

Federal Furniture supplies fixtures and modular casework to Starbucks outlets



D1-HOE/FOCUSM

# Federal Furniture mills siting of China plant

- The company has three options in China to locate its plant for Starbucks fixtures
- It has been approved by Tata Group to supply Starbucks fixtures in India

by  
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FEDERAL Furniture Holdings (M) Bhd's (FFHB) expansion into China is expected to kick off when it finalises the location for a plant to produce fixtures and modular casework for coffee chain Starbucks' operations there.

If all goes according to plan, FFHB will be the fourth supplier for the fittings in Starbucks outlets in China while monetary contribution will be reflected in its books from next year.

The furniture and interior fit-out company has yet to start supplying fixtures to Starbucks in China. It is currently the approved vendor of store sets for Starbucks Corp in 15 countries in the Asia-Pacific, excluding China.

For the siting of the plant, managing director Datuk Choy Wai Hin says the company has three industrial zones – in Zhejiang, Jiangsu and Guangdong provinces – to choose from. “We are still in the midst of conducting due diligence to find the right fit for the proposed manufacturing facilities,” he tells *FocusM*.

The manufacturing and export division that makes and exports shop fixtures and modular casework for retailers contributed RM34.29 mil in revenue for the 12 months ended Dec 31, 2016. That represents about

30% of the total RM16.59 mil revenue during the period.

Early this year, executives from Shaoxing Raoping Industrial Zone in Zhejiang came to Malaysia to invite FFHB to invest there. Since then, company officials have made field trips to Nantong and Dongguan for feasibility studies on setting up facilities in the respective industrial zones.

It is learnt that the other two industrial zones are located in Chongchuan district in Nantong prefecture and Qiaotou district in Dongguan prefecture. Nantong is about a two-hour drive from Shanghai while Dongguan is about 80km from Hong Kong.

“We are in a bit of hurry but we cannot just rush in without doing the proper due diligence and evaluation. We will finalise it by the end of this year,” says Choy.

He was pleasantly surprised with the choices and responses received. “We are probably at the right place at the right time with the Chinese government trying to stem the outflow of currency and attracting more FDI (foreign direct investment).”

Choy says there are already signs that the central government has relaxed the previous policy to allow the local authority in Nantong, Shaoxing to offer tax breaks and incentives to foreign investors.

The Chinese government has since January barred its citizens from converting yuan into other currencies for overseas property purchases.

## Riding on Starbucks' expansion

FFHB is optimistic of the potential of its China business as Starbucks plans to double its number of stores there from 2,600 currently to 5,000 in over 200 cities by 2021. That said, it means Starbucks will have to open more than one store a day to hit the target.

To achieve that, the US coffee chain is expanding its footprint to second-tier cities. Inland second-tier cities like Chengdu, Hefei

## Looking beyond Starbucks

FEDERAL Furniture Holdings (M) Bhd (FFHB) managing director Datuk Choy Wai Hin has sought to allay concerns that the company relies too heavily on Starbucks for business.

He says he is open to seeking more opportunities in the retail industry overseas. “Opportunities are plenty in apparel, cosmetics and fast-food chains. Those are the areas that we can go after we make ourselves known in China and India.”

Revenue from the China and India markets might be meagre at the moment, but it is well-supported by the construction business it branched into last December when it bought a 60% stake in Pembinaan Masteron Sdn Bhd (PMSB) for RM33 mil.

PMSB mainly undertakes jobs from Masteron Sdn Bhd, a property outfit controlled by the Choy family. To date, PMSB has RM600 mil worth of jobs from Masteron pending execution.

Choy says the injection of PMSB is a teaser of sorts, to get the company into real-estate development. “Right now we cannot inject the property business into Federal Furniture as its scale is way bigger than our core business.

“We also cannot inject 100% (of PMSB into Federal Furniture as) that will trigger an RTO (reverse takeover),” says Choy, adding the 60% stake comes with a very certain and visible bottom line.

He does not rule out the possibility of injecting his family's property business into FFHB in the future “if the valuation is right.”

“But currently the answer is probably no, we would not get a good value now”

Choy Wai Hin says there are also opportunities in supplying to apparel, cosmetics and fast-food chains



and Wihan are now the focus of Starbucks' expansion plan. The coffee chain entered the mainland China market in 1999.

Studies have shown consumers in smaller Chinese cities drink far less coffee and patronise coffee shops far less often than first-tier city residents. That has shaped the China battleground for global coffee chains which seek to narrow the gap in consumption through aggressive expansion.

Meanwhile, Seattle-based Starbucks is also focusing on the higher-end Reserve Roastery and Tasting Room outlets for future growth. This is likely to benefit FFHB, which produces premium shop fixtures.

Starbucks' expansion plan will shape FFHB's choice of location for its production plant. “The important thing is the logistics issue, whether operating from the selected location is cost effective for us to deliver products to inland second-tier cities,” says Choy.

Each potential location has its pros and cons. “It is a tough decision to make. We have to weigh between quick start-up, capital expenditure and the long-term implication of operating in an area like Dongguan.”

Choy reckons he prefers a brownfield development area like Dongguan due to the short lead time to be ready for production,

many factories you can buy or rent immediately.”

Apart from banking on new store openings by Starbucks, FFHB is also eyeing the replacement market as Starbucks outlets generally replace or facelift their fixtures every three or four years.

## India market

China is not the only market FFHB intends to expand to in a big way. It has sealed a deal with India's Tata Group to supply fixtures to Starbucks there, says Choy.

Tata Group collaborates with Starbucks to own and operate the latter's outlets in India, which are branded as Starbucks “A Tata Alliance.”

Unlike its plans in China, FFHB will outsource the manufacturing services there to a local contractor and partner.

“We have prequalified four potential factories which are in the process of making mock-ups. We will send our specialists there for expertise, technical and technology transfer,” Choy reveals.

The company has shipped its products from its Banting plant to India. However, the substantial 76% import duty Starbucks has to pay means that this option is unsustainable. *FocusM*

## Federal Furniture Holdings Bhd

### CONSUMER PRODUCTS

### KEY BOARD MEMBERS AND MANAGEMENT

Datuk Choy Fook On (chairman)  
Datuk Choy Wai Hin (MD)  
Datn Tan Geok Fong and Datuk Choy Wai Ceong (executive directors)

### MAJOR SHAREHOLDERS

Datuk Choy Wai Hin  
**15.52%**  
Choy Fook On & Son Realty Sdn Bhd  
**14.8%**  
Datuk Choy Fook On  
**6.68%**  
GV Asia Fund Ltd  
**5.02%**

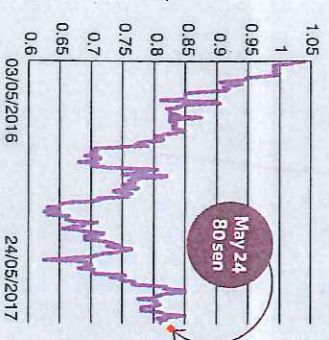
### MARKET CAP

**RM88.3m**  
Share price (May 24)  
**80 sen**  
52-week high (May 24, 2016)  
**98.5 sen**  
52-week low (Dec 14, 2016)  
**62 sen**

### FINANCIAL RESULTS

(12 months ended Dec 31, 2016)  
Revenue  
**RM116.59m**  
Net profit  
**RM4.57m**

### One-year price chart



Source: Bloomberg