

# Singapore Company Update

## Fu Yu Corp

Bloomberg: FUYU SP | Reuters: FUYU.SI

Refer to important disclosures at the end of this report

DBS Group Research . Equity

28 Feb 2022

**HOLD** (Downgrade from BUY)

Last Traded Price (25 Feb 2022): S\$0.265 (STI : 3,294.47)

Price Target 12-mth: S\$0.29 (8% upside) (Prev S\$0.36)

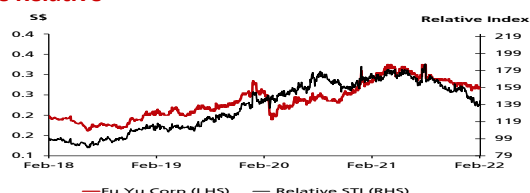
### Analyst

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### What's New

- FY21 results above expectations, helped by new business unit.
- Lower gross margin, dragged by lower-margin new business.
- Focusing on products with longer term stability and growth potential
- Downgrade to HOLD with lower TP of S\$0.29, suspending coverage on stock

### Price Relative



### Forecasts and Valuation

FY Dec (S\$m)	2020A	2021A	2022F	2023F
Revenue	153	196	266	292
EBITDA	28.3	31.0	31.0	32.5
Pre-tax Profit	19.6	21.2	29.2	23.8
Net Profit	16.9	17.6	25.4	19.7
Net Pft (Pre Ex.)	16.9	17.6	18.4	19.7
Net Pft Gth (Pre-ex) (%)	33.3	4.0	4.7	7.1
EPS (S cts)	2.25	2.34	3.37	2.62
EPS Pre Ex. (S cts)	2.25	2.34	2.45	2.62
EPS Gth Pre Ex (%)	33	4	5	7
Diluted EPS (S cts)	2.25	2.34	3.37	2.62
Net DPS (S cts)	1.60	4.95	1.60	1.60
BV Per Share (S cts)	22.9	20.4	22.2	23.2
PE (X)	11.8	11.3	7.9	10.1
PE Pre Ex. (X)	11.8	11.3	10.8	10.1
P/Cash Flow (X)	6.1	15.8	7.4	7.2
EV/EBITDA (X)	3.3	3.9	3.4	3.0
Net Div Yield (%)	6.0	18.7	6.0	6.0
P/Book Value (X)	1.2	1.3	1.2	1.1
Net Debt/Equity (X)	CASH	CASH	CASH	CASH
ROAE (%)	10.1	10.8	15.8	11.5
Earnings Rev (%):			3	5
Consensus EPS (S cts):			2.2	2.3
Other Broker Recs:		B: 1	S: 0	H: 1

Source of all data on this page: Company, DBS Bank, Bloomberg Finance L.P.

## Muted growth ahead

### Investment Thesis:

Downgrade to HOLD on muted growth outlook and suspending coverage due to reallocation of internal resources. We have incorporated contributed from the new business unit, Fu Yu Supply Chain Solutions Pte Ltd (FYSCS) which was acquired in 2H21 into our forecasts, and also expected improvement on the supply chain disruptions. Despite this, earnings growth is still muted at 5%/7% for FY22F/FY23F. Though FUYU is trading at an attractive ex-cash PE of 6.6x, given the lacklustre outlook, we downgrade the stock to HOLD.

**Key catalyst – Operation of the new plant in Singapore, which could improve margins.** Catalysts to look forward to would be in 2H22/2023, with the expected operation of the new plant in Singapore. This could help to improve margins as the new plant has increased automation with higher precision manufacturing capabilities.

### Strong financials with high cash and attractive dividend yield.

As at end 4Q21, net cash stood at S\$78.3m, accounting for c.40% of the current market capitalization. This works out to S\$0.104 cash per share. The stock currently offers a FY22F dividend yield of 6.0%.

### Valuation:

Downgrade to HOLD with a lower TP of S\$0.29. Our TP is lowered to S\$0.29 (previously S\$0.36) pegged to +1SD of its 4-year average PE of 12x, (vs +2SD of 15x previously), given the lacklustre earnings growth outlook. Downgrade to HOLD on muted growth outlook.

### Where we differ:

We are less optimistic on Fu Yu's earnings and recovery.

