

# Favelle Favco (FFB MK)

## FY21 results in line

### U/G to BUY; TP lifted to MYR3.00

That Favelle posted a strong 40% YoY NP growth, remained financially resilient and steadily paying dividends in a pandemic-fuelled FY21 is an impressive feat, atypical for this industry. For this, we upgrade Favelle to a BUY, with a higher TP (+25%), on higher 0.7x EV/ order backlog of MYR650m (vs. 0.5x; MYR550m previously). This is realistic in a cyclical upturn period (rising capex play post-pandemic), with energy price at an elevated price (USD100/bbl) not seen since 2014.

### FY21's core net profit: +40% YoY

Favelle reported core net profit of MYR17m (+88% QoQ; +18% YoY) in 4Q21, which took FY21 core earnings to MYR48m (+40% YoY), 10% of our FY estimate. This is commendable amidst the challenging environment (MCOs, lock-downs, supply chain disruption). The YoY strength came from its cranes manufacturing ops (PBT: +21%), which accounted for 86%/ 78% of its order backlog (MYR524m) and core NP respectively. This more than offset for the weaker automation ops (PBT: -22% YoY) in FY21. Favelle remained net cash (MYR187m @ MYR0.84/shr end-Dec 2021 and declared a final DPS of 8 sen (unchanged YoY; 37% DPR).

### Key priorities: Grow orders, profits & manage costs

Our earnings estimates are unchanged, on a stronger FY22-23 outlook. The O&G space is seeing tangible recovery, both in sentiment and activities, fuelled by the sustained strength of the oil price. Orders are expected to flow this FY and we expect Favelle to continue improving its orderbook visibility. Our estimates reflect higher order backlog of MYR580m and above in FY22-23. That said, managing costs will also remain one of its key priorities alongside orderbook sustainability.

### Improving risk-reward

A stronger recovery in order backlog (>MYR650m; peak of MYR1,113m in May 2014) and higher-than-expected dividend payout (>50%) are some of the key catalysts, which would be a worthy consideration to re-rate. Valuation-wise, we prefer the EV/ order backlog valuation method over others, for it captures the cyclical nature of its orderbook and takes into account its balance sheet and cashflow aspects.

FYE Dec (MYR m)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue	554	604	626	687	755
EBITDA	72	84	119	134	152
Core net profit	34	48	60	71	85
Core EPS (sen)	15.4	21.7	26.8	32.1	38.3
Core EPS growth (%)	(61.0)	40.9	23.6	19.6	19.6
Net DPS (sen)	8.0	8.0	13.5	16.0	19.0
Core P/E (x)	14.2	11.1	9.9	8.3	6.9
P/BV (x)	0.7	0.7	0.7	0.7	0.7
Net dividend yield (%)	3.7	3.3	5.1	6.0	7.2
ROAE (%)	6.1	6.4	7.6	8.7	9.8
ROAA (%)	2.6	3.6	4.3	4.9	5.6
EV/EBITDA (x)	4.4	4.6	3.5	3.0	2.6
Net gearing (%) (incl perps)	net cash	net cash	net cash	net cash	net cash
Consensus net profit	-	-	62	74	na
MKE vs. Consensus (%)	-	-	(3.9)	(3.2)	na

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# BUY

[Prior:HOLD]

Share Price	MYR 2.66
12m Price Target	MYR 3.00 (+13%)
Previous Price Target	MYR 2.40

### Company Description

Favelle Favco provides cranes manufacturing & maintenance services

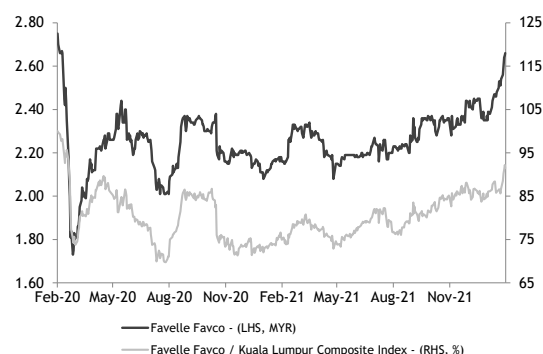
### Statistics

52w high/low (MYR)	2.66/2.08
3m avg turnover (USDm)	0.1
Free float (%)	20.3
Issued shares (m)	224
Market capitalisation	MYR595.7M USD142M

