

2QFY20 RESULTS UPDATE

26 Aug 2020

## Favelle Favco Bhd

Price : RM2.02

Market Capitalization : RM452.4 mln

Market : Main Market

Sector : Industrial Products

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

Recommendation : Buy

### Favco: 2QFY20 results

FYE Dec (RM mln)	Quarter-on-Quarter			Year-on-Year		Cumulative		
	2QFY20	1QFY20	% chg	2QFY19	% chg	1HFY20	1HFY19	% chg
Revenue	97.4	144.6	-32.6%	199.3	-51.1%	242.1	355.3	-31.9%
Operating profit	11.1	17.3	-36.0%	22.7	-51.4%	28.3	42.5	-33.3%
Finance costs	(0.5)	(0.5)		(0.4)		(1.1)	(0.7)	
Pre-tax profit	11.6	16.7	-31.0%	22.4	-48.3%	28.3	41.8	-32.3%
Tax	(3.0)	(3.7)		(5.3)		(6.6)	(9.3)	
Net profit	7.6	11.9	-36.4%	16.5	-54.0%	19.5	31.2	-37.6%
Reported EPS (sen)	3.4	5.3	-36.4%	7.4	-54.0%	8.7	13.9	-37.6%
Op. profit margin	11.4%	12.0%		11.4%		11.7%	12.0%	
Pre-tax margin	11.9%	11.6%		11.2%		11.7%	11.8%	
Net profit margin	7.8%	8.2%		8.3%		8.0%	8.8%	
Net assets/share (RM)	3.5							

### 2QFY20 Results Review

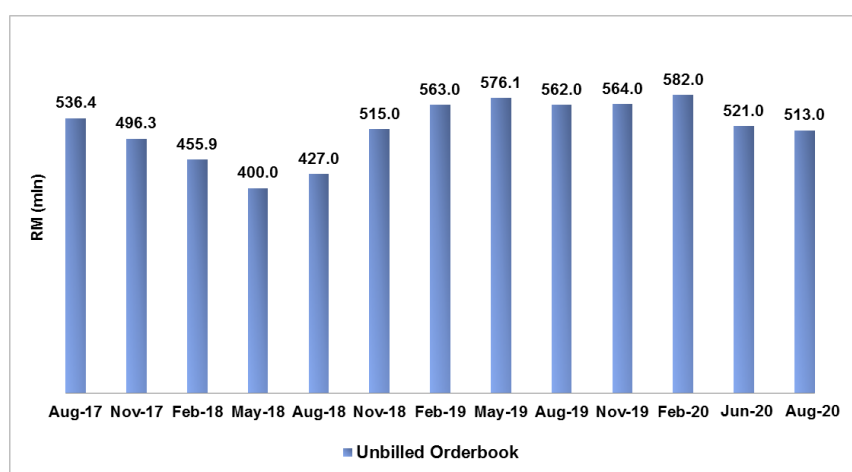
- Not surprisingly, Favco posted a weak 2QFY20 with net profit falling 54.0% YoY to RM7.6 mln. This brings 1HFY20 net profit to RM19.5 mln, accounting for 36.2% of our earnings estimates of RM53.8 mln for FY20. The downward pressure was largely affected by the enforcement of Movement Control Order (MCO) in Malaysia and lockdown measures across the globe, which resulted in businesses activities coming to near standstill for couple of weeks during the quarter.
- Meanwhile, 2QFY20 revenue declined 51.1% YoY to RM97.4 mln, bringing 1HFY20 revenue to RM242.1 mln which amounted to 45.2% of our estimates of RM535.9 mln. Although the reported numbers made up to less than half of our full year expectations, we deem the numbers to be within our expectations on the anticipation of potential recovery in 2HFY20, premised upon the gradual resumption of business operations by then. In 1HFY20, earnings before interest and tax (EBIT) fell 33.3% YoY to RM28.3 mln, translating to EBIT margin of 11.7%, marginally lower than the 12.0% recorded in the previous corresponding period as operating expenses remained relatively unchanged. Net profit, correspondingly, fell 37.6% YoY to RM19.5 mln in 1HFY20.
- Favco's local sales in 1HFY20 accounted for 33.7% or RM81.7 mln of the Group's total revenue of RM242.1 mln, with the larger portion of balance contribution 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 operations contributed 80.6% or RM195.1 mln to revenue, whilst the intelligent automation segment made up the balance 19.4% or RM46.9 mln of the total revenue in 1HFY20.
- Despite the weaker 1HFY20 performance, Favco remains in a solid position with sizable net cash position of RM206.0 mln, translating into net cash/share of RM0.92, while net assets/share stood at RM3.46 as at end-June 2020.

