14 November 2019

Technology | Manufacturing

Fu Yu Corp (FUYU SP)

Buy (Maintained)

Strong 3Q19 Despite One-Off Expense; BUY

Target Price (Return)	SGD0.24 (+7%)
Price:	SGD0.225
Market Cap:	USD124.3m
Avg Daily Turnover (SGD/USD)	0.2m/0.1m

- **We have a firm BUY on this small/mid-cap manufacturing Top Pick, TP of SGD0.24** implies 7% upside with 8% FY20F yield. Fu Yu had a resilient 3Q19, despite incurring a SGD4m one-off expense from the Shanghai factory closure. 9M19 PATMI held steady, at SGD8.9m We expect continued revenue and margin expansion on new projects into the auto, consumer and medical spaces. As over 80% of revenue is in USD terms, it should also benefit from the strengthening of the greenback.
- **Gross margins expanded in 9M19.** Topline dipped by 1% YoY. However, excluding one-off expenses, GPM improved to 20.7% from 17.8% a year ago, also on higher margins from automotive and medical projects. This uptrend will likely continue, as Fu Yu is set to enjoy higher contributions from new projects from the medical sector, which are currently ramping up.
- **Attractive 7.1% FY19F yield.** 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 maintained its 9M interim dividend at SGD0.6 cents, representing a yield of 7.1% for FY19F
- **With the ramp-up in existing projects to continue** in the subsequent quarters, coupled with further new projects in the medical and consumer and automotive fronts, we expect the positive growth momentum to continue. In addition, an appreciating 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 right-sizing exercises and selling/leasing unutilised factory space if suitable opportunities arise, which will further improve margins. Supported by an attractive yield, we maintain BUY with an unchanged DCF-backed 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

RHB is one of two brokers covering this counter

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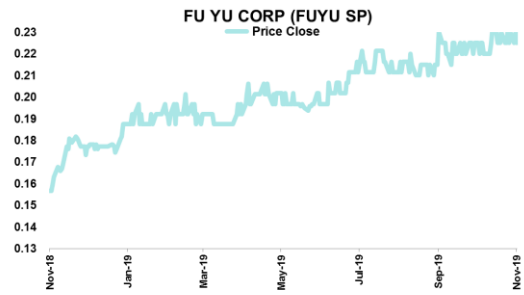
Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	18.4	0.0	4.7	9.8	32.4
Relative	12.9	(4.0)	1.7	9.6	26.3
52-wk Price low/high (SGD)					0.17 - 0.24



Source: Bloomberg

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	13.4	14.3	15.1
Recurring net profit growth	(57.5)	165.5	13.1	6.2	6.2
Recurring P/E (x)	31.0	13.9	12.6	11.9	11.2
P/BV (x)	1.0	1.0	1.0	1.0	1.0
P/CF (x)	21.0	6.7	8.0	7.1	6.7
Dividend Yield (%)	6.7	7.1	7.1	7.6	7.6
EV/EBITDA (x)	5.9	3.9	3.9	3.7	3.5
ROE (%)	3.30	7.43	8.12	8.54	8.94
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

Financial Exhibits

Asia
Singapore
Technology
Manufacturing

Valuation basis

DCF-backed TP of SGD0.24

Key drivers

i. New projects into the auto, consumer and medical space
ii. Margin expansion;
iii. Higher dividend

Key risks

The downside risks include:
i. Lower margin;
ii. Delay in new project execution;
iii. Trade war worsening
iv. Economic downturn

Company Profile

Fu Yu Corporation Limited manufactures and sells precision plastic injection molds and plastic components. The Company also manufactures and sells plastic, aluminum parts, electronic products, and equipment for medical use.

