

13 April 2020

Technology | Software & Services

Fu Yu Corp (FUYU SP)

Buy (Maintained)

Solid Net Cash Manufacturer; Maintain BUY

Target Price (Return): SGD0.28 (+27%)
 Price: SGD0.22
 Market Cap: USD115m
 Avg Daily Turnover (SGD/USD) 0.81m/0.59m

- **Maintain BUY with a new DCF-backed TP of SGD0.28 from SGD0.32, 27% upside plus c.7% yield** from its net cash position and attractive yield. Fu Yu faced minor disruption with the temporary closure of its Malaysia factories in March due to the MCO, and lower operating capacity from logistics issues. Coupled with the disruption in China, we lower FY20F PATMI by 14%. However, factories globally have resumed operations, and Singapore production remains intact despite the recent circuit breaker.

- **Factories globally back in operation.** Its factories in China were disrupted during the Lunar New Year period due to China's lockdown. With the Movement Control Order (MCO) in Malaysia, the group also closed its Malaysia factories on 18-31 Mar 2020. 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 recently implemented, all factories globally are likely to be operational.

- **Net cash balance sheet to weather the storm.** With management learning from past mistakes during the manufacturing crisis, its prudent approach has provided 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 to come out stronger than its competitors.

- **High yield of 7.4% for FY20F.** With a sound balance sheet (net cash of SGD88.5m), positive operating cash flow of SGD15-20m pa, and improving business, we expect Fu Yu to continue rewarding shareholders with attractive dividends. We expect DPU to be maintained at 1.6 SG cents for FY20F, at the very least, and potentially increase if PATMI rises far above our forecast.

- **Maintain one of our Top Picks – stable and resilient.** We expect Fu Yu's positive growth momentum to continue with further new projects in the medical and consumer as well as automotive fronts. The closure of its Shanghai factory and new redevelopment of its Singapore factory should see margins improving. With a strong net cash balance sheet able to weather the storm and still be able to reward investors with attractive dividends, we maintain BUY and a lower DCF-based TP of SGD0.28. The company is also an attractive target for privatisation or acquisition.

- **Key risks** to our call: economic slowdown, trade war worsening, and COVID-19 spread worsening.

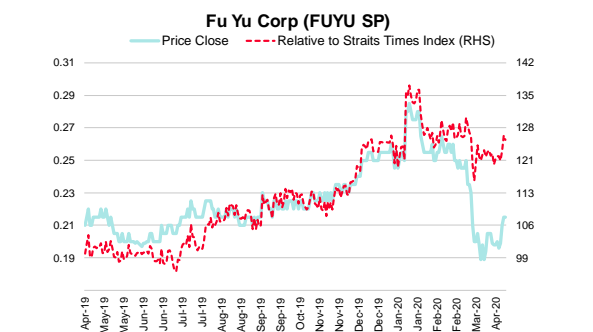
Analyst

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Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(15.7)	(8.5)	(14.0)	(4.5)	2.4
Relative	4.5	(0.9)	6.8	12.3	25.1
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	21	19	19
Recurring net profit growth (%)	123.4	50.0	13.9	(10.5)	4.5
Recurring P/E (x)	13.27	8.85	7.77	8.68	8.31
P/B (x)	1.0	1.0	0.9	0.9	0.9
P/CF (x)	7.05	6.09	6.37	6.04	5.99
Dividend Yield (%)	7.4	7.4	7.4	7.4	7.4
EV/EBITDA (x)	3.03	1.92	1.89	1.87	1.66
Return on average equity (%)	7.4	7.7	12.4	10.6	10.7
Net debt to equity (%)	net cash	net cash	net cash	net cash	net cash

