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Industry: Apparel

Phillip Securities Research Pte Ltd

15 February 2012

Report type: Update

Company Overview

Foreland Fabrictech Holdings Ltd. is a vertically integrated manufacturer of normal and functional fabric. The company has developed a range of functional fabric to meet the needs of its customers.

- Company issued positive profit alert
- 9M2011 already surpassed previous full year figures
- Future growth dependent on capacity expansion
- Maintain Buy with unchanged target price of S\$0.16

What is the news?

Foreland guided that financial result for FY2011 will be significantly better than the previous year due to strong demand for its high grade and functional fabrics.

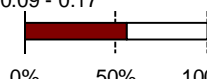
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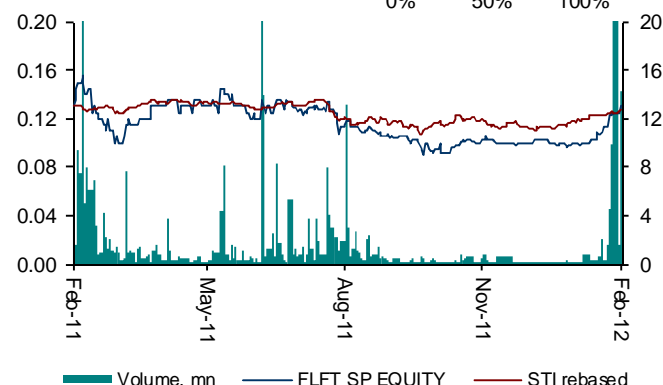
We believe FY11 to be a record year of profit for the company. We have projected revenue and net income growth of 114% and 207% respectively. Result for the 9M2011 has already surpassed the previous full year figures. These are on the back of rapidly increasing sales volume and average selling prices. China retail sales, taken as a proxy of general consumer spending, have been growing at high teens percentages which corroborates well with Foreland's revenue guidance. However, production has been operating at maximum utilization and going forward Foreland's future growth will be limited by capacity. The company is in process of expanding its production facilities. Depending on completion, this will be the next leg of growth for the company. We have not factor in any capacity increases in our forecasts.

Investment Actions?

We think the current valuation of the stock is cheap, trading at approximately 2x forward earnings. The company had given out an interim dividend of RMB0.027 and we forecast a final dividend of a further RMB0.0275, translating to total full year dividend of RMB0.0545 at a payout ratio of 20%. We maintain our target price of \$0.16 and buy recommendation.

Foreland Fabrictech Holdings Ltd

Rating	1	Buy
- Previous Rating	1	Buy
Target Price (SGD)	0.16	
- Previous Target Price (SGD)	0.16	
Closing Price (SGD)	0.13	
Expected Capital Gains (%)	23.1%	
Expected Dividend Yield (%)	7.7%	
Expected Total Return (%)	30.8%	
Raw Beta (Past 2yrs w weekly data)	0.93	
Market Cap. (USD mn / SGD mn)	55 / 69	
Enterprise Value (USD mn / SGD mn)	21 / 129	
3M Average Daily T/O (mn)	0.8	
52 w week range (SGD)	0.09 - 0.17	
Closing Price in 52 w week range		



Major Shareholders

	(%)
1. Kin Chit Tsoi	53.4

Key Financial Summary

FYE	12/11	12/12F	12/13F	12/14F
Revenue (SGD mn)	150	148	149	149
Net Profit, adj. (SGD mn)	28	28	28	28
EPS, adj. (SGD)	0.06	0.05	0.05	0.05
P/E (X),adj.	2.2	2.4	2.5	2.5
BVPS (SGD)	0.25	0.29	0.33	0.36
P/B (X)	0.5	0.4	0.4	0.4
DPS (SGD)	0.01	0.01	0.01	0.01
Div. Yield (%)	8.4%	8.1%	8.1%	7.9%

Source: Bloomberg, PSR est.