### Major shareholders:

Muhibbah Engineering (M) Bhd.	60.9%
MAC NGAN BOON	4.2%
BINTI MOHAMED TAIB AMINAH	2.4%

### Price Performance



	-1M	-3M	-12M
Absolute (%)	13	13	22
Relative to index (%)	7	7	21

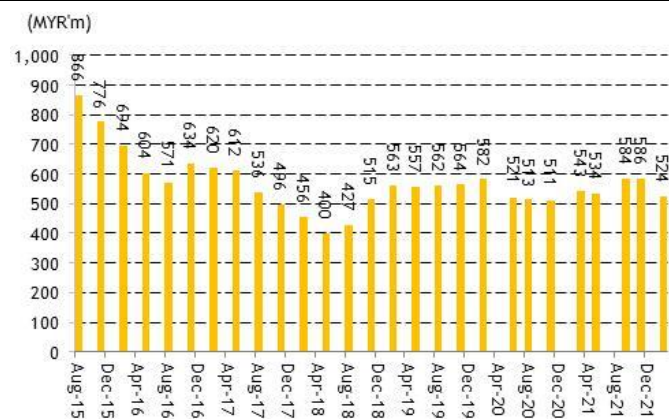
Source: FactSet

## Summary Results Table

FY Dec (MYR'm)	Quarterly results					Cumulative		
	4Q21	4Q20	% YoY	3Q21	% QoQ	FY21	FY20	% YoY
Turnover	193.2	182.0	6.2	135.6	42.5	604.0	554.5	8.9
Gross Profit	19.9	19.8	0.5	15.4	28.7	138.4	132.3	4.6
EBIT	25.0	13.4	87.3	14.0	78.4	68.9	51.1	34.7
Int. expense	(2.9)	(1.1)	NM	(0.7)	NM	(5.0)	(2.8)	78.6
Associates	(0.3)	(1.1)	(70.7)	(0.1)	NM	(1.8)	(3.9)	(54.5)
Exceptional items	(5.2)	6.4	NM	1.4	NM	(0.5)	10.0	NM
Pre-tax profits	20.4	23.5	(13.1)	15.1	35.4	67.5	64.4	4.7
Tax	(5.5)	(0.7)	NM	(4.1)	34.5	(15.1)	(14.1)	7.6
Minority interest	(3.0)	(1.9)	52.6	(0.5)	NM	(4.5)	(5.9)	(24.0)
Net profit	12.0	20.9	(42.7)	10.5	13.7	47.9	44.5	7.6
Net profit (ex-EI)	17.2	14.5	18.2	9.1	87.7	48.4	34.5	40.2
EBIT margin (%)	13.0	7.3	5.6	10.4	2.6	11.4	9.2	2.2
Tax rate (%)	26.9	2.9	24.0	27.1	(0.2)	22.4	21.8	0.6
	4Q21	4Q20	% YoY	3Q21	% QoQ	FY21	FY20	% YoY
Turnover	193.2	182.0	6.2	135.6	42.5	604.0	554.5	8.9
- Cranes	125.2	137.3	(8.8)	109.6	14.2	472.4	425.9	10.9
- Intelligent Automation	68.0	44.7	52.1	26.0	NM	131.5	128.5	2.4
PBT	20.4	23.5	(13.1)	15.1	35.4	67.5	64.4	4.7
- Cranes	9.1	15.6	(41.8)	12.4	(27.1)	48.4	40.0	21.0
- Intelligent Automation	11.4	8.0	42.9	2.7	NM	19.1	24.4	(21.9)

