

Favelle Favco Berhad

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

Maintain BUY

Crane sales and tower crane rentals to drive earnings

Revised Target Price: RM3.41

(Previously RM3.22)

KEY INVESTMENT HIGHLIGHTS

- Favelle Favco's 4QFY19 normalised earnings came in within estimates at RM26.5m
- The year-over-year increase in revenue was attributable to higher sales of cranes during the quarter
- 52.6% of revenue was tilted towards overseas sales
- Current orderbook at RM582m as of 26 February 2020
- Orderbook includes RM68m from Intelligent Automation
- FY20F earnings raised by +4.89% to RM94.3m
- Maintain BUY with a revised TP of RM3.41 per share

4QFY19 earnings within estimates at RM26.5m. Favelle Favco Berhad's (Favco) 4QFY19 normalised net profit came in at RM26.5m. This brings its FY19 earnings to RM81.3m which is within our full-year earnings estimates at 102.2%. Comparing against 4QFY18, revenue and earnings grew by +30.1% and +8.0%yoy respectively while on a quarterly sequential basis, revenue surged by +101.2% and earnings increased by +12.6% correspondingly. The increase in revenue and earnings during the quarter was mainly due to higher 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 52.6% of its total revenue. That said, the increasing contribution from Intelligent Automation which contributed to 22.8% of its revenue or RM158.45m year-to-date is expected to balance it out. Going forward, 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 RM582m. As at 26 February 2020, the group's outstanding orderbook stood at RM582m (previously RM564m as at 20 November 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 62%. The remainder of 26% is from the shipyard, construction and wind turbine industry. The orderbook also consist of RM68m/12% from Intelligent Automation.

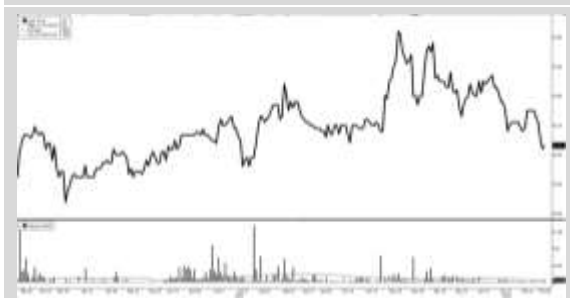
Earnings impact. We have raised our FY20F earnings estimate by +4.89% to RM94.3m as we incorporate higher revenue from tower crane rentals going forward.

Maintain BUY with a revised TP of RM3.41. Post earnings revision, we are maintaining our **BUY** recommendation on Favco with a revised target price of **RM3.41** (from RM3.22 previously). Our TP is derived from pegging an unchanged PER20 of 8.0x to EPS20 of 42.6sen. 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 FY20F dividend yield of 6.5%.

RETURN STATISTICS

Price @ 26 th February 2020 (RM)	2.63
Expected share price return (%)	+29.6
Expected dividend yield (%)	+5.4
Expected total return (%)	+35.0

SHARE PRICE CHART



Share price performance (%)	Absolute	Relative
1 month	-7.07	-2.24
3 months	-3.66	-5.24
12 months	-0.75	14.10

KEY STATISTICS

FBM KLCI	1495.19
Syariah compliant	Yes
Issue shares (m)	221.39
Estimated free float (%)	27.63
Market Capitalisation (RM'm)	588.95
52-wk price range	2.51 – 3.02
Beta vs FBM KLCI (x)	0.80
Monthly velocity (%)	11.02
Monthly volatility (%)	13.47
3-mth average daily volume (m)	0.08
3-mth average daily value (RM'm)	0.22
Top Shareholders (%)	
Muhibbah Engineering M Bhd	58.61
Mac Ngan Boon	4.23
Kumpulan Wang Persaraan	2.78

Analyst(s)

