

Fu Yu Corp (FUYU SP)

Technology - Technology

Market Cap: USD85.3m

Buy (Maintained)

 Target Price: **SGD0.29**

 Price: **SGD0.16**

Stellar 3Q15 Earnings

 Macro
 Risks
 Growth
 Value


Source: Bloomberg

Avg Turnover (SGD/USD)	0.27m/0.20m
Cons. Upside (%)	81.3
Upside (%)	80.1
52-wk Price low/high (SGD)	0.10 - 0.21
Free float (%)	46
Share outstanding (m)	753
Shareholders (%)	
Hock Ching Ng	14.3
Tam Wai	12.9
Ho Nee Kit	12.9

Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	56.3	(1.8)	(13.0)	8.8	62.6
Relative	68.4	0.6	(9.6)	22.9	72.5

Fu Yu's stellar 3Q15 earnings exceeded our expectations, with 9M15 NPAT of SGD11.9m forming 88% of our FY15 estimates. Despite a 7.9% YoY 9M15 revenue decline, 9M15 NPAT surged 129% YoY while 3Q15 NPAT rose 22.4% as the company focused on more profitable projects. Stronger USD and cost cutting measures also helped. An interim dividend of SGD0.0025 was declared. We lift our FY15 NPAT by 14.8% with a higher DCF-backed TP of SGD0.29. Maintain BUY.

- ◆ **Stellar 3Q15.** Despite a 13.8% revenue decline in 3Q15, its NPAT rose 22.4% YoY to SGD5.5m as gross margins rose to 15.6% (vs 13.8% a year ago). 9M15 NPAT surged 129% YoY, accounting for 88% of our FY15 estimates, exceeding expectations. This was mainly due 1) on-going right-sizing exercises that drove the cost of production down 2) stronger USD as over 90% of Fu Yu's revenues are in USD 3) focus on projects with higher profitability.
- ◆ **More dividends ahead.** As expected, the company declared another dividend of SGD0.0025 in 3Q15. This is the company's second interim dividend after their capital reduction exercise 1Q15. With its stellar results and given that c.80% of its market capitalisation is made up of net cash with no debt, we expect more dividends to be dashed out in 4Q15, translating to a 6.9% yield for FY15.
- ◆ **Beneficiary of 70% owned Malaysian cash cow.** Fu Yu owns about 70% of its listed Malaysian subsidiary, LTCH Corp (LCTH MK, NR) which have also reported a stellar set of results with 9M15 NPAT up 122% to MYR15.5m. LCTH has a dividend policy to pay out at least 50% of its NPAT in which 70% of the dividends declared will flow into Fu Yu's coffers.
- ◆ **Maintain BUY with a higher TP of SGD0.29.** We lift our FY15 estimates by 14.8% and continue to remain positive on this stock despite macro headwinds. Management will continue to focus on profitability as we expect margins to improve while the right-sizing operations continue. We also expect management to reward shareholders with more dividends going forward. Our DCF-based TP (WACC 12%, TG 0%) is lifted to SGD0.29 from SGD0.28. Maintain BUY.

Forecasts and Valuations	Dec-13	Dec-14	Dec-15F	Dec-16F	Dec-17F
Total turnover (SGDm)	283	254	234	250	258
Reported net profit (SGDm)	8.7	11.2	15.5	18.0	20.4
Recurring net profit (SGDm)	8.7	11.2	15.5	18.0	20.4
Recurring net profit growth (%)	na	28.5	38.0	16.3	13.2
Recurring EPS (SGD)	0.01	0.02	0.02	0.02	0.03
DPS (SGD)	0.00	0.00	0.01	0.01	0.01
Recurring P/E (x)	13.5	10.5	7.8	6.7	5.9
P/B (x)	0.72	0.68	0.67	0.63	0.60
P/CF (x)	5.80	5.06	3.96	4.33	4.14
Dividend Yield (%)	0.0	0.0	6.9	7.4	8.4
EV/EBITDA (x)	1.44	0.68	0.37	0.09	(0.21)
Return on average equity (%)	5.5	6.6	8.7	9.7	10.4
Net debt to equity (%)	net cash	net cash	net cash	net cash	net cash
Our vs consensus EPS (adjusted) (%)			0.0	0.0	0.0

Source: Company data, RHB

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Figure 1: 3Q15 Results Summary