### Key Risks to Our View:

Prolonged COVID-19 outbreak, increased competition, escalation of the US-China trade war.

### At A Glance

Issued Capital (m shrs)	753
Mkt. Cap (S\$m/US\$m)	200 / 147
Major Shareholders (%)	
UBS AG	30.0
Pilgram Partners	24.5
Hfo Nee Kit	5.5
Free Float (%)	34.7
3m Avg. Daily Val (US\$m)	0.08
GIC Industry : Industrials / Capital Goods	



Watchlist the stock on Insights Direct to receive prompt updates



## WHAT'S NEW

### FY21 results above expectations, helped by new business unit

#### Results Review

**FY21 results above expectations; most segments did well except for automotive and consumer products.** Total revenue jumped 27.4% y-o-y to S\$195.5m in FY2021 while net profit gained 4% to S\$17.6m. The medical, printing & imaging product and power tools segments saw higher demand but sales from automotive and consumer products were weaker compared to the previous year. In terms of geographical split, Singapore contributed 34.7% to total revenue from the manufacturing business; Malaysia 24.7% while the China operation accounted for a lower 40.6% vs 45.1% in FY20, mainly due to the cessation of the plant in Chongqing.

A final DPS of 1.25Scts was declared, similar to last year. Together with the interim and special dividend paid in September 2021, total DPS of 4.95Scts works out to a dividend payout of 212%, vs 71% in FY20.

**Maiden contribution from new business unit.** The group's new business arm, Fu Yu Supply Chain Solutions Pte Ltd (FYSCS) which was acquired in 2H21 and provides supply chain management services for commodity raw materials, made its maiden contribution to both top and bottom lines in FY21.

FYSCS recorded revenue of S\$51.9m in FY21, accounted for 26.5% of the group's total revenue. This helped to counterbalance a 6.4% revenue decline in the manufacturing business which was due mainly to the cessation of its factory operations in Chongqing in 4Q20. Excluding Fu Yu Chongqing, revenue of the manufacturing business in FY21 would have remained relatively stable compared to FY20.

**Lower gross margin, dragged by FYSCS.** Gross margin for the manufacturing business in 2H21 contracted to 23.8% from 26.3% in 2H20. The FYSCS unit generated gross profit margin of 4.3% in 2H21. For the full year, the manufacturing business generated margin of 23.8%, slightly lower than the 24% in FY20. Including FYSCS, overall gross margin was 18.6%.

**Focusing on products with longer term stability and growth potential.** In order to build a diversified product portfolio for business resilience and stability, Fu Yu

intends to optimise its business mix to keep pace with current market trends. The group intends to channel greater resources towards growing its business in market segments that display longer term stability and growth potential such as medical, automotive, eco-friendly and smart home consumer products.

**New factory in Singapore to begin operation in 3Q22.** The redevelopment of its new factory in Singapore is in the final stages of completion and scheduled to begin operations in the third quarter of 2022. This could help to improve margins as the new plant has increased automation with higher precision manufacturing capabilities.

**Healthy financial position; 40% of market capitalisation net cash.** As at end 4Q21, net cash stood at S\$78.3m, accounting for c.40% of the current market capitalization. On a per share basis, this works out to S\$0.104 cash per share.

#### Earnings & Recommendation

**Downgrade to HOLD on muted growth; TP lowered to S\$0.29.** We have adjusted our numbers to include the new business unit, FYSCS, and also to factor in the expected improvement in the supply chain disruptions. Despite this, core earnings growth is still muted at 5%/7% for FY22F/FY23F. Our core earnings exclude the estimated S\$7m proceeds from the sale of the factory at 5 Tuas Drive. Our TP is lowered to S\$0.29 (previously S\$0.36) pegged to +1SD of its 4-year average PE of 12x, (vs +2SD of 15x previously), given the lacklustre outlook. Downgrade to HOLD on muted growth outlook.

#### Company Background

Fu Yu Corporation Limited (FUYU) is one of the largest manufacturers of high precision plastic parts and moulds in Asia. It offers a one-stop solution by providing vertically integrated services for the manufacturing of precision plastic components and the fabrication of precision moulds and dies. It is specialised in mechanical modules, computer peripherals, medical equipment, telecommunications, and consumer electronics.

