

MITA No. 010/06/2008

15 May 2009

Foreland Fabrictech

Maintain

HOLD

Previous Rating: HOLD

S\$0.09

Fair Value: S\$0.10

Stock Code:

Reuters: FFHL.SI

iSIN Code B0I

Bloomberg: FLFT SP

Event:

Results

General Data

Issued Capital (m)	440
Mkt Cap (S\$m/US\$m)	40/27
Major Shareholder	Tsoi Kin Chit (63.8%)
Free Float (%)	35.3
NTA per share (RMB)	0.93
Daily Vol 3-mth ('000)	592
52Wk High (\$)	0.325
52Wk Low (\$)	0.045

Muted 1Q09 as guided

Tough 1Q09 as guided. Foreland Fabrictech posted a very muted 1Q09 results as guided. Revenue tumbled 45.0% YoY and 59.3% QoQ to RMB54.7m, or just 13.5% of FY09 estimate, weighed by a sharp fall in demand due to most of the industry taking a longer CNY break of nearly one month (versus five days traditionally). Due to the lower run rate, gross profit fell by a larger 60.6% YoY and 69.8% QoQ to RMB15.0m. Even though Foreland tried to rein in other variable costs, it could not prevent net profit from falling 66.7% YoY and 73.5% QoQ to RMB8.2m, only 10.0% of our full-year estimate.

Light at the end of the tunnel? Despite the dismal 1Q09 showing, management noted that there were several bright spots. For one, it has been able to sustain ASP at RMB13.8/yard, unchanged from 4Q08, although up 4% from RMB13.3/yard in 1Q08. However, it remains mindful of the fact that raw material prices have also started to rise as a result of the recent rebound in crude oil prices. Secondly, it has noticed a nascent pick up in demand towards the end of 1Q09 that has carried into early 2Q09. As long as demand can recover, management believes prices will follow suit. Thirdly, Foreland has not seen any deterioration in its account receivables (AR) despite the weaker business environment; instead, it has managed to reduce its AR days from 65 in FY08 to 62 in 1Q09, thanks to its credit control efforts.

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. Management also believes that having a new plant will allow Foreland to scale up rapidly to capture any strong up-tick in demand down the road.

Lower fair value of S\$0.10. But in light of the still anemic demand situation, we further slash our FY09 estimates for revenue by 9.7% and earnings by 22.5% and FY10 by 1.1% and 8.7%, respectively. This in turn lowers our fair value from S\$0.12 to S\$0.10 at the same 3x FY09F EPS. Maintain **HOLD**.

Carey Wong

(65) 6531 9808

e-mail: carey@ocbc-research.com

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	1.8	16.7
FY 08	460.7	165.3	106.9	24.3	5.9	1.7	2.9
FY 09F	366.7	105.8	63.8	14.5	-40.3	2.9	2.8
FY 10F	488.2	145.9	84.9	19.3	33.2	2.1	11.6

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)	1Q08 (RMB m)	1Q09 (RMB m)	% Chg (YoY)	4Q08 (RMB m)	% Chg (QoQ)
Revenue	99.6	54.7	-45.0%	134.6	-59.3%
Gross profit	38.2	15.0	-60.6%	49.8	-69.8%
Gross margin	38.4%	27.5%		37.0%	
EBITDA	36.0	16.3	-54.8%	46.0	-64.7%
Depreciation & amortisation	-4.9	-4.9	0.7%	-4.0	24.0%
Operating profit	31.1	11.3	-63.6%	42.0	-73.1%
Net interest	-0.1	0.2	nm	0.3	-28.2%
Forex	0.0	0.0	nm	0.0	nm
Associates	0.0	0.0	nm	0.0	nm
Exceptionals	3.1	0.0	nm	0.0	nm
Pre-tax profit	34.1	11.5	-66.4%	42.3	-72.9%
Tax	-9.4	-3.2	-65.7%	-11.2	-71.4%
Minority interests	0.0	0.0	nm	0.0	nm
Net profit	24.7	8.2	-66.7%	31.1	-73.5%
Net Margin	24.8%	15.1%		23.1%	

