Mercury Securities Sdn Bhd

RESULTS REPORT

29 Aug 2013

Furniweb Industrial Products Berhad		Market Price:	RM0.64
		Market Capitalisation:	RM58.1m
		Board:	Main Market
Recommendation:	HOLD	Sector:	Industrial Products
Target Price:	RM0.68	Stock Code/Name:	7168 / FURNWEB

Analyst: *Edmund Tham*

KEY FINANCIALS

Key Stock Statistics	2013E
Earnings/Share (sen)	5.7
P/E Ratio (x)	11.3
Dividend/Share (sen)	4.0
NTA/Share (RM)	0.83
Book Value/Share (RM)	0.85
Issued Capital (mil shares)	90.7
52-weeks share price (RM)	0.33 – 0.74
Major Shareholders (>5%):	%
. Cheah Eng Chuan, Jimmy	28.5
. Pacific Vintage S/B*	12.4
. Wee Cheng Kwan*	8.2

**New substantial shareholders. Wee has been appointed as an Executive Director.*

Ratios Analysis	2010	2011	2012	2013E
Book Value/Sh. (RM)	0.79	0.80	0.81	0.85
Earnings/Sh. (sen)	3.1	5.2	4.5	5.7
Dividend.Sh. (sen)	3.3	3.3	4.0	4.0
Div. Payout Ratio (%)	80.4	48.1	66.4	52.8
P/E Ratio (x)	20.6	12.3	14.2	11.3
P/Book Value (x)	0.81	0.80	0.79	0.76
Dividend Yield (%)	5.2	5.2	6.3	6.3
ROE (%)	3.9	6.5	5.6	6.7
Net Gearing (Cash) (x)	(0.06)	(0.05)	(0.10)	(0.10)

** 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	80.6
Operating Profit	3.1	5.7	5.7	6.9
Depreciation	(3.7)	(3.4)	(3.7)	(3.7)
Interest Expenses	(1.1)	(1.1)	(0.8)	(0.6)
Pre-tax Profit (PBT)	3.0	5.6	5.3	6.8
Effective Tax Rate (%)	3.0	14.1	24.4	24.5
Net Profit after Tax & MI	2.8	4.7	4.1	5.2
Operating Margin (%)	3.8	7.1	6.7	8.6
Pre-tax Margin (%)	3.6	7.0	6.3	8.5
Net Margin (%)	3.4	5.8	4.8	6.4

**RM0.50 par value*

PERFORMANCE – 2Q/FY13

2Q/ 30 Jun	2Q13	2Q12	yoy %	1Q13	qoq%
Rev (RMm)	19.1	23.0	(16.7)	19.2	(0.2)
EBIT (RMm)	1.3	1.4	(2.3)	0.4	194.2
NPAT^(RMm)	1.6	1.5	5.8	0.4	256.1
EPS* (sen)	1.7	1.6	5.8	0.5	256.1

6M/ 30 Jun	6M/FY13	6M/FY12	yoy %
Rev (RMm)	38.3	43.7	(12.3)
EBIT (RMm)	1.8	1.9	(4.4)
NPAT (RMm)	2.0	1.9	7.6
EPS* (sen)	2.2	2.1	7.6

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

"Q2 results – within expectations"

For 2Q/FY13 (quarter ended 30th June 2013), Furniweb's **results were generally within our earlier expectations.**

The group's 2Q/FY13 revenue of RM19.1 million was lower by 16.74% y-o-y, while its NPATMI of RM1.6 million was higher by 5.8% y-o-y. The lower revenue was mainly due to the lower contribution from its **"Webbing, Yarn & Furniture Component"** ("Webbing", for short) business segment. Demand from the US and Europe was sluggish. Margins for the Webbing segment were squeezed due to price competition (particularly from peers in China).

For the **"Rubber Strips & Fabrics"** ("Rubber", for short) business segment, overall revenue had dropped. Although Fabric revenue had increased, the revenue from Strips had dropped.

Overall group margins were better y-o-y, aided by the improved performance from the Rubber business segment, lower Cost of Sales and the strength of the USD against the Ringgit.

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

Segments	Webbing, yarn and furniture component	Rubber strips and fabrics
Revenue	-14.1%	-6.6%
PBT	-7.4%	+85.4% #

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

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 is still experiencing losses at the PBT level, in spite of an improved performance. The improved performance was due to stable rubber prices and a more efficient production level for Fabrics. The under-utilisation of the facilities at the group's production facilities in Vietnam is the underlying reason for the continued loss 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 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 **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. 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.

"IMF's latest outlook"

According to IMF's latest World Economic Outlook (WEO July 2013), global economic growth appears to be subdued, with 2013 growth to be similar to 2012 growth levels (+3.1%), while 2014 growth is estimated to be at 3.8%. Prospects in the Euro Area remain dim while growth in Emerging Markets might be weaker than earlier thought.

Interestingly enough, IMF warns of the anticipated unwinding of monetary policy stimulus in the United States leading to sustained capital flow reversals (from emerging markets). GDP growth projections for the US, China and the Euro Area have been revised downwards from the prior WEO in April 2013. IMF expects World Trade Volume to be up by 3.1% in 2013 and 5.4% in 2014.

IMF GDP growth data/forecasts

Area	2011	2012	2013F	2014F
U.S.	1.8	2.2	1.7	2.7
Euro 4	1.5	-0.6	-0.6	0.9
UK	1.0	0.3	0.9	1.5
Japan	-0.6	1.9	2.0	1.2
China	9.3	7.8	7.8	7.7
India	6.3	3.2	5.6	6.3
ASEAN 5	4.5	6.1	5.6	5.7

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

"Awaiting benefits from TPP"

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.

The initial member countries of TPP are the U.S., Chile, Peru, Australia, New Zealand, Singapore, Brunei, Malaysia and Vietnam. Subsequently Japan, Mexico and Canada have joined, and other countries are also said to be interested in joining the TPP grouping.

VALUATION/CONCLUSION

"FY12 dividend paid out"

Furniweb paid out 2.5 sen tax exempt first and final dividend per share (DPS) for its FY11. The group then paid out a higher 3 sen single tier first and final DPS for its FY12 in July 2013. Currently, we expect the group to maintain the same DPS level for its FY13.

"Recent price surge"

With a recent surge, Furniweb's stock has done well this year (+73.0% YTD) and has **outperformed the KLCI** (+0.9% YTD) in 2013 thus far. Market conditions have also been volatile since 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 12 times, we set a **FY13-end Target Price (TP) of RM0.68.** This TP is 6.3% higher than the stock price on the date of our report. Our TP for Furniweb reflects a P/BV of just 0.81 times over its FY13F BV/share.

We note that Furniweb is in a net cash position and it also has an **attractive dividend yield**, and reasonable ROE, 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 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