

Company Name : Frontken Corporation Berhad
Date : 21 May 2019
Source : The Edge Markets

Frontken Unaffected By US Huawei Ban — Maybank IB

KUALA LUMPUR (May 21): Frontken Corp Bhd is unaffected by sanctions from the US targeting tech giant Huawei, as a key supplier for the firm still requires the Malaysian company's services in producing Apple's A13 chip, says Maybank Investment Bank.

The investment bank said TSMC will continue to provide security updates for Huawei's Kirin 980 processor and supply Kirin 985 processors as its early evaluation shows that it meets export control regulations.

The tech giant is still reliant on TSMC for its processors as SMIC, a chip supplier in China, is only able to manufacture chips as small as 14nm, while TSMC is able to produce chips that are 7nm and smaller.

Moreover, TSMC is also gearing up for volume production of the A13 chip, which will power new iPhones this year, which use the 7nm and 7nm+ processes.

The investment bank believes this will bode well for Frontken given its the precision-cleaning expertise.

"The fact that the 7nm process itself creates about four times more precision cleaning works than 16-20nm," said the bank.

"A knee-jerk reaction to its share price provides a golden opportunity to buy. Target price of RM1.85 remains unchanged based on FY20 price-to-earnings ratio of 23.5 times.

"Leveraged to this 7nm, but unlike the semiconductor business, which can be cyclical, Frontken should be much more resilient as regardless if you are running at 90% utilisation or 40% utilisation the equipment will still need to be cleaned," it said.

He said this provides a steady stream of recurring income despite any downside risk from Huawei's smartphone sales.