay bank borrowings and for the rights issue listing expenses.

VALUATION/CONCLUSION

“DPS expected to be the same”

Furniweb paid out a 3 sen tax exempt DPS (dividend per share) for its FY12 in July 2013. Currently, we expect the group to maintain the same net DPS level of 3 sen (4 sen gross) for its FY13 and FY14.

“Underperformed the KLCF”

Furniweb's stock (-5.7% YTD) has **underperformed the KLCI** (-1.7% YTD) in 2014 thus far. Market conditions have also been volatile since the past year, impacted by unrest 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 FY14 EPS and an estimated P/E of 14 times, we set a **FY14-end Target Price (TP) of RM0.87**. This TP is approximate to the stock price on the date of our report. Our TP for Furniweb reflects a P/BV of just 0.99 times over its FY14F BV/share. For our forecast, we have not factored in any numbers for its proposed property development JV.

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“Diversification looked upon favourably”

We view Furniweb’s move to look out for and diversify into other business segments that may be lucrative as a positive move. We look forward for further progress on this front. The move into property development is not as risky as first thought. Furniweb’s 2 new executive directors, Wee Cheng Kwan and Dato’ Lua Choon Han do have extensive experience in property development and construction.

We note that Furniweb is in a net cash position and it also has reasonable ROE, dividend yield, P/E and P/BV ratios. Nevertheless, on the macro level – we are still concerned over its weak revenue and earnings growth, amidst the cautious business sentiment, global 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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