## Fu Yu Corp

## Interim Income Statement (\$m)

FY Dec	2H2020	1H2021	2H2021	% chg yoy	% chg hoh
Revenue	82	70	125	52.9	77.8
Cost of Goods Sold	(60)	(54)	(105)	74.7	96.6
<b>Gross Profit</b>	<b>22</b>	<b>17</b>	<b>20</b>	<b>(8.4)</b>	<b>17.6</b>
Other Oper. (Exp)/Inc	(15)	(8)	(10)	(33.6)	19.0
<b>Operating Profit</b>	<b>7</b>	<b>8</b>	<b>10</b>	<b>48.8</b>	<b>16.1</b>
Other Non Opg (Exp)/Inc	4	2	1	(74.4)	(50.1)
Associates & JV Inc	0	0	0	-	-
Net Interest (Exp)/Inc	0	0	0	-	-
Exceptional Gain/(Loss)	0	0	0	-	-
<b>Pre-tax Profit</b>	<b>11</b>	<b>11</b>	<b>11</b>	<b>(0.4)</b>	<b>0.2</b>
Tax	(1)	(2)	(2)	68.1	9.5
Minority Interest	0	0	0	-	-
<b>Net Profit</b>	<b>10</b>	<b>9</b>	<b>9</b>	<b>(8.6)</b>	<b>(1.6)</b>
Net profit bef Except.	10	9	9	(8.6)	(1.6)
EBITDA	13	13	15	12.5	12.4
<b>Margins (%)</b>					
Gross Margins	26.3	23.8	15.7		
Opg Profit Margins	8.0	12.0	7.8		
Net Profit Margins	11.7	12.6	7.0		

Source of all data: Company, DBS Bank

## Historical PE and PB band



Source: Bloomberg Finance L.P., DBS Bank estimates



Source: Bloomberg Finance L.P., DBS Bank estimates

## Fu Yu Corp

## Income Statement (\$m)

FY Dec	2019A	2020A	2021A	2022F	2023F
Revenue	194	153	196	266	292
Cost of Goods Sold	(156)	(117)	(159)	(224)	(246)
<b>Gross Profit</b>	<b>38.2</b>	<b>36.8</b>	<b>36.5</b>	<b>42.7</b>	<b>45.8</b>
Other Opng (Exp)/Inc	(28.5)	(25.6)	(18.2)	(26.6)	(28.3)
<b>Operating Profit</b>	<b>9.72</b>	<b>11.2</b>	<b>18.3</b>	<b>16.1</b>	<b>17.5</b>
Other Non Opng (Exp)/Inc	5.44	7.71	3.28	5.30	5.30
Associates & JV Inc	(0.2)	0.0	0.0	0.0	0.0
Net Interest (Exp)/Inc	1.25	0.70	(0.3)	0.84	0.99
Exceptional Gain/(Loss)	0.0	0.0	0.0	7.00	0.0
<b>Pre-tax Profit</b>	<b>16.2</b>	<b>19.6</b>	<b>21.2</b>	<b>29.2</b>	<b>23.8</b>
Tax	(3.5)	(2.7)	(3.7)	(3.8)	(4.0)
Minority Interest	0.0	0.0	0.0	0.0	0.0
Preference Dividend	0.0	0.0	0.0	0.0	0.0
<b>Net Profit</b>	<b>12.7</b>	<b>16.9</b>	<b>17.6</b>	<b>25.4</b>	<b>19.7</b>
Net Profit before Except.	12.7	16.9	17.6	18.4	19.7
EBITDA	26.6	28.3	31.0	31.0	32.5
<b>Growth</b>					
Revenue Gth (%)	(1.8)	(21.0)	27.4	36.2	9.6
EBITDA Gth (%)	24.9	6.4	9.3	0.2	4.8
Opg Profit Gth (%)	8.0	15.3	62.8	(12.0)	8.7
Net Profit Gth (Pre-ex) (%)	6.8	33.3	4.0	4.7	7.1
<b>Margins &amp; Ratio</b>					
Gross Margins (%)	19.7	24.0	18.6	16.0	15.7
Opg Profit Margin (%)	5.0	7.3	9.3	6.0	6.0
Net Profit Margin (%)	6.5	11.0	9.0	9.5	6.8
ROAE (%)	7.7	10.1	10.8	15.8	11.5
ROA (%)	5.9	7.7	8.1	11.3	8.1
ROCE (%)	8.3	10.0	9.9	11.0	11.2
Div Payout Ratio (%)	94.9	71.2	212.0	47.4	61.1
Net Interest Cover (x)	NM	NM	61.7	NM	NM

