

28 November 2018 | 3QFY18 Results Review

Favelle Favco Berhad

Earnings boosted by Intelligent Automation

Maintain BUY

Unchanged Target Price (TP): RM2.93


INVESTMENT HIGHLIGHTS

- Favelle Favco's 3QFY18 reported earnings surged by +55.5%yoy to RM31.7m
- Normalised earnings excluding exceptional items within estimates at RM34.4m
- Maiden revenue contribution from Intelligent Automation of RM26m
- Current orderbook at RM515m as at 21 November 2018
- The bulk of the orderbook from various product segments
- Maintain BUY with an unchanged target price of RM2.93

Within expectations. Favelle Favco's 3QFY18 reported earnings surged by +55.5%yoy to RM31.7m. Excluding impairments, forex losses and losses on derivatives, the company's normalised quarterly earnings amounted to RM34.4m. 9MFY18 normalised earnings came in within estimates at RM38.3m accounting for 71.4% of our FY18 earnings forecasts. 3QFY18 also marks the maiden revenue contribution from its Intelligent Automation segment which was acquired back in 2QFY18. Intelligent Automation segment contributed RM26m in revenue for Favelle Favco.

Current orderbook of RM515m. As at 21 November 2018, the group's outstanding orderbook stood at RM515m (previously RM427m as at 23 August 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 of 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 as we have factored in all the positives.

Maintain BUY with unchanged TP of RM2.93. We are still maintaining our BUY recommendation of Favco with an unchanged TP of **RM2.93** 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 (27 November 2018)	RM2.25
Target Price	RM2.93
Expected Share Price Return	+29.8%
Expected Dividend Yield	+6.7%
Expected Total Return	+36.5%

STOCK INFO		
KLCI	1,684.97	
Bursa / Bloomberg	7229 / FFB MK	
Board / Sector	Main/ Industrial	
Syariah Compliant	Yes	
Issued shares (mil)	221.2	
Market cap. (RMm)	497.75	
Price over NA	0.78x	
52-wk price Range	RM2.20–RM2.85	
Beta (against KLCI)	0.85	
3-mth Avg Daily Vol	0.13m	
3-mth Avg Daily Value	RM0.33m	
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

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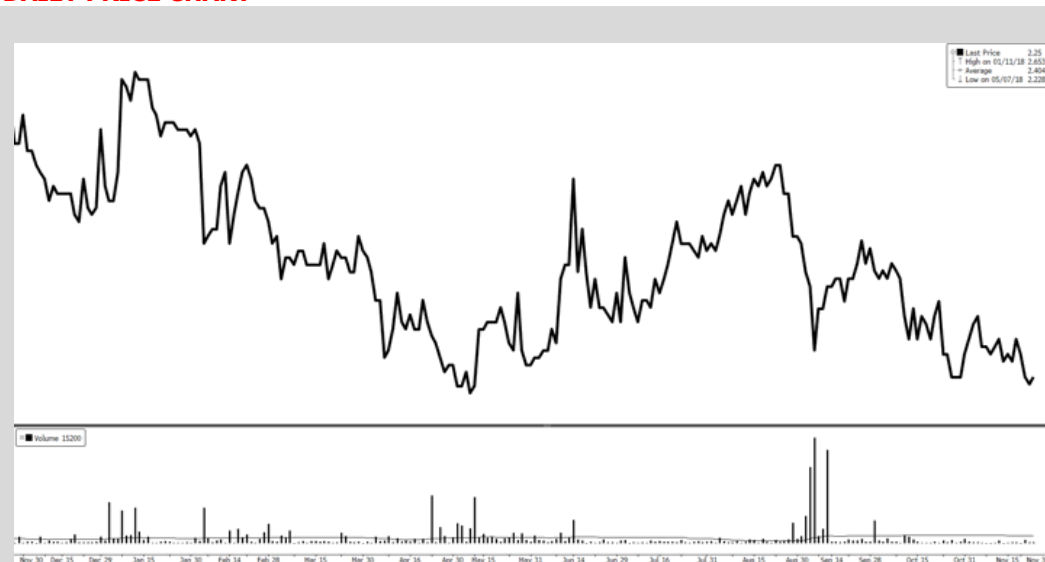
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INVESTMENT STATISTICS

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)	5.2	6.7	7.9	6.6	5.8
Net Dividend (sen)	15.0	15.0	13.5	14.0	15.0
Dividend yield (%)	6.7	6.7	6.0	6.2	6.7
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)	0.9	0.8	0.8	0.7	0.7

Source: MIDFR

DAILY PRICE CHART



Noor Athila Mohd Razali
noor.athila@midf.com.my
03-2772 1679

Source: MIDFR, Company

Table 1: Favelle Favco's quarterly earnings review

FYE Dec	Quarterly results					Cumulative results		
	3QFY17	2QFY18	3QFY18	QoQ (%)	YoY (%)	9MFY17	9MFY18	YoY (%)
Revenue	168.2	89.8	164.6	83.2	(2.1)	433.5	356.6	21.6
Cost of sales	(142.4)	(79.9)	(124.0)	55.2	(12.9)	(370.9)	(297.7)	24.6
Gross profit	25.8	10.0	40.6	306.7	57.4	62.6	58.9	6.3
Finance income	2.2	1.4	2.1	48.6	(5.9)	4.5	4.6	(0.9)
Finance costs	(0.2)	0.2	(0.4)	(279.0)	64.9	(0.6)	(0.8)	(28.9)
Profit from operations	27.7	11.6	42.3	265.2	52.4	66.6	62.7	6.2
Share of results of associated company	(1.0)	(0.9)	(1.5)	59.0	51.7	(2.0)	(2.8)	(26.9)
PBT	26.8	10.2	40.8	299.1	52.4	64.6	59.9	7.7
Taxation	(6.4)	(3.4)	(9.1)	164.1	42.3	(11.6)	(15.1)	(22.9)
PAT	20.4	6.8	31.7	367.5	55.5	52.9	44.8	18.1
Non-controlling interests	0.3	(0.5)	1.6	(441.1)	541.4	0.5	2.0	(74.0)
PATANCI	20.1	7.3	30.1	314.8	49.5	52.4	42.8	22.4
Basic EPS (sen)	9.1	3.3	13.6	314.3	49.5	23.7	19.4	22.3
Fully Diluted EPS (sen)	9.1	3.3	13.6	316.0	49.2	23.7	19.3	22.5
				<i>+ / (-) pts</i>				<i>+ / (-) pts</i>
Gross profit (%)	15.3	11.1	24.7	9.3	13.6	14.4	16.5	(2.1)
Operating margin (%)	16.5	12.9	25.7	9.2	12.8	15.4	17.6	(2.2)
PBT margin (%)	15.9	11.4	24.8	8.9	13.4	14.9	16.8	(1.9)
PAT margin (%)	12.1	7.5	19.3	7.1	11.7	12.2	12.6	(0.4)
PATANCI margin (%)	12.0	8.1	18.3	6.3	10.2	12.1	12.0	0.1
Tax rate (%)	23.8	33.6	22.3	(1.6)	(11.4)	18.0	25.2	(7.2)

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.