

## COMPANY UPDATE

22 Aug 2019

## Favelle Favco Bhd

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

Price : RM2.75

Market Capitalization : RM613.5 mln

Market : Main Market

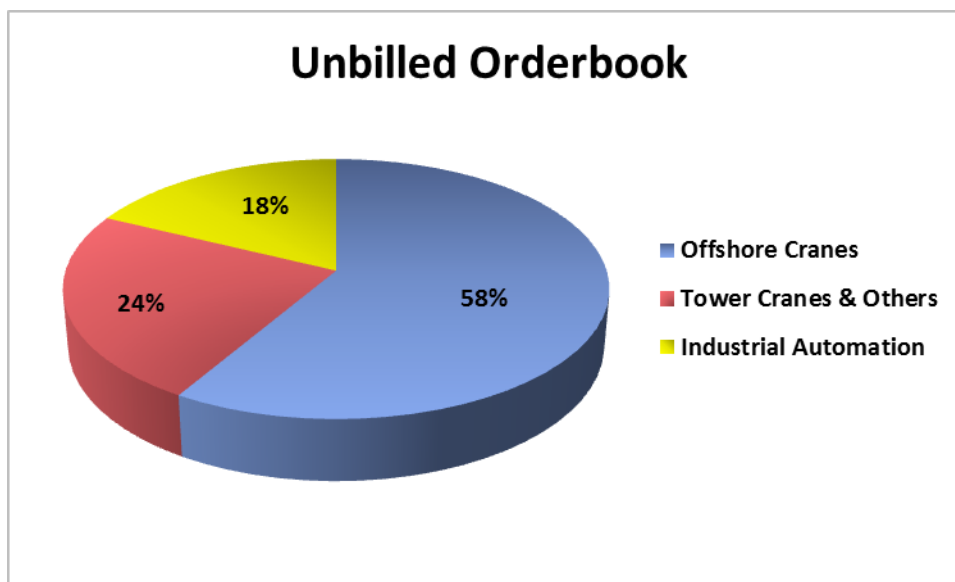
Sector : Industrial Products  
& Services

Recommendation : Buy

## COMPANY UPDATE

We recently met with the management of Favco and came away feeling re-assured on its current operations and future prospects. Year-to-date, Favco has secured a total of twelve major crane contracts with a combined value of RM139.9 mln. The aforementioned contracts comprise seven towers and five offshores cranes that are expected to provide earnings visibility till 2QFY20. Consequently, this bumps up its unbilled orderbook to approximately RM562.0 mln, representing an orderbook-to-cover ratio of 1.1x against FY18 revenue of RM530.6 mln.

Breakdown of the orderbook consists of:

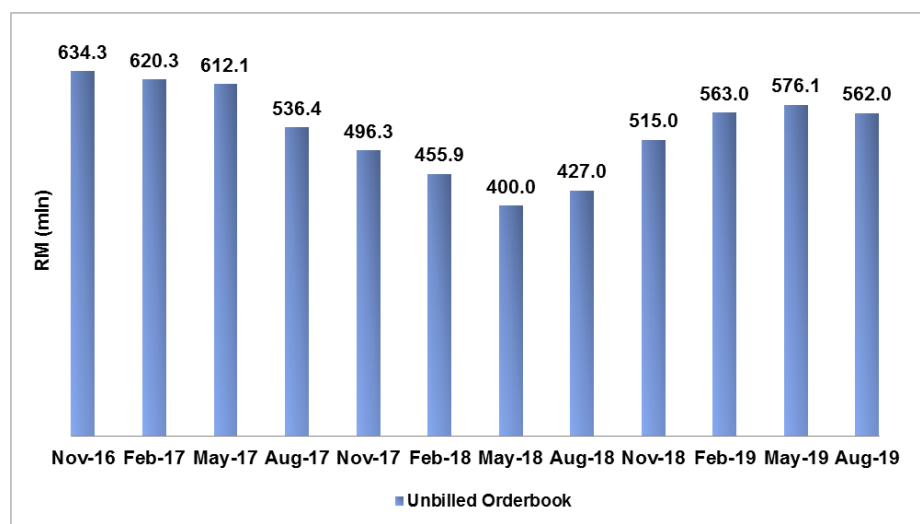


Source: Management, ZJ Research

### Comments

The abovementioned contracts secured in 1HFY19 falls within our orderbook replenishment assumption of RM300 mln for FY19. Hence, we made no changes to our earnings forecast. We note that while offshore cranes remain the largest contributor to the topline growth, the other cranes segment (comprising tower cranes, crawler cranes, wharf cranes and marine winches which makes up to RM133 mln or 24% of unbilled orderbook) saw improvement in outright sales and stable rental income to clients located mainly in Europe.

We reckon that Favco is on track for recovery as demonstrated in the stabilising of unbilled orderbook over the past several quarters, supported by the full-year consolidation of Intelligent Automation segment. 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) potential earnings recovery, cushioned by contribution from the acquired industrial automation business segment as well as iv) its sturdy balance sheet with net cash position.



Source: ZJ Research

## Recommendation

As there were no changes made to Favco's fundamentals, we maintained our **Buy** recommendation, with a higher fair value to **RM3.23** (from RM3.09), representing potential upside of 17.5% as we rolled over our valuation metrics to FY20F. We derived our fair value by pegging our FY20 profit forecast against a target PER of 10.0x, which is in line with mid-small cap stocks listed on Bursa Malaysia. We also note that current prospective dividend yield is attractive at approximately 4.9% and 5.1% for FY19 and FY20 respectively.

### Key Financials

| (FYE Dec)              | FY17A  | FY18A | FY19F | FY20F |
|------------------------|--------|-------|-------|-------|
| Revenue (RM m)         | 526.5  | 530.6 | 487.9 | 493.8 |
| Revenue growth         | -9.6%  | 0.8%  | -8.1% | 1.2%  |
| EBITDA (RM m)          | 98.8   | 116.3 | 117.0 | 122.6 |
| Net profit (RM m)      | 63.1   | 63.3  | 68.9  | 72.0  |
| Net profit growth      | -15.5% | 0.4%  | 8.8%  | 4.5%  |
| Net profit margin      | 12.0%  | 11.9% | 14.1% | 14.6% |
| EPS (sen)              | 28.3   | 28.4  | 30.9  | 32.3  |
| Div/ share (sen)       | 13.5   | 13.5  | 13.5  | 14.0  |
| Payout ratio           | 47.7%  | 47.6% | 43.7% | 43.4% |
| BV/share (RM)          | 2.82   | 3.09  | 3.73  | 4.07  |
| Cash flow/ share (sen) | 52.8   | 71.1  | 44.5  | 76.7  |

### Key Valuation Metrics

|                 | FY17A    | FY18A    | FY19F    | FY20F    |
|-----------------|----------|----------|----------|----------|
| P/E (x)         | 9.7      | 9.7      | 8.9      | 8.5      |
| P/BV (x)        | 1.0      | 0.9      | 0.7      | 0.7      |
| P/cashflow (x)  | 5.2      | 3.9      | 6.2      | 3.6      |
| Dividend yield  | 4.9%     | 4.9%     | 4.9%     | 5.1%     |
| ROE             | 10.0%    | 9.2%     | 8.3%     | 7.9%     |
| 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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