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Frontken Eyes Another Record-Breaking Year

KUALA LUMPUR (Aug 12): Frontken Corp Bhd, which achieved a record-high net profit last year, is aiming for a repeat this year with another double-digit earnings growth, after delivering a strong set of results for the first half of the year.

In its last financial year ended Dec 31, 2019 (FY19), the semiconductor cleaning firm posted a 32% year-on-year jump in net profit to RM69.17 million.

On Tuesday last week, Frontken announced its best-ever quarterly earnings of RM20.33 million for the second quarter ended June 30, 2020 (2QFY20), up 23.06% year-on-year (y-o-y) from RM16.52 million, mainly contributed by its subsidiary in Taiwan on the back of positive growth of its semiconductor business there following the country's success in curbing the spread of the coronavirus. The strong performance was also lifted by better profit margin due to improved efficiency across the group.

Consequently, its net profit for the first half ended June 30 rose 16.96% y-o-y to RM37.34 million from RM31.92 million, as revenue grew 5.19% to RM172.49 million from RM163.97 million.

Frontken chairman cum chief executive officer Nicholas Ng Wai Pin expects the group's second half performance to be even better than its first half.

Ng said the second half of the year is the traditionally stronger period with better demand from its semiconductor-linked customers. He is also anticipating a recovery in the oil and gas industry after the pandemic-induced disruption.

“So, we hope for another record set of earnings. And historically, we have been growing. That means every year we will be better than the previous year. In terms of growth rate, it will be still in the double-digits,” Ng told theedgemarkets.com after the group's annual general meeting last Wednesday.

The group's bottomline has indeed been climbing since FY16 when its net profit surged to RM20.04 million from FY15's RM4 million. It then climbed to RM29.86 million in FY17, before jumping to RM52.26 million in FY18, and rising further to RM69.17 million in FY19.

This is on the back of steadily growing revenue, which rose from RM261.84 million in FY16 to RM296.58 million in FY17, RM327.22 million in FY18 and RM339.91 million in FY19.

Ng said the advancement and deployment of new innovative technologies such as the roll-out of 5G technology will be positive to the group, as they would drive demand for its clients' products, such as new chips for electronic devices.

Frontken is a provider of surface metamorphosis and mechanical engineering solutions. It serves a wide-range of heavy industries such as semiconductors and oil and gas. The company also specialises in engineering services that include coating, machining and grinding, manufacturing and precision cleaning.

"We are fortunate in this space. The questions now are the anticipation of the next technology, and how ready we are. This is very important for us, especially in Taiwan.

We need to continue to be at the forefront in technology and be able to keep up with our customers. Our technology is to find solutions for customers, we have to come out with processes to clean, coat, refurbish (the equipment)," he added.

As such, Frontken is constantly looking to further expand its capabilities and capacities to cater to the growing demand of its clients. The group is now looking for land to build a new plant to expand its capacity in Taiwan - ideally somewhere near its existing plant in the city of Tainan.

The current plant in Taiwan, said Ng, has maxed its plot-ratio limit based on its land size.

"We have time. The next node (3nm) rollout will not happen until the end of next year or early 2022 anyway. Our existing plant can still cope. It is all about managing the workflow. We can (slowly) give up the higher node (such as 28nm) and replace it to focus on the lower node," he said.

A technology node refers to a specific semiconductor manufacturing process and its design rules. Generally, the smaller the technology node means the smaller the feature size, which will produce smaller transistors that are both faster and more power-efficient. Some latest nodes that are available for mass production include the five nanometers (nm), seven nm, 10nm and 14nm.

Ng is currently the largest shareholder in Frontken with a 22.24% stake, of which 0.638% is direct and 21.603% indirect.

Hong Leong Investment Bank (HLIB) Research last Wednesday revised upward its target price for Frontken to RM3.96 from RM3.47 previously, with a 'buy' call.

Its analyst Tan J Young wrote in a note that Frontken has a unique exposure to the world's leading-edge semiconductor front-end supply chain, which is currently in high demand on the back of national strategic and security interests.

“We like Frontken for its multi-year growth ahead on the back of a sustainable global semiconductor market outlook, robust fab investment, leading-edge technology (7nm and below) and its strong balance sheet (net cash of RM247 million or 23.4 sen per share),” Tan wrote.

In the past 12 months, Frontken’s share price had jumped 130% from RM1.50 to close at RM3.45 yesterday. The latest share price gave the group a market capitalisation of RM3.62 billion.