

# Favelle Favco Berhad

(7229 | FFB MK) Industrial Products & Services | Industrial Engineering

**Maintain BUY**

## Lower crane sales impacted earnings

**Revised Target Price: RM3.00**

(Previously RM3.41)

### KEY INVESTMENT HIGHLIGHTS

- Favelle Favco's 1QFY20 normalised earnings came in below estimates at RM15.4m
- The year-over-year decline in revenue was attributable to lower sales of cranes during the quarter
- >70% of revenue was tilted towards overseas sales
- Current orderbook at RM521m as of 17 June 2020
- Orderbook includes RM68m from Intelligent Automation
- FY20-21F earnings slashed by -4.89% to RM94.3m
- Maintain BUY with a revised TP of RM3.00 per share

**1QFY20 earnings below estimates at RM15.4m.** Favelle Favco Berhad's (Favco) 1QFY20 normalised net profit came in at RM15.4m which was below our full-year earnings estimates at 16.2%. Comparing against 1QFY19, revenue declined by -7.3% due to lower sales of cranes whilst normalized earnings grew marginally by +5.1%yoy respectively. Meanwhile, on a sequential quarter basis, revenue and earnings slumped by -36.1% and -41.9% correspondingly. The decline in revenue and earnings during the quarter was mainly due to lower sales of cranes recognized during the quarter.

**Revenue mainly from overseas sales.** Favco's year-to-date revenue remains heavily reliant on its overseas cranes sales which make up almost 72.6% of its total revenue. That said, the increasing contribution from Intelligent Automation which contributed roughly about 15% of its revenue or RM124.9m year-to-date is expected to balance it out. Going forward, the management expects to increase the contribution coming from its tower crane rentals. The rentals which are currently only applicable for its clients in Europe makes up about 12-15% of its total revenue at this juncture.

**Current orderbook of RM521m.** As at 17 June 2020, the group's outstanding orderbook stood at RM521m (previously RM582m as at 26 February 2020) from the global oil and gas shipyard, construction and wind turbine industries. However, the majority of the orderbook still consists of oil and gas cranes for the offshore oil and gas exploration and production activities at 60%. The remainder of 26% is from the shipyard, construction and wind turbine industry. The orderbook also consist of RM73m/14% from Intelligent Automation.

**Earnings impact.** We are reducing our FY20-21F earnings estimate by -19.5% and -18.4% as we incorporate lower sales revenue for cranes going forward due to unfavourable operating environment as a result of the spread of Covid19 which have been disrupting businesses worldwide.

### RETURN STATISTICS

Price @ 17 <sup>th</sup> June 2020 (RM)	2.40
Expected share price return (%)	+25.0
Expected dividend yield (%)	+6.4
<b>Expected total return (%)</b>	<b>+31.4</b>

### SHARE PRICE CHART



Share price performance (%)	Absolute	Relative
1 month	8.11	-0.60
3 months	29.03	-4.55
12 months	-13.67	-7.33

### KEY STATISTICS

FBM KLCI	1,526.32
Syariah compliant	Yes
Issue shares (m)	223.86
Estimated free float (%)	26.43
Market Capitalisation (RM'm)	537.44
52-wk price range	1.71 – 3.02
Beta vs FBM KLCI (x)	0.93
Monthly velocity (%)	0.0012
Monthly volatility (%)	13.47
3-mth average daily volume (m)	0.16
3-mth average daily value (RM'm)	0.34
Top Shareholders (%)	
Muhibbah Engineering M Bhd	58.61
Mac Ngan Boon	4.23
Mohd Taib Aminah	1.96

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**Maintain BUY with a revised TP of RM3.00.** Post earnings revision and rolling forward our valuation base period to FY21, we are maintaining our **BUY** recommendation on Favco with a revised target price of **RM3.00** (from RM3.41 previously). Our TP is derived from pegging an unchanged PER20 of 8.0x to EPS20 of 37.5sen. We believe in Favco's (i) stable orderbook mix with infrastructure-based projects; (ii) net cash position and; (iii) consistent dividend payout translating into an attractive FY21F dividend yield of 6.4%.



