Singapore Company Update

16 June 2020

Technology | Software & Services

Fu Yu Corp (FUYU SP)

Buy (Maintained)

Safe Haven In Tough Times; Maintain BUY

Target Price (Return):	SGD0.28 (+22%)
Price:	SGD0.23
Market Cap:	USD125m
Avg Daily Turnover (SGD/USD)	0.35m/0.25m

- **Maintain BUY and DCF-backed TP of SGD0.28, 22% upside and 7% yield.** 2Q20 is expected to be weaker YoY due to the MCO in Malaysia, coupled with tightened measures in Singapore, and lower demand from its customers caused by travel restrictions and disruptions in the supply chain. However, we expect Fu Yu Corp to remain profitable and its strong net cash position to tide the company through tough times.
- **Factories globally back in operation.** Its factories in China were disrupted during the Lunar New Year period due to the lockdown in China. With the Movement Control Order (MCO) in Malaysia, the group also closed its Malaysia factories from 18-31 Mar. However, it has since managed to obtain approvals to resume operations in China and Malaysia, and with the Singapore factories unaffected by the Circuit Breaker all of Fu Yu's factories globally are likely to be fully operational.
- **Net cash position to weather the storm.** With management learning from past mistakes during the manufacturing crisis, its prudent approach has led Fu Yu with a net cash balance sheet representing close to 60% of its market cap. Coupled with its rich cash flow generation, we believe that the company will be able to weather the storm and likely come out stronger than its competitors.
- **High yield of 7% for FY20F.** With a sound balance sheet (net cash of SGD94.4m), and positive operating cash flow, we expect Fu Yu to continue rewarding shareholders with attractive dividends. We expect dividend to be maintained at 1.6 SG cents (for FY20F) – as it has done in the past. Despite not being as profitable then, dividend payout ratio was still 100% or more than its profits.
- **Maintain one of our Top Picks – stable and resilient.** With further new projects in the medical, consumer products and automotive fronts, we expect the positive growth momentum to continue from FY21F. In spite of the blip in FY20F caused by COVID-19, we believe Fu Yu, with its strong net cash position will able to weather the storm and at the same time, still be able to reward its investors with attractive dividends despite a temporary drop in profits in FY20F. As a result, we maintain BUY with an unchanged DCF-based TP of SGD0.28. Fu Yu is also an attractive target for privatisation or acquisition.
- **Key risks** to our call: economic slowdown, trade war worsening, COVID-19 spread worsening

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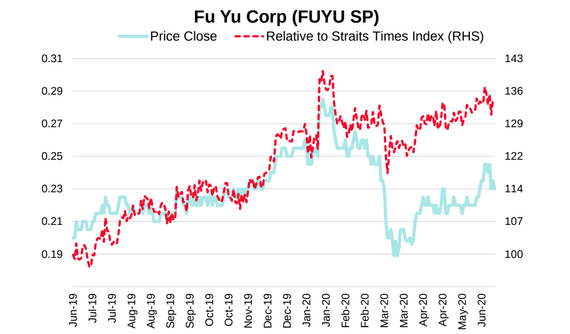
Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(9.8)	4.5	15.0	(9.8)	15.0
Relative	9.1	0.9	15.8	8.9	33.9
52-wk Price low/high (SGD)					0.19 – 0.29



Source: Bloomberg

Forecasts and Valuation	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
Total turnover (SGDm)	198	194	175	180	186
Recurring net profit (SGDm)	12	18	17	17	18
Recurring net profit growth (%)	123.4	50.0	(9.4)	3.9	4.4
Recurring P/E (x)	14.20	9.47	10.45	10.06	9.64
P/B (x)	1.1	1.1	1.0	1.0	1.0
P/CF (x)	7.54	6.52	8.04	7.04	6.79
Dividend Yield (%)	7.0	7.0	7.0	7.0	7.0
EV/EBITDA (x)	3.49	2.23	2.74	2.52	2.32
Return on average equity (%)	7.4	7.7	10.0	10.1	10.2
Net debt to equity (%)	net cash	net cash	net cash	net cash	net cash