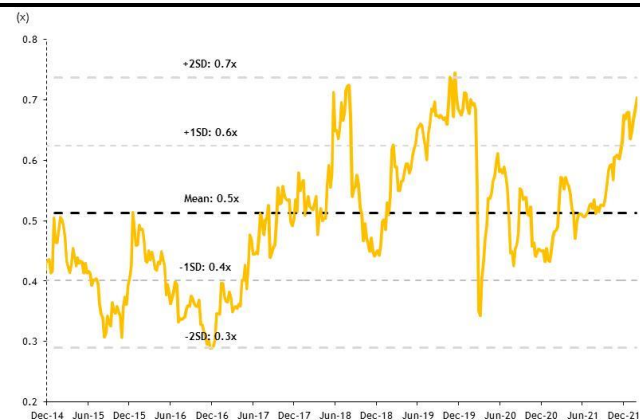
Source: Company, Maybank IBG Research

## Favelle: Order backlog (cranes &amp; automation)



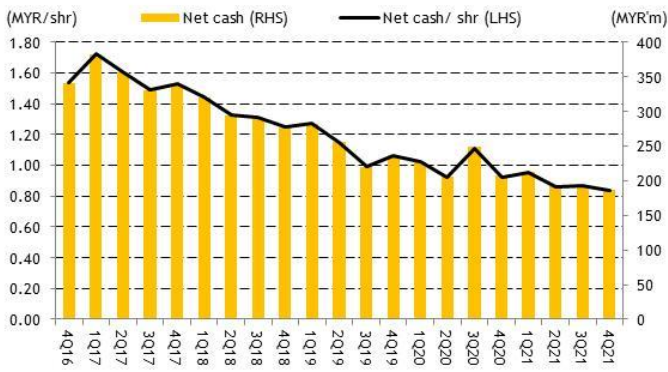
Source: Bloomberg, Maybank IBG Research

## 1-year forward EV/ order backlog



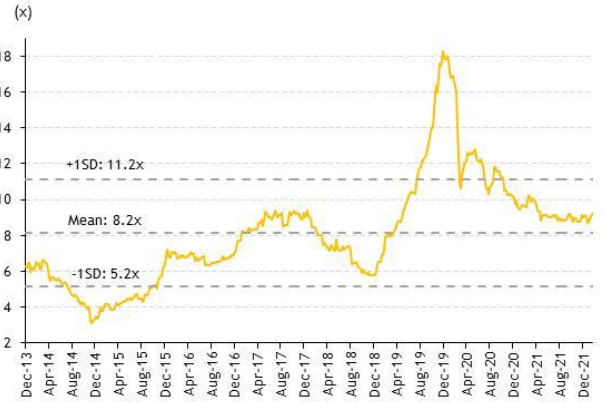
Source: Bloomberg, Maybank IBG Research

### Quarterly net cash & net cash/ shr trend



Source: Bloomberg, Maybank IBG Research

### 1-year forward PER



Source: Bloomberg, Maybank IBG Research

### 1-year forward EV/ EBITDA



Source: Bloomberg, Maybank IBG Research

### 1-year forward PBV



Source: Bloomberg, Maybank IBG Research

FYE 31 Dec	FY20A	FY21A	FY22E	FY23E	FY24E
<b>Key Metrics</b>					
P/E (reported) (x)	11.6	10.5	9.9	8.3	6.9
Core P/E (x)	14.2	11.1	9.9	8.3	6.9
P/BV (x)	0.7	0.7	0.7	0.7	0.7
P/NTA (x)	0.7	0.8	0.8	0.8	0.7
Net dividend yield (%)	3.7	3.3	5.1	6.0	7.2
FCF yield (%)	12.2	6.3	11.3	8.5	9.8
EV/EBITDA (x)	4.4	4.6	3.5	3.0	2.6
EV/EBIT (x)	6.9	6.9	4.5	3.8	3.2
<b>INCOME STATEMENT (MYR m)</b>					
Revenue	554.5	604.0	626.4	687.4	754.7
EBITDA	72.3	84.0	118.7	134.2	152.4
Depreciation	(26.0)	(28.6)	(28.6)	(28.6)	(28.6)
Amortisation	0.0	0.0	0.0	0.0	0.0
EBIT	46.3	55.4	90.1	105.6	123.9
Net interest income / (exp)	7.2	0.9	0.8	1.4	2.2
Associates & JV	(3.9)	(1.8)	(2.0)	(2.0)	(2.0)
Exceptionals	10.0	(0.5)	0.0	0.0	0.0
Other pretax income	(1.0)	0.0	0.0	0.0	0.0
Pretax profit	64.4	67.5	88.9	105.0	124.1
Income tax	(14.1)	(15.1)	(22.2)	(26.2)	(31.0)
Minorities	(5.9)	(4.5)	(6.9)	(7.3)	(7.7)
Discontinued operations	0.0	0.0	0.0	0.0	0.0
Reported net profit	44.5	47.9	59.8	71.4	85.4
Core net profit	34.5	48.4	59.8	71.4	85.4
<b>BALANCE SHEET (MYR m)</b>					
Cash & Short Term Investments	310.5	273.4	300.2	305.1	310.5
Accounts receivable	184.4	203.0	192.7	211.5	232.2
