

25 August 2017 | 2QFY17 Results Review

Favelle Favco Berhad

Earnings increased from improved margins

Maintain NEUTRAL

Unchanged Target Price (TP): RM2.92

INVESTMENT HIGHLIGHTS

- 2QFY17 earnings increased by +7.3% contributed by the improved profit margins
- Improved margins attributed by lower cost of sales and lower tax rate
- However, the decreasing orderbook (currently RM536.4m) still remains a concern
- The bulk of the orderbook still consists of oil and gas cranes for the offshore oil and gas exploration and production activities
- Maintain NEUTRAL on a target price of RM2.92

Within expectations. Favco's 1HFY17 earnings are within our expectations accounting for 49.2% and 51.2% of our and market's full year forecasts respectively.

2QFY17 earnings improved by +7.3%yoy. Favco's 2QFY17 earnings grew by +7.3%yoy mainly due to the stronger margins in 2QFY17. The growth was mainly contributed its stronger PATANCI margins which expanded by +2.0ppts yoy due to the lower cost of sales which fell by -6.9%yoy and the lower tax rate of only 7.2% in 2QFY17. Favco's 1HFY17 earnings also increased by a smaller percentage of +3.2%yoy. This was also due to the improved margins which expanded by +2.4ppts.

Current orderbook of RM536.4m. As at 17 August 2017, the group's outstanding orderbook stood at RM536.4m. 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 at this juncture.

Maintain NEUTRAL with unchanged TP of RM2.92. We are still maintaining our **NEUTRAL** 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 (24 August 2017)	RM2.84
Target Price	RM2.92
Expected Share Price Return	+2.8%
Expected Dividend Yield	+5.3%
Expected Total Return	+8.1%

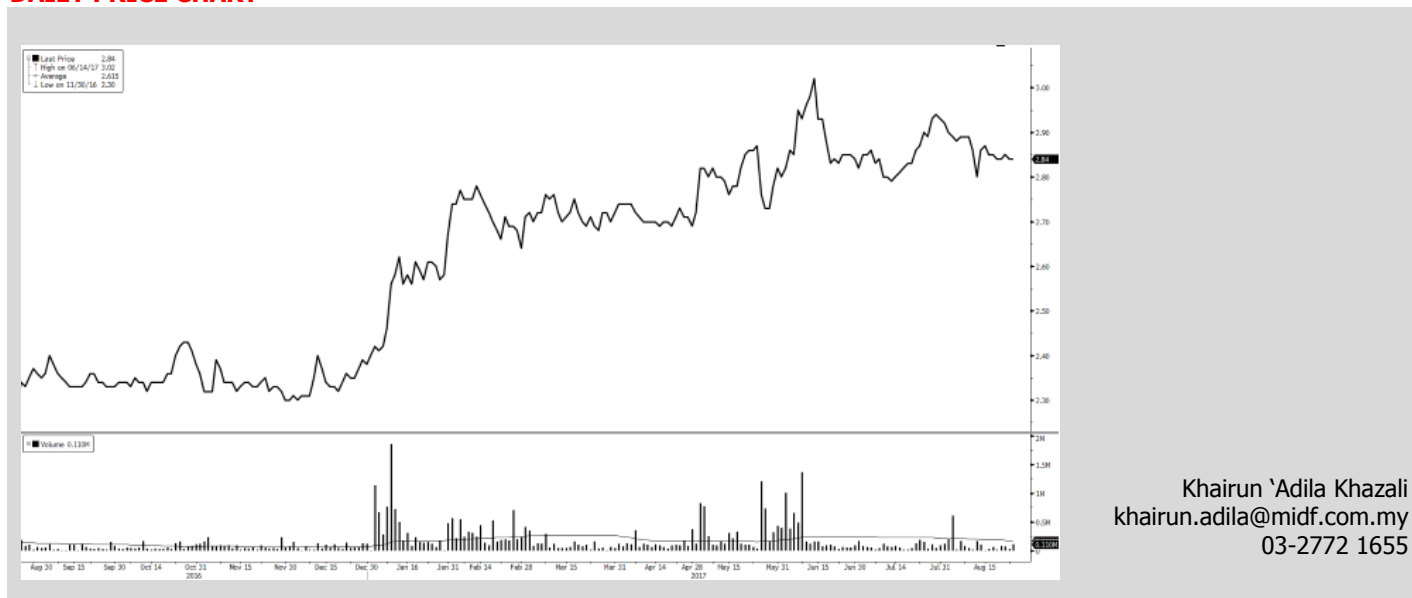
STOCK INFO		
KLCI	1,771.36	
Bursa / Bloomberg	7229 / FFB MK	
Board / Sector	Main/ Industrial	
Syariah Compliant	Yes	
Issued shares (mil)	221.2	
Market cap. (RMm)	628.3	
Price over NA	1.03x	
52-wk price Range	RM2.28–RM3.02	
Beta (against KLCI)	0.65	
3-mth Avg Daily Vol	0.19m	
3-mth Avg Daily Value	RM0.54m	
Major Shareholders (%)		
Muhibbah Eng.	59.33	
Ngan Boon Mac	4.13	
KWAP	3.19	
Price Performance (%)	Absolute	Relative
1 month	-1.05	-2.94
3 months	-1.05	2.89
12 months	21.37	14.64