FYE Dec (SGDm)	2Q15	3Q14	3Q15	QoQ (%)	YoY (%)	Comments
Revenue	58.4	64.6	55.6	(4.8)	(13.8)	The decrease was mainly due to falling orders and weak demand in China and Malaysia, partially offset by the Singapore segment
EBITDA	(0.6)	1.3	2.6	n.m	105.7	
<i>EBITDA margin</i>	<i>-1%</i>	<i>2%</i>	<i>5%</i>			
Depreciation and amortisation	3.5	3.9	3.4	(4.1)	(12.5)	
EBIT	3.0	5.1	6.0	100.7	16.4	The increase was partly due to better cost management and utilization of facilities
<i>EBIT margin</i>	<i>5.1%</i>	<i>7.9%</i>	<i>10.7%</i>			
Net finance cost	0.0	(0.0)	0.0	n.m	n.m	Bank borrowings have been fully repaid in 1Q15
Pretax profit	3.0	5.1	6.0	100.7	17.4	The increase was largely contributed by the increase in foreign exchange gain by SGD1.9m
<i>Pretax margin</i>	<i>5%</i>	<i>8%</i>	<i>11%</i>			
Tax	(1.1)	(0.6)	(0.5)	(55.2)	(20.1)	The lower effective tax rate was due mainly to utilization of deferred tax assets not recognised in prior years
<i>Effective tax rate (%)</i>	<i>-36%</i>	<i>-12%</i>	<i>-8%</i>			
Net profit	1.9	4.5	5.5	188.7	22.4	
<i>Net margin</i>	<i>3%</i>	<i>7%</i>	<i>10%</i>			

Source: RHB estimates

Financial Exhibits

Profit & Loss (SGDm)	Dec-13	Dec-14	Dec-15F	Dec-16F	Dec-17F
Total turnover	283	254	234	250	258
Cost of sales	(263)	(223)	(202)	(215)	(221)
Gross profit	20	31	32	35	36
Gen & admin expenses	(32)	(26)	(23)	(23)	(24)
Other operating costs	21	9	9	9	9
Operating profit	10	14	17	21	21
Operating EBITDA	23	32	32	35	35
Depreciation of fixed assets	(14)	(18)	(15)	(15)	(14)
Operating EBIT	10	14	17	21	21
Interest expense	(0)	(0)	2	2	4
Pre-tax profit	10	13	19	23	25
Taxation	(1)	(2)	(4)	(5)	(4)
Profit after tax & minorities	9	11	16	18	20
Reported net profit	9	11	16	18	20
Recurring net profit	9	11	16	18	20

Source: Company data, RHB

Cash flow (SGDm)	Dec-13	Dec-14	Dec-15F	Dec-16F	Dec-17F
Operating profit	10	14	17	21	21
Depreciation & amortisation	14	18	15	15	14
Change in working capital	15	(5)	2	(3)	(1)
Other operating cash flow	(17)	(2)	-	-	-
Operating cash flow	21	24	35	33	34
Tax paid	(1)	(1)	(4)	(5)	(4)
Cash flow from operations	20	23	31	28	29
Capex	(8)	(14)	(12)	(12)	(12)
Other investing cash flow	16	5	3	3	3
Cash flow from investing activities	8	(10)	(9)	(9)	(9)
Dividends paid	-	-	(8)	(9)	(10)
Proceeds from issue of shares	0	2	-	-	-
Increase in debt	7	12	-	-	-
Other financing cash flow	(6)	(14)	2	2	4
Cash flow from financing activities	1	0	(6)	(7)	(6)
Cash at beginning of period	49	73	83	96	105
Total cash generated	29	14	16	12	14
Forex effects	0	0	-	-	-
Implied cash at end of period	79	87	99	108	119

Source: Company data, RHB

Financial Exhibits

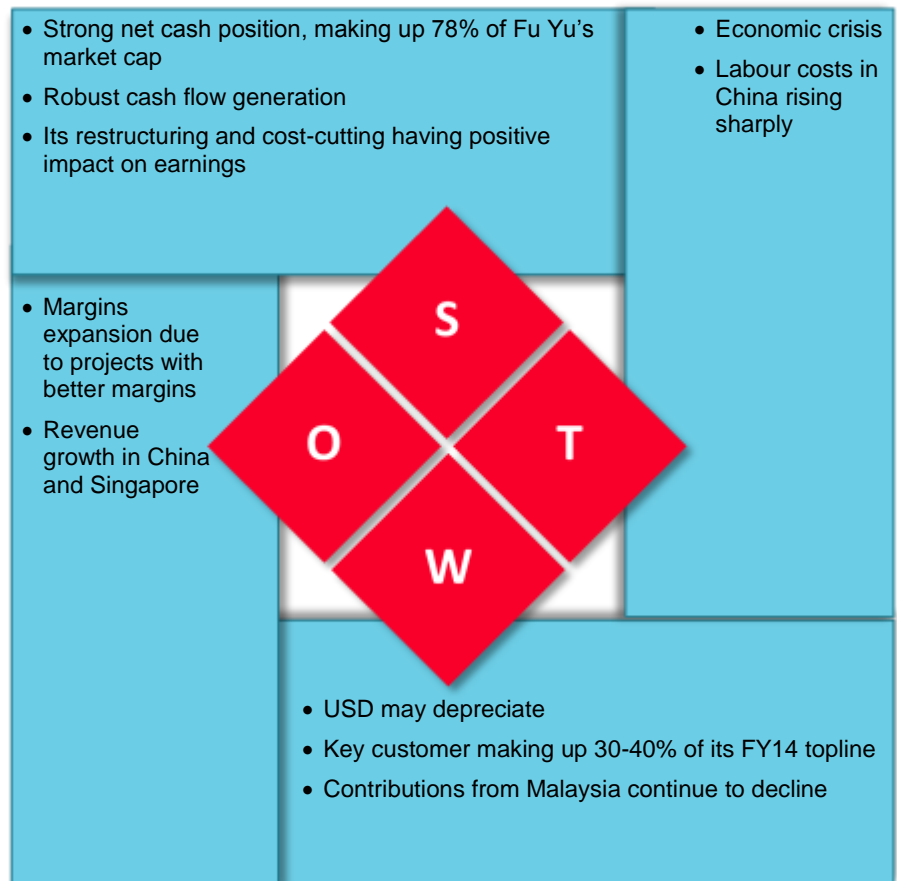
Balance Sheet (SGDm)	Dec-13	Dec-14	Dec-15F	Dec-16F	Dec-17F
Total cash and equivalents	77	89	102	111	122
Inventories	19	17	16	16	17
Accounts receivable	78	80	73	78	81
Other current assets	0	0	0	0	0
Total current assets	174	186	191	206	220
Total investments	15	13	13	13	13
Tangible fixed assets	66	61	58	56	54
Total other assets	2	1	1	1	1
Total non-current assets	83	76	73	70	68
Total assets	257	262	263	276	288
Short-term debt	3	1	1	1	1
Accounts payable	68	62	56	60	62
Other current liabilities	1	2	2	2	2
Total current liabilities	73	66	60	63	65
Total long-term debt	0	0	0	0	0
Other liabilities	2	1	1	1	1
Total non-current liabilities	2	1	1	1	1
Total liabilities	74	67	61	65	66
Share capital	119	121	121	121	121
Other reserves	44	54	61	70	80
Shareholders' equity	163	175	182	191	201
Other equity	19	20	20	20	20
Total equity	183	195	202	211	221
Total liabilities & equity	257	262	263	276	288