Inventory	197.8	183.7	244.7	268.5	294.8
Reinsurance assets	0.0	0.0	0.0	0.0	0.0
Property, Plant & Equip (net)	418.0	410.9	432.3	453.8	475.2
Intangible assets	71.2	71.2	71.2	71.2	71.2
Investment in Associates & JVs	6.1	4.3	2.3	0.3	(1.7)
Other assets	159.4	182.2	182.2	182.2	182.2
<b>Total assets</b>	<b>1,347.4</b>	<b>1,328.7</b>	<b>1,425.7</b>	<b>1,492.7</b>	<b>1,564.5</b>
ST interest bearing debt	54.7	48.8	48.8	48.8	48.8
Accounts payable	243.6	226.6	280.9	308.2	338.4
Insurance contract liabilities	0.0	0.0	0.0	0.0	0.0
LT interest bearing debt	48.8	38.1	28.1	18.1	8.1
Other liabilities	228.0	222.0	222.0	222.0	222.0
<b>Total Liabilities</b>	<b>575.1</b>	<b>534.9</b>	<b>579.3</b>	<b>596.6</b>	<b>616.8</b>
Shareholders Equity	738.4	760.4	802.4	843.8	893.6
Minority Interest	33.8	33.4	40.4	47.6	55.3
<b>Total shareholder equity</b>	<b>772.3</b>	<b>793.8</b>	<b>842.7</b>	<b>891.4</b>	<b>948.9</b>
<b>Total liabilities and equity</b>	<b>1,347.4</b>	<b>1,328.7</b>	<b>1,422.0</b>	<b>1,488.1</b>	<b>1,565.7</b>
<b>CASH FLOW (MYR m)</b>					
Pretax profit	64.4	67.5	88.9	105.0	124.1
Depreciation & amortisation	26.0	28.6	28.6	28.6	28.6
Adj net interest (income)/exp	0.0	0.0	0.0	0.0	0.0
Change in working capital	43.1	(45.5)	3.6	(15.2)	(16.8)
Cash taxes paid	(14.1)	(15.1)	(22.2)	(26.2)	(31.0)
Other operating cash flow	(28.9)	21.7	15.9	6.5	1.0
Cash flow from operations	94.5	58.9	116.8	100.6	107.8
Capex	(34.7)	(25.1)	(50.0)	(50.0)	(50.0)
Free cash flow	59.8	33.8	66.8	50.6	57.8
Dividends paid	(17.9)	(17.8)	(30.0)	(35.6)	(42.4)
Equity raised / (purchased)	0.0	0.0	0.0	0.0	0.0
Change in Debt	43.6	(15.7)	(10.0)	(10.0)	(10.0)
Other invest/financing cash flow	(64.0)	(38.4)	0.0	0.0	0.0
Effect of exch rate changes	0.0	0.0	0.0	0.0	0.0
<b>Net cash flow</b>	<b>21.6</b>	<b>(38.1)</b>	<b>26.8</b>	<b>5.0</b>	<b>5.4</b>