*All multiples & yields based on current market price

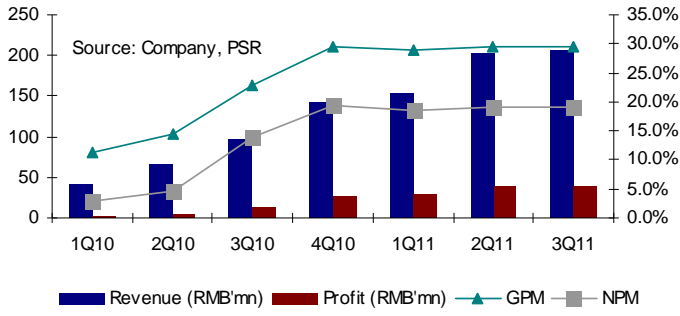
Valuation Method

PE peg (3x FY11e)

Analyst

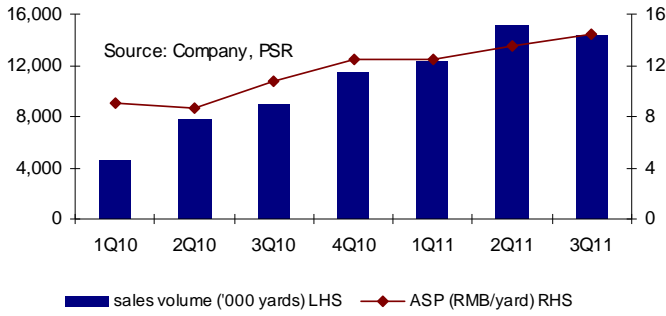
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Fig 1. Quarterly profitability



Source: Company, Phillip Securities Research

Fig 2. Quarterly sales vol & ASP



FYEMar	FY10	FY11F	FY12F	FY13F	FY14F
Valuation Ratios					
P/E (X), adj.	6.5	2.2	2.4	2.5	2.5
P/B (X)	0.6	0.5	0.4	0.4	0.4
EV/EBITDA (X), adj.	0.0	0.0	0.0	0.0	0.0
Dividend Yield (%)	3.1%	8.4%	8.1%	8.1%	7.9%
Per share data (RMB)					
EPS, reported	0.10	0.29	0.27	0.26	0.26
EPS, adj.	0.10	0.29	0.27	0.26	0.26
DPS	0.02	0.05	0.05	0.05	0.05
BVPS	1.08	1.27	1.45	1.63	1.80
Growth & Margins (%)					
Growth					
Revenue	23.5%	114.1%	-1.4%	1.1%	0.0%
EBITDA	24.7%	162.4%	-0.2%	0.3%	-0.6%
EBIT	38.1%	207.3%	-3.6%	1.2%	0.0%
Net Income, adj.	39.0%	206.8%	-0.9%	1.2%	0.4%
Margins					
EBITDA margin	23.1%	28.3%	28.7%	28.4%	28.3%
EBIT margin	17.7%	25.5%	24.9%	24.9%	24.9%
Net Profit Margin	13.0%	18.7%	18.8%	18.8%	18.8%
Key Ratios					
ROE (%)	9.7%	24.5%	19.6%	17.1%	15.1%
ROA (%)	8.7%	20.6%	15.9%	13.8%	12.2%
Net Debt/(Cash)	(111)	(203)	(223)	(391)	(559)
Net Gearing (X)	Net Cash	Net Cash	Net Cash	Net Cash	Net Cash
Income Statement (RMB mn)					
Revenue	348	746	735	744	744
EBITDA	80	211	211	212	210
Depreciation & Amortisation	(19)	(21)	(28)	(26)	(25)
EBIT	62	190	183	185	185
Net Finance (Expense)/Income	0	1	1	1	2
Other items	0	0	0	0	0
Associates & JVs	0	0	0	0	0
Profit Before Tax	62	190	184	186	187
Taxation	(17)	(51)	(46)	(46)	(47)
Profit After Tax	45	139	138	140	140
Non-controlling Interest	0	0	0	0	0
Net Income, reported	45	139	138	140	140
Net Income, adj.	45	139	138	140	140