Source: Company data, RHB

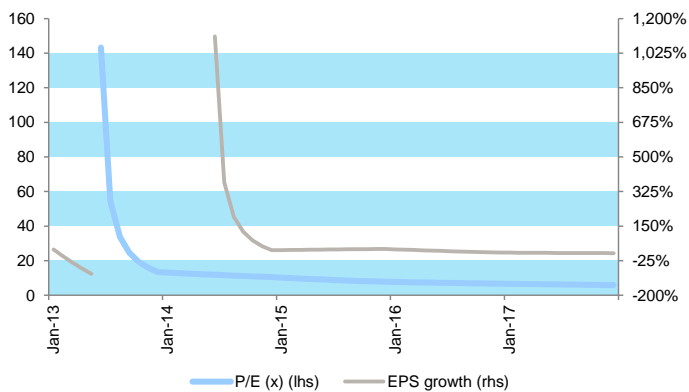
Key Ratios (SGD)	Dec-13	Dec-14	Dec-15F	Dec-16F	Dec-17F
Revenue growth (%)	(9.5)	(10.2)	(8.1)	6.9	3.0
Operating profit growth (%)	na	38.4	25.2	21.0	1.7
Net profit growth (%)	na	28.5	38.0	16.3	13.2
EPS growth (%)	na	28.1	34.6	16.3	13.2
BVPS growth (%)	4.7	6.8	1.5	5.0	5.3
Operating margin (%)	3.5	5.3	7.3	8.2	8.1
Net profit margin (%)	3.1	4.4	6.6	7.2	7.9
Return on average assets (%)	3.5	4.3	5.9	6.7	7.2
Return on average equity (%)	5.5	6.6	8.7	9.7	10.4
Net debt to equity (%)	(40.4)	(45.1)	(49.7)	(51.9)	(54.5)
DPS	0.00	0.00	0.01	0.01	0.01
Recurrent cash flow per share	0.03	0.03	0.04	0.04	0.04

Source: Company data, RHB

SWOT Analysis

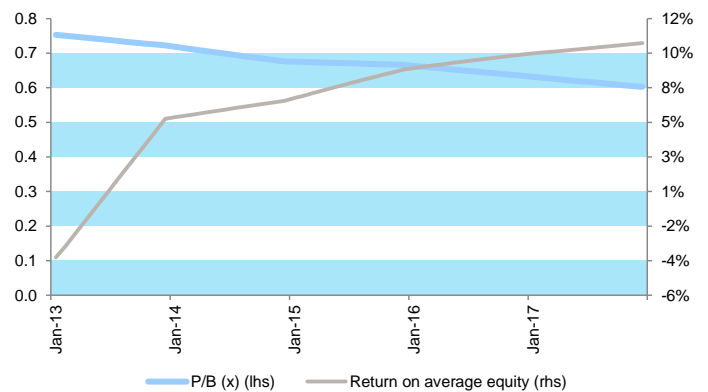


P/E (x) vs EPS growth



Source: Company data, RHB

P/BV (x) vs ROAE



Source: Company data, RHB

Company Profile

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.

Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2015-08-14	Buy	0.28	0.17
2015-05-27	Buy	0.30	0.18

Source : RHB, Bloomberg

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Buy: Share price may exceed 10% over the next 12 months

Trading Buy: Share price may exceed 15% over the next 3 months, however longer-term outlook remains uncertain

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