

Company Name : Frontken Corporation Berhad
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Frontken likely to see stronger 2H

Frontken Corp Bhd (Sept 26, 91.5 sen)

Maintain buy with higher target price (TP) of RM1.05: In a recent meeting with management, we gathered that the industry landscapes in both semiconductor and oil and gas (O&G) are very favourable to Frontken Corp Bhd. Based on those facts, the second half of financial year 2018 (2HFY18) is likely to outperform 1HFY18, implying that our forecasts appear to be too reserved.

Global semiconductor sales have gone through the roof with cumulative seven months of 2018 turnover surging 19.3% year-on-year (y-o-y) to US\$267.2 billion (RM1.11 trillion), on track to achieve another record year. As a result, World Semiconductor Trade Statistics (WSTS) revised its 2018 growth forecast upward for the sixth consecutive time, from 12.4% to 15.7% to reach an all-time high of RM477.1 billion revenue. In its August press release, WSTS expected all products to expand while the Asia-Pacific region is projected to experience above-industry growth of 16.3%. This bodes well for Frontken, which services all major foundries in this region.

In August, pure-play foundry Powerchip Tech disclosed plans to construct two new 12-inch wafer fabs in Taiwan with total investment of US\$9.1 billion. This will add on to the existing strong pipeline of fab constructions and will continue to spur equipment expenditures. As more equipment exists in the supply chain, there will be more demand for such cleaning services from Frontken to ensure uninterrupted production in a cost-effective manner.

The three newly introduced iPhone models are all equipped with A12 Bionic chip, an industry-first 7nm CPU with 6.9 billion transistors. With its technological leadership, we believe that Frontken plays an important role in the seven-nanometre (nm) supply chain. 7nm/+ will be the major nodes like 16nm and 28nm. Taiwan Semiconductor Manufacturing Co (TSMC) is projecting 7nm wafer revenue contribution to jump and the ramp will be stronger than any node it had in history.

It was reported that going forward, Advanced Micro Devices Inc (AMD) will focus its entire prod-

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FYE DEC (RM MIL)	2016	2017	2018F	2019F	2020F
Revenue	261.8	296.6	331.7	374.4	402.8
COGS	(210.9)	(231.9)	(248.7)	(278.8)	(299.3)
Ebitda	50.9	64.7	83.0	95.5	103.5
D&A	(17.2)	(18.5)	(17.2)	(16.4)	(15.7)
Ebit	33.7	46.2	65.8	79.1	87.8
Net interest income	(0.4)	(0.1)	0.0	0.3	0.5
PBT	33.3	46.1	65.9	79.4	88.3
Tax	(6.1)	(9.7)	(15.5)	(18.7)	(20.8)
Net profit	27.3	36.4	50.4	60.7	67.6
MI	(7.2)	(6.6)	(4.9)	(5.7)	(6.2)
Patmi	20.0	29.9	45.5	55.0	61.4
Exceptionals	(2.2)	4.4	0.0	0.0	0.0
Adj Patmi	17.8	34.3	45.5	55.0	61.4
Basic shares	1,053.0	1,053.0	1,053.0	1,053.0	1,053.0
Rep EPS (sen)	1.9	2.8	4.3	5.2	5.8
Adj EPS (sen)	1.7	3.3	4.3	5.2	5.8
Adj FD EPS (sen)	1.7	3.3	4.3	5.2	5.8

Source: Hong Leong Investment Bank Research

uct portfolio on TSMC's 7nm process, including Vega 20 (workstation-class GPU), Zen 2-based (next generation CPU architecture) Epyc, Navi (GPU architecture) and Polaris. These 7nm products are be-

lieved to grant AMD an upper hand against its oldest rival, Intel, which is reportedly still struggling with the 10nm migration. If AMD successfully wins market share from Intel, demand for Frontken's cleaning

services will be further boosted.

Brent crude price has reached US\$81 a barrel, the highest level since end-2014, underpinned by the continuous tightening of oil supply coupled with the reluctance of Opec producers to hike production aggressively. The oil price rally, in our view, will boost oil majors' confidence to sanction more projects, which eventually will heat up the entire value chain. Frontken, being the maintenance player, is likely to ride on the recovery of the sector to receive more jobs.

After taking into consideration of all the positive indications above, we raise FY18 to FY20 earnings per share (EPS) by 13%, 11% and 12%, respectively.

Reiterate "buy" with a higher TP of RM1.05, reflecting the upward earnings revision as well as higher price multiple of 20 times (previously 18 times) of FY19 EPS. We think Frontken deserves a higher price-earnings valuation given its compelling multi-year growth, leading-edge technology, O&G recovery, and strong balance sheet. — Hong Leong Investment Bank Research, Sept 26