Financial summary	**Dec-17**	**Dec 18**	**Dec 19F**	**Dec 20F**	**Dec 21F**
Recurring EPS (SGD)	0.01	0.02	0.02	0.02	0.02
EPS (SGD)	0.01	0.02	0.02	0.02	0.02
DPS (SGD)	0.02	0.02	0.02	0.02	0.02
BVPS (SGD)	0.22	0.22	0.22	0.22	0.22
Weighted avg adjusted shares (m)	753.0	753.0	753.0	753.0	753.0

Valuation metrics	**Dec-17**	**Dec 18**	**Dec 19F**	**Dec 20F**	**Dec 21F**
Recurring P/E (x)	31.0	13.9	12.6	11.9	11.2
P/E (x)	31.0	13.9	12.6	11.9	11.2
P/B (x)	1.0	1.0	1.0	1.0	1.0
FCF Yield (%)	5.1	8.9	9.3	10.1	10.6
Dividend Yield (%)	6.7	7.1	7.1	7.6	7.6
EV/EBITDA (x)	5.9	3.9	3.9	3.7	3.5
EV/EBIT (x)	11.3	5.6	5.2	5.0	4.7

Income statement (SGDm)	**Dec-17**	**Dec 18**	**Dec 19F**	**Dec 20F**	**Dec 21F**
Total turnover	195	198	204	211	217
Gross profit	33	35	39	41	43
EBITDA	16	23	24	25	26
Depreciation and amortisation	-8	-7	-6	-6	-7
Operating profit	8	16	18	19	20
Net interest	0	0	0	0	0
Income from associates & JVs	-1	-1	-1	-1	-1
Exceptional income - net			-4		
Pre-tax profit	8	16	18	19	20
Taxation	-3	-4	-4	-4	-5
Minority interests					
Recurring net profit (adj)	4	12	13	14	15

Cash flow (SGDm)	**Dec-17**	**Dec 18**	**Dec 19F**	**Dec 20F**	**Dec 21F**
Change in working capital	-6	3	-2	-1	-1
Net cash from operating activities	6	23	17	20	21
Capex	-6	-7	-8	-8	-9
Cash flow from investing activities	-4	-5	-8	-8	-9
Dividends paid	-12	-12	-12	-13	-13
Cash flow from financing activities	-12	-33	-12	-13	-13
Cash at beginning of period	103	92	77	74	73
Net change in cash	-10	-15	-3	-1	-1
Ending balance cash	92	77	74	73	72

Balance sheet (SGDm)	**Dec-17**	**Dec 18**	**Dec 19F**	**Dec 20F**	**Dec 21F**
Total cash and equivalents	95	80	77	76	76
Tangible fixed assets	46	45	47	48	50
Intangible assets	0	1	2	3	4
Total investments	12	12	12	12	12
Total other assets	83	75	80	83	85
Total assets	236	212	216	219	223
Short-term debt	0	0	0	0	0
Total long-term debt	0	0	0	0	0
Other payables, accruals and provisions	51	47	51	52	53
Total liabilities	51	47	51	52	53
Shareholders' equity	165	164	166	167	169
Minority interests	20	0	0	0	0
Total equity	185	164	166	167	169
Net debt	95	80	77	76	76
Total liabilities & equity	236	212	216	219	223

Key metrics	**Dec-17**	**Dec 18**	**Dec 19F**	**Dec 20F**	**Dec 21F**
Revenue growth (%)	-1.8	1.4	3.2	3.2	3.3
Recurrent EPS growth (%)	-62.5	167.8	12.9	6.2	6.2
Gross margin (%)	17.1	17.8	19.1	19.4	19.7
Operating EBITDA margin (%)	8.2	11.6	11.7	11.9	12.2
Net profit margin (%)	2.3	6.0	6.6	6.8	7.0
Dividend payout ratio (%)	106.7	254.2	101.3	89.7	89.7
Capex/sales (%)	2.8	3.7	3.9	3.8	3.9
Interest cover (x)	na	na	na	na	na

Source: Company data, RHB

Source: Company data, RHB

Figure 1: 3Q19 results summary

SGDm	3QFY19	3QFY18	YoY +/- %	9M19	9M18	YoY +/- %
Revenue	51.3	52.4	-2.2%	148.1	149.6	-1.0%
Gross Profit	8.7	10.6	-17.8%	26.6	26.6	0.1%
Gross Profit Margin	17.0%	20.2%		18.0%	17.8%	
Profit Before Tax	4.6	5.9	-21.3%	11.9	12.1	-1.8%
PATMI	3.9	4.4	-11.1%	9.0	9.0	0.0%
Net Profit Margin	7.6%	8.4%		6.0%	6.0%	

Source: Company data

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