

29 August 2018 | 2QFY18 Results Review

Favelle Favco Berhad

Earnings within estimate

Maintain BUY

Revised Target Price (TP): RM2.93
(previously RM2.92)


INVESTMENT HIGHLIGHTS

- Favelle Favco's 2QFY18 reported earnings declined - 43.5%yoy to RM7.3m
- Normalised earnings excluding exceptional items within estimates at RM20.5m
- Current orderbook at RM427m as at 23 August 2018
- Bulk of the orderbook from various product segments
- Maintain BUY with a revised target price of RM2.93

Within expectation. Favelle Favco's 2QFY18 reported earnings declined by -43.5%yoy to RM7.3m. Excluding impairments, forex losses and losses on derivatives, the company's normalised quarterly earnings amounted to RM20.5m. 6MFY18 normalised earnings came in within expectation at RM38.3m accounting for 50.4% of our FY18 earnings forecast.

Current orderbook of RM427m. As at 23 August 2018, the group's outstanding orderbook stood at RM427m (previously RM398m as at 24 May 2018) 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 79%. The remainder 21% is from the shipyard, construction and wind turbine industry.

Impact to earnings. We are making no changes to our earnings estimates at this juncture.

Maintain BUY with revised TP of RM2.93. We maintain our BUY recommendation of Favco with a revised TP of **RM2.93** per share. We tweaked our TP as we roll forward our valuation base year to FY19. The new TP is derived based on EPS19 of 38.6sen pegged to a PER19 of 7.6x (0.5 standard deviation discount to 5-year historical average). The average PER of its Asian regional peer's is 11x. We like Favco due to (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 (28 August 2018)	RM2.64
Target Price	RM2.93
Expected Share Price Return	+10.9%
Expected Dividend Yield	+5.3%
Expected Total Return	+16.2%

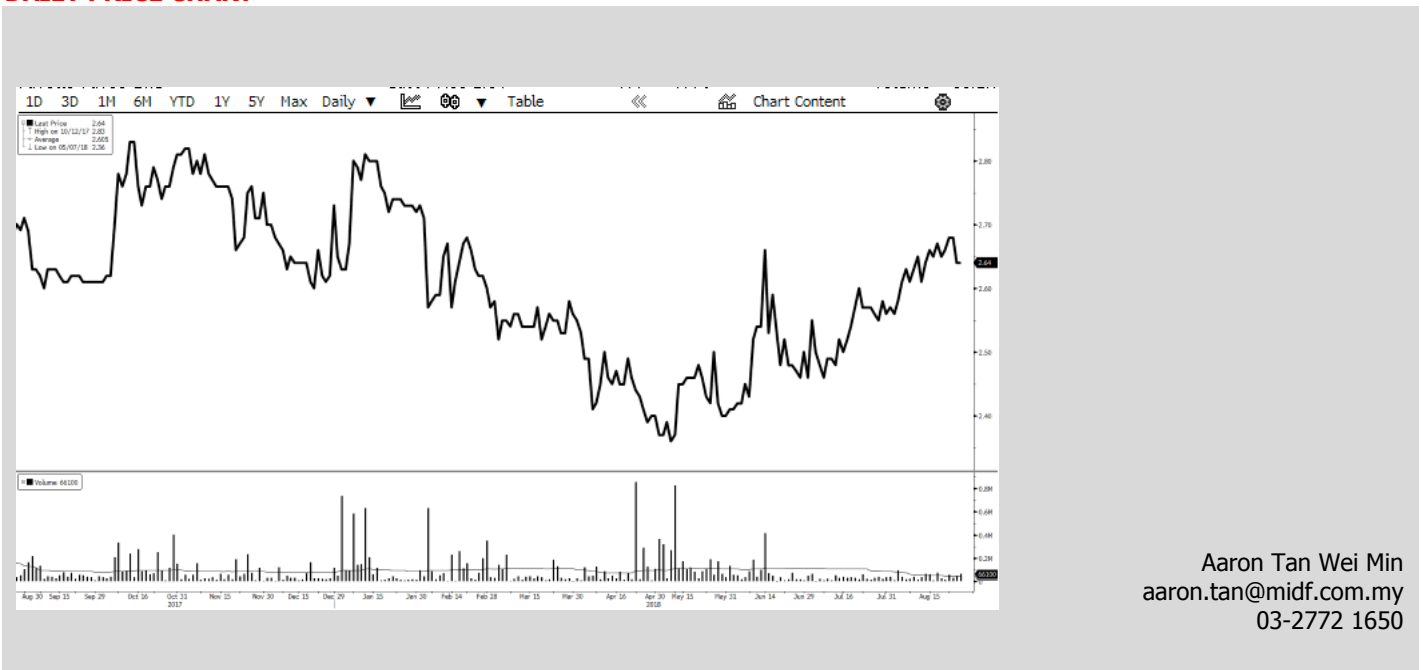
STOCK INFO		
KLCI	1,826.9	
Bursa / Bloomberg	7229 / FFB MK	
Board / Sector	Main/ Industrial	
Syariah Compliant	Yes	
Issued shares (mil)	221.2	
Market cap. (RMm)	584.02	
Price over NA	0.94x	
52-wk price Range	RM2.34–RM2.86	
Beta (against KLCI)	0.78	
3-mth Avg Daily Vol	0.04m	
3-mth Avg Daily Value	RM0.12m	
Major Shareholders (%)		
Muhibbah Eng.	59.33	
Ngan Boon Mac	4.13	
KWAP	3.19	
Price Performance (%)	Absolute	Relative
1 month	-4.3	-8.49
3 months	-3.3	-11.43
12 months	4.74	-10.18