- No dividend was declared for the quarter as the Group traditionally announce their dividends in the final quarter of the financial year.

	Y-o-Y			Year-to-date		
	2QFY20	2QFY19	% Chg	1HFY20	1HFY19	% Chg
<b>Revenue by geographical segment</b>						
Local	42.0	97.2	-57%	81.7	154.3	-47%
Overseas	55.4	102.1	-46%	160.4	201.0	-20%
<b>Group</b>	<b>97.4</b>	<b>199.3</b>	<b>-51%</b>	<b>242.1</b>	<b>355.3</b>	<b>-32%</b>

	Y-o-Y			Year-to-date		
	2QFY20	2QFY19	% Chg	1HFY20	1HFY19	% Chg
<b>Revenue by business segment</b>						
Cranes	72.3	171.4	-58%	195.1	304.5	-36%
Intelligent Automation	25.2	28.0	-10%	46.9	50.8	-8%
<b>Group</b>	<b>97.4</b>	<b>199.4</b>	<b>-51%</b>	<b>242.1</b>	<b>355.3</b>	<b>-32%</b>

- We believe the worst could be over for Favco post 1HFY20, with the Group having resumed their operations in recent months to fulfill the existing unbilled orderbook of RM513.0 mln comprising RM437.0 mln from the crane segment and RM76.0 mln from the intelligent automation segment. This implies an orderbook-to-cover ratio of 0.7x against Favco's revenue of RM693.9 mln in FY19, which will provide earnings visibility over the next 18 months.
- We leave our orderbook assumption of RM150.0 mln for FY20 unchanged at this juncture as we expect the contract flow to improve towards the end of year with countries across the globe resuming their construction activities in order to rejuvenate the economic growth. At the same time, the stabilising of crude oil price (ie. Brent crude oil price now hovering around US\$45/bbl) may also provide some visibility and certainty to the oil & gas players to adjust and execute their CAPEX plans. Favco's crane business, in turn, stands to benefit as activities in the oil & gas industry pick up pace.



Source: Company, ZJ Advisory

## Recommendation

With no changes made to our earnings forecast, we maintain our **Buy** recommendation on Favco, with a fair value of **RM3.14**, representing potential upside of 55.4%. We derived our fair value by pegging our FY21 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; iv) sturdy balance sheet with net cash position and; v) the ability to ride out the downturn posed by Covid-19. Current prospective FY20 and FY21 valuations of 8.4x and 6.4x PERs are attractive, coupled with decent expected dividend yields of 5.0% and 6.4% for FY19 and FY20 respectively.

### Key Financials

(FYE Dec)	FY18A	FY19A	FY20F	FY21F
Revenue (RM m)	530.6	693.9	535.9	601.1
EBITDA (RM m)	116.2	135.9	100.8	125.0
Net Profit (RM m)	63.3	81.3	53.8	70.6
Net Profit Growth (%)	0.4	28.4	-33.8	31.2
FD EPS (sen)	28.3	36.3	24.0	31.5
Div/share (sen)	13.5	15.0	10.0	13.0
Payout ratio	47.7%	41.3%	41.6%	41.2%
BV/share (RM)	3.08	3.35	3.68	3.94
Cash flow/share (sen)	70.8	22.5	70.4	79.5

Key Valuation Metrics	FY18A	FY19A	FY20F	FY21F
P/E (x)	7.1	5.6	8.4	6.4
P/BV (x)	0.7	0.6	0.5	0.5
P/cash flow (x)	2.9	9.0	2.9	2.5
Dividend yield	6.7%	7.4%	5.0%	6.4%
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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