

28 February 2018 | 4QFY17 Results Review

Favelle Favco Berhad

Earnings buoyed by firm orderbook

Maintain BUY

Unchanged Target Price (TP): RM2.92

INVESTMENT HIGHLIGHTS

- **4QFY17 profit before tax increased by +16.4%yoy**
- **Current orderbook is RM455.9m as at 20 February 2018**
- **The bulk of the orderbook still consists of oil and gas cranes for the offshore oil and gas exploration and production activities**
- **Announced FY17 first and final tax exempt dividend of 13.5sen**
- **Maintain BUY with an unchanged target price of RM2.92**

Within expectations. Favco's FY17 earnings are within our expectations accounting for 96.2% of our and market's full year forecasts.

4QFY17 profit before tax improved by +16.4%yoy. Favco's 4QFY17 earnings grew by +16.4%yoy contributed by the higher interest income generated on the group's cash management. Its PBT margin also expanded by +8.4ppts year-on-year, despite the lower PATANCI margins which contracted by -1.9ppts.

Current orderbook of RM455.9m. As at 20 February 2018, the group's outstanding orderbook stood at RM455.9m (previously RM496.3 as at 17 November 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 are from the shipyard, construction and wind turbine industry.

Announced FY17 dividend of 13.5sen. Favco announced FY17's first and final tax exempt dividend of 13.5sen (subject to approval of the shareholders). Despite being lower than its dividend in FY16 of 15.0, the dividend payout is 47.3% which is still higher than our expected payout ratio of at least 30%. However, to maintain a conservative outlook, we revise our dividend for FY18 to 14.0sen.

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. Our Buy recommendation is anchored by: (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 February 2018)	RM2.62
Target Price	RM2.92
Expected Share Price Return	+11.5%
Expected Dividend Yield	+5.3%
Expected Total Return	+16.7%

STOCK INFO

KLCI	1,871.46	
Bursa / Bloomberg	7229 / FFB MK	
Board / Sector	Main/ Industrial	
Syariah Compliant	Yes	
Issued shares (mil)	221.2	
Market cap. (RMm)	579.6	
Price over NA	0.94x	
52-wk price Range	RM2.51–RM3.02	
Beta (against KLCI)	0.64	
3-mth Avg Daily Vol	0.1m	
3-mth Avg Daily Value	RM0.27m	
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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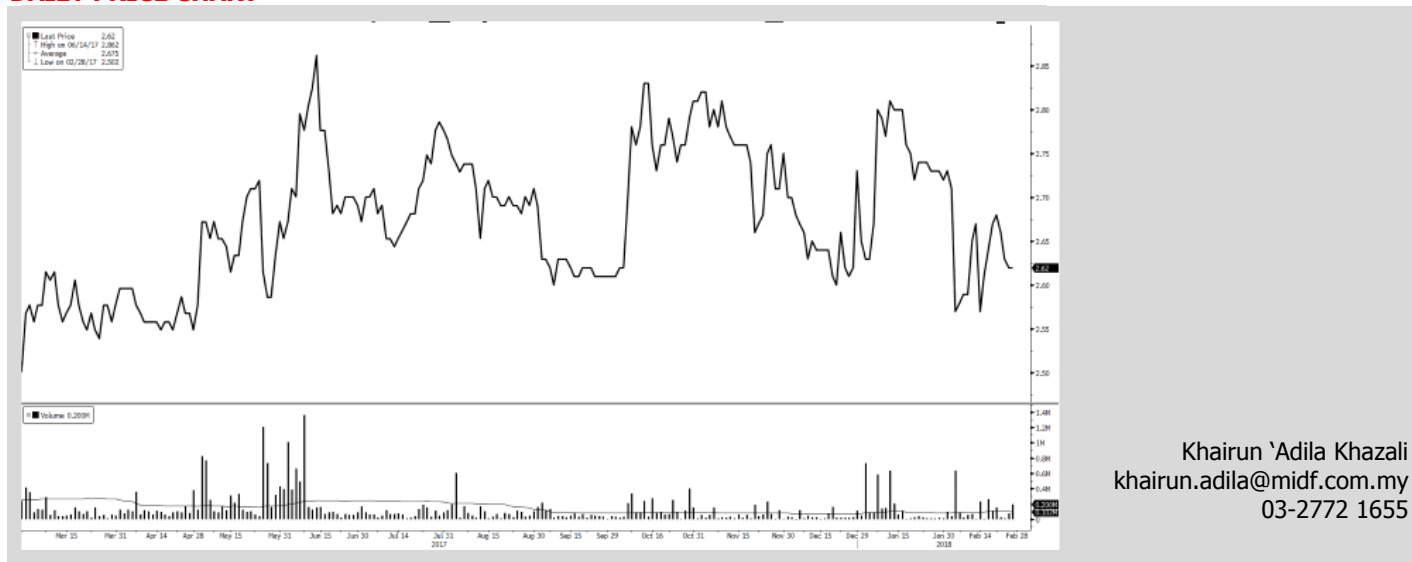
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INVESTMENT STATISTICS

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)	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	5.7	6.5
Debt to equity ratio (x)	1.2	1.0	0.9	0.8	0.8
ROA (%)	7.8	6.4	5.2	6.2	6.6
ROE (%)	17.3	12.6	10.0	11.3	11.9
NTA per share (RM)	2.5	2.7	2.7	3.0	3.2
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

4QFY17 RESULTS REVIEW

FYE Dec	Quarterly results			Cumulative results		
	4QFY17	YoY (%)	QoQ (%)	FY17	FY16	YoY (%)
Revenue	93.0	(32.0)	(44.7)	526.5	582.3	(9.6)
Cost of sales	(76.6)	(36.3)	(46.2)	(447.5)	(502.3)	(10.9)
Gross profit	16.4	(0.5)	(36.3)	79.0	79.9	(1.1)
Finance income	2.6	13.5	16.7	7.1	4.0	78.7
Finance costs	(1.5)	(26.5)	542.5	(2.0)	(2.7)	(24.4)
Profit from operations	17.5	4.5	(36.9)	84.1	81.2	3.5
Share of results of associated company	1.2	(279.7)	(223.9)	(0.8)	(1.4)	n.a.
PBT	18.7	16.4	(30.1)	83.3	79.8	4.4
Taxation	(7.6)	(378.3)	19.9	(19.3)	(7.7)	149.1
PAT	11.1	(41.2)	(45.7)	64.0	72.0	(11.2)
Non-controlling interests	0.4	(126.5)	47.6	0.9	(2.6)	(134.5)
PATANCI	10.7	(47.1)	(46.9)	63.1	74.6	(15.5)
Basic EPS (sen)	4.8	(47.1)	(46.9)	28.5	33.8	(15.8)
Fully Diluted EPS (sen)	4.8	(47.1)	(46.9)	28.2	33.8	(16.6)
		<i>+ / (-) ppts</i>				<i>+ / (-) ppts</i>
Gross profit (%)	17.6	5.6	2.3	15.0	13.7	1.3
Operating margin (%)	18.8	6.6	2.3	16.0	13.9	2.0
PBT margin (%)	20.1	8.4	4.2	15.8	13.7	2.1
PAT margin (%)	11.9	(1.9)	(0.2)	12.2	12.4	(0.2)
PATANCI margin (%)	11.5	(3.3)	(0.5)	12.0	12.8	(0.8)
Tax rate (%)	40.9	58.0	17.0	23.2	9.7	13.5

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.