February 18, 2020

Maybank IB Research

Frontken Corp. Bhd (FRCB MK)

FY19 earnings on track

HOLD *[Prior:BUY]*

Share Price	MYR 2.49
12m Price Target	MYR 2.40 (-2%)
Previous Price Target	*MYR 2.35*

Downgrade to HOLD; risk-reward is balanced

4Q19 results were in-line, where FY19 core earnings came in at 98%/97% of our/consensus' estimates. We nudge up our FY20-21E earnings by c.1% p.a. and TP by 5sen to MYR2.40, pegged to an unchanged 28x FY20E PER (about +2SD). Downgrade to HOLD as risk-reward is approx. balanced at this juncture. We believe key growth catalysts remain as stronger earnings from the semiconductor segment and more work orders from its key O&G customer in Malaysia.

Growth sustained by the Taiwan segment

4Q19 core net profit was MYR18.2m (-7% YoY, -5% QoQ), bringing FY19 net core earnings to MYR69.2m (+27% YoY). The flattish 4Q19 bottomline growth (YoY) was mainly driven by: (i) sustained growth of the Taiwan segment (i.e. ramp up of production by customers), and (ii) stronger earnings of the Malaysia segment, primarily attributed to the O&G division (O&G division's FY19 revenue grew 14% YoY). This, however, was offset by: (i) Singapore segment's exceptionally stronger 4Q18 revenue, and (ii) some operational setbacks by some of their Singaporean customers. Notably, the semiconductor and O&G segments contributed 78% and 22% respectively to Frontken's FY19 revenue. Frontken also declared a second interim net DPS of 1.5sen (FY19: 2.5sen).

Minor earnings tweak

We raise our FY20-21E net profit by c.1% p.a. after adjusting for full-year FY19 results. Our near-term earnings growth is supported by sustained growths at the semiconductor (namely Taiwan and Malaysia) and O&G divisions (i.e. higher work orders). We also introduce our FY22 forecasts.

Long-term outlook remains decent

We expect Frontken's mid to long-term growth would be driven by both segments. We believe high value work orders (semiconductor division) would still largely come from equipment which produces newer chips, namely the 5nm and 7nm nodes. We believe this would also be accelerated by the mass deployment of 5G.

FYE Dec (MYR m)	FY18A	FY19A	FY20E	FY21E	FY22E
Revenue	327	340	463	507	574
EBITDA	92	111	145	165	172
Core net profit	54	69	89	102	106
Core EPS (sen)	5.2	6.6	8.5	9.7	10.1
Core EPS growth (%)	52.7	27.4	28.6	14.6	4.3
Net DPS (sen)	1.5	2.5	2.9	3.3	3.5
Core P/E (x)	13.6	34.7	29.3	25.6	24.5
P/BV (x)	2.3	6.4	6.1	5.3	4.6
Net dividend yield (%)	2.1	1.1	1.2	1.3	1.4
ROAE (%)	17.2	19.7	22.1	22.0	20.0
ROAA (%)	12.3	14.3	16.5	17.0	15.7
EV/EBITDA (x)	6.7	19.9	16.8	14.4	13.6
Net gearing (%) (incl perps)	net cash	net cash	net cash	net cash	net cash
Consensus net profit	-	-	79	88	na
MKE vs. Consensus (%)	-	-	13.1	16.1	na

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Company Description

Frontken specialises in engineering and precision cleaning services, mostly for semiconductors and O&G markets in Taiwan, Singapore and Malaysia.

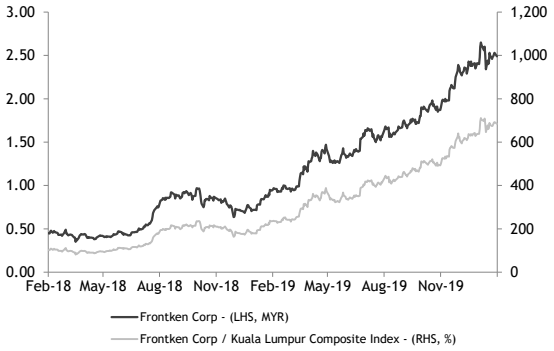
Statistics

52w high/low (MYR)	2.65/0.93
3m avg turnover (USDm)	2.4
Free float (%)	47.6
Issued shares (m)	1,053
Market capitalisation	MYR2.6B
	USD633M

Major shareholders:

