

4QFY19 RESULTS UPDATE

27 February 2020

Favelle Favco Bhd

Price : RM2.63

Market Capitalization : RM589.0 mln

Market : Main Market

Sector : Industrial Products

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

Recommendation : Buy

Favco: 4QFY19 results

FYE Dec (RM mln)	Quarter-on-Quarter			Year-on-Year		Cumulative		
	4QFY19	3QFY19	% chg	4QFY18	% chg	FY19	FY18	% chg
Revenue	226.2	112.4	101.2%	173.9	30.0%	693.9	530.6	30.8%
Operating profit	46.7	30.7	52.2%	40.9	14.2%	119.1	101.6	17.2%
Finance costs	(1.7)	(0.3)		(1.8)		(2.7)	(2.6)	
Pre-tax profit	45.0	30.4	47.8%	39.1	15.0%	116.3	99.0	17.5%
Tax	(11.0)	(7.5)		(15.3)		(27.7)	(30.4)	
Net profit	26.5	23.6	12.6%	20.5	29.5%	81.3	63.3	28.4%
Reported EPS (sen)	11.8	10.5	12.6%	9.1	29.5%	36.3	28.3	28.4%
Op. profit margin	20.6%	27.3%		23.5%		17.2%	19.2%	
Pre-tax margin	19.9%	27.1%		22.5%		16.8%	18.7%	
Net profit margin	11.7%	21.0%		11.8%		11.7%	11.9%	
Net assets/share (RM)	3.3							

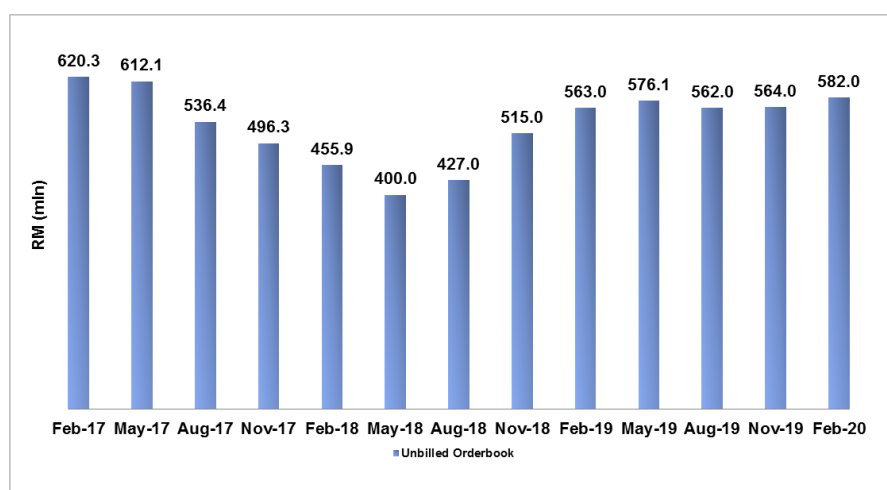
4QFY19 Results Review

- Favco ended the year on a firm footing after reporting 4QFY19 results, with net profit rising 29.5% YoY to RM26.5 mln. Consequently, cumulatively FY19 net profit of RM81.3 mln exceeded expectation as it made up 114.5% of our earnings estimates. The stronger-than-expected performance was due to the full-year consolidation from the intelligent automation segment that was acquired in July 2018 together with higher billings from the crane segment.
- FY19 revenue of RM693.9 mln (+30.8% YoY) accounted for 110.5% of our estimates for the year. Meanwhile, earnings before interest and tax (EBIT) rose 17.2% YoY to RM119.1 mln, translating into EBIT margin of 17.2%, which was lower than the 19.2% recorded in FY18 owing to reduced margins in the crane segment and higher depreciation charges. Nevertheless, Favco's net profit margin remained relatively stable, hovering at 11.7% in FY19, just marginally below the five-year historical average of 11.9%.
- RM329.1 mln or 47.4% of FY19 Group revenue came from overseas with the remaining RM364.8 mln or 52.6% generated from local operations. Segment-wise, the crane segment accounts to 77.2% or RM535.4 mln, whilst the intelligent automation segment contributed 22.8% or RM158.4 mln to the Group's topline in FY19.
- Favco remained in net cash position as at end-December 2019 supported by a war chest of RM288.9 mln against total borrowings of RM71.8 mln, translating into net cash/share of RM0.97. Net assets/share, meanwhile, stood at RM3.35.
- A first and final dividend of 15.0 sen was declared for 2019, implying a decent dividend yield of 5.7%.

