

2QFY18 RESULTS UPDATE

29 Aug 2018

Favelle Favco Bhd

Price : RM2.64

Market Capitalization : RM584.5 mln

Market : Main Market

Sector : Industrial Products

Bursa / Bloomberg Code: 7229 / FFB MK
Stock is Shariah-compliant.

Recommendation : Hold

Favco: 2QFY18 results

FYE Dec (RM mln)	Quarter-on-Quarter			Year-on-Year		Cumulative		
	2QFY18	1QFY18	% chg	2QFY17	% chg	1HFY18	1HFY17	% chg
Revenue	89.8	102.2	-12.1%	151.1	-40.5%	192.1	265.4	-27.6%
Operating profit	11.4	9.2	23.9%	21.3	-46.7%	19.6	38.2	-48.7%
Finance costs	(0.2)	(0.2)		(0.2)		(0.4)	(0.3)	
Pre-tax profit	11.1	9.0	24.4%	21.1	-47.1%	19.2	37.8	-49.3%
Tax	(3.4)	(2.6)		(1.5)		(6.0)	(5.3)	
Net profit	7.3	5.5	31.6%	19.4	-62.7%	12.8	32.3	-60.5%
Reported EPS (sen)	3.3	2.5	31.6%	8.8	-62.7%	5.8	14.6	-60.5%
Op. profit margin	12.6%	9.0%		14.1%		10.2%	14.4%	
Pre-tax margin	12.4%	8.8%		13.9%		10.0%	14.3%	
Net profit margin	8.1%	5.4%		12.9%		6.6%	12.2%	
Net assets/share (RM)	1.8							

2QFY18 Results Review

- Favco's 2QFY18 net profit (profit after tax and non-controlling interests) declined 62.7% YoY to RM7.3 mln, resulting in 1HFY18 net profit reaching only RM12.8 mln. The reported net profit constituted only 24.6% of our earnings estimate. Meanwhile, the reported 1HFY18 revenue came in line, making up to 44.7% of our estimates.
- Analysis of the geographical breakdown revealed that the decline in 2QFY18 net profit was due to lower contribution from the local and overseas operations as a result of diminishing orderbook replenishment over the past couple of years. Favco's local sales makes up to 30.7% of the Group's total revenue of RM89.8 mln in 2QFY18. Contribution from overseas, meanwhile, stood at RM62.2 mln, making up to the remainder of 69.3% of the Group's total revenue in 2QFY18.
- The underperformance from both the local and overseas markets resulted in the Group's 1HFY18 net profit falling 60.5% YoY to RM12.6 mln. Revenue, meanwhile, for the period was also lower, declining 27.6% YoY to RM192.1 mln. Contribution from overseas continues to anchor the Group's revenue, contributing some 67.0% to Group revenue in 1HFY18. As both top and bottom line trended lower, Favco's net profit margin stood at 6.6% in 1HFY18, lower against the five-year average historical net profit margin at 11.3%
- Gearing-wise, Favco remained in net cash position as at end-Jun 2018 with a sizeable war chest of RM324.0 mln, translating to net cash/share of RM1.32. Net assets/share, meanwhile, stood at RM2.72. No dividends for the quarter were declared as Favco traditionally reward shareholders with dividends in the final quarter of financial year end.

	Y-o-Y			Year-to-date		
	2QFY18	2QFY17	% Chg	1HFY18	1HFY17	% Chg
Revenue						
Local	27.6	43.2	-36%	63.4	75.6	-16%
Overseas	62.2	107.9	-42%	128.7	189.8	-32%
Group	89.8	151.1	-41%	192.1	265.4	-28%

- Although the reported results only makes up to 24.6% of our estimates, we deemed that the reported earnings are in line. We reckon that earnings recovery will pick up in 2HFY18, mainly arising from the consolidation of 70% stake of four engineering companies – Exact Group that was completed on 3rd Jul 2018, coupled with higher recognition from the improvement in outstanding orderbook. Meanwhile, 2QFY18 net profit rose 31.6% QoQ, in the absence of RM7.3 mln foreign exchange losses recorded in 1QFY18. Hence, we made no changes to our FY18 and FY19 earnings forecast. We believe Favco is well-positioned for a recovery to undertake more orders, particularly from the oil & gas industry. Going forward, Favco's outstanding orderbook of approximately RM427.0 mln (up from RM398.0 mln in 1QFY18) will provide earnings visibility over the next two years.