Source: Company data, RHB

Financial Exhibits

Asia
Singapore
Technology
Fu Yu Corp
FUYU SP
Buy

Valuation basis

DCF-backed TP of SGD0.28

Key drivers

More cost cutting as well as getting more customers with better project margins to increase its utlisation rate as well as overall margins

Key risks

Economic slowdown or recession

Company Profile

Fu Yu Corp, an investment holding company, manufactures and supplies high-precision injection moulds and plastic parts in Asia. It is engaged in the manufacturing and sub-assembly of precision plastic parts and components; fabrication of precision moulds and dies; and trading and management services. It serves the information technology, telecommunications, automotive, medical, electronic, and electrical appliance sectors. Fu Yu Corp was founded in 1978 and is headquartered in Singapore.

Financial summary (SGD)	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
Recurring EPS	0.02	0.02	0.02	0.02	0.02
DPS	0.02	0.02	0.02	0.02	0.02
BVPS	0.22	0.22	0.22	0.23	0.24
Return on average equity (%)	7.4	7.7	10.0	10.1	10.2

Valuation metrics	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
Recurring P/E (x)	14.20	9.47	10.45	10.06	9.64
P/B (x)	1.1	1.1	1.0	1.0	1.0
FCF Yield (%)	9.1	11.1	4.6	8.4	9.0
Dividend Yield (%)	7.0	7.0	7.0	7.0	7.0
EV/EBITDA (x)	3.49	2.23	2.74	2.52	2.32
EV/EBIT (x)	5.01	3.40	3.70	3.45	3.17

Income statement (SGDm)	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
Total turnover	198	194	175	180	186
Gross profit	35	42	43	44	46
EBITDA	23	34	29	31	32
Depreciation and amortisation	(7)	(12)	(8)	(8)	(9)
Operating profit	16	22	22	22	23
Net interest	0	(0)	(0)	(0)	(0)
Pre-tax profit	16	16	22	22	23
Taxation	(4)	(4)	(5)	(5)	(5)
Reported net profit	12	13	17	17	18
Recurring net profit	12	18	17	17	18

Cash flow (SGDm)	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
Change in working capital	2.8	1.9	(2.6)	(1.0)	(1.1)
Cash flow from operations	23.0	26.6	21.5	24.6	25.5
Capex	(7.2)	(7.3)	(13.5)	(10.0)	(10.0)
Cash flow from investing activities	(4.9)	(1.7)	(13.5)	(10.0)	(10.0)
Dividends paid	(12.0)	(12.0)	(12.0)	(12.0)	(12.0)
Cash flow from financing activities	(32.9)	(17.2)	(12.1)	(12.1)	(12.1)
Cash at beginning of period	95.4	80.3	88.5	84.4	87.0
Net change in cash	(14.8)	7.7	(4.0)	2.5	3.5
Ending balance cash	80.5	88.5	84.4	87.0	90.4

Balance sheet (SGDm)	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
Total cash and equivalents	84	88	84	87	90
Tangible fixed assets	45	54	60	62	63
Total investments	9	8	8	8	8
Total assets	212	219	220	226	233
Total liabilities	47	55	51	53	54
Total equity	164	164	168	173	179
Total liabilities & equity	212	219	220	226	233

Key metrics	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
Revenue growth (%)	1.4	(1.8)	(10.0)	3.3	3.3
Recurrent EPS growth (%)	123.4	50.0	(9.4)	3.9	4.4
Gross margin (%)	17.8	21.9	24.4	24.6	24.9
Operating EBITDA margin (%)	11.6	17.5	16.7	17.1	17.2
Net profit margin (%)	6.2	6.5	9.5	9.5	9.6
Capex/sales (%)	3.7	3.8	7.7	5.5	5.4
Interest cover (x)		49	1,967	2,045	2,134

Source: Company data, RHB

Recommendation Chart

Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2020-04-13	Buy	0.28	0.22
2020-02-27	Buy	0.32	0.25
2020-01-15	Buy	0.29	0.28
2019-11-14	Buy	0.24	0.23
2018-11-15	Buy	0.23	0.17
2018-08-15	Buy	0.22	0.18

Source: RHB, Bloomberg

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