

4QFY18 RESULTS UPDATE

27 Feb 2019

Favelle Favco Bhd

Price : RM2.65

Market Capitalization : RM586.7 mln

Market : Main Market

Sector : Industrial Products

Recommendation : Buy

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

Favco: 4QFY18 results

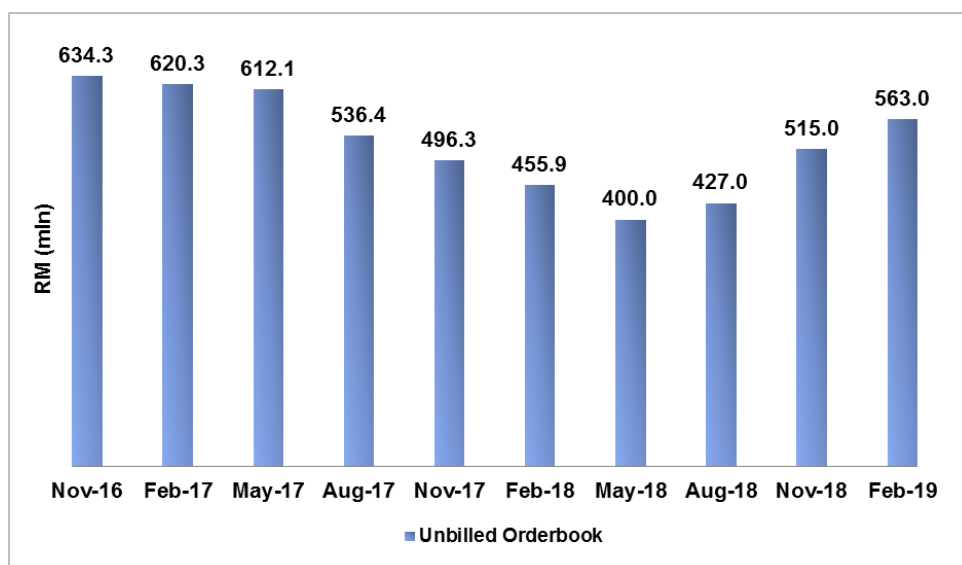
FYE Dec (RM mln)	Quarter-on-Quarter			Year-on-Year		Cumulative		
	4QFY18	3QFY18	% chg	4QFY17	% chg	FY18	FY17	% chg
Revenue	173.9	164.6	5.6%	93.0	87.0%	530.5	526.5	0.8%
Operating profit	36.5	41.1	-11.3%	20.2	81.0%	100.0	85.3	17.2%
Finance costs	(1.7)	(0.4)		(1.5)		(2.5)	(2.0)	
Pre-tax profit	34.8	40.8	-14.7%	18.7	85.9%	97.5	83.3	17.1%
Tax	(10.4)	(9.1)		(7.6)		(25.5)	(19.3)	
Net profit	21.2	30.1	-29.6%	10.7	98.0%	64.0	63.1	1.5%
Reported EPS (sen)	9.6	13.6	-29.6%	4.8	98.0%	28.9	28.5	1.5%
Op. profit margin	21.0%	25.0%		21.7%		18.8%	16.2%	
Pre-tax margin	20.0%	24.8%		20.1%		18.4%	15.8%	
Net profit margin	12.2%	18.3%		11.5%		12.1%	12.0%	
Net assets/share (RM)	3.1							