Recommendation

We maintain our **Hold** recommendation on Favco with an unchanged fair value to **RM2.83**. We continue to derive our fair value by pegging our FY19 profit forecast against target PER of 10.5x (unchanged). We like Favco for i) its position as a niche integrated crane specialist; ii) established worldwide presence with five manufacturing facilities across the globe; iii) revival of oil & gas works; as well as iv) its sturdy balance sheet with net cash position. Current prospective FY19 valuation of 10.3x PER, however, is already fair, in our view, with a decent expected dividend yield of approximately 3.8% and 4.2% for FY18 and FY19 respectively.

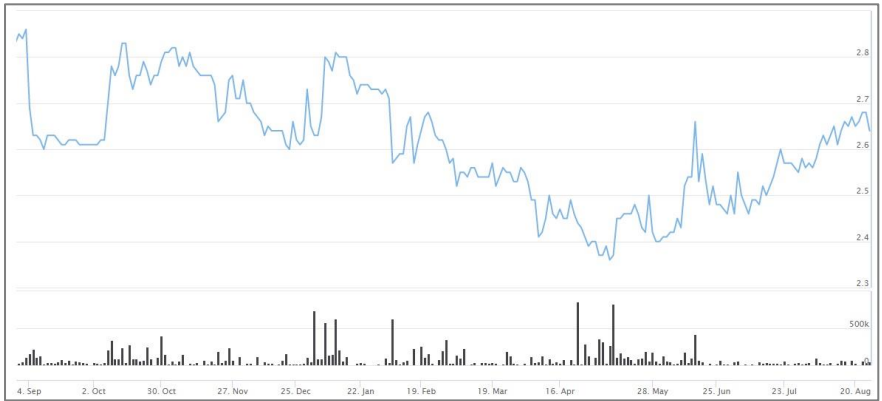
Key Financials

(FYE Dec)	FY16A	FY17A	FY18F	FY19F
Revenue (RM m)	582.3	526.5	429.6	487.9
<i>Revenue growth</i>	-26.5%	-9.6%	-18.4%	13.6%
EBITDA (RM m)	97.6	98.8	91.1	103.4
Net profit (RM m)	74.6	63.1	51.8	56.9
<i>Net profit growth</i>	-21.2%	-15.5%	-17.9%	9.9%
<i>Net profit margin</i>	12.8%	12.0%	12.1%	11.7%
EPS (sen)	33.7	28.5	23.4	25.7
Div/ share (sen)	15.0	13.5	10.0	11.0
Payout ratio	44.5%	47.4%	42.7%	42.8%
BV/share (RM)	2.67	2.84	3.09	3.40
Cash flow/ share (sen)	78.3	53.2	54.2	71.0

Key Valuation Metrics

	FY16A	FY17A	FY18F	FY19F
P/E (x)	7.8	9.3	11.3	10.3
P/BV (x)	1.0	0.9	0.9	0.8
P/cashflow (x)	3.4	5.0	4.9	3.7
Dividend yield	5.7%	5.1%	3.8%	4.2%
ROE	12.6%	10.0%	7.6%	7.6%
Net gearing (x)	Net cash	Net cash	Net cash	Net cash

Favco's last 12-month share price chart



Source: Bursa Marketplace

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RATING GUIDE

BUY	Price appreciation expected to exceed 15% within the next 12 months
SELL	Price depreciation expected to exceed 15% within the next 12 months
HOLD	Price movement expected to be between -15% and +15% over the next 12 months from current level

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