

3QFY19 RESULTS UPDATE

27 Nov 2019

Favelle Favco Bhd

Price : RM2.94

Market Capitalization : RM655.9 mln

Market : Main Market

Sector : Industrial Products

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

Recommendation : Buy

Favco: 3QFY19 results

FYE Dec (RM mln)	Quarter-on-Quarter			Year-on-Year		Cumulative		
	3QFY19	2QFY19	% chg	3QFY18	% chg	9MFY19	9MFY18	% chg
Revenue	112.4	199.3	-43.6%	164.6	-31.7%	467.7	356.6	31.1%
Operating profit	30.7	22.7	34.9%	41.1	-25.4%	72.4	60.7	19.2%
Finance costs	(0.3)	(0.4)		(0.4)		(1.0)	(0.8)	
Pre-tax profit	30.4	22.4	36.0%	40.8	-25.4%	71.4	59.9	19.1%
Tax	(7.5)	(5.3)		(9.1)		(16.8)	(15.1)	
Net profit	23.6	16.5	43.1%	30.1	-21.7%	54.8	39.8	37.8%
Reported EPS (sen)	10.6	7.4	43.1%	13.5	-21.7%	24.6	17.8	37.8%
Op. profit margin	27.3%	11.4%		25.0%		15.5%	17.0%	
Pre-tax margin	27.1%	11.2%		24.8%		15.3%	16.8%	
Net profit margin	21.0%	8.3%		18.3%		11.7%	11.2%	
Net assets/share (RM)	3.2							

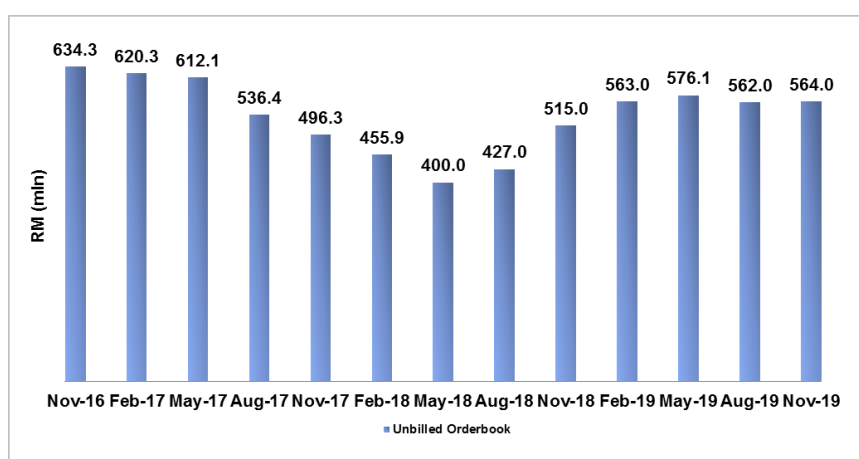
3QFY19 Results Review

- After delivering a solid 1HFY19 results, Favco's 3QFY19 net profit fell 21.7% YoY to RM23.6 mln. Nevertheless, cumulative 9MFY19 net profit of RM54.8 mln was above expectation, having made up 80.8% of our earnings estimates of RM67.8 mln for FY19. The stronger-than-expected performance was mainly attributable to the consolidation of the intelligent automation segment that was acquired by in July 2018.
- Topline-wise, the reported 3QFY19 revenue declined 31.7% YoY to RM112.4 mln due to weaker contribution from the crane division, both locally and overseas. 9MFY19 revenue of RM467.7 mln accounted for 68.8% of our estimates. In 9MFY19, earnings before interest and tax (EBIT) rose 19.2% YoY to RM72.4 mln, translating to EBIT margin of 15.5%, lower than 17.0% recorded in 9MFY18 on lower margins in the crane segment.
- In 9MFY19, Favco's overseas sales made up to 57.1% or RM266.9 mln of the Group's total revenue of RM467.7 mln, with the balance from local market. The higher portion of overseas contribution was owing to the fact that majority of the crane orders secured over the past couple of years were mainly from offshore clients.
- Segmentally, the Group's bread and butter business – crane segment accounts to 82.1% or RM383.9 mln, whilst the intelligent automation segment contributed 17.9% or RM83.8 mln to the Group's total revenue in 9MFY19.
- In terms of balance sheet, Favco remained in net cash position as in 3QFY19 with a net cash/share of RM0.98, while net assets/share stood at RM3.20.
- 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		
	3QFY19	2QFY19	% Chg	9MFY19	9MFY18	% Chg
Revenue by geographical segment						
Local	46.5	97.2	-52%	200.8	140.8	43%
Overseas	65.9	102.1	-35%	266.9	215.9	24%
Group	112.4	199.3	-44%	467.7	356.6	31%