Source: Company, DBS Bank

**Interim Income Statement (\$\$m)**

FY Dec	2H2019	1H2020	2H2020	1H2021	2H2021
Revenue	97.4	71.6	81.9	70.4	125
Cost of Goods Sold	(77.1)	(56.3)	(60.4)	(53.6)	(105)
<b>Gross Profit</b>	<b>20.3</b>	<b>15.3</b>	<b>21.5</b>	<b>16.8</b>	<b>19.7</b>
Other Oper. (Exp)/Inc	(14.8)	(10.7)	(14.9)	(8.3)	(9.9)
<b>Operating Profit</b>	<b>5.51</b>	<b>4.63</b>	<b>6.58</b>	<b>8.44</b>	<b>9.79</b>
Other Non Opp (Exp)/Inc	2.78	3.83	3.88	1.99	1.00
Associates & JV Inc	0.0	0.0	0.0	0.03	0.0
Net Interest (Exp)/Inc	0.69	0.48	0.23	0.15	(0.2)
Exceptional Gain/(Loss)	0.0	0.0	0.0	0.0	0.0
<b>Pre-tax Profit</b>	<b>8.97</b>	<b>8.93</b>	<b>10.7</b>	<b>10.6</b>	<b>10.6</b>
Tax	(1.3)	(1.6)	(1.1)	(1.7)	(1.9)
Minority Interest	0.0	0.0	0.0	0.0	0.0
<b>Net Profit</b>	<b>7.65</b>	<b>7.38</b>	<b>9.54</b>	<b>8.86</b>	<b>8.72</b>
Net profit bef Except.	7.65	7.38	9.54	8.86	8.72
EBITDA	10.9	11.1	13.1	13.1	14.7
<b>Growth</b>					
Revenue Gth (%)	0.6	(26.5)	14.4	(14.0)	77.8
EBITDA Gth (%)	17.1	1.6	18.0	0.0	12.4
Opp Profit Gth (%)	31.1	(16.1)	42.2	28.1	16.1
Net Profit Gth (%)	51.6	(3.5)	29.3	(7.1)	(1.6)
<b>Margins</b>					
Gross Margins (%)	20.9	21.4	26.3	23.8	15.7
Opp Profit Margins (%)	5.7	6.5	8.0	12.0	7.8
Net Profit Margins (%)	7.9	10.3	11.7	12.6	7.0

**Balance Sheet (\$\$m)**

FY Dec	2019A	2020A	2021A	2022F	2023F
Net Fixed Assets	54.0	51.8	58.2	48.6	45.9
Invts in Associates & JVs	0.50	0.0	0.0	0.0	0.0
Other LT Assets	8.03	8.65	14.3	14.3	14.3
Cash & ST Invts	88.5	107	83.9	98.9	107
Inventory	16.4	13.3	17.1	21.3	23.5
Debtors	50.0	41.0	35.7	52.3	57.3
Other Current Assets	1.73	1.73	1.71	1.71	1.71
<b>Total Assets</b>	<b>219</b>	<b>223</b>	<b>211</b>	<b>237</b>	<b>250</b>
ST Debt	0.0	0.0	3.00	3.00	3.00
Creditor	40.9	38.0	33.7	50.4	55.5
Other Current Liab	5.73	4.85	9.40	5.40	5.64
LT Debt	0.0	0.0	2.68	2.68	2.68
Other LT Liabilities	8.79	7.82	8.42	8.42	8.42
Shareholder's Equity	164	172	154	167	175
Minority Interests	0.0	0.0	0.0	0.0	0.0
<b>Total Cap. &amp; Liab.</b>	<b>219</b>	<b>223</b>	<b>211</b>	<b>237</b>	<b>250</b>
Non-Cash Wkg. Capital	21.4	13.1	11.4	19.5	21.3
Net Cash/(Debt)	88.5	107	78.3	93.2	102
Debtors Turn (avg days)	97.8	108.2	71.6	60.3	68.5
Creditors Turn (avg days)	106.2	134.4	87.5	71.8	81.8
Inventory Turn (avg days)	42.2	50.4	37.0	32.8	34.6
Asset Turnover (x)	0.9	0.7	0.9	1.2	1.2
Current Ratio (x)	3.4	3.8	3.0	3.0	3.0
Quick Ratio (x)	3.0	3.4	2.6	2.6	2.6
Net Debt/Equity (X)	CASH	CASH	CASH	CASH	CASH
Net Debt/Equity ex MI (X)	CASH	CASH	CASH	CASH	CASH
Capex to Debt (%)	N/A	N/A	217.5	0.0	123.2

