

28 May 2018 | 1QFY18 Results Review

Favelle Favco Berhad

Earnings within estimates

Maintain BUY

Unchanged Target Price (TP): RM2.92

INVESTMENT HIGHLIGHTS

- Favelle Favco's reported 1QFY18 profit decreased by -48.5%yoy to RM5.5m
- Normalised net profit excluding exceptional items at +RM17.8m
- Current orderbook at RM400m as at 18 May 2018
- The bulk of the orderbook from various product segments
- Maintain BUY with an unchanged target price of RM2.92

Largely within expectations. Favelle Favco's 1QFY18 reported earnings declined by -48.5%yoy to RM5.5m. Excluding impairments, forex losses and losses on derivatives, the company's normalised quarterly earnings amounted to RM17.8. 3MFY18 earnings came in largely within estimates, accounting for 23% of FY18 earnings forecasts.

Current orderbook of RM400m. As at 18 May 2018, the group's outstanding orderbook stood at approximately RM400m (previously RM455.9 as at 20 February 2017). Albeit decreasing, the majority of the orderbook still consists of oil and gas cranes for the offshore oil and gas exploration and production activities. The remainder is from the shipyard, construction and wind turbine industry.

Impact to earnings. No change to earnings estimates.

Maintain BUY with unchanged TP of RM2.92. We are still maintaining our BUY recommendation of Favco with an unchanged TP of RM2.92 per share. Our target price is based on EPS18 of 34.3sen pegged to a PER18 of 8.5x. The average PER of its Asian regional peer's is 11x. We believe in Favco's (i) change in orderbook mix by increasing infrastructure-based projects; (ii) net cash position and; (iii) consistent dividend payout translating into a reasonable dividend yield.



RETURN STATS

Price (25 May 2018)	RM2.50
Target Price	RM2.92
Expected Share Price Return	+16.8%
Expected Dividend Yield	+5.3%
Expected Total Return	+22.1%

STOCK INFO

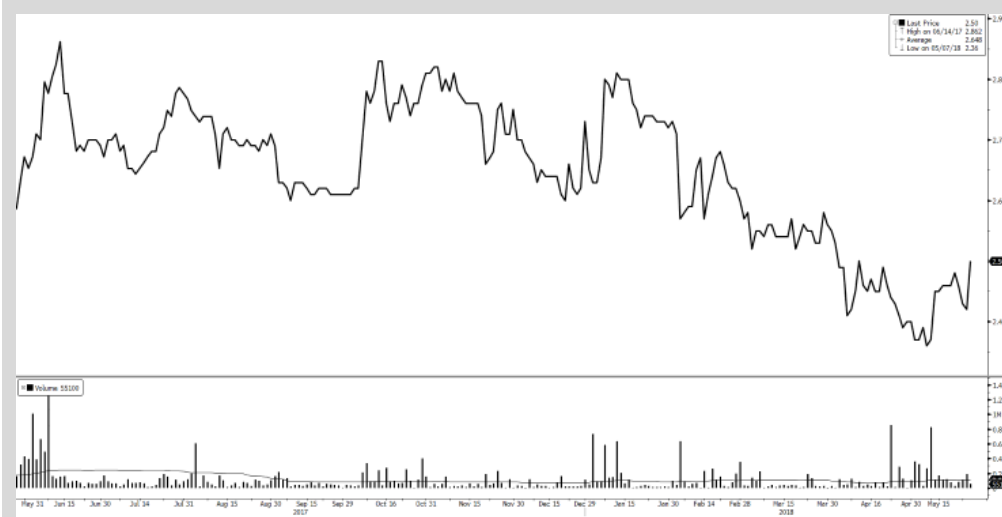
KLCI	1,797.40	
Bursa / Bloomberg	7229 / FFB MK	
Board / Sector	Main/ Industrial	
Syariah Compliant	Yes	
Issued shares (mil)	221.2	
Market cap. (RMm)	553.1	
Price over NA	0.94x	
52-wk price Range	RM2.36–RM3.87	
Beta (against KLCI)	0.75	
3-mth Avg Daily Vol	0.11m	
3-mth Avg Daily Value	RM0.28m	
Major Shareholders (%)		
Muhibbah Eng.	59.33	
Ngan Boon Mac	4.13	
KWAP	3.19	
Price Performance (%)	Absolute	Relative
1 month	+4.6	-9.9
3 months	-4.6	-12.8
12 months	-3.4	-9.7

INVESTMENT STATISTICS

FYE Dec	FY2015	FY2016	FY2017	FY2018F	FY2019F
Revenue (RMm)	867.3	582.3	526.5	582.0	670.0
Pretax Profit (RMm)	118.3	79.8	83.3	80.6	90.6
Profit After Tax (RMm)	93.9	72.0	64.0	73.4	82.4
Profit After Tax and Non-Controlling Interests (RMm)	94.7	74.6	63.1	75.9	85.3
PATAMI margin (%)	10.9	12.8	12.0	13.0	12.7
EPS (sen)	43.4	33.8	28.5	34.3	38.6
EPS Growth (%)	7.0	(22.1)	(15.8)	20.4	12.4
PER (x)	6.0	7.7	9.2	7.6	6.8
Net Dividend (sen)	15.0	15.0	13.5	14.0	15.0
Dividend yield (%)	5.7	5.7	5.2	5.3	5.7
Debt to equity ratio (x)	1.2	1.0	0.9	0.8	0.8
ROA (%)	7.8	6.4	5.2	6.1	6.5
ROE (%)	17.3	12.6	10.0	11.3	11.7
NTA per share (RM)	2.5	2.7	2.7	3.0	3.3
Price to NTA (x)	1.1	1.0	1.0	0.9	0.8

Source: MIDFR

DAILY PRICE CHART



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Source: MIDFR, Company

1QFY18 RESULTS REVIEW

FYE Dec	Quarterly results				
	1QFY17	4QFY17	1QFY18	YoY (%)	QoQ (%)
Revenue	114.3	93.0	102.2	(10.5)	10.0
Cost of sales	(97.9)	(76.6)	(93.8)	(4.1)	22.5
Gross profit	16.5	16.4	16.5	0.0	0.4
Finance income	1.1	2.6	1.1	0.0	(56.8)
Finance costs	(0.1)	(1.5)	0.2	(304.1)	(113.7)
Profit from operations	17.5	17.5	9.3	(46.8)	(46.8)
Share of results of associated company	(0.7)	1.2	(0.3)	(53.5)	(127.9)
PBT	16.8	18.7	9.0	(46.5)	(52.1)
Taxation	(3.8)	(7.6)	(2.6)	(30.7)	(65.9)
PAT	13.0	11.1	6.4	(51.1)	(42.5)
Non-controlling interests	0.1	0.4	0.8	476.9	128.0
PATANCI	12.8	10.7	5.5	(57.1)	(48.5)
Basic EPS (sen)	5.8	4.8	2.5	(57.1)	(48.4)
Fully Diluted EPS (sen)	5.8	4.8	2.5	(57.4)	(48.9)
				<i>+ / (-) pts</i>	
Gross profit (%)	14.4	17.6	16.1	1.7	(1.5)
Operating margin (%)	15.3	18.8	9.1	(6.2)	(9.7)
PBT margin (%)	14.7	20.1	8.8	(5.9)	(11.3)
PAT margin (%)	11.4	11.9	6.2	(5.1)	(5.7)
PATANCI margin (%)	11.2	11.5	5.4	(5.8)	(6.1)
Tax rate (%)	22.5	40.9	29.1	6.6	(11.8)

Source: MIDFR, Company

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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.