Dazzle Clean Ltd	27.8%
Ooi Keng Thye	14.5%
CIMB-Principal Asset Management	5.2%

Price Performance



	-1M	-3M	-12M
Absolute (%)	3	33	163
Relative to index (%)	7	39	190

Source: FactSet

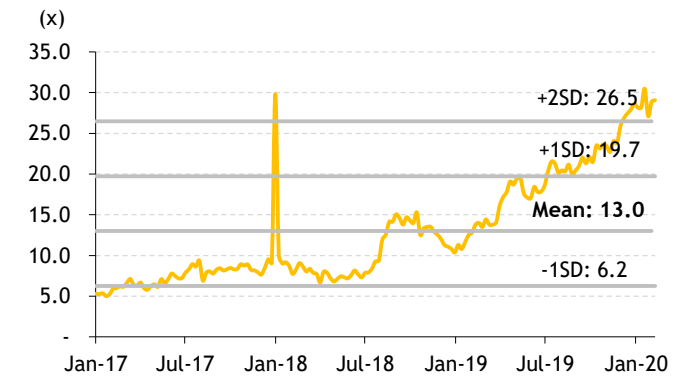
Fig 1: Results summary

FYE Dec (MYR'm)	Quarterly					Cumulative		
	4Q19	4Q18	%YoY	3Q19	%QoQ	FY19	FY18	%YoY
Revenue	88.9	88.7	*0.3*	87.0	*2.1*	339.9	327.2	*3.9*
EBITDA	**27.8**	**27.4**	***1.4***	**29.4**	***(5.5)***	**110.9**	**88.0**	***26.1***
Depreciation	(3.8)	(4.3)	*(11.9)*	(4.6)	*(18.2)*	(17.8)	(17.3)	*3.0*
Other income	0.3	1.1	*(75.7)*	1.2	*(79.0)*	2.7	4.5	*(39.2)*
EBIT	**24.3**	**24.2**	***0.3***	**26.0**	***(6.7)***	**95.9**	**75.2**	***27.5***
Finance income	0.4	0.3	*12.2*	0.3	*27.3*	1.2	0.9	*25.4*
Finance costs	(0.1)	(0.1)	*52.2*	(0.2)	*(24.3)*	(0.8)	(0.6)	*33.1*
Associate profit/loss	-	-	*NM*	-	*NM*	-	0.1	*NM*
Pretax profit	**24.5**	**24.4**	***0.3***	**26.1**	***(6.2)***	**96.3**	**75.6**	***27.3***
Tax expense	(4.9)	(4.4)	*11.1*	(5.6)	*(13.1)*	(22.0)	(18.6)	*18.4*
Minority interest	(1.4)	(1.3)	*4.4*	(1.4)	*(2.9)*	(1.4)	(1.3)	*4.4*
Net profit	**18.2**	**18.7**	***(2.6)***	**19.0**	***(4.5)***	**69.2**	**52.3**	***32.4***
Net profit ex-EI	**18.2**	**19.6**	***(7.0)***	**19.0**	***(4.5)***	**69.2**	**54.3**	***27.3***
Basic EPS (sen)	1.74	1.78	*(2.2)*	1.82	*(4.4)*	6.6	5.0	*32.2*
Margin (%)	**4Q19**	**4Q18**	**+/- ppt**	**3Q19**	**+/- ppt**	**FY19**	**FY18**	**+/- ppt**
EBIT	27.3	27.3	*0.0*	29.9	*(2.6)*	28.2	23.0	*5.2*
Pretax profit	27.6	27.5	*0.0*	30.0	*(2.5)*	28.3	23.1	*5.2*
Net profit ex-EI	20.5	22.1	*(1.6)*	21.9	*(1.4)*	20.3	16.1	*4.3*
Segmental revenue (MYR'm)	**4Q19**	**4Q18**	**%YoY**	**3Q19**	**%QoQ**	**FY19**	**FY18**	**%YoY**
Taiwan	51.6	47.7	*8.3*	48.7	*5.9*	189.2	186.1	*1.7*
Singapore	17.7	21.8	*(19.0)*	19.0	*(6.8)*	69.9	65.2	*7.2*
Malaysia	15.6	14.9	*4.4*	15.3	*2.0*	64.0	57.8	*10.8*
Philippines	3.7	4.1	*(10.3)*	3.9	*(6.0)*	16.0	17.2	*(7.5)*
Indonesia	0.3	0.1	*131.7*	0.1	*131.7*	0.9	1.0	*(4.1)*
Segmental EBIT (MYR'm)	**4Q19**	**4Q18**	**%YoY**	**3Q19**	**%QoQ**	**FY19**	**FY18**	**%YoY**
Taiwan	16.7	13.5	*23.7*	15.0	*11.7*	57.1	49.4	*15.5*
Singapore	5.7	9.3	*(38.4)*	7.4	*(22.5)*	24.0	18.4	*30.2*
Malaysia	1.4	0.8	*73.3*	3.2	*(54.7)*	12.6	5.0	*153.3*
Philippines	0.4	0.4	*(19.9)*	0.6	*(36.0)*	2.4	2.7	*(10.4)*
Indonesia	0.0	0.1	*(60.7)*	(0.1)	*(150.0)*	(0.2)	(0.9)	*(82.5)*
Segmental EBIT margin (%)	**4Q19**	**4Q18**	**+/- ppt**	**3Q19**	**+/- ppt**	**FY19**	**FY18**	**+/- ppt**
Taiwan	32.4	28.4	*4.0*	30.7	*1.7*	30.2	26.5	*3.6*
Singapore	32.4	42.6	*(10.2)*	39.0	*(6.5)*	34.4	28.3	*6.1*
Malaysia	9.2	5.6	*3.7*	20.8	*(11.6)*	19.6	8.6	*11.0*
Philippines	9.6	10.7	*(1.1)*	14.0	*(4.5)*	14.9	15.4	*(0.5)*
Indonesia	10.4	61.4	*(51.0)*	NM	*58.7*	NM	NM	*NM*