INVESTMENT STATISTICS

FYE Dec	FY2014	FY2015	FY2016	FY2017F	FY2018F
Revenue (RMm)	797.9	867.3	582.3	507.7	582.0
Pretax Profit (RMm)	101.3	118.3	79.8	69.7	80.6
Profit After Tax (RMm)	84.0	93.9	72.0	63.4	73.4
Profit After Tax and Minority Interests (RMm)	87.6	94.7	74.6	65.6	75.9
PATANCI margin (%)	11.0	10.9	12.8	12.9	13.0
EPS (sen)	40.6	43.4	33.8	29.7	34.3
EPS Growth (%)	28.3	7.0	(22.1)	(12.3)	15.7
PER (x)	7.0	6.5	8.4	9.6	8.3
Net Dividend (sen)	12.0	15.0	15.0	15.0	15.0
Dividend yield (%)	4.2	5.3	5.3	5.3	5.3
Debt to equity ratio (x)	1.5	1.2	1.0	0.9	0.8
ROA (%)	7.7	7.8	6.4	5.7	6.2
ROE (%)	19.0	17.3	12.6	10.5	11.3
NTA per share (RM)	2.1	2.5	2.7	2.8	3.0
Price to NTA (x)	1.4	1.1	1.1	1.0	0.9

Source: MIDFR

DAILY PRICE CHART



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Source: MIDFR, Company

2QFY17 RESULTS REVIEW

FYE Dec	Quarterly results			Cumulative results		
	2QFY17	YoY (%)	QoQ (%)	1HFY17	1HFY16	YoY (%)
Revenue	151.1	(9.1)	32.2	265.4	319.1	(16.8)
Cost of sales	(130.7)	(6.9)	33.6	(228.5)	(274.0)	(16.6)
Gross profit	20.4	(20.9)	23.7	36.9	45.1	(18.2)
Finance income	1.2	131.2	12.3	2.3	1.0	143.1
Finance costs	(0.2)	13.7	137.8	(0.3)	(0.5)	(32.6)
Profit from operations	21.4	(18.1)	22.3	38.9	45.5	(14.7)
Share of results of associated company	(0.3)	(183.3)	(57.4)	(1.0)	(0.5)	n.a.
PBT	21.1	(20.4)	25.8	37.8	45.0	(16.0)
Taxation	(1.5)	(79.7)	(59.8)	(5.3)	(14.8)	(64.3)
PAT	19.6	2.9	50.6	32.6	30.2	7.6
Non-controlling interests	0.1	(86.3)	(20.8)	0.3	(1.0)	(126.8)
PATANCI	19.4	7.3	51.4	32.3	31.3	3.2
Basic EPS (sen)	8.8	(2.8)	51.4	14.6	14.2	2.5
Fully Diluted EPS (sen)	8.8	(2.7)	51.4	14.6	14.2	2.5
		<i>+ / (-) pts</i>				<i>+ / (-) pts</i>
Gross profit (%)	13.5	(2.0)	(0.9)	13.9	14.1	(0.2)
Operating margin (%)	14.2	(1.6)	(1.1)	14.6	14.3	0.4
PBT margin (%)	13.9	(2.0)	(0.7)	14.3	14.1	0.2
PAT margin (%)	12.9	1.5	1.6	12.3	9.5	2.8
PATANCI margin (%)	12.9	2.0	1.6	12.2	9.8	2.4
Tax rate (%)	7.2	(21.0)	(15.3)	13.9	32.8	(18.9)

Source: MIDFR, Company

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MIDF AMANAH INVESTMENT BANK : GUIDE TO RECOMMENDATIONS

STOCK RECOMMENDATIONS

BUY	Total return is expected to be >15% over the next 12 months.
TRADING BUY	Stock price is expected to <i>rise</i> by >15% within 3-months after a Trading Buy rating has been assigned due to positive newsflow.
NEUTRAL	Total return is expected to be between -15% and +15% over the next 12 months.
SELL	Total return is expected to be <-15% over the next 12 months.
TRADING SELL	Stock price is expected to <i>fall</i> by >15% 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.