

**RESULTS REPORT**

19 Aug 2014

Furniweb Industrial Products Berhad		Market Price:	RM0.84
		Market Capitalisation:	RM121.7m
		Board:	Main Market
Recommendation:	HOLD	Sector:	Industrial Products
Target Price:	RM0.80	Stock Code/Name:	7168 / FURNWEB

KEY FINANCIALS

Key Stock Statistics	2014E
Earnings/Share (sen)	2.4
P/E Ratio (x)	34.9
Dividend/Share (sen)	1.5
NTA/Share (RM)	0.72
Book Value/Share (RM)	0.73
Issued Capital (mil shares)	144.9
52-weeks share price (RM)	0.525 – 0.875
Major Shareholders (>5%):	% (est)
. Cheah Eng Chuan, Jimmy (MD)	15.1
. PMC Global Services S/B*	8.8
. Wee Cheng Kwan*	8.7
. Pacific Vintange S/B*	8.1
. 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	2014E
Book Value/Sh. (RM)	0.50	0.51	0.53	0.73
Earnings/Sh. (sen)	3.2	2.8	3.3	2.4
Gross Dividend.Sh. (sen)	2.1	2.5	0.9	1.5
Div. Payout Ratio (%)	48.1	66.4	28.7	62.3
P/E Ratio (x)	25.9	29.8	25.7	34.9
P/Book Value (x)	1.68	1.65	1.58	1.15
Dividend Yield (%)	2.5	3.0	1.1	1.8
ROE (%)	6.5	5.6	6.1	3.3
Net Gearing (Cash) (x)	(0.05)	(0.10)	(0.02)	(0.31)

* Future dividends and 2014 figures are our estimates

*RM0.50 par value

P&L Analysis (RM mil)	2011	2012	2013	2014E
Year end: Dec 31				
Revenue	80.7	84.6	78.8	81.1
Operating Profit	5.7	5.7	5.9	4.5
Depreciation	(3.4)	(3.7)	(3.4)	(3.2)
Interest Expenses	(1.1)	(0.8)	(0.5)	(0.5)
Pre-tax Profit (PBT)	5.6	5.3	5.9	4.2
Effective Tax Rate (%)	14.1	24.4	20.5	18.7
Net Profit after Tax & MI	4.7	4.1	4.7	3.5
Operating Margin (%)	7.1	6.7	7.4	5.6
Pre-tax Margin (%)	7.0	6.3	7.5	5.1
Net Margin (%)	5.8	4.8	6.0	4.3

PERFORMANCE – 2Q/FY14

2Q/ 30 Jun	2Q14	2Q13	yov %	1Q14	qoq %
Rev (RMm)	20.5	19.1	7.3	19.0	7.9
EBIT (RMm)	(1.0)	1.3	(173.5)	(0.5)	(107.5)
NPAT^(RMm)	(0.8)	1.6	(149.1)	(0.5)	(70.5)
EPS* (sen)	(0.5)	1.1	(149.1)	(0.3)	(70.5)

6M/ 30 Jun	6M/FY14	6M/FY13	Yov %
Rev (RMm)	39.6	38.3	3.3
EBIT (RMm)	(1.4)	1.8	(181.3)
NPAT (RMm)	(1.2)	2.0	(160.8)
EPS* (sen)	(0.8)	1.4	(160.8)

*based on 144.9 million shares (post 3-for-5 rights issue)

^NPATMI (net profit after tax & minority interest)

“Q2 results – revenue within expectation”

For 2Q/FY14 (quarter ended 30th June 2014), Furniweb's revenue was within our earlier expectations. However, the group recorded net losses (NLATMI) for the second consecutive quarter.

“Costs increased”

The group's 2Q/FY14 revenue of RM20.5 million was higher by 7.3% y-o-y, while it recorded a NLATMI (net loss) position of RM0.8 million. Margins were affected by higher operating costs and administrative expenses (due to some proposed corporate exercises – JV, diversification) and the setting-up of the group's new property division. The weakening of US Dollar against Ringgit Malaysia during the quarter also resulted in higher foreign exchange losses.

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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. The strength of the Ringgit against the US Dollar also affected earnings.

Furniweb: 1H/FY14 y-o-y growth by segment

Segments	Webbing, yarn and furniture component	Rubber strips and fabrics
Revenue	-5.5%	+24.9%
PBT level	-61.9%	+157.6% #

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 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.

"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.

Results Report

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**“Proposed JV”**

In December 2013, the group has proposed a Joint Venture (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.

On 30th July 2014, the conditions precedent as stated in the circular to shareholders dated 31st March 2014 has been fulfilled. As such, the JV agreement and thereby the Proposed Joint Venture and Proposed Business Diversification (into Property Development) are deemed unconditional with effect from 30th July 2014.

“New contract”

Meanwhile on 31st July 2014, the group announced that its wholly-owned subsidiary, Valencia Glade Sdn Bhd, has on 31 July 2014 accepted a Letter of Award for the construction and completion of 4 blocks of 9-Storey Apartment Type A, 1 block of 9-Storey Apartment Type A1, a 1-storey gymnasium and swimming Pool and other common facilities.

“Rights Issue with Free Warrants completed”

On 11th July 2014, the group’s Rights Issue with Warrants had been completed following the listing of 54,320,100 Rights Issue and 54,320,100 Warrants on the Main Market of Bursa Malaysia.

VALUATION/CONCLUSION**“FY13 dividend to be paid soon”**

Earlier on, the group’s BOD (Board of Directors) had proposed a final single tier dividend of 1.5 sen per ordinary share (1.5 sen DPS) for its FY13 ended 31st December 2013. The stock will be traded ex-dividend on 4th September 2014, while the dividend payment will be made on 23rd September 2014. We expect the group to maintain the same DPS level for its FY14 as well.

“Underperformed the KLCI”

Furniweb’s stock (-4.5.8% YTD) has **underperformed the KLCI** (+0.3% YTD) in 2014 thus far. Market conditions have also been volatile since the past year. 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 BV and an estimated P/BV of 1.1 times, we set a **FY14-end Target Price (TP) of RM0.80**. This TP is slightly slower than the stock price on the date of our report. Our TP for Furniweb reflects a P/E of 33.3 times over its FY14F earnings/share. For our forecast, we have not factored in any numbers for its proposed property development JV.

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

“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 two new executive directors, Wee Cheng Kwan and Dato’ Lua Choon Han do have extensive experience in property development and construction. The group has recently appointed Mr Hooi Kok Hoe as the **CEO of Property and Construction Division** of the group. He has more than 26 years in these industries.

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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: Bursa

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