

2QFY19 RESULTS UPDATE

28 Aug 2019

Favelle Favco Bhd

Price : RM2.73

Market Capitalization : RM609.0 mln

Market : Main Market

Sector : Industrial Products

Recommendation : Buy

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

Favco: 2QFY19 results

FYE Dec (RM mln)	Quarter-on-Quarter			Year-on-Year		Cumulative		
	2QFY19	1QFY19	% chg	2QFY18	% chg	1HFY19	1HFY18	% chg
Revenue	199.3	156.0	27.8%	89.8	121.8%	355.3	192.1	85.0%
Operating profit	22.7	19.8	14.9%	11.4	100.2%	42.5	19.6	117.2%
Finance costs	(0.4)	(0.4)		(0.2)		(0.7)	(0.4)	
Pre-tax profit	22.4	19.4	15.2%	11.1	100.8%	41.8	19.2	118.1%
Tax	(5.3)	(3.9)		(3.4)		(9.3)	(6.0)	
Net profit	16.5	14.8	11.5%	7.3	127.1%	31.2	12.8	144.8%
Reported EPS (sen)	7.4	6.6	11.5%	3.3	127.1%	14.0	5.7	144.8%
Op. profit margin	11.4%	12.7%		12.6%		12.0%	10.2%	
Pre-tax margin	11.2%	12.5%		12.4%		11.8%	10.0%	
Net profit margin	8.3%	9.5%		8.1%		8.8%	6.6%	
Net assets/share (RM)	3.1							

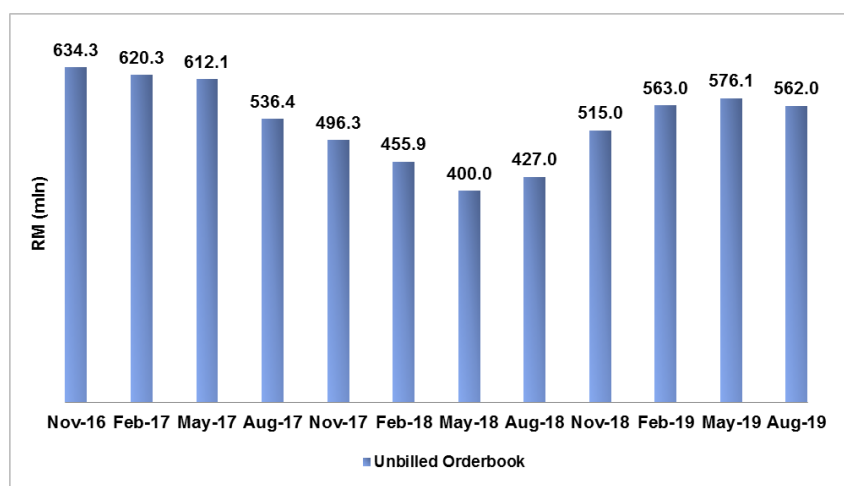
2QFY19 Results Review

- Favco delivered a strong 2QFY19 performance with net profit soaring 127.1% YoY to RM16.5 mln. This brings 1HFY19 net profit to RM31.2 mln, accounting for 45.3% of our earnings estimates of RM68.9 mln for FY19. The sharp uptick was underpinned by the consolidation of the intelligent automation segment that was acquired in July 2018, coupled with the stronger margins from the crane segment.
- Meanwhile, 2QFY19 revenue climbed 121.8% YoY to RM199.3 mln, bringing 1HFY19 revenue to RM355.3 mln which exceeded our expectations, having accounted for 72.8% of our estimates. The variance in the topline was mainly due to higher contribution from the crane segment. In 1HFY19, earnings before interest and tax (EBIT) surged 106.5% YoY to RM42.2 mln, translating to EBIT margin of 11.9%, higher than the 10.2% recorded in 1HFY18 on improved profitability from both the crane and intelligent automation segments.
- Geographically, Favco's local sales made up 43.4% or RM154.3 mln of the Group's total revenue of RM355.3 mln in 1HFY19, with the balance 56.6% or RM201.0 mln coming from overseas as the crane orders secured over the past couple of years were mainly from offshore clients.
- Segment-wise, the Group's bread and butter business – crane segment accounted to 85.7% or RM304.5 mln, whilst the intelligent automation segment contributed 14.3% or RM50.8 mln to the Group's total revenue in 1HFY19.
- In terms of balance sheet, Favco remained in net cash position as at 2QFY19 with a net cash/share of RM1.14, while net assets/share stood at RM3.10. No dividends were declared for the quarter as the Group traditionally declares dividend in the final quarter of financial year end.

	Y-o-Y			Year-to-date		
	2QFY19	2QFY18	% Chg	1HFY19	1HFY18	% Chg
Revenue by geographical market						
Local	97.2	27.6	252%	154.3	63.4	143%
Overseas	102.1	62.2	64%	201.0	128.7	56%
Group	199.3	89.8	122%	355.3	192.1	85%

	Y-o-Y			Year-to-date		
	2QFY19	2QFY18	% Chg	1HFY19	1HFY18	% Chg
Revenue by business segment						
Cranes	171.4	89.8	91%	304.5	192.1	59%
Intelligent Automation	28.0	0.0	-	50.8	0.0	-
Group	199.3	89.8	122%	355.3	192.1	85%

- We increased our revenue projections for FY19 and FY20 by 39.6% and 40.1% to RM680.9 mln and RM691.6 mln respectively to account for the higher contribution from the crane segment due to the improved orderbook. Despite that, we expect some margin contraction arising from the operational expense, coupled with the higher effective tax rate of 22.5% that will yield bottom-line figures to be unchanged at RM68.9 mln and RM72.0 mln for FY19 and FY20 respectively. Moving forward, the Group's unbilled orderbook of RM562.0 mln, implying an orderbook-to-cover ratio of 1.1x against the Group's revenue of RM530.6 mln in FY18 will provide earnings visibility over the next two years.



Source: Company, ZJ Research

Recommendation

With no changes on the earnings estimates, we maintained our **Buy** recommendation on Favco, with an unchanged fair value of **RM3.23**, representing a potential upside of 18.3%. We derived our fair value by pegging our FY20 profit forecast against a target PER of 10.0x, which is in line with the lower valuations of 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) healthy contribution from the intelligent automation segment; and iv) sturdy balance sheet with net cash position. The prospective FY19 and FY20 valuations at 8.8x and 8.5x PERs remain attractive, along with decent expected dividend yields of 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	680.9	691.6
Revenue growth	-9.6%	0.8%	28.3%	1.6%
EBITDA (RM m)	98.8	116.3	113.8	119.7
Net profit (RM m)	63.1	63.3	69.9	74.7
Net profit growth	-15.5%	0.4%	10.3%	6.9%
Net profit margin	12.0%	11.9%	10.3%	10.8%
EPS (sen)	28.3	28.4	31.3	33.5
Div/ share (sen)	13.5	13.5	13.5	14.0
Payout ratio	47.7%	47.6%	43.1%	41.8%
BV/share (RM)	2.82	3.09	3.74	4.13
Cash flow/ share (sen)	52.8	71.1	103.8	66.9

Key Valuation Metrics

Key Valuation Metrics	FY17A	FY18A	FY19F	FY20F
P/E (x)	9.7	9.6	8.7	8.2
P/BV (x)	1.0	0.9	0.7	0.7
P/cashflow (x)	5.2	3.8	2.6	4.1
Dividend yield	4.9%	4.9%	4.9%	5.1%
ROE	10.0%	9.2%	8.4%	8.1%
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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