

16 November 2020

Technology | Software & Services

Fu Yu Corp (FUYU SP)

Buy (Maintained)

Profit Margins Continue To Improve; BUY

- Maintain BUY and DCF-based TP of SGD0.30, 20% upside and c.7% yield.** As at 9M20, Fu Yu Corp had SGD97.8m net cash with zero borrowings, despite COVID-19 affecting production. With further streamlining of its operations in China, despite lower revenue due to the closing of its Chongqing factory, we expect further cost savings ahead. 9M20 GPM also expanded to 23.5% from 18.0% in 9M19. We expect the company to tide through the pandemic with attractive yields.
- 9M20 PATMI surged 36.7% YoY** despite a 23.4% drop in revenue, mainly due the higher GPM. This can be attributed mainly to the change in revenue mix, a reduction in headcount, as well as the group's ongoing initiatives to sustain costs and raise operational efficiencies. GPM continued to improve to 23.5% from 18.0% a year ago. With challenging business conditions expected ahead, management will continue to evaluate avenues to further rightsize and optimise its manufacturing operations in China to ensure it is better positioned for long-term business sustainability, ie by closing its Chongqing factory, which will likely provide further cost savings operationally.
- Strong net cash; Attractive yield.** As at 1H20, Fu Yu had a strong net cash position of SGD97.8m and zero borrowings. It has also maintained an interim dividend payout. We expect a 1.7 SG cents payout for FY20F, which should result in an attractive yield of 6.5%. With management learning from past mistakes during the manufacturing crisis, its prudent approach has led to the company having a net cash balance sheet representing close to 53% of its market cap. Coupled with its rich cash flow generation, we believe that it will be able to weather this storm, and come out stronger than its competitors.
- Still one of our Top Picks; Stable and resilient.** With further new projects in the medical and consumer and automotive fronts, we expect positive growth momentum for 4Q20F. Despite a blip in FY20F caused by the pandemic, we believe that Fu Yu – with its strong net cash balance sheet – will able to weather the storm, and at the same time, reward investors with attractive dividends going forward, despite a temporary drop in FY20F profits. As a result, we maintain BUY and our DCF-based SGD0.30 TP. The company is also an attractive target for privatisation or acquisition.
- Key risks to our call:** Economic slowdown, worsening trade war, and increasing COVID-19 cases.

Target Price (Return): SGD0.30 (20.0%)
 Price: SGD0.25
 Market Cap: USD137m
 Avg Daily Turnover (SGD/USD) 0.23m/0.17m

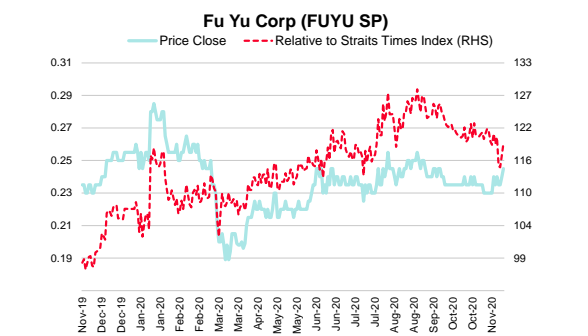
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Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(3.9)	4.3	4.3	11.4	8.9
Relative	12.0	(1.3)	(0.1)	6.0	25.2
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	16	17	18
Recurring net profit growth (%)	123.4	50.0	(9.8)	4.0	4.4
Recurring P/E (x)	15.13	10.09	11.19	10.76	10.31
P/B (x)	1.1	1.1	1.1	1.1	1.0
P/CF (x)	8.03	6.94	8.60	7.52	7.25
Dividend Yield (%)	6.5	6.5	6.5	6.5	6.5
EV/EBITDA (x)	3.97	2.56	3.14	2.89	2.69
Return on average equity (%)	7.4	7.7	9.9	10.0	10.2
Net debt to equity (%)	net cash	net cash	net cash	net cash	net cash

Source: Company data, RHB

Note:

Small cap stocks are defined as companies with a market capitalisation of less than USD1bn.

Financial Exhibits

Asia	Financial summary (SGD)	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
Singapore	Recurring EPS	0.02	0.02	0.02	0.02	0.02
Technology	DPS	0.02	0.02	0.02	0.02	0.02
Fu Yu Corp	BVPS	0.22	0.22	0.22	0.23	0.24
FUYU SP	Return on average equity (%)	7.4	7.7	9.9	10.0	10.2
Buy						
	Valuation metrics	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
Valuation basis	Recurring P/E (x)	15.13	10.09	11.19	10.76	10.31
DCF-backed TP of SGD0.30	P/B (x)	1.1	1.1	1.1	1.1	1.0
	FCF Yield (%)	8.5	10.5	4.3	7.9	8.4
Key drivers	Dividend Yield (%)	6.5	6.5	6.5	6.5	6.5
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)	3.97	2.56	3.14	2.89	2.69
	EV/EBIT (x)	5.71	3.90	4.23	3.97	3.67
Key risks	Income statement (SGDm)	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
Economic slowdown or recession	Total turnover	198	194	175	180	186
	Gross profit	35	42	43	44	46
Company Profile	EBITDA	23	34	29	31	32
Fu Yu Corporation Limited, 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.	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	16	17	18
	Recurring net profit	12	18	16	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	24.5	25.4
	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	86.8
	Net change in cash	(14.8)	7.7	(4.1)	2.5	3.4
	Ending balance cash	80.5	88.5	84.4	86.8	90.2
	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	219	226	233
	Total liabilities	47	55	51	53	54
	Total equity	164	164	168	173	179
	Total liabilities & equity	212	219	219	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	(9.8)	4.0	4.4
	Gross margin (%)	17.8	21.9	24.4	24.6	24.9
	Operating EBITDA margin (%)	11.6	17.5	16.6	17.0	17.1
	Net profit margin (%)	6.2	6.5	9.4	9.5	9.6
	Capex/sales (%)	3.7	3.8	7.7	5.5	5.4
	Interest cover (x)		49	1,958	2,036	2,125

Source: Company data, RHB

Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2020-08-17	Buy	0.30	0.25
2020-04-13	Buy	0.28	0.22
2020-02-27	Buy	0.32	0.25
2020-01-15	Buy	0.29	0.28
2019-02-28	Buy	0.24	0.21
2018-11-15	Buy	0.23	0.17
2018-08-15	Buy	0.22	0.18

Source: RHB, Bloomberg

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