Source: Company data, RHB

Financial Exhibits

Asia	Financial summary (SGD)	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
Singapore	Recurring EPS	0.02	0.02	0.03	0.02	0.03
Technology	DPS	0.02	0.02	0.02	0.02	0.02
Fu Yu Corp	BVPS	0.22	0.22	0.23	0.24	0.25
FUYU SP	Return on average equity (%)	7.4	7.7	12.4	10.6	10.7
Buy						
	Valuation metrics	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
Valuation basis	Recurring P/E (x)	13.27	8.85	7.77	8.68	8.31
DCF-backed TP of SGD0.28	P/B (x)	1.0	1.0	0.9	0.9	0.9
	FCF Yield (%)	9.7	11.9	7.4	10.4	10.5
Key drivers	Dividend Yield (%)	7.4	7.4	7.4	7.4	7.4
More cost cutting as well as getting more customers with better project margins to increase its utilisation rate as well as overall margins	EV/EBITDA (x)	3.03	1.92	1.89	1.87	1.66
	EV/EBIT (x)	4.36	2.93	2.42	2.52	2.22
	Income statement (SGDm)	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
Key risks	Total turnover	198	194	175	180	186
Economic slowdown or recession	Gross profit	35	42	45	43	44
	EBITDA	23	34	35	33	34
Company Profile	Depreciation and amortisation	(7)	(12)	(8)	(8)	(9)
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 Corporation Limited was founded in 1978 and is headquartered in Singapore.	Operating profit	16	22	27	24	25
	Net interest	0	(0)	(0)	(0)	(0)
	Pre-tax profit	16	16	27	24	25
	Taxation	(4)	(4)	(6)	(6)	(6)
	Reported net profit	12	13	21	19	19
	Recurring net profit	12	18	21	19	19
	Cash flow (SGDm)	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
	Change in working capital	2.8	1.9	(3.0)	(0.2)	(1.1)
	Cash flow from operations	23.0	26.6	25.4	26.8	27.0
	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	88.3	93.1
	Net change in cash	(14.8)	7.7	(0.1)	4.7	5.0
	Ending balance cash	80.5	88.5	88.3	93.1	98.0
	Balance sheet (SGDm)	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
	Total cash and equivalents	84	88	88	93	98
	Tangible fixed assets	45	54	60	62	63
	Total investments	9	8	8	8	8
	Total assets	212	219	223	232	241
	Total liabilities	47	55	51	53	54
	Total equity	164	164	172	179	186
	Total liabilities & equity	212	219	223	232	241
	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	13.9	(10.5)	4.5
	Gross margin (%)	17.8	21.9	25.5	23.6	23.9
	Operating EBITDA margin (%)	11.6	17.5	19.9	18.1	18.3
	Net profit margin (%)	6.2	6.5	11.9	10.3	10.5
	Capex/sales (%)	3.7	3.8	7.7	5.5	5.4
	Interest cover (x)		49	2,473	2,215	2,314

Source: Company data, RHB

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Figure 1: DCF valuation

	Total (SGDm)	FY20F	FY21F	FY22F	Terminal Value
EBIT		27.2	24.4	25.5	
EBIT(1-T)		20.8	18.7	19.5	
Less: Capex		(13.5)	(10.0)	(10.0)	
Add: Depreciation & Amortisation		7.5	8.3	8.6	
Less: Change in Non-cash WC		(3)	(0.2)	(1.1)	
FCFF		11.9	16.8	17.0	131.0
Present Value of FCFF		10.5	13.2	11.8	90.8
Total FCFF	126.3				
Add: Cash	83.9				
Less: Value of Debt	-				
Less: Minority Interest	-				
Target Equity Value	210.2				
No. of shares (basic)	753				
Intrinsic Share Price (SGD)	0.28				

Source: RHB

Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2020-02-27	Buy	0.32	0.25
2020-01-15	Buy	0.29	0.28
2019-11-14	Buy	0.24	0.23
2019-10-04	Buy	0.24	0.22
2019-08-14	Buy	0.24	0.22
2019-07-09	Buy	0.24	0.22
2019-05-10	Buy	0.24	0.21
2019-02-28	Buy	0.24	0.21
2018-11-15	Buy	0.23	0.17

Source: RHB, Bloomberg

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