4QFY18 Results Review

- Favco's 4QFY18 net profit surged 98.0% YoY to RM21.2 mln, lifting FY18 net profit to RM64.0 mln. FY18 revenue and net profit exceeded our expectations, having constituted 123.5% and 123.6% of our estimates respectively. The variance was mainly due to higher contribution from the crane segment as a result of swifter execution of existing orderbook.
- The solid net profit improvement YoY delivered in 4QFY18 was mainly attributable to contribution from the consolidation of its 70%-equity stake in Exact Group that was acquired in July 2018. Favco's local sales made up to 57.9% or RM100.6 mln of the Group's total revenue of RM173.9 mln in 4QFY18. Contribution from overseas, meanwhile, stood at RM73.2 mln, making up the balance 42.1% of the Group's topline for the quarter.
- After a lackluster performance 1HFY18, the Group's performance improved in the final two quarters of FY18, resulting in net profit rising 1.5% YoY to RM64.0 mln in FY18. Likewise, revenue for the year rose marginally, by 0.8% YoY to RM530.5 mln. Revenue from overseas accounted for 54.5% of Group revenue in FY18, with the remaining RM241.4 mln (45.5%) generated from the local operations. Favco's net profit margin remained relatively stable, hovering at 12.1% in FY18, just marginally higher against its five-year average historical net profit margin at 11.3%.
- Gearing-wise, Favco continues to be in net cash position as at end-Dec 2018, supported by a war chest of RM323.8 mln in gross cash and cash equivalents, translating into a net cash/share of RM1.49. Net assets/share, meanwhile, stood at RM3.12. A first and final dividend of 13.5 sen was declared for 2018, translating into a decent dividend yield of 5.1%.

	Y-o-Y			Year-to-date		
	4QFY18	4QFY17	% Chg	FY18	FY17	% Chg
Revenue						
Local	100.6	21.8	362%	241.4	123.3	96%
Overseas	73.2	71.2	3%	289.1	403.4	-28%
Group	173.9	93.0	87%	530.5	526.8	1%

- The recent recovery in crude oil prices bodes well for Favco, as demonstrated from a continuous three quarters of improvement in its outstanding orderbook. Moving into FY19, we maintain our view that the Group would deliver high single-digit net profit growth, which we estimate to rise 7.7% YoY to RM68.9 mln. Our profit projection is underpinned by the maiden full-year consolidation of 70%-stake of four engineering companies – the Exact Group, as well as the execution from its existing outstanding orderbook.
- With the reported earnings coming in above our expectations, we raised our earnings forecast for FY19 by 20.2% to RM68.9 mln to reflect higher contribution from the crane segment. We also introduced our FY20 estimates with earnings growth of 4.5% YoY to RM72.0 mln. The improvement is bolstered by higher orders secured in the crane segment as demonstrated in the recent quarters (see diagram below) on the back of the pickup in oil & gas activities, coupled with the rising contribution from the industrial automation segment. Moving forward, the Group's unbilled orderbook at RM563.0 mln, which implies an orderbook-to-cover ratio of 1.2x against the crane segment revenue of RM457.4 mln in FY18, will provide earnings visibility over the next two years.



Source: Company, ZJ Advisory

Recommendation

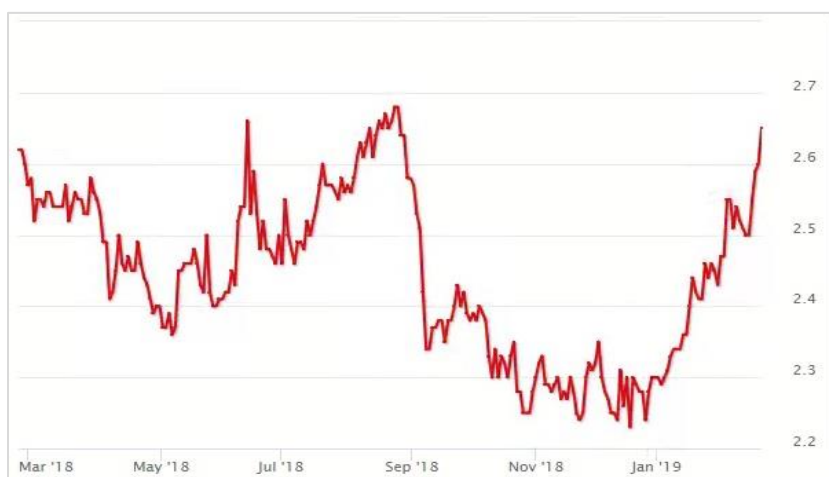
We maintained our **Buy** recommendation on Favco, with a higher fair value at **RM3.09** (from RM2.83), reflecting a potential upside of 16.6%. We derived our fair value by pegging our revised FY19 profit forecast against a target PER of 10.0x, which is in line with mid-small cap stocks listed on Bursa Malaysia. 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. Prospective FY19 and FY20 PER valuations of 8.6x and 8.3x appear to be attractive, and are further supported by decent expected dividend yields of 5.1% and 5.3% for FY19 and FY20 respectively.

