

MITA No. 010/06/2008

4 March 2009

Foreland Fabrictech

Downgrade to

HOLD

Previous Rating: BUY

S\$0.115

Fair Value: S\$0.12

Stock Code:

Reuters: FFHL.SI

iSIN Code: B0I

Bloomberg: FLFT SP

Event:

Results

FY09 outlook still "okay"

Tougher outlook for 1Q09. Despite posting a better-than-expected 4Q08 results last week, Foreland Fabrictech is guiding for a more muted 1Q09 showing. The main reason is due to the still sluggish economic environment, which saw most of its suppliers and customers taking a longer CNY break of nearly one month (versus five days traditionally); Foreland had to also do the same as it did not make sense to keep its production running during the period. And while raw material prices eased slightly, it is unlikely to give much of a boost due to the lower production volumes. On the bright side, management revealed that it has been able to sustain its ASPs (Average Selling Prices) thus far.

Expansion on track but expects delay. Meanwhile, management revealed that its expansion plan is still on track for completion in 2H09 but the new factory will probably commence operations closer to the end of the year. This effectively means that no increase in its production capacity this year - we have already articulated in our earlier reports that the capacity increase of 40% is likely to be very measured in light of the uncertain economic environment to maximize utilization. Foreland expects to spend around RMB120m on its new factory this year, where the funding has already been secured and it should not face any impact from the ongoing credit crunch situation.

FY09 outlook still "okay". Overall, management believes that the company should still be able to do "okay" for FY09, as it is cautiously optimistic of a recovery in 2H09, led by domestic demand. It believes that there is a growing demand for functional fabrics as Chinese consumers are generally more quality conscious, boosted by the continued modernization, rise of living standards, and the growth in disposable income. And to further increase domestic consumption, China has come up with several measures, including a RMB4t aid package. However, it concedes that ASPs may ease somewhat should competition intensify down the road and that could also affect its margins slightly.

Lower fair value to S\$0.12. In view of the tougher 1Q09 outlook and the still anemic demand situation, we see the need to further cut our FY09 estimates for revenue by 20% and earnings by 23%. As we are also lowering our valuation from 4x to 3x FY09F EPS, our fair value eases from S\$0.20 to S\$0.12. Given the limited upside, we downgrade our rating to **HOLD**.

General Data	
Issued Capital (m)	440
Mkt Cap (S\$m/US\$m)	51/33
Major Shareholder	Tsoi Kin Chit (63.8%)
Free Float (%)	35.3
NTA per share (RMB)	0.93
Daily Vol 3-mth ('000)	30
52Wk High (S\$)	0.515
52Wk Low (S\$)	0.085

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Year to 31 Dec	Turnover (RMB m)	EBITDA (RMB m)	Net Profit (RMB m)	EPS (RMB cents)	EPS Growth (%)	PER (x)	Div Yield (%)
FY 07	420.0	160.5	101.0	22.9	34.4	2.3	13.0
FY 08	460.7	165.3	106.9	24.3	5.9	2.2	2.3
FY 09F	406.1	131.5	82.3	18.7	-23.0	2.8	2.8
FY 10F	493.8	157.3	93.1	21.1	13.1	2.5	10.0

Please refer to the important disclosures at the back of this document.

Foreland's Key Financial Data

Foreland Results Year Ended 31 Dec (RMB m)	4Q07 (RMB m)	4Q08 (RMB m)	% Chg (YoY)	3Q08 (RMB m)	% Chg (QoQ)
Gross profit	130.6	134.6	3.1%	116.3	15.7%
Gross margin	50.3	49.8	-1.0%	42.5	17.2%
EBITDA	38.5%	37.0%		36.6%	
Depreciation & amortisation	49.0	46.0	-6.0%	41.1	12.0%
Operating profit	-4.7	-4.0	-15.0%	-5.0	-19.6%
Net interest	44.3	42.0	-5.0%	36.1	16.4%
Forex	-0.1	0.3	nm	0.2	14.3%
Associates	0.0	0.0	nm	-0.1	nm
Exceptionals	0.0	0.0	nm	0.0	nm
Pre-tax profit	0.0	0.0	nm	0.0	nm
Tax	44.2	42.3	-4.2%	36.3	16.6%
Minority interests	-12.3	-11.2	-8.4%	-9.9	13.2%
Net profit	0.0	0.0	nm	0.0	nm
Net Margin	31.9	31.1	-2.7%	26.4	18.0%
	24.5%	23.1%		22.7%	

