

27 July 2018 | Visit Note

Favelle Favco Berhad

Earnings prospect intact

INVESTMENT HIGHLIGHTS


- **Acquisition of Exact Automation completed on 3 July 2018**
- **Current orderbook is RM398m as at 24 May 2018**
- **2Q18 earnings to come in within expectations**
- **FY18-19 earnings forecasts maintained**
- **Maintain BUY with an unchanged target price of RM2.92**

Acquisition of Exact Automation completed. Favelle Favco's management revealed that it has completed the acquisition of Exact Automation Group of Companies on 3 July 2018. Hence, the contribution from the acquisition is expected to be visible from 2H18 onwards. We opine that the company will be a positive addition to Favco as it: (i) Serves well-known O&G clientele; (ii) Has a 3-year earnings CAGR of 16%; (iii) Mid-teens profit margin and; (iv) In a net cash position.

Current orderbook of RM398m. As at 24 May 2018, the group's outstanding orderbook stood at RM398m (previously RM455.9m as at 20 February 2018). Albeit decreasing, 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.

2Q18 earnings to come in within expectations. Favco is expected to announce its 2Q18 earnings at the end of next month and we are expecting its normalised earnings to come in within our expectations at about RM18m.

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 RM2.92. 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. 

Maintain BUY

Unchanged Target Price (TP): RM2.92

RETURN STATS

Price (26 July 2018)	RM2.56
Target Price	RM2.92
Expected Share Price Return	+14.1%
Expected Dividend Yield	+5.5%
Expected Total Return	+19.6%

STOCK INFO

KLCI	1,766.23	
Bursa / Bloomberg	7229 / FFB MK	
Board / Sector	Main/ Industrial	
Syariah Compliant	Yes	
Issued shares (mil)	221.2	
Market cap. (RMm)	566.33	
Price over NA	0.91x	
52-wk price Range	RM2.34–RM2.95	
Beta (against KLCI)	0.77	
3-mth Avg Daily Vol	0.09m	
3-mth Avg Daily Value	RM0.22m	
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	5.5	5.9
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

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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.