Source: Company, DBS Bank

## Cash Flow Statement (\$\$m)

FY Dec	2019A	2020A	2021A	2022F	2023F
Pre-Tax Profit	16.2	19.6	21.2	29.2	23.8
Dep. & Amort.	11.7	9.42	9.42	9.64	9.74
Tax Paid	(2.3)	(2.8)	(3.5)	(7.8)	(3.8)
Assoc. & JV Inc/(loss)	0.21	0.03	0.0	0.0	0.0
Chg in Wkg.Cap.	2.64	9.01	(11.6)	(4.1)	(2.1)
Other Operating CF	(1.1)	(2.5)	(3.0)	0.0	0.0
<b>Net Operating CF</b>	<b>27.3</b>	<b>32.7</b>	<b>12.6</b>	<b>27.0</b>	<b>27.6</b>
Capital Exp.(net)	(7.0)	(4.2)	(12.4)	0.0	(7.0)
Other Invs.(net)	3.59	0.0	0.0	0.0	0.0
Invs in Assoc. & JV	0.0	0.0	(1.8)	0.0	0.0
Div from Assoc & JV	0.0	0.0	0.0	0.0	0.0
Other Investing CF	1.70	1.50	0.49	0.0	0.0
<b>Net Investing CF</b>	<b>(1.7)</b>	<b>(2.7)</b>	<b>(13.6)</b>	<b>0.0</b>	<b>(7.0)</b>
Div Paid	(12.0)	(10.2)	(37.3)	(12.0)	(12.0)
Chg in Gross Debt	0.0	0.0	5.68	0.0	0.0
Capital Issues	0.0	0.0	0.0	0.0	0.0
Other Financing CF	(5.0)	(2.5)	9.03	0.0	0.0
<b>Net Financing CF</b>	<b>(17.1)</b>	<b>(12.7)</b>	<b>(22.6)</b>	<b>(12.0)</b>	<b>(12.0)</b>
Currency Adjustments	(0.4)	0.80	1.00	0.0	0.0
Chg in Cash	8.15	18.1	(22.6)	14.9	8.58
Opg CFPS (S cts)	3.28	3.14	3.21	4.12	3.95
Free CFPS (S cts)	2.70	3.79	0.03	3.58	2.74

Source: Company, DBS Bank

## Target Price &amp; Ratings History



S.No.	Date of Report	Closing Price	12-mth Target Price	Rating
1:	08 Mar 21	0.29	0.35	BUY
2:	10 May 21	0.32	0.40	BUY
3:	12 Nov 21	0.29	0.36	BUY

Note: Share price and Target price are adjusted for corporate actions.

Source: DBS Bank

Analyst: Lee Keng LING

DBS Bank recommendations are based on an Absolute Total Return\* Rating system, defined as follows:  
**STRONG BUY** (>20% total return over the next 3 months, with identifiable share price catalysts within this time frame)  
**BUY** (>15% total return over the next 12 months for small caps, >10% for large caps)  
**HOLD** (-10% to +15% total return over the next 12 months for small caps, -10% to +10% for large caps)  
**FULLY VALUED** (negative total return, i.e., > -10% over the next 12 months)  
**SELL** (negative total return of > -20% over the next 3 months, with identifiable share price catalysts within this time frame)

\*Share price appreciation + dividends

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Sources for all charts and tables are DBS Bank unless otherwise specified.

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