Key Financials

(FYE Dec)	FY17A	FY18A	FY19F	FY20F
Revenue (RM m)	526.5	530.5	487.9	493.9
Revenue growth	-9.6%	0.8%	-8.0%	1.2%
EBITDA (RM m)	98.8	112.0	126.5	131.4
Net profit (RM m)	63.1	64.0	68.9	72.0
Net profit growth	-15.5%	1.4%	7.7%	4.5%
Net profit margin	12.0%	12.1%	14.1%	14.6%
EPS (sen)	28.5	28.9	31.1	32.5
Div/ share (sen)	13.5	13.5	13.5	14.0
Payout ratio	47.4%	46.7%	43.4%	43.0%
BV/share (RM)	2.84	3.20	3.86	4.18
Cash flow/ share (sen)	53.2	71.5	47.7	75.0

Key Valuation Metrics

	FY17A	FY18A	FY19F	FY20F
P/E (x)	9.3	9.2	8.5	8.1
P/BV (x)	0.9	0.8	0.7	0.6
P/cashflow (x)	5.0	3.7	5.6	3.5
Dividend yield	5.1%	5.1%	5.1%	5.3%
ROE	10.0%	9.0%	8.1%	7.8%
Net gearing (x)	Net cash	Net cash	Net cash	Net cash

Favco's last 12-month share price chart

Source: Bursa Marketplace

Analyst:
Nicole Tan
nicole@zj.com.my
03-2032 2328

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

DISCLAIMER

This report has been prepared by ZJ Advisory Sdn Bhd pursuant to the Mid and Small Cap Research Scheme ("MidS") administered by Bursa Malaysia Berhad. This report has been produced independent of any influence from Bursa Malaysia Berhad or the subject company. Bursa Malaysia Berhad and its group of companies disclaims any and all liability, howsoever arising, out of or in relation to the administration of MidS and/or this report.

This report is for information purposes only and has been prepared by ZJ Advisory based on sources believed to be reliable at the time of issue of this report. We however do not give any guarantee as to the accuracy or completeness of the information provided. Any opinions or estimates in this report are that of ZJ Advisory as of this date and are subject to change without notice. ZJ Advisory has no obligation to update its opinion or the information in this report beyond the scope of participation under MidS.

This report is under no circumstances to be construed as an offer to sell or a solicitation of an offer to buy any securities. Investors should seek financial regarding the appropriateness of investing in any securities discussed or opined in this report. Investors should understand that statements regarding future prospects may not materialize. This report may contain forward looking statement and forecasts, which are based on assumptions that are subject to uncertainties. Any deviation from the expectations may have adverse effect on the projections and prospects contained herein. ZJ Advisory accepts no liability for any direct, indirect or consequential loss arising from the use of this report.

ZJ Advisory and/or its directors and staff may have an interest in the securities mentioned herein. Furthermore, ZJ Advisory and its related companies may, from time to time, provide or seek to provide advisory and/or other services for the company(ies) mentioned in this report, and may be involved in share placement exercise involving securities mentioned herein. In reviewing this research report, investors should be aware that any or all of the foregoing, may among other things, give rise to real or potential conflicts of interest.

This research report is available at MidS' website. For more information on MidS and for other research reports, please visit www.bursamids.com.

ZJ Advisory Sdn Bhd (Co No: 645449-V)
(An investment adviser licensed by the Securities Commission)
Suite 27, 27th Floor, Sunway Tower,
No 86, Jalan Ampang, 50450 Kuala Lumpur
Tel (603) 2032 2328 Facsimile (603) 2032 1328