	Y-o-Y			Year-to-date		
	4QFY19	3QFY19	% Chg	FY19	FY18	% Chg
Revenue by geographical segment						
Local	128.3	46.5	176%	329.1	241.5	36%
Overseas	97.9	65.9	48%	364.8	289.1	26%
Group	226.2	112.4	101%	693.9	530.6	31%

	Y-o-Y			Year-to-date		
	4QFY19	3QFY19	% Chg	FY19	FY18	% Chg
Revenue by business segment						
Cranes	151.5	79.4	91%	535.4	457.6	17%
Intelligent Automation	74.6	33.0	126%	158.4	73.0	117%
Group	226.2	112.4	101%	693.9	530.6	31%

- Moving into FY20, we expect earnings growth to sustain, backed by the execution from the existing outstanding orderbook that stood at RM582.0 mln, comprising RM514.0 mln from the crane segment and RM68.0 mln from the intelligent automation segment.
- As the reported earnings came above our expectations, we raised our earnings forecast for FY20 by 11.1% to RM83.7 mln to account for higher margins from the intelligent automation segment and stronger execution of crane orderbook.
- We also introduce our FY21 estimates with projection of 8.9% YoY earnings growth to RM91.1 mln. We expect more orders to be secured in the crane segment as demonstrated in the recent quarters on the back of the pickup in oil & gas activities, coupled with the rising contribution from the industrial automation segment due to rapid industrialisation. The Group's unbilled orderbook of RM582.0 mln – orderbook-to-cover ratio of 0.8x against FY19 Group revenue of RM693.9 mln – will underpin earnings over the next 18 months.
- The current Covid-19 outbreak has taken a toll on businesses across China, particularly the retail and tourism sector. However, while Favco has a plant in Shanghai, China, we understand the contribution from China to the Group is insignificant, and therefore, would have minimal impact to its overall business.



Source: Company, ZJ Advisory

Recommendation

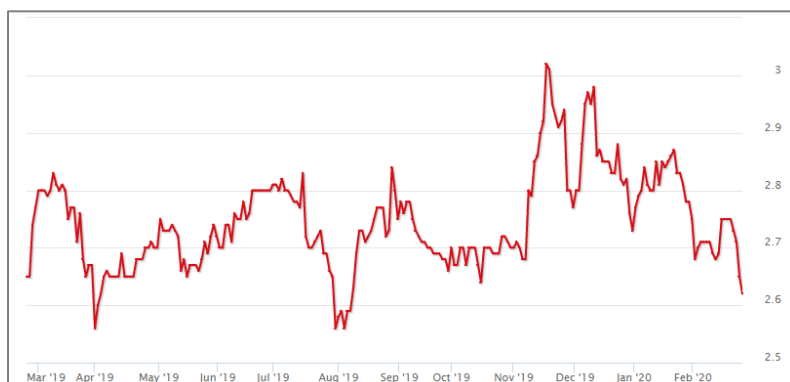
We maintained our **Buy** recommendation on Favco, with a higher lower fair value of **RM3.74** (previously at RM3.38) after adjusting for the earnings revision. We derived our fair value by pegging our FY20 profit forecast against a target PER of 10.0x (unchanged), which is in line with the valuations of mid-small cap stocks 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 7.0x and 6.5x PERs remains attractive, supported by decent expected dividend yields of 5.7% and 6.1% for FY20 and FY21 respectively.

Key Financials (FYE Dec)	FY18A	FY19A	FY20F	FY21F
Revenue (RM m)	530.6	693.9	724.4	737.6
EBITDA (RM m)	116.2	135.9	140.5	152.5
Net Profit (RM m)	63.3	81.3	83.7	91.1
Net Profit Growth (%)	0.4	28.4	2.9	8.9
FD EPS (sen)	28.3	36.3	37.4	40.7
Div/share (sen)	13.5	15.0	15.0	16.0
Payout ratio	47.7%	41.3%	40.1%	39.3%
BV/share (RM)	3.08	3.35	3.75	4.12
Cash flow/share (sen)	70.8	22.5	89.6	92.0

Key Valuation Metrics	FY18A	FY19A	FY20F	FY21F
P/E (x)	9.3	7.2	7.0	6.5
P/BV (x)	0.9	0.8	0.7	0.6
P/cash flow (x)	3.7	11.7	2.9	2.9
Dividend yield	5.1%	5.7%	5.7%	6.1%
ROE	9.2%	10.9%	10.0%	9.9%
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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