Noor **ATHILA** Mohd Razali
Noor.athila @midf.com.my
03-2772 1679

INVESTMENT STATISTICS

Financial year ending 31st December (in RM'm unless otherwise stated)	2018A	2019A	2020E	2021F	2022F
Revenue	530.5	693.9	700.0	750.0	800.0
Pretax Profit	94.9	116.3	103.6	110.1	116.6
Profit After Tax	69.4	88.6	94.3	100.2	107.3
Normalised Earnings	64.0	89.2	94.3	101.7	108.9
PATAMI margin (%)	12.1	12.9	13.5	13.6	13.6
EPS (sen)	28.9	36.1	42.6	46.0	49.2
EPS Growth (%)	1.4	24.8	18.1	7.9	7.1
PER (x)	9.1	7.3	6.2	5.7	5.3
Dividend per share (sen)	13.5	15.0	17.0	18.8	20.7
Dividend yield (%)	5.1	5.7	6.5	7.2	7.9
Debt to equity ratio (x)	0.8	0.8	0.8	0.8	0.7
ROA (%)	6.1	6.1	6.7	6.9	7.0
ROE (%)	11.3	11.0	12.1	12.1	12.1
NTA per share (RM)	3.0	3.2	3.5	3.7	4.0
Price to NTA (x)	0.9	0.8	0.8	0.7	0.7

Source: Company, MIDFR

FAVELLE FAVCO BERHAD: 4QFY19 RESULTS SUMMARY

Financial year ending 31st December (in RM'm unless otherwise stated)	Quarterly results					Cumulative results		
	4QFY18	3QFY19	4QFY19	QoQ (%)	YoY (%)	FY18	FY19	YoY (%)
Revenue	173.9	112.4	226.2	101.2	30.1	530.5	693.9	30.8
Cost of sales	(139.4)	(82.2)	(181.3)	120.6	30.0	(437.2)	(580.7)	32.8
Gross profit	34.4	30.2	44.9	48.6	30.5	93.3	113.2	21.3
Finance income	2.1	1.4	2.4	72.5	15.0	6.7	8.7	30.4
Finance costs	(1.7)	(0.3)	(1.7)	564.6	0.7	(2.5)	(2.7)	8.3
Operating profit	34.8	31.3	45.6	45.4	31.0	97.5	119.2	22.2
Share of profit/(loss) of associates, net of tax	0.2	(0.9)	0.0	(104.0)	(81.1)	(2.6)	(2.2)	(15.8)
Profit before tax	35.0	30.4	45.0	47.8	28.5	94.9	117.0	23.3
Tax expense	(10.4)	(7.5)	(11.0)	46.9	5.6	(25.5)	(27.7)	8.7
Profit after tax	24.6	22.9	34.0	48.1	38.3	69.4	89.2	28.6
Non-controlling interests	3.4	(0.6)	7.4	>100	119.0	5.4	7.3	35.1
PATANCI	21.2	23.6	26.5	12.6	25.4	64.0	81.3	27.1
Exceptional Items (EI)	0.0	0.0	0.0	nm	nm	0.0	0.0	nm
PATANCI (Ex-EI)	24.6	23.6	34.0	44.1	38.3	69.4	89.2	28.6
Basic EPS (sen)	9.6	10.6	11.9	12.5	24.4	28.9	36.6	26.4
Diluted EPS (sen)	9.6	10.5	11.9	13.5	24.4	28.9	36.4	26.1
				+ / (-) pts				+ / (-) pts
Gross profit (%)	19.8	26.9	19.9	(7.0)	0.1	17.6	16.3	(1.3)
Operating margin (%)	20.0	27.9	20.1	(7.7)	0.1	18.4	17.2	(1.2)
PBT margin (%)	20.1	27.1	19.9	(7.2)	(0.2)	17.9	16.9	(1.0)
PAT margin (%)	14.1	20.4	15.0	(5.4)	0.9	13.1	12.9	(0.2)
PATANCI margin (%)	12.2	21.0	11.7	(9.2)	(0.4)	12.1	11.7	(0.3)
Tax rate (%)	29.8	24.6	24.5	(0.1)	(5.3)	26.9	23.7	(3.2)

Source: Company, MIDFR

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MIDF AMANAH INVESTMENT BANK : GUIDE TO RECOMMENDATIONS

STOCK RECOMMENDATIONS

BUY	Total return is expected to be >10% over the next 12 months.
TRADING BUY	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.
NEUTRAL	Total return is expected to be between -10% and +10% over the next 12 months.
SELL	Total return is expected to be <10% over the next 12 months.
TRADING SELL	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

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