

MITA No. 010/06/2008

# Cacola Furniture Int'l Ltd

2 March 2009

## Suspending Coverage S\$0.06

Stock Code:  
Reuters: CACF.SI  
ISIN Code: D2U  
Bloomberg: CCFSP  
Event: Results

### Poor 4Q08; bleak outlook

**Weak 4Q08, no dividends.** Cacola Furniture International Ltd (Cacola) turned in a dismal set of 4Q08 results with a net loss of RMB11.4m vs. a profit of RMB28.5m a year ago. Revenue declined 12.5% YoY and 18.0% QoQ to RMB129.9m as weak consumer discretionary spending continued to take a toll on the group's sales. The group reported a 14.8% slump in full year earnings to RMB105.0m despite a 16.4% gain in sales to RMB656.9m. The results were way below expectations. A further negative surprise came from the lack of dividends, which we had anticipated given the group's net cash position.

**Hit by bad debt.** 4Q08 earnings were tainted by a RMB36.2m bad debt provision, excluding which the group would have managed to remain in the black with a RMB24.9m net profit (-12.8% YoY). We suspect that the bad debts arose from defaults among the specialty stores that folded in 4Q08. According to management, fierce competition and weak demand resulted in 22 store closures during the quarter. More shops are expected to fold in 1H09. Cacola has RMB66.6m worth of trade receivables outstanding on its balance sheet, and we think that part of this could come under risk of further defaults as the credit crunch paralyses its distributors.

**Margins could come under pressure.** Cacola managed to keep its gross profit margin intact in 4Q08 thanks to the stability of raw material costs. Gross profit margin inched up by 0.4ppt YoY and 3.3ppt QoQ to 34.8%. Nevertheless, margins could come under pressure in FY09 as fierce competition, oversupply and weak demand weighs on selling prices. Further margin compression could arise from rapidly ballooning selling expenses, which soared by 80.7% in FY08 as the group embarked on aggressive advertising and promotional activities.

**No catalysts in sight.** We note that Cacola trades below its S\$0.10/share cash value. However, the group's cash position could continue to deteriorate in FY09 given its weak operating cash flows and continued investing outflows. As such, cash levels may not offer much support to share price. The global recession, weak property markets and subdued consumer discretionary spending are likely to weigh on China's furniture industry. Given the bleak outlook, we do not identify any near term price drivers ahead and are **suspending our coverage** on the stock.

General Data	
Issued Capital (m)	345
Mkt Cap (S\$m/US\$m)	21/13
Major Shareholder	Rainbow Champion (27.72%)
Free Float (%)	34.5
NAV per share (RMB cents)	113.5
Daily Vol 3-mth ('000)	992
52Wk High (S\$)	0.420
52Wk Low (S\$)	0.050

**Lee Wen Ching**  
(65) 6531 9806  
e-mail: wenching@ocbc-research.com

Year to 31 Dec	Turnover (RMB m)	Gross Profit (RMB m)	Net Profit (RMB m)	EPS (RMB cents)	EPS Growth (%)	PER (x)	Div Yield (%)
FY 06	455.6	145.7	75.2	29.5	33.7	1.2	80.7
FY 07	564.2	190.6	123.3	45.8	55.3	0.8	20.3
FY 08	656.9	220.7	105.0	30.4	-33.6	1.2	-

**Cacola's Key Financial Data**

<b>Cacola Results</b> Year Ended 31 Dec (RMB m)	<b>4Q07</b> (RMB m)	<b>4Q08</b> (RMB m)	<b>% Chg</b> (YoY)	<b>3Q08</b> (RMB m)	<b>% Chg</b> (QoQ)
Revenue	148.5	129.9	-12.5%	158.5	-18.0%
Cost of sales	-97.4	-84.7	-13.1%	-108.6	-22.0%
Gross Profit	51.1	45.3	-11.3%	49.9	-9.3%
Other income	1.9	0.9	-54.0%	0.5	88.6%
Selling and distribution expenses	-6.6	-9.6	45.2%	-10.7	-10.6%
Administrative expenses	-15.3	-47.9	213.3%	-8.7	450.3%
Profit from operating activities	31.0	-11.4	N.M.	30.9	N.M.
Finance costs	0.0	0.0	N.M.	0.0	N.M.
Profit before tax	31.0	-11.4	N.M.	30.9	N.M.
Tax	-2.5	0.0	N.M.	0.0	N.M.
Net profit	28.5	-11.4	N.M.	30.9	N.M.