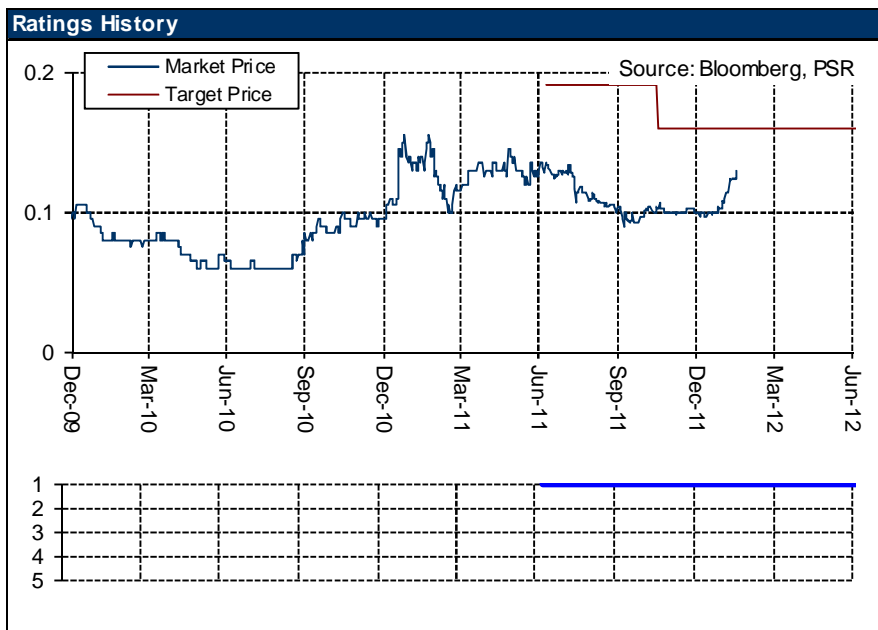
Source: PSR

FYEMar	FY10	FY11	FY12F	FY13F	FY14F
Balance Sheet (RMB mn)					
PPE	356	405	527	501	476
Intangibles	0	0	0	0	0
Associates & JVs	0	0	0	0	0
Investments	0	0	0	0	0
Others	0	0	0	0	0
Total non-current assets	356	405	527	501	476
Inventories	15	29	29	29	29
Accounts Receivables	74	161	158	160	160
Investments	0	0	0	0	0
Cash	111	203	223	391	559
Others	0	0	0	0	0
Total current assets	200	392	410	581	749
Total Assets	556	797	937	1081	1224
Short term loans	0	0	0	0	0
Accounts Payables	53	102	102	103	103
Others	10	43	73	103	134
Total current liabilities	64	145	175	206	237
Long term loans	0	0	0	0	0
Others	4	4	4	4	4
Total non-current liabilities	4	4	4	4	4
Non-controlling interest	0	0	0	0	0
Shareholder Equity	489	648	759	872	984

Cashflow Statements (SGD mn)

CFO					
PBT	62	190	184	186	187
Adjustments	20	21	27	25	23
Cash from ops before WC changes	82	211	211	212	210
WC changes	(18)	(52)	2	(1)	0
Cash generated from ops	64	159	213	211	210
Taxes paid, net	(9)	(18)	(16)	(16)	(16)
Interest paid	0	0	1	1	2
Cashflow from ops	55	141	198	195	195
CFI					
CAPEX, net	(47)	(70)	(150)	0	0
Dividends from associates & JVs	0	0	0	0	0
Dividends/Interest from Investments	0	0	0	0	0
Purchase/sale of investments	0	0	0	0	0
Investments in subs & associates	0	0	0	0	0
Others	2	0	0	0	0
Cashflow from investments	(44)	(70)	(150)	0	0
CFF					
Share issuance	0	29	0	0	0
Purchase of treasury shares	0	0	0	0	0
Loans, net of repayments	0	0	0	0	0
Dividends to minority interests	0	0	0	0	0
Dividends to shareholders & capital reduction	0	(9)	(27)	(27)	(27)
Others	0	0	0	0	0
Cashflow from financing	0	20	(27)	(27)	(27)
Net change in cash	11	91	20	168	168
Effects of exchange rates	0	0	0	0	0
CCE, end	111	203	223	391	559

Source: PSR



PSR Rating System

Total Returns	Recommendation	Rating
> +20%	Buy	1
+5% to +20%	Accumulate	2
-5% to +5%	Neutral	3
-5% to -20%	Reduce	4
< -20%	Sell	5

Remarks

We do not base our recommendations entirely on the above quantitative return bands. We consider qualitative factors like (but not limited to) a stock's risk reward profile, market sentiment, recent rate of share price appreciation, presence or absence of stock price catalysts, and speculative undertones surrounding the stock, before making our final recommendation

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