COMPANY UPDATE Manufacturing ▪ Singapore

Fu Yu Corp

(FUYU SP/FUYU.SI)

Shifting into high gear. 60% of market cap is cash

Not Rated	
Price as of 5 Jan 2018	0.20
12M target price (S$)	NA
Previous target price (S$)	NA
Upside (%)	NA

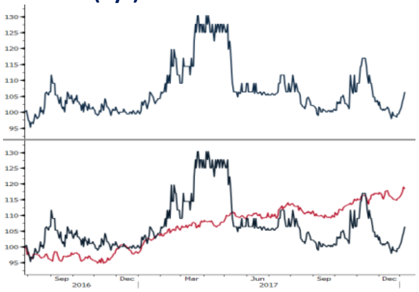
Trading data

Mkt Cap (S$m) / (US$m)	151 / 113
Issued Shares (m)	753.0
Ave Daily Traded (3-Month) Vol / Val	4.0m / $0.8m
52 week lo / hi	$0.18 / $0.26
Free Float	59.7%

Major Shareholders

Ho Nee Kit	12.9%
Tam Wai	12.8%

FUYU SP (1yr) VS STI



Source: Bloomberg

Event

Finally starting to move forward. Fu Yu announced on 7 December that it planned to spend S$20.3m to privatise 71%-owned Bursa-listed LCTH Corp (LCHT MK, Not-rated). This move follows a change of a major shareholder, Ng Hock Ching, who exited his >12% stake in the company last year. This sequence of events indicate to us that the company may be ready to embark on its next phase of growth, both organically and through M&A, with the S$92m cash on its balance sheet.

Impact

Fu Yu is one of the largest manufacturers of high precision plastic parts and moulds in Asia, with manufacturing facilities in Singapore, Malaysia and China. It began paying 1.5 SG cents dividend from FY15 onwards, translating to an attractive yield of 7.5%. Its net cash position of S$92m (12 SG cents/sh or 62% of its current market cap) may allow it to fund inorganic growth. Alternatively, it is an attractive privatisation candidate given its ability to generate healthy free cash flows every year.

Valuation & Action

Downside protected by >5% dividend yield. Overall, the risk-reward dynamics for Fu Yu is favourable to us given its attractive dividend yield, healthy balance sheet and recovering earnings growth. Free cash flow is enough to sustain its 1.5 SG cents dividend, which amounts to a total annual cash outflow of S$11m. Meanwhile, free cash flow generated averaged around S$18m per annum. Even if we were to account for a lower dividend of 1.0 SG cents due to the S$20m cash outflow to privatise LCTH this year, it would still offer a decent dividend yield of 5.0%.

Focusing on growth. Business is beginning to improve as it reported two consecutive quarters of QoQ earnings. It has highlighted the medical, green products and security sectors as potential growth opportunities. In addition, Fu Yu has made inroads into the automotive sector, which we believe may contribute more meaningfully over the next 2-3 years.

Risks

Competitive landscape remains challenging and may lead to margin erosion. Forex risk as around 80% of its sales are in USD while expenses are in USD (50%) and RMB, MY, SGD.

Financials & Key Operating Statistics

YE Dec (S$ m)	2012	2013	2014	2015	2016
Revenue	313.2	283.4	254.4	222.5	198.6
Net Income	-4.4	6.6	10.0	14.1	10.5
EPS (Cents)	-0.6	0.9	1.4	1.9	1.4
EPS grth (%)	-247.1	na	48.4	38.5	-25.1
P/E (x)	0.0	22.5	15.2	11.0	14.6
DPS (SG Cents)	0.0	0.0	0.0	1.5	1.5
Div Yield (%)	0.0	0.0	0.0	7.3	7.3
Net Margin (%)	-0.6	-1.8	3.9	6.1	5.2
Net Debt ($m)	-44.9	-73.7	-88.0	-103.6	-108.3
Price / Book (x)	0.3	0.4	0.4	0.7	0.8
ROE (%)	-2.7	4.2	5.9	8.0	6.0