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)	5.9	7.6	9.0	7.5	6.6
Net Dividend (sen)	15.0	15.0	13.5	14.0	15.0
Dividend yield (%)	5.9	5.9	5.3	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)	1.0	1.0	0.9	0.8	0.8

Source: MIDFR

DAILY PRICE CHART



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Source: MIDFR, Company

2QFY18 RESULTS REVIEW

FYE Dec	Quarterly results					Cumulative results		
	2QFY17	1QFY18	2QFY18	YoY (%)	QoQ (%)	6MFY17	6MFY18	YoY (%)
Revenue	114.3	102.2	89.8	(21.4)	(12.1)	265.4	192.1	38.1
Cost of sales	(97.9)	(93.8)	(79.9)	(18.4)	(14.9)	(228.5)	(173.7)	31.5
Gross profit	16.5	16.5	10.0	(39.5)	(39.5)	36.9	18.4	100.8
Finance income	1.1	1.1	1.4	25.6	25.6	2.3	2.5	(6.8)
Finance costs	(0.1)	0.2	0.2	(314.3)	5.0	(0.3)	(0.4)	(19.3)
Profit from operations	17.5	9.3	11.1	(36.2)	19.8	38.9	20.5	90.0
Share of results of associated company	(0.7)	(0.3)	(0.9)	28.5	176.3	(1.0)	(1.3)	(18.5)
PBT	16.8	9.0	10.2	(39.0)	13.9	37.8	19.2	97.2
Taxation	(3.8)	(2.6)	(3.4)	(8.7)	31.7	(5.3)	(6.0)	(12.7)
PAT	13.0	6.4	6.8	(47.8)	6.7	32.6	13.1	147.8
Non-controlling interests	0.1	0.8	(0.5)	(421.1)	(155.7)	0.3	0.4	(26.6)
PATANCI	12.8	5.5	7.3	(43.5)	31.6	32.3	12.8	152.9
Basic EPS (sen)	5.8	2.5	3.3	(43.4)	31.7	14.6	5.8	153.1
Fully Diluted EPS (sen)	5.8	2.5	3.3	(43.8)	32.0	14.6	5.7	154.0
				<i>+ / (-) ppts</i>				<i>+ / (-) ppts</i>
Gross profit (%)	14.4	16.1	11.1	(3.3)	(5.0)	13.9	9.6	4.3
Operating margin (%)	15.3	9.1	12.4	(2.9)	3.3	14.6	10.6	4.0
PBT margin (%)	14.7	8.8	11.4	(3.3)	2.6	14.3	10.0	4.3
PAT margin (%)	11.4	6.2	7.5	(3.8)	1.3	12.3	6.8	5.4
PATANCI margin (%)	11.2	5.4	8.1	(3.2)	2.7	12.2	6.6	5.5
Tax rate (%)	22.5	29.1	33.6	11.2	4.5	13.9	31.5	(17.6)

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.