

1QFY20 RESULTS UPDATE

18 Jun 2020

Favelle Favco Bhd

Price : RM2.40

Market Capitalization : RM537.5 mln

Market : Main Market

Sector : Industrial Products

Recommendation : Buy

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

Favco: 1QFY20 results

FYE Dec (RM mln)	Quarter-on-Quarter			Year-on-Year	
	1QFY20	4QFY19	% chg	1QFY19	% chg
Revenue	144.6	226.2	-36.1%	156.0	-7.3%
Operating profit	17.3	46.7	-63.0%	19.8	-12.7%
Finance costs	(0.5)	(1.7)		(0.4)	
Pre-tax profit	16.7	45.0	-62.7%	19.4	-13.9%
Tax	(3.7)	(11.0)		(3.9)	
Net profit	11.9	26.5	-55.1%	14.8	-19.4%
Reported EPS (sen)	5.3	11.8	-55.1%	6.6	-19.4%
Op. profit margin	12.0%	20.6%		12.7%	
Pre-tax margin	11.6%	19.9%		12.5%	
Net profit margin	8.2%	11.7%		9.5%	
Net assets/share (RM)	3.2				

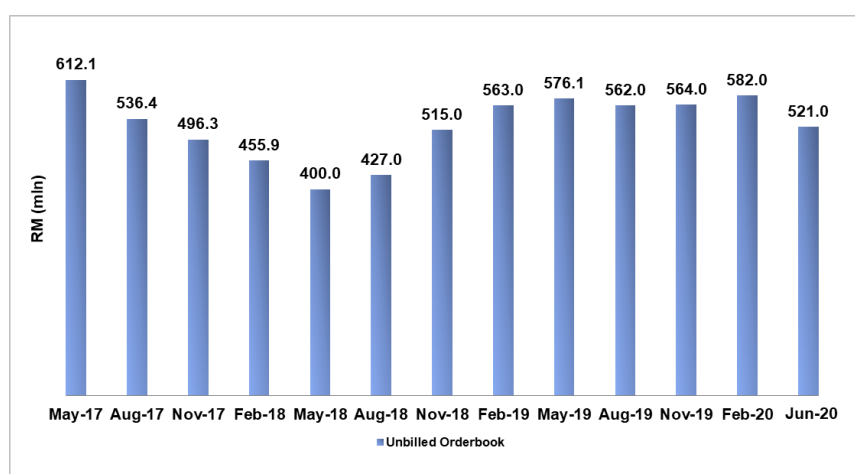
1QFY20 Results Review

- Favco kick started the year on a dour note with 1QFY20 net profit declining 19.4% YoY to RM11.9 mln, which made up only 14.2% of our previous earnings estimates of RM83.7 mln for FY20. The weaker-than-expected performance was mainly due to weaker demand, and further exacerbated by the impact arising from the Covid-19 pandemic, coupled with the lower finance income.
- Revenue in 1QFY20 fell 7.3% YoY to RM144.6 mln, accounting for 15.8% of our previous estimate of RM724.4 mln. For 1QFY20, earnings before interest and tax (EBIT) decreased 12.7% YoY to RM17.3 mln, translating to EBIT margin of 12.0%, lower than the five-year historical average of 15.2% on lower margins from the crane segment. Likewise, Favco's net profit margin fell to 8.2% in 1QFY20, below the five-year average historical average of 11.9%.
- Geographically, revenue from overseas (RM105.0 mln) made up 72.6% of Group revenue in 1QFY20, with the remaining RM39.6 mln (27.4%) generated from the local operations. Segment-wise, the crane business contributed 84.9% or RM122.8 mln to the Group revenue, with the balance coming from the intelligent automation segment.
- Despite the weaker 1QFY20 performance, Favco remains in a solid position with sizable net cash position of RM206.7 mln, translating into net cash/share of RM0.92, while net assets/share stood at RM3.24. No dividends were declared for the quarter as the Group traditionally announce their dividends in the final quarter of the financial year.

	Y-o-Y		
	1QFY20	1QFY19	% Chg
Revenue by geographical segment			
Local	39.6	57.2	-31%
Overseas	105.0	98.8	6%
Group	144.6	156.0	-7%

	Y-o-Y		
	1QFY20	1QFY19	% Chg
Revenue by business segment			
Cranes	122.8	133.1	-8%
Intelligent Automation	21.8	22.9	-5%
Group	144.6	156.0	-7%

- After delivering a soft quarter, we reckon that the weakness in performance will prevail into the subsequent quarter (2QFY20), largely affected by the continued disruptions to business activities worldwide brought forth by the pandemic. Locally, the implementation of Movement Control Order (MCO) in response to Covid-19 also resulted in operations being halted temporarily.
- Given the weak 1QFY20 results and the expectation of another soft quarter ahead, we trimmed our earnings forecast for FY20 and FY21 by 35.9% and 22.9% to RM53.7 mln and RM70.2 mln respectively, to reflect the slower execution of orderbook.
- Going forward, we have also imputed a lower orderbook assumption of RM150.0 mln (down from RM300.0 mln previously) as we expect construction activities may see some slowdown at least in the immediate next few months. Furthermore, the renewed volatility in crude oil prices may dampen the prospect of improvement in oil & gas activities.
- On a brighter note, we do expect performance of the Group to recover gradually from 2HFY20 as economies across the globe has begun re-opening their economies in phases. Current outstanding orderbook of RM521.0 mln, comprising RM448.0 mln from the crane segment and RM73.0 mln from the intelligent automation segment, will continue to provide earnings visibility over the next 18 months. This also implies an orderbook-to-cover ratio of 0.8x against Favco's revenue of RM693.9 mln in FY19.



Source: Company, ZJ Advisory

Recommendation

We maintained our **Buy** recommendation on Favco, but with a lower fair value of **RM3.14** (previously at RM3.74) after adjusting for the downward earnings revision. We rolled over our valuation metrics to FY21 to derive our fair value by pegging our profit forecast against an unchanged target PER of 10.0x. The target PER is in line with the mid-small cap stocks valuations listed on Bursa Malaysia.

We continue to favor 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 FY20 and FY21 valuations of 10.0x and 7.7x PERs remains attractive, supported by decent expected dividend yields of 4.2% and 6.3% for FY20 and FY21 respectively.

Key Financials (FYE Dec)	FY18A	FY19A	FY20F	FY21F
Revenue (RM m)	530.6	693.9	535.9	601.0
EBITDA (RM m)	116.2	135.9	100.8	125.0
Net Profit (RM m)	63.3	81.3	53.7	70.2
Net Profit Growth (%)	0.4	28.4	-34.0	30.9
FD EPS (sen)	28.3	36.3	24.0	31.4
Div/share (sen)	13.5	15.0	10.0	15.0
Payout ratio	47.7%	41.3%	41.7%	47.8%
BV/share (RM)	3.08	3.35	3.67	3.91
Cash flow/share (sen)	70.8	22.5	11.2	83.7

Key Valuation Metrics	FY18A	FY19A	FY20F	FY21F
P/E (x)	8.5	6.6	10.0	7.7
P/BV (x)	0.8	0.7	0.7	0.6
P/cash flow (x)	3.4	10.7	21.5	2.9
Dividend yield	5.6%	6.3%	4.2%	6.3%
ROE	9.2%	10.9%	6.5%	8.0%
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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