Segments (RMB m)	4Q07	4Q08	% YoY	3Q08	% QoQ
Manufacturing & Sale of Fabrics	121.4	129.1	6.3%	111.4	15.9%
Provision of Fabric Processing Service	9.1	5.5	-40.0%	4.9	11.4%
Total	130.6	134.6	3.1%	116.3	15.7%

EARNINGS FORECAST

Year Ended 31 Dec (RMB m)	FY07	FY08	FY09F	FY10F
Revenue	420.0	460.7	406.1	493.8
EBITDA	160.5	165.3	131.5	157.3
Depreciation & amortisation	-18.6	-18.8	-18.8	-30.0
Operating Profit	141.9	146.5	112.7	127.3
Net interest	-1.9	0.5	0.7	1.0
Associates	0.0	0.0	0.0	0.0
Exceptionals	0.0	0.0	0.0	0.0
Pre-tax profit	140.3	147.1	113.5	128.4
Tax	-39.3	-40.2	-31.2	-35.3
Minority interests	0.0	0.0	0.0	0.0
Net profit	101.0	106.9	82.3	93.1
Earnings per share (cents)	22.9	24.3	18.7	21.1
Fully diluted earnings per share (cents)	22.9	24.3	18.7	21.1

BALANCE SHEET**As at 31 Dec (RMB m)**

	FY07	FY08	FY09F	FY10F
Cash	171.7	213.2	190.5	254.3
Other current assets	114.5	136.8	127.1	148.2
Fixed assets	122.0	129.7	230.9	220.8
Other long term assets	0.0	0.0	0.0	0.0
Total assets	408.2	479.7	548.5	623.3
Current liabilities less debt	70.2	66.1	59.2	64.2
Debt	3.0	0.0	0.0	0.0
Other long term liabilities	0.0	2.1	2.1	2.1
Total liabilities	73.2	68.2	61.2	66.3
Shareholders equity	335.0	411.5	487.2	557.0
Minority interests	0.0	0.0	0.0	0.0
Total equity and liabilities	408.2	479.7	548.5	623.3
NTA per share (cents)	76.1	93.4	110.6	126.5

CASH FLOW**Year Ended 31 Dec (RMB m)**

	FY07	FY08	FY09F	FY10F
Operating profit before working cap. changes	160.7	165.4	131.6	157.4
Working capital changes	-37.0	-24.9	5.1	-17.2
Interest and tax	-38.5	-39.1	-32.9	-33.1
Net cash from operations	85.2	101.4	103.8	107.1
Capex	-11.9	-26.5	-120.0	-20.0
Other investing flows	0.0	0.0	-1.3	-16.7
Investing cash flow	-11.9	-26.5	-121.3	-36.7
Change in equity	86.1	0.0	0.0	0.0
Net change in debt	-58.5	-3.0	0.0	0.0
Dividends paid	-15.0	-30.4	-5.3	-6.6
Others	0.4	0.0	0.0	0.0
Financing cash flow	13.0	-33.4	-5.3	-6.6
Forex adjustments	0.0	0.0	0.0	0.0
Net cash flow	86.2	41.5	-22.8	63.8
Cash at beginning of year	85.4	171.7	213.2	190.5
Cash at end of year	171.7	213.2	190.5	254.3
Fixed deposits pledged	0.0	0.0	0.0	0.0
Cash balance	171.7	213.2	190.5	254.3

Key Ratios

PER (x)	2.3	2.2	2.8	2.5
Price/NTA (x)	0.7	0.6	0.5	0.4
EV/EBITDA (x)	0.4	0.1	0.3	-0.1
Dividend yield (%)	13.0	2.3	2.8	10.0
ROIC (%)	29.9	26.0	16.9	16.7
ROE (%)	30.1	26.0	16.9	16.7
Net gearing (%)	Net Cash	Net Cash	Net Cash	Net Cash
PE to growth (x)	0.1	0.4	-0.1	0.2

Source: Company data, OIR estimates

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