	Y-o-Y			Year-to-date		
	3QFY19	2QFY19	% Chg	9MFY19	9MFY18	% Chg
Revenue by business segment						
Cranes	79.4	171.3	-54%	383.9	330.7	16%
Intelligent Automation	33.0	28.0	18%	83.8	26.0	222%
Group	112.4	199.3	-44%	467.7	356.6	31%

- We tweaked our FY19 topline lower by 7.8% to RM628.1 mln to account for the lower contribution from the crane segment, but raised FY20 revenue by 6.5% YoY to RM646.6 mln on expectation of stronger prospect next year. We also raised our bottomline figures higher by 4.4% and 4.2% to RM70.8 mln and RM75.3 mln for FY19 and FY20 respectively after factoring in stronger margins from the industrial automation segment, lower depreciation charges and lower effective tax rate at 23.5% vis-à-vis 24.3% previously. Moving forward, the Group's unbilled orderbook of RM564.0 mln -- comprising RM321.5 mln for offshore cranes, RM141.0 mln for tower cranes and RM101.5 mln from industrial automation segment -- will provide earnings visibility over the next two years.



Source: Company, ZJ Advisory

Recommendation

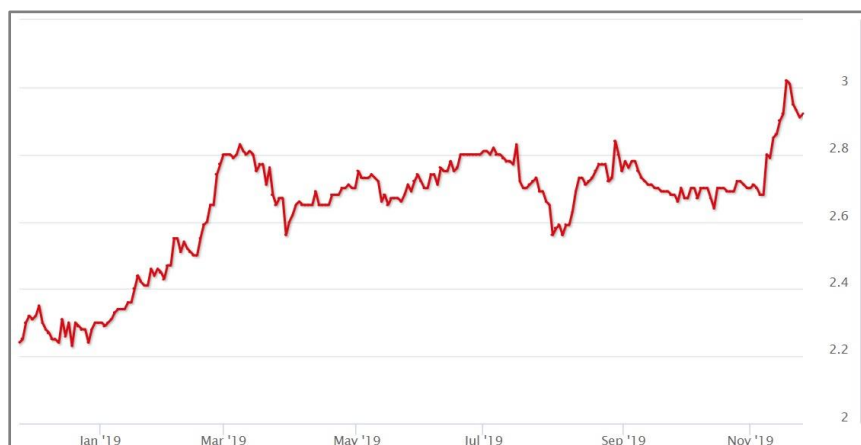
We maintain our **Buy** recommendation on Favco with a higher fair value of **RM3.38** (from RM3.23), following the upward revision in earnings estimate. We derived our fair value by pegging our revised FY20 profit forecast against a target PER of 10.0x, which is in line with the lower valuations of 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) stable contribution from the intelligent automation segment; and iv) sturdy balance sheet with net cash position. Current prospective FY19 and FY20 valuations of 9.2x and 8.7x PERs remains attractive, supported by decent expected dividend yields of 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	628.1	646.6
Revenue growth	-9.6%	0.8%	18.4%	3.0%
EBITDA (RM m)	98.8	116.2	107.7	113.7
Net profit (RM m)	63.1	63.3	71.0	75.3
Net profit growth	-15.5%	0.4%	12.2%	6.0%
Net profit margin	12.0%	11.9%	11.3%	11.6%
EPS (sen)	28.3	28.4	31.8	33.8
Div/ share (sen)	13.5	13.5	13.5	14.0
Payout ratio	47.7%	47.6%	42.4%	41.5%
BV/share (RM)	2.82	3.09	3.73	4.14
Cash flow/ share (sen)	52.8	71.1	64.1	73.6

Key Valuation Metrics

	FY17A	FY18A	FY19F	FY20F
P/E (x)	10.4	10.4	9.2	8.7
P/BV (x)	1.0	1.0	0.8	0.7
P/cashflow (x)	5.6	4.1	4.6	4.0
Dividend yield	4.6%	4.6%	4.6%	4.8%
ROE	10.0%	9.2%	8.5%	8.2%
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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