

Favelle Favco Bhd

Price : RM2.55

Market Capitalization : RM564.6 mln

Market : Main Market

Sector : Industrial Products

Recommendation : Buy

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

Company Update

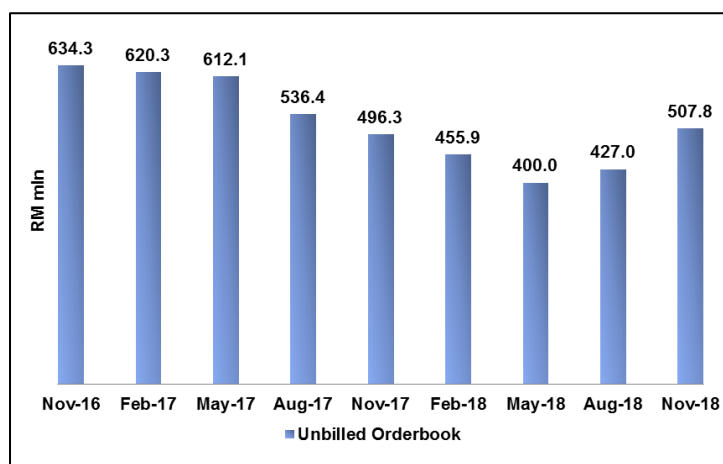
Between November 2018 and to-date, Favco has successfully secured a total of six major crane contracts with a combined value of RM61.1 mln. The six contracts comprise four towers and two offshores cranes that are expected to provide earnings visibility till 1QFY20. This bumps up its unbilled orderbook to approximately RM576.1 mln, representing an orderbook-to-cover ratio of 1.1x against FY17 revenue of RM526.5 mln.

Clientele	Type of Crane	Contract Duration	Total Value
G A Caelli Holdings Trust	Tower Crane	Delivery by 2QFY19	RM 61.1 mln
Form 700 Pty Ltd	Tower Crane	Delivery by 1QFY19	
Icon Co (Aust) Pty Ltd	Tower Crane	Delivery by 2QFY19	
TES, Inc	Tower Crane	Delivery by 3QFY19	
Sapura Fabrication Sdn Bhd	Offshore Crane	Delivery by 4QFY19	
Malaysia Vietnam Offshore Terminal (L) Limited	Offshore Crane	Delivery by 4QFY19	

Source: Company announcement on Bursa Malaysia, ZJ Research

Comments

While we are positive with the contract wins, they fall within our orderbook replenishment assumption of RM200 mln for FY19. Hence, we made no changes to our earnings forecast at this juncture. We note that the recovery of Favco's unbilled orderbook over the past quarters could boost its crane segment's earnings in the coming quarters. We continue to 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.



Source: ZJ Research

Recommendation

With no changes made to Favco's earnings estimates, we maintained our **Buy** recommendation with an unchanged fair value to **RM2.83** (upside potential of 11.0%). We derive our fair value by pegging our FY19 profit forecast against target PER of 10.5x (unchanged). Meanwhile, current prospective dividend yield is also attractive at approximately 4.3% and 4.7% for FY18 and FY19 respectively.

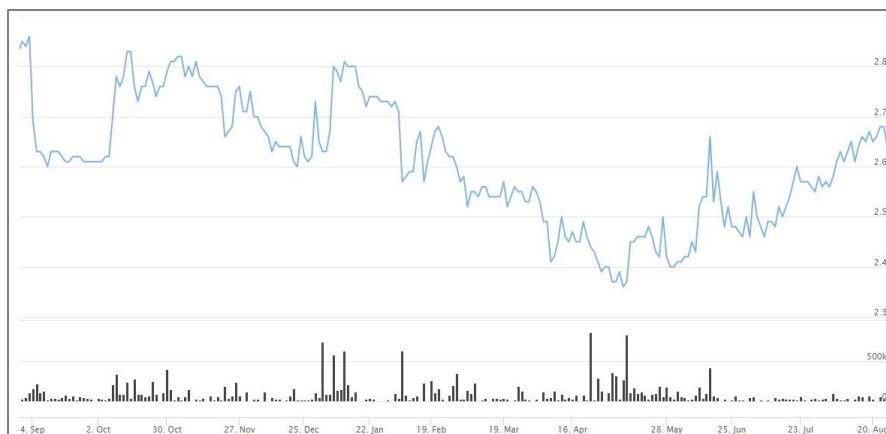
Key Financials

(FYE Dec)	FY16A	FY17A	FY18F	FY19F
Revenue (RM m)	582.3	526.5	429.6	487.9
Revenue growth	-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
Net profit growth	-21.2%	-15.5%	-17.9%	9.9%
Net profit margin	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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