Segments (RMB m)	1Q08	1Q09	% YoY	4Q08	% QoQ
Manufacturing & Sale of Fabrics	94.1	52.4	-44.3%	129.1	-59.4%
Provision of Fabric Processing Service	5.4	2.3	-57.4%	5.5	-57.9%
Total	99.6	54.7	-45.0%	134.6	-59.3%

EARNINGS FORECAST

Year Ended 31 Dec (RMB m)	FY07	FY08	FY09F	FY10F
Revenue	420.0	460.7	366.7	488.2
EBITDA	160.5	165.3	105.8	145.9
Depreciation & amortisation	(18.6)	(18.8)	(18.8)	(30.0)
Operating Profit	141.9	146.5	87.0	115.9
Net interest	(1.9)	0.5	0.9	1.1
Associates	-	-	-	-
Exceptionals	-	-	-	-
Pre-tax profit	140.3	147.1	88.0	117.2
Tax	(39.3)	(40.2)	(24.2)	(32.2)
Minority interests	-	-	-	-
Net profit	101.0	106.9	63.8	84.9
Earnings per share (cents)	22.9	24.3	14.5	19.3
Fully diluted earnings per share (cents)	22.9	24.3	14.5	19.3

BALANCE SHEET

As at 31 Dec (RMB m)	FY07	FY08	FY09F	FY10F
Cash	171.7	213.2	176.8	231.1
Other current assets	114.5	136.8	117.7	146.8
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	525.4	598.7
Current liabilities less debt	70.2	66.1	53.1	62.8
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	55.2	64.9
Shareholders equity	335.0	411.5	470.2	533.9
Minority interests	0.0	0.0	0.0	0.0
Total equity and liabilities	408.2	479.7	525.4	598.7
NTA per share (cents)	76.1	93.4	106.8	121.2

CASH FLOW

Year Ended 31 Dec (RMB m)	FY07	FY08	FY09F	FY10F
Operating profit before working cap. changes	160.7	165.4	105.9	146.0
Working capital changes	-37.0	-24.9	10.6	-21.9
Interest and tax	-38.5	-39.1	-27.8	-28.7
Net cash from operations	85.2	101.4	88.7	95.5
Capex	-11.9	-26.5	-120.0	-20.0
Other investing flows	0.0	0.0	0.2	-16.1
Investing cash flow	-11.9	-26.5	-119.8	-36.1
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	-5.1
Others	0.4	0.0	0.0	0.0
Financing cash flow	13.0	-33.4	-5.3	-5.1
Forex adjustments	0.0	0.0	0.0	0.0
Net cash flow	86.2	41.5	-36.4	54.2
Cash at beginning of year	85.4	171.7	213.2	176.8
Cash at end of year	171.7	213.2	176.8	231.1
Fixed deposits pledged	0.0	0.0	0.0	0.0
Cash balance	171.7	213.2	176.8	231.1

Key Ratios

PER (x)	1.8	1.7	2.9	2.1
Price/NTA (x)	0.5	0.4	0.4	0.3
EV/EBITDA (x)	0.1	-0.2	0.1	-0.3
Dividend yield (%)	16.7	2.9	2.8	11.6
ROIC (%)	29.9	26.0	13.6	15.9
ROE (%)	30.1	26.0	13.6	15.9
Net gearing (%)	Net Cash	Net Cash	Net Cash	Net Cash
PE to growth (x)	0.1	0.3	-0.1	0.1

Source: Company data, OIR estimates

SGX RESEARCH INCENTIVE SCHEME

OCBC Investment Research Pte Ltd (OIR) produced this report under the SGX Research Incentive Scheme. OIR is compensated S\$7,500 per annum for each company covered under the Scheme.

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.

For OCBC Investment Research Pte Ltd

Co.Reg.no.: 198301152E



Carmen Lee
Head of Research

Published by OCBC Investment Research Pte Ltd