FYE 31 Dec	FY20A	FY21A	FY22E	FY23E	FY24E
<b>Key Ratios</b>					
<b>Growth ratios (%)</b>					
Revenue growth	(19.4)	8.9	3.7	9.7	9.8
EBITDA growth	(51.1)	16.2	41.3	13.0	13.6
EBIT growth	(63.3)	19.7	62.7	17.1	17.3
Pretax growth	(46.2)	4.7	31.8	18.1	18.2
Reported net profit growth	(46.2)	7.6	24.8	19.6	19.6
Core net profit growth	(60.7)	40.2	23.6	19.6	19.6
<b>Profitability ratios (%)</b>					
EBITDA margin	13.0	13.9	19.0	19.5	20.2
EBIT margin	8.3	9.2	14.4	15.4	16.4
Pretax profit margin	11.6	11.2	14.2	15.3	16.4
Payout ratio	40.3	37.2	50.2	49.8	49.6
<b>DuPont analysis</b>					
Net profit margin (%)	8.0	7.9	9.5	10.4	11.3
Revenue/Assets (x)	0.4	0.5	0.4	0.5	0.5
Assets/Equity (x)	1.8	1.7	1.8	1.8	1.8
ROAE (%)	6.1	6.4	7.6	8.7	9.8
ROAA (%)	2.6	3.6	4.3	4.9	5.6
<b>Liquidity &amp; Efficiency</b>					
Cash conversion cycle	84.7	81.2	81.9	78.0	78.0
Days receivable outstanding	123.9	115.4	113.7	105.9	105.8
Days inventory outstanding	163.3	147.5	172.4	188.2	188.2
Days payables outstanding	202.5	181.8	204.2	216.1	216.0
Dividend cover (x)	2.5	2.7	2.0	2.0	2.0
Current ratio (x)	1.6	1.7	1.7	1.7	1.7
<b>Leverage &amp; Expense Analysis</b>					
Asset/Liability (x)	2.3	2.5	2.5	2.5	2.5
Net gearing (%) (incl perps)	net cash	net cash	net cash	net cash	net cash
Net gearing (%) (excl. perps)	net cash	net cash	net cash	net cash	net cash
Net interest cover (x)	na	na	na	na	na
Debt/EBITDA (x)	1.4	1.0	0.6	0.5	0.4
Capex/revenue (%)	6.3	4.2	8.0	7.3	6.6
Net debt/ (net cash)	(207.0)	(186.6)	(223.3)	(238.3)	(253.7)

Source: Company; Maybank

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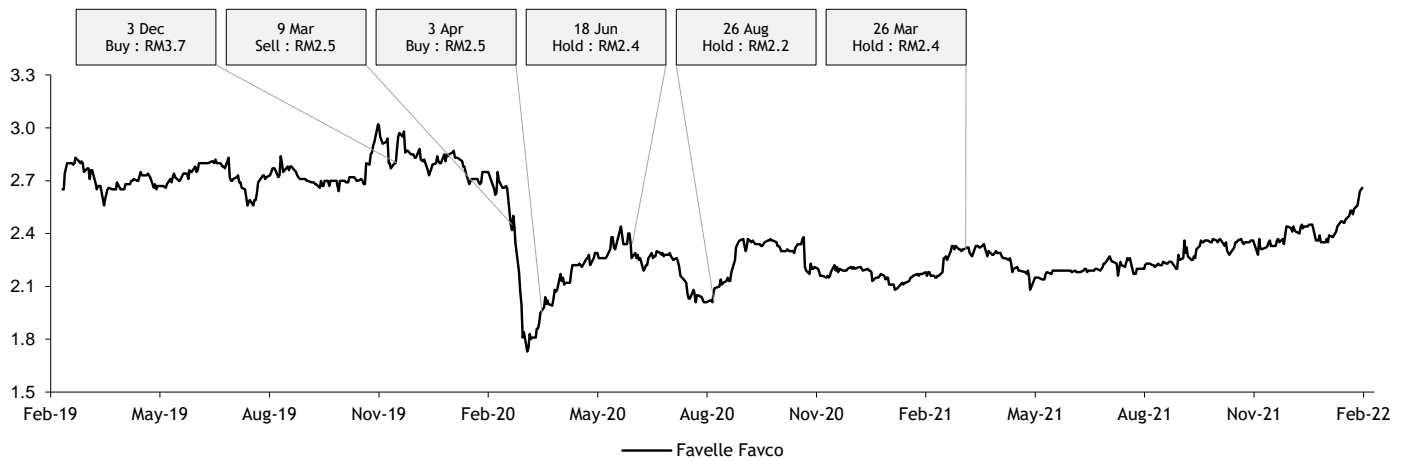
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## Historical recommendations and target price: Favelle Favco (FFB MK)



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