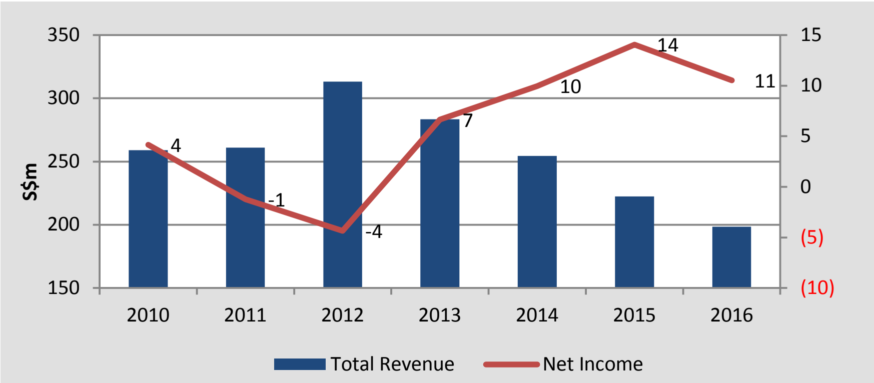
Source: Company Data, KGI Research (negative net debt=net cash)

Joel Ng
65 6202 1192
joel.ng@kgi.com

Restructuring almost complete, now focused on growth

In our view, the group has done well over the past four years in containing costs amid declining sales. However, in order for Fu Yu's valuation to rerate higher, we believe it has to come from earnings growth. During our recent meeting with management, were able to gain better insight into the three key areas that it has focused on for future growth: Security, Medical and Green products. Utilisation currently stands at around 50-60%, enabling rapid growth without high capex requirements. Revenues have stagnated at $50m/quarter over the past two years, which we understand is due to management's focus on restructuring/improving efficiencies within the group. Now that this restructuring phase is almost over, management's attention has shifted to acquiring new clients and product range.

Figure 1: Declining sales but still profitable due to improvement in operational efficiency

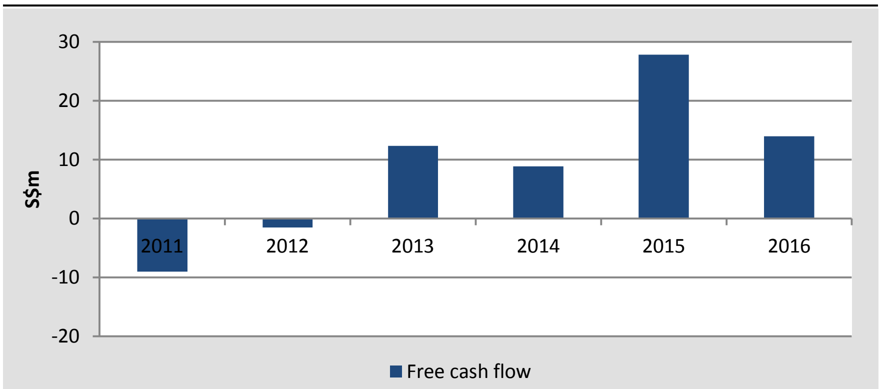


Source: Company data, KGI Research

Minimal capex outlay for its business. Fu Yu's business does not require significant capex, with only $5-10m required for maintenance capex. As a result, free cash flow has been positive since FY13, helping push up its next cash balance to almost $100m.

Cost savings from LCTH privatisation. The group is expected to save at least RM1m on cost savings from the delisting of its Bursa-listed subsidiary. There could potentially be more synergies as the group will have a better ability to expand without the need to seek shareholder approval for significant changes. The total privatisation exercise is estimated to result in a cash outflow of $20m, or around 20% of its cash balance.

Figure 2: Positive free cash flows over the past four years has strengthened its balance sheet



Source: Company data, KGI Research

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Rating	Definition
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HOLD	-10% to +10% total return over the next 12 months
SELL	<-10% total return over the next 12 months

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