

## COMPANY UPDATE

17 Oct 2019

# Favelle Favco Bhd

Price : RM2.64

Market Capitalization : RM589.0 mln

Market : Main Market

Sector : Industrial Products  
& Services

Recommendation : Buy

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

## COMPANY UPDATE

Favco has announced its third batch of contract wins year-to-date, comprising nine major contracts with a combined value of RM77.2 mln. This brings year-to-date major contract wins to RM216.6 mln. The contracts won involve the supply of two towers cranes, supply of four offshore cranes as well as three industrial automation contracts that are expected to provide earnings visibility till 3QFY20. Consequently, unbilled orderbook rose to approximately RM590.0 mln, representing an orderbook-to-cover ratio of 1.1x against FY18 revenue of RM530.6 mln.

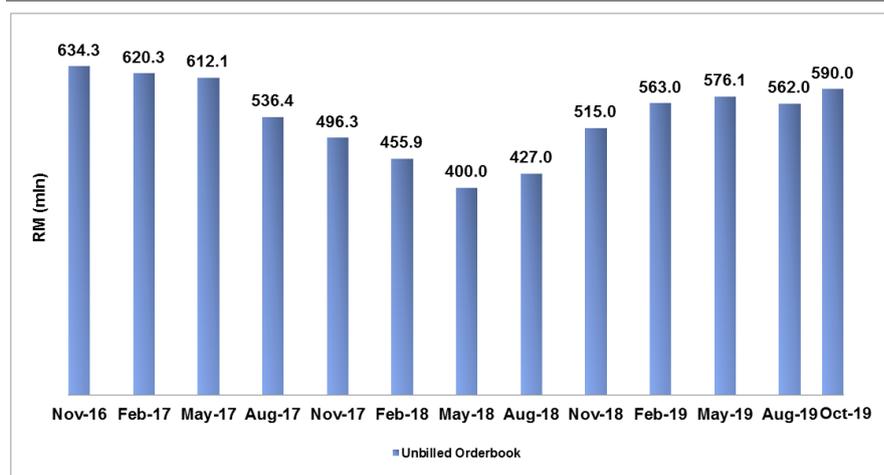
Breakdown of the contract win;

Clientele	Type of Contract	Contract Duration	Total Value
Marr Contracting Pty Ltd	Tower Crane	Delivery by 3QFY20	RM 77.2 mln
G A Caelli Holdings Trust	Tower Crane	Delivery by 4QFY19	
MEB Construction Sdn Bhd	Offshore Crane	Delivery by 4QFY19	
Keppel Shipyard Limited	Offshore Crane	Delivery by 3QFY20	
MEB Construction Sdn Bhd	Offshore Crane	Delivery by 2QFY20	
Armada Madura EPC Limited	Offshore Crane	Delivery by 3QFY20	
Sarawak Shell Bhd	Hardware Upgrade	Delivery by 4QFY19	
Kebabangan Petroleum Operating Company Sdn Bhd	Programmatic Logic Controller System	Delivery by 1QFY20	
Nov Process & Flow Technologies Malaysia Sdn Bhd	Programmatic Logic Controller System	Delivery by 4QFY19	

Source: Bursa Malaysia, ZJ Research

## Comments

These recent contract wins fall within our orderbook replenishment assumption, representing 86.6% of RM250 mln for FY19. Hence, we made no changes to our earnings forecast. We believe that the improvement of unbilled orderbook, which currently stands at approximately RM590.0 mln - the highest since August 2017, would potentially boost their earnings growth moving forward. 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) capitalising on Budget 2020 as government strongly encourage the adoption of automation process, which bodes well for Favco's industrial automation segment.



Source: ZJ Research

## Recommendation

With no changes made to Favco's fundamentals, we maintain our **Buy** recommendation with an unchanged fair value to **RM3.23**, representing decent potential upside of 22.3%. 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 5.1% and 5.3% for FY19 and FY20 respectively.

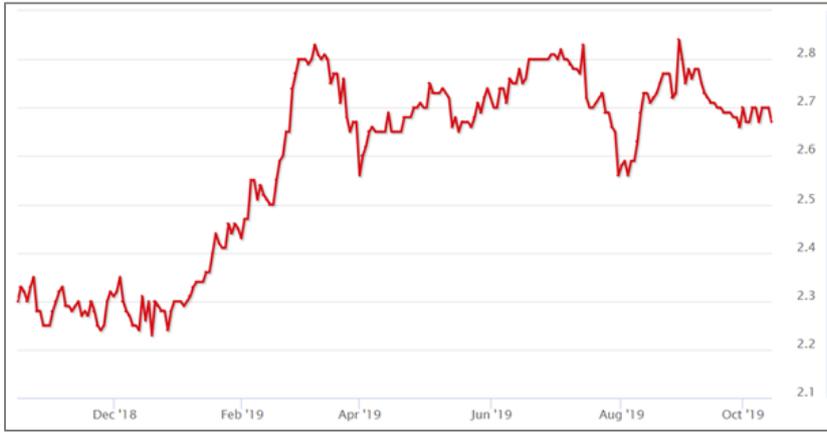
### Key Financials

(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	116.2	113.8	119.7
Net profit (RM m)	63.1	63.3	70.1	74.8
Net profit growth	-15.5%	0.4%	10.7%	6.6%
Net profit margin	12.0%	11.9%	10.3%	10.8%
EPS (sen)	28.3	28.4	31.4	32.3
Div/ share (sen)	13.5	13.5	13.5	14.0
Payout ratio	47.7%	47.6%	43.0%	41.8%
BV/share (RM)	2.82	3.09	3.72	4.15
Cash flow/ share (sen)	52.8	71.1	88.2	76.5

### Key Valuation Metrics

	FY17A	FY18A	FY19F	FY20F
P/E (x)	9.3	9.3	8.4	8.2
P/BV (x)	0.9	0.9	0.7	0.6
P/cashflow (x)	5.0	3.7	3.0	3.5
Dividend yield	5.1%	5.1%	5.1%	5.3%
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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