Note: 4Q19 net profit ex-EI excludes gain on disposal of property, plant and equipment of MYR9k

Source: Company data

Fig 2: 1-year forward PER



Source: Bloomberg, Company data, Maybank KE

Fig 3: 1-year forward PBV

Source: Bloomberg, Company data, Maybank KE

Risk statement

There are several risk factors for our earnings estimates, target price and rating for Frontken. A sharp downturn in the global markets for electronics and/or oil & gas will affect the demand for Frontken's services. Additionally, forex volatility, especially USD/MYR, will also affect Frontken's earnings, as ~20%/10% of the Group's revenue/operating profit is denominated in USD.

FYE 31 Dec	FY18A	FY19A	FY20E	FY21E	FY22E
Key Metrics					
P/E (reported) (x)	12.0	22.0	29.3	25.6	24.5
Core P/E (x)	13.6	34.7	29.3	25.6	24.5
P/BV (x)	2.3	6.4	6.1	5.3	4.6
P/NTA (x)	2.3	6.4	6.9	6.1	5.3
Net dividend yield (%)	2.1	1.1	1.2	1.3	1.4
FCF yield (%)	7.6	5.4	2.4	4.2	4.0
EV/EBITDA (x)	6.7	19.9	16.8	14.4	13.6
EV/EBIT (x)	8.3	23.1	19.0	16.1	15.2
INCOME STATEMENT (MYR m)					
Revenue	327.2	339.9	462.9	507.4	574.5
Gross profit	126.6	108.4	193.3	216.6	226.2
EBITDA	92.5	110.9	144.6	164.9	171.8
Depreciation	(17.3)	(17.8)	(17.0)	(17.5)	(17.9)
Amortisation	0.0	0.0	0.0	0.0	0.0
EBIT	75.2	95.9	127.6	147.4	153.8
Net interest income /(exp)	0.3	0.4	0.7	0.8	0.8
Associates & JV	0.1	0.0	0.0	0.0	0.0
Exceptionals	0.0	0.0	0.0	0.0	0.0
Other pretax income	0.0	0.0	0.0	0.0	0.0
Pretax profit	75.6	96.3	128.3	148.2	154.6
Income tax	(18.6)	(22.0)	(30.8)	(35.6)	(37.1)
Minorities	(4.7)	(5.1)	(8.6)	(10.7)	(11.2)
Discontinued operations	0.0	0.0	0.0	0.0	0.0
Reported net profit	52.3	69.2	88.9	102.0	106.4
Core net profit	54.3	69.2	88.9	102.0	106.4
BALANCE SHEET (MYR m)					
Cash & Short Term Investments	149.9	224.2	214.0	267.5	314.6
Accounts receivable	113.6	93.7	141.5	155.1	175.6
Inventory	13.7	15.1	16.7	18.1	21.6
Reinsurance assets	0.0	0.0	0.0	0.0	0.0
Property, Plant & Equip (net)	140.4	145.5	153.5	161.5	169.5
Intangible assets	33.8	33.8	33.8	33.8	33.8
Investment in Associates & JVs	0.0	0.0	0.0	0.0	0.0
Other assets	3.7	3.6	3.7	3.7	3.3
Total assets	**455.1**	**515.7**	**563.2**	**639.6**	**718.4**
ST interest bearing debt	4.8	3.9	2.7	2.7	2.7
Accounts payable	81.6	84.0	89.6	91.7	92.9
Insurance contract liabilities	0.0	0.0	0.0	0.0	0.0
LT interest bearing debt	8.9	11.9	1.3	1.3	1.3
Other liabilities	15.0	17.0	12.0	12.0	12.0
Total Liabilities	**110.4**	**117.0**	**106.1**	**108.1**	**109.4**
Shareholders Equity	325.0	377.0	429.7	497.0	567.2
Minority Interest	19.6	21.8	27.4	34.5	41.9
Total shareholder equity	**344.6**	**398.7**	**457.1**	**531.5**	**609.0**
Total liabilities and equity	**455.1**	**515.7**	**563.2**	**639.6**	**718.4**
CASH FLOW (MYR m)					
Pretax profit	75.6	96.3	128.3	148.2	154.6
Depreciation & amortisation	17.3	17.8	17.0	17.5	17.9
Adj net interest (income)/exp	(0.3)	(0.4)	(0.7)	(0.8)	(0.8)
Change in working capital	(15.9)	20.9	(43.9)	(12.8)	(22.9)
Cash taxes paid	(14.2)	(19.8)	(30.8)	(35.6)	(37.1)
Other operating cash flow	(0.4)	(0.3)	0.0	0.0	0.0
Cash flow from operations	63.3	135.8	69.9	116.5	111.8
Capex	(7.5)	(7.0)	(8.0)	(8.0)	(8.0)
Free cash flow	55.8	128.8	61.9	108.5	103.8
Dividends paid	(10.0)	(19.9)	(33.2)	(38.3)	(40.0)
Equity raised / (purchased)	0.0	0.0	0.0	0.0	0.0
Change in Debt	(17.3)	(13.0)	0.0	0.0	0.0
Other invest/financing cash flow	(0.2)	(5.8)	0.7	0.8	0.8
Effect of exch rate changes	0.3	1.7	0.0	0.0	0.0
Net cash flow	28.7	91.7	29.5	71.0	64.6