**EARNINGS**

<b>Year Ended 31 Dec (RMB m)</b>	<b>FY06</b>	<b>FY07</b>	<b>FY08</b>
Revenue	455.6	564.2	656.9
Cost of sales	-309.9	-373.6	-436.2
Gross Profit	145.7	190.6	220.7
Other income	0.1	2.1	2.1
Selling and distribution expenses	-20.0	-23.8	-43.0
Administrative expenses	-13.4	-35.5	-77.3
Profit from operating activities	112.4	133.5	102.5
Finance costs	0.0	0.0	0.0
Profit before tax	112.4	133.5	102.5
Tax	-37.2	-10.2	2.5
Net profit	75.2	123.3	105.0
Earnings per share (RMB cents)	29.5	45.8	30.4

**Profitability Ratios**

Gross margin (%)	32.0	33.8	33.6
PBT margin (%)	24.7	23.7	15.6
Net profit margin (%)	16.5	21.9	16.0

**BALANCE SHEET**

<b>As at 31 Dec (RMB m)</b>	<b>FY06</b>	<b>FY07</b>	<b>FY08</b>
Cash and bank balances	1.5	214.2	188.5
Other current assets	86.7	140.0	186.0
Property, plant, and equipment	4.3	4.2	65.7
Other non-current assets	0.0	0.0	2.2
Total assets	92.5	358.4	442.4
Promissory note	0.0	0.0	18.0
Other current liabilities	38.3	47.1	32.8
Non-current liabilities	4.6	0.0	0.0
Total liabilities	42.9	47.1	50.8
Share capital	0.4	33.4	33.4
Reserves	49.3	277.9	358.2
Total equity	49.6	311.3	391.6
Total equity and liabilities	92.5	358.4	442.4
NAV per share (RMB cents)	19.5	90.2	113.5

**CASH FLOW**

<b>Year Ended 31 Dec (RMB m)</b>	<b>FY06</b>	<b>FY07</b>	<b>FY08</b>
Operating profit before working cap. changes	117.0	134.2	142.2
Working capital changes	-24.3	-46.9	-94.1
Income taxes paid	-28.1	-7.7	0.0
Net cash from operations	64.6	79.6	48.2
Capex	-15.0	-1.1	-67.0
Other investing flows	0.1	-39.6	-0.2
Investing cash flow	-14.9	-40.7	-67.2
Financing cash flow	-39.4	174.1	-6.6
Net cash flow	10.3	213.1	-25.6
Forex	-20.9	-0.4	-0.1
Cash at beginning of year	12.2	1.5	214.2
Cash at end of year	1.5	214.2	188.5

**Key Ratios**

PER (x)	1.2	0.8	1.2
Price/NTA (x)	1.8	0.4	0.3
Dividend yield (%)	80.7	20.3	0.0
ROE (%)	151.5	39.6	26.8
PE to growth (x)	0.0	0.0	0.0

*Source: Company data, OIR estimates*

---

**SHAREHOLDING DECLARATION:**

The analyst/analysts who wrote this report holds NIL shares in the above security.

**RATINGS AND RECOMMENDATIONS:**

OCBC Investment Research's (OIR) technical comments and recommendations are short-term and trading oriented.

- However, OIR's fundamental views and ratings (Buy, Hold, Sell) are medium-term calls within a 12-month investment horizon. OIR's Buy = More than 10% upside from the current price; Hold = Trade within +/- 10% from the current price; Sell = More than 10% downside from the current price.

- For companies with less than S\$150m market capitalization, OIR's Buy = More than 30% upside from the current price; Hold = Trade within +/- 30% from the current price; Sell = More than 30% downside from the current price.

**DISCLAIMER FOR RESEARCH REPORT**

This report is solely for information and general circulation only and may not be published, circulated, reproduced or distributed in whole or in part to any other person without our written consent. This report should not be construed as an offer or solicitation for the subscription, purchase or sale of the securities mentioned herein. Whilst we have taken all reasonable care to ensure that the information contained in this publication is not untrue or misleading at the time of publication, we cannot guarantee its accuracy or completeness, and you should not act on it without first independently verifying its contents. Any opinion or estimate contained in this report is subject to change without notice. We have not given any consideration to and we have not made any investigation of the investment objectives, financial situation or particular needs of the recipient or any class of persons, and accordingly, no warranty whatsoever is given and no liability whatsoever is accepted for any loss arising whether directly or indirectly as a result of the recipient or any class of persons acting on such information or opinion or estimate. You may wish to seek advice from a financial adviser regarding the suitability of the securities mentioned herein, taking into consideration your investment objectives, financial situation or particular needs, before making a commitment to invest in the securities. OCBC Investment Research Pte Ltd, OCBC Securities Pte Ltd and their respective connected and associated corporations together with their respective directors and officers may have or take positions in the securities mentioned in this report and may also perform or seek to perform broking and other investment or securities related services for the corporations whose securities are mentioned in this report as well as other parties generally.

Privileged/Confidential information may be contained in this message. If you are not the addressee indicated in this message (or responsible for delivery of this message to such person), you may not copy or deliver this message to anyone. Opinions, conclusions and other information in this message that do not relate to the official business of my company shall not be understood as neither given nor endorsed by it.

Co.Reg.no.: 198301152E

For OCBC Investment Research Pte Ltd



Carmen Lee  
Head of Research

Published by OCBC Investment Research Pte Ltd