

# Federal Furniture gets lift from construction biz



Projects like Koi Prima in Puchong will keep PMSB occupied till end 2019

- In the latest quarter, new division contributed RM29 mil revenue and RM3 mil operating profit
- Acquisition of 60% stake in Pembinaan Masteron gives timely boost going forward
- Deal comes with net profit guarantee of not less than RM20 mil for FY16-18



by  
Lim Cien Yai

FEDERAL Furniture Holdings (M) Bhd's acquisition of a majority stake in Pembinaan Masteron Sdn Bhd

(PMSB) appears to be an astute move, with the construction outfit giving a timely boost to the former's revenue and profit.

In the quarter ended March 31, Federal Furniture's new construction division contributed RM29 mil to revenue and RM3 mil to operating profit.

That boosted the company's top line by 16.33% to RM43.21 mil from RM27.08 mil in the previous corresponding period. Net profit jumped 43% to RM1.63 mil from RM1.14 mil previously.

It was the first full quarterly contribution from PMSB following the completion of the 60% stake acquisition by Federal Furniture for RM33 mil in December.

The acquisition also came with a net profit guarantee of not less than RM20 mil for financial year ended Dec 31, 2016 to 2018. That means PMSB has to rake in about RM6 mil to RM7 mil net profit annually to meet the profit guarantee. Federal Furniture will then be able to recognise some RM3 mil to RM4 mil of PMSB's profit.

Coupled with its furniture business's existing contribution, Federal Furniture is likely to chalk a higher net profit for the 12 months beginning January versus the previous corresponding period, barring any unforeseen circumstances.

In November, the company changed its financial year end to June 30, 2017 from Dec 31, 2016, resulting in an 18-month reporting period currently.

## Related-party transaction

PMSB is involved in building construction, undertaking projects from local property developers. Most of its completed projects were secured from privately-held property developer Masteron Sdn Bhd.

The acquisition was a related-party transaction as the shares in PMSB were bought

from Federal Furniture chairman Datuk Choy Fook On and his family members. They are Choy's sons Datuk Choy Wai Hin and Datuk Choy Wai Geong, his wife Datin Tan Geok Foong and daughter Sook Kuen.

Wai Hin, Wai Geong and Geok Foong also sit on the board of Federal Furniture as managing director and executive directors respectively. Post-acquisition, the Choy family still holds a 40% stake in PMSB. The family also controls the Masteron group of companies.

Wai Hin tells *FocusM* Federal Furniture's future performance will be supported by both the construction and furniture businesses. The construction business will particularly enjoy strong earnings visibility as it is the preferred builder of the Masteron group of companies.

Masteron, which started in 1981, is helmed by Wai Geong. Over the years, it has built a reputation in both residential and commercial developments, notably with the "Koi" brand in Puchong, Selangor.

"There will be high visibility of earnings for PMSB with the backing from Masteron. We have foreseen this when we injected PMSB into Federal Furniture.

"Moreover, there will be significantly less risk when it comes to collection, given that PMSB is Masteron's in-house contractor," Wai Hin says.

As of June 30, PMSB had secured RM593.3 mil worth of projects from Masteron, of which RM266.7 mil sales are still



JONATHAN LOI/FOCUSM

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unbilled. Projects like Koi Prima in Puchong will keep PMSB occupied till end-2019.

Masteron also has three to four projects at different stages of planning. These will translate into about RM400 mil worth of potential jobs for PMSB to tap into, potentially ensuring an uninterrupted flow of projects to work on beyond 2019.

## Transparent and at arm's length

The PMSB stake acquisition is considered a related-party transaction by virtue of common shareholders in the former, Federal Furniture as well as Masteron.

Commenting on this, Wai Hin stresses that every transaction is conducted in a "transparent manner and at arm's length basis". Masteron, he says, will still be required to call for tenders and negotiations when it comes to award of projects.

He notes the concern for PMSB is not so much about profit margin, but its earnings visibility and certainty. "There is a certain range of margin that contractors look at, be it in-house or external. It will not deviate far from the industry norm.

"One of the risks in the construction industry is collection. Given that PMSB is Masteron's in-house contractor, the risk of collection is well mitigated compared with external jobs," he explains.

Wai Hin assures shareholders that the Choy family is committed to the long-term growth of Federal Furniture given that its members took up redeemable convertible preference shares (RCPS) in the acquisition. The deal was done in a combination of RM6 mil cash and 270 million RCPS issued at 10 sen per share.

The preference shares have a 10-year tenure with a conversion price of 76 sen. The number of conversion shares will be calculated by multiplying the number of RCPS with the issued price, then dividing it by the conversion price.

The common shareholder structure also means the prospects and survival of the three companies – PMSB, Federal Furniture and Masteron – are dependent on each other. This may not be seen as positive in the eyes of some shareholders.

As it is, there is a plan for PMSB to bid for external jobs. However, Wai Hin says this will not take off at least for the next 12 to 18 months.

"Our focus now is how to gain extra value from all the in-house projects PMSB has already completed or secured such as the Sheraton Four Points hotel along Jalan Petaling, Kuala Lumpur. This will easily take another 18 months to integrate," he adds.

He reveals the RM140 mil work on Sheraton Four Points hotel that PMSB received from Masteron involves the main building works. There will also be about RM20 mil worth of value to be extracted if Federal Furniture clinches some interior fit-out jobs from Masteron.

## Creating synergies

Federal Furniture is known for its expertise in manufacturing and supplying caseworks for Starbucks outlets in the Asia-Pacific region. It also offers premium interior fit-out (IFO) services to hotels and banks. Notably it has just finished an IFO project for St Regis Kuala Lumpur, a six-star luxury hotel.

Wai Hin says the potential collaboration with Sheraton Four Points is still at the negotiation stage, but it demonstrates how the construction business complements and creates synergy with existing furniture activities. Such collaboration is also in tandem with house buyers' needs for semi-furnished or fully furnished units.

"We combine the core capabilities of general and specialist contractors. This will help to up our game, increase our competency when bidding for external jobs as we have an integrated solution to offer.

"Hence, rather than diverting our attention to bid for external jobs, we would like to focus more on securing interior fit-out contracts from Masteron. There is enough on our plate by just focusing on development plans of the Masteron group," adds Wai Hin.

Apart from the Sheraton Four Points, Masteron has three hotels projects in the pipeline. Two, situated in downtown Kuala Lumpur, will bear the Radisson Red name, a brand of Brussels-based Carlson Rezidor Hotel Group. [FocusM](#)

## Federal Furniture Holdings (M) Bhd

### CONSUMER PRODUCTS

### KEY BOARD MEMBERS AND MANAGEMENT

Datuk Choy Fook On (chairman)  
Datuk Choy Wai Hin (MD)  
Datin Tan Geok Foong, Datuk Choy Wai Geong (executive directors)

### MAJOR SHAREHOLDERS

Choy Fook On & Sons Realty Sdn Bhd

13.3%  
HSBC (M) Trustee Sdn Bhd for RHB Smart Treasure Fund

6.27%  
Datin Tan Geok Foong

### MARKET CAP (Aug 24)

RM70.9m

Share price (Aug 24)

65 sen

52-week high (July 11)

87 sen

52-week low (Dec 14, 2016)

62 sen

### FINANCIAL RESULTS

(15 months ended March 31, 2017)

Revenue  
RM159.89m

Net Profit

RM6.2m

### One-year price chart



Source: Bloomberg



Masteron's Aurora Residence in Puchong