

4 October 2019

Technology | Manufacturing

Fu Yu Corp (FUYU SP)

Buy (Maintained)

Still Top Pick Despite One-Off Expenses

Target Price (Return) SGD0.24 (+9%)
 Price: SGD0.22
 Market Cap: USD120m
 Avg Daily Turnover (SGD/USD) 0.1m/0.1m

- **BUY this small/mid-cap manufacturing Top Pick, TP of SGD0.24** implies 9% upside with 8% FY19F yield. Fu Yu recorded a steady 1H19, as PATMI grew 10.7% YoY. Despite a one-off expense of SGD5.5m from the closure of its Shanghai plant, we expect continued revenue and margin expansion on new projects in the auto, consumer and medical spaces. As over 80% of revenue is in USD, it should also benefit from the strengthening of the greenback.
- **Closure of Shanghai results in a one-off expense of SGD5.5m.** With the lease termination of its Shanghai site, management has decided to liquidate its Shanghai factory and shift production to its loss-making Suzhou site, which has lower operating costs. We believe this will help reduce the longer-term operational cost for the whole group, and help the Suzhou factory turn profitable at a much faster pace despite having to incur a SGD5.5m one-off expense in FY19F. As such, we remain confident of the group's outlook and think that this closure will be beneficial to Fu Yu as a group in the longer term.
- **Increase in interim dividends.** With a sound balance sheet (net cash of SGD80.1m), positive operating cash flow of SGD15-20m a year and an improving business, we expect Fu Yu to continue rewarding shareholders with higher and more attractive dividends. Management increased its interim dividends by 16.7% to SGD0.00035 from SGD0.0003, resulting in a FY9F dividend to SGD0.017, representing a yield of 7.7%. We think that the dividends will be sustainable, despite having to incur a one-off expense due to its strong net cash position and cash generation abilities.
- **Still one of our Top Picks.** With the ramp-up in its existing projects to continue in the subsequent quarters, coupled with further new projects in the medical and consumer and automotive fronts, we expect such positive growth momentum to continue. In addition, a rising USD should also benefit the company. Management is still actively seeking ways to further optimise the cost structure of its operations in the region, especially in China – such as further right-sizing exercises and selling/leasing unutilised factory space if suitable opportunities arise, which will further improve margins. Supported by attractive yields, we maintain BUY with an unchanged DCF-based TP of SGD0.24. Fu Yu is also an attractive target for privatisation or acquisition.
- **Key risks** to our call: economic slowdown, trade war worsening

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Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	15.8	2.3	4.8	10.0	23.6
Relative	15.2	2.5	13.1	16.8	29.1
52-wk Price low/high (SGD)	0.17 - 0.23				



Source: Bloomberg

RHB is one of two brokers covering this counter

Forecasts and Valuation	Dec-17	Dec-18	Dec-19F	Dec-20F	Dec-21F
Total turnover (SGDm)	195.0	197.7	203.9	210.5	217.4
Recurring net profit (SGDm)	4.5	11.9	9.2	14.3	15.1
Recurring net profit growth (%)	(57.5)	165.5	(22.4)	54.7	6.2
Recurring P/E (x)	30.3	13.6	18.0	11.6	10.9
P/BV (x)	1.0	1.0	1.0	1.0	1.0
P/CF (x)	20.6	6.5	10.5	6.9	6.5
Dividend Yield (%)	6.8	7.3	7.7	7.7	7.7
EV/EBITDA (x)	5.6	3.7	5.1	3.8	3.6
ROE (%)	3.3	7.4	5.7	8.8	9.2
Net debt to equity (%)	net cash	net cash	net cash	net cash	net cash
Interest coverage (x)	na	na	na	na	na

Source: Company data, RHB

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