

COMPANY UPDATE

25 Nov 2019

Favelle Favco Bhd

Price : RM2.92

Market Capitalization : RM651.5 mln

Market : Main Market

Sector : Industrial Products
& ServicesBursa / Bloomberg Code: 7229 / FFB MK
Stock is Shariah-compliant.

Recommendation : Buy

COMPANY UPDATE

Favco has announced their fourth batch of contract wins year-to-date, comprising eight major contracts with a combined value of RM68.8 mln. This bumps year-to-date major contract wins to RM285.4 mln. The aforementioned contracts comprise the supply of five offshore cranes, supply of one tower crane and two industrial automation contracts that are expected to provide earnings visibility till 3QFY21. Consequently, unbilled orderbook rose to approximately RM550.0 mln, representing an orderbook-to-cover ratio of 1.0x against FY18 revenue of RM530.6 mln.

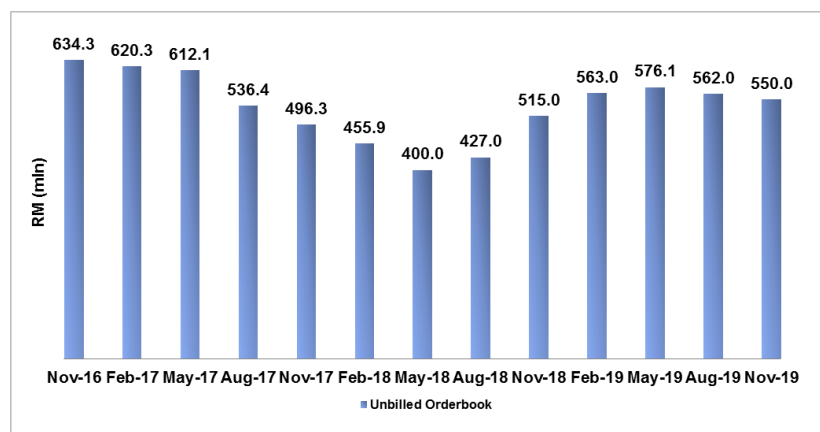
Breakdown of the contract win:

Clientele	Type of Contract	Contract Duration	Total Value
Malaysia Marine and Heavy Engineering Sdn Bhd	Offshore Crane	Delivery by 3QFY20	RM 68.8 mln
PTTEP Sarawak Oil Limited	Offshore Crane	Delivery by 3QFY20	
Emdad LLC	Offshore Crane	Delivery by 4QFY20	
PTT Exploration and Production Public Company Limited	Offshore Crane	Delivery by 3QFY20	
PTSC Mechanical & Construction Limited Company	Offshore Crane	Delivery by 4QFY20	
Crema Constructions Pty Ltd	Tower Crane	Delivery by 1QFY20	
Sarawak Shell Bhd	Hardware Upgrade	Delivery by 4QFY19	
Sarawak Shell Berhad	Compressor System	Delivery by 1QFY20	
Kebabangan Petroleum Operating Company Sdn Bhd	Flare Pips Replacement	Delivery by 1QFY20	

Source: Bursa Malaysia, ZJ Research

Comments

The abovementioned contracts wins exceeded our orderbook replenishment assumption, representing 114.2% of RM250.0 mln for FY19. Despite that, we made no changes to our earnings forecast as the delivery of the abovementioned contracts and earnings contribution will only materialise from FY20 onwards. We believe that the solid unbilled orderbook, standing at approximately RM550.0 mln 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

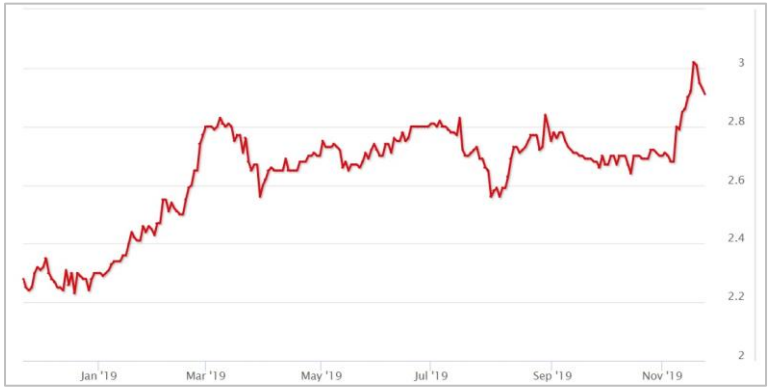
With no changes made to Favco's fundamentals, we maintain our **Buy** recommendation with an unchanged fair value of **RM3.23**, representing upside some potential of 10.6%. While current price is close to our fair value following the recent share price rally, we made no changes to our call at this juncture pending the soon-to-be released 3QFY19 results where we will update our parameters and opinion thereafter. 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 4.6% and 4.8% 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	67.8	72.1
Net profit growth	-15.5%	0.4%	7.1%	6.3%
Net profit margin	12.0%	11.9%	10.0%	10.4%
EPS (sen)	28.3	28.4	30.4	32.3
Div/ share (sen)	13.5	13.5	13.5	14.0
Payout ratio	47.7%	47.6%	44.4%	43.3%
BV/share (RM)	2.82	3.09	3.71	4.12
Cash flow/ share (sen)	52.8	71.1	87.1	75.3

Key Valuation Metrics	FY17A	FY18A	FY19F	FY20F
P/E (x)	10.3	10.3	9.6	9.0
P/BV (x)	1.0	0.9	0.8	0.7
P/cashflow (x)	5.5	4.1	3.4	3.9
Dividend yield	4.6%	4.6%	4.6%	4.8%
ROE	10.0%	9.2%	8.2%	7.8%
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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