## INVESTMENT STATISTICS

Financial year ending 31st December (in RM'm unless otherwise stated)	2018A	2019A	2020E	2021F	2022F
<b>Revenue</b>	<b>530.5</b>	<b>693.9</b>	<b>630.0</b>	<b>680.0</b>	<b>730.0</b>
Pretax Profit	94.9	116.3	83.4	89.9	96.4
Profit After Tax	69.4	88.6	75.9	81.8	88.7
<b>Normalised Earnings</b>	<b>64.0</b>	<b>89.2</b>	<b>75.9</b>	<b>83.0</b>	<b>90.0</b>
PATAMI margin (%)	12.1	12.9	12.0	12.2	12.3
EPS (sen)	28.9	36.1	34.3	37.5	40.7
EPS Growth (%)	1.4	24.8	(4.9)	9.4	8.4
PER (x)	8.3	6.7	7.0	6.4	5.9
Dividend per share (sen)	13.5	15.0	13.7	15.4	17.1
Dividend yield (%)	5.6	6.3	5.7	6.4	7.1
Debt to equity ratio (x)	0.8	0.8	0.8	0.8	0.7
ROA (%)	6.1	6.1	5.6	5.8	6.1
ROE (%)	11.3	11.0	9.9	10.2	10.4
NTA per share (RM)	3.0	3.2	3.4	3.6	3.8
Price to NTA (x)	0.8	0.7	0.7	0.7	0.6

Source: Company, MIDFR

**FAVELLE FAVCO BERHAD: 1QFY20 RESULTS SUMMARY**

Financial year ending 31st December (in RM'm unless otherwise stated)	Quarterly results				
	1QFY19	4QFY19	1QFY20	QoQ (%)	YoY (%)
Revenue	156.0	226.2	144.6	(36.1)	(7.3)
Cost of sales	(139.3)	(181.3)	(128.1)	(29.3)	(8.0)
Gross profit	16.7	44.9	16.5	(63.2)	(1.2)
Finance income	3.1	2.4	0.8	(68.8)	(75.5)
Finance costs	(0.4)	(1.7)	(0.5)	(69.1)	49.2
Operating profit	19.4	45.6	16.7	(63.3)	(13.9)
Share of profit/(loss) of associates, net of tax	(0.9)	0.0	(0.7)	(1,959.5)	(19.3)
Profit before tax	18.6	45.0	16.1	(64.3)	(13.6)
Tax expense	(3.9)	(11.0)	(3.7)	(66.4)	(6.0)
Profit after tax	14.7	34.0	12.4	(63.6)	(15.7)
Non-controlling interests	(0.1)	7.4	0.5	(93.8)	(497.4)
PATANCI	14.8	26.5	11.9	(55.1)	(19.4)
Exceptional Items (EI)	0.0	0.0	(3.5)	nm	nm
PATANCI (Ex-EI)	14.7	26.5	15.4	(41.9)	5.1
Basic EPS (sen)	6.7	11.9	5.3	(55.3)	(20.2)
Diluted EPS (sen)	6.6	11.9	5.3	(55.3)	(19.5)
				<i>+ / (-) ppts</i>	
Gross profit (%)	10.7	19.9	11.4	(8.4)	0.7
Operating margin (%)	12.5	20.1	11.6	(8.6)	(0.9)
PBT margin (%)	11.9	19.9	11.1	(8.8)	(0.8)
PAT margin (%)	9.4	15.0	8.5	(6.5)	(0.8)
PATANCI margin (%)	9.5	11.7	8.2	(3.5)	(1.2)
Tax rate (%)	21.1	24.5	23.0	(1.5)	1.9

Source: Company, MIDFR

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### MIDF AMANAH INVESTMENT BANK : GUIDE TO RECOMMENDATIONS

#### STOCK RECOMMENDATIONS

<b>BUY</b>	Total return is expected to be >10% over the next 12 months.
<b>TRADING BUY</b>	Stock price is expected to <i>rise</i> by >10% within 3-months after a Trading Buy rating has been assigned due to positive newsflow.
<b>NEUTRAL</b>	Total return is expected to be between -10% and +10% over the next 12 months.
<b>SELL</b>	Total return is expected to be <10% over the next 12 months.
<b>TRADING SELL</b>	Stock price is expected to <i>fall</i> by >10% within 3-months after a Trading Sell rating has been assigned due to negative newsflow.

#### SECTOR RECOMMENDATIONS

<b>POSITIVE</b>	The sector is expected to outperform the overall market over the next 12 months.
<b>NEUTRAL</b>	The sector is to perform in line with the overall market over the next 12 months.
<b>NEGATIVE</b>	The sector is expected to underperform the overall market over the next 12 months.