FYE 31 Dec	FY18A	FY19A	FY20E	FY21E	FY22E
Key Ratios					
Growth ratios (%)					
Revenue growth	10.3	3.9	36.2	9.6	13.2
EBITDA growth	42.8	20.0	30.3	14.0	4.2
EBIT growth	62.4	27.5	33.1	15.6	4.3
Pretax growth	63.9	27.3	33.3	15.5	4.3
Reported net profit growth	75.0	32.4	28.6	14.6	4.3
Core net profit growth	52.7	27.4	28.6	14.6	4.3
Profitability ratios (%)					
EBITDA margin	28.3	32.6	31.2	32.5	29.9
EBIT margin	23.0	28.2	27.6	29.1	26.8
Pretax profit margin	23.1	28.3	27.7	29.2	26.9
Payout ratio	30.1	37.9	34.0	34.0	34.0
DuPont analysis					
Net profit margin (%)	16.0	20.3	19.2	20.1	18.5
Revenue/Assets (x)	0.7	0.7	0.8	0.8	0.8
Assets/Equity (x)	1.4	1.4	1.3	1.3	1.3
ROAE (%)	17.2	19.7	22.1	22.0	20.0
ROAA (%)	12.3	14.3	16.5	17.0	15.7
Liquidity & Efficiency					
Cash conversion cycle	(4.4)	3.4	(3.2)	14.5	28.7
Days receivable outstanding	115.8	109.8	91.5	105.2	103.6
Days inventory outstanding	24.4	22.4	21.3	21.5	20.5
Days payables outstanding	144.6	128.7	115.9	112.2	95.4
Dividend cover (x)	3.3	2.6	2.9	2.9	2.9
Current ratio (x)	2.8	3.3	3.6	4.2	4.8
Leverage & Expense Analysis					
Asset/Liability (x)	4.1	4.4	5.3	5.9	6.6
Net gearing (%) (incl perps)	net cash	net cash	net cash	net cash	net cash
Net gearing (%) (excl. perps)	net cash	net cash	net cash	net cash	net cash
Net interest cover (x)	na	na	na	na	na
Debt/EBITDA (x)	0.1	0.1	0.0	0.0	0.0
Capex/revenue (%)	2.3	2.1	1.7	1.6	1.4
Net debt/ (net cash)	(136.3)	(208.3)	(209.9)	(263.4)	(310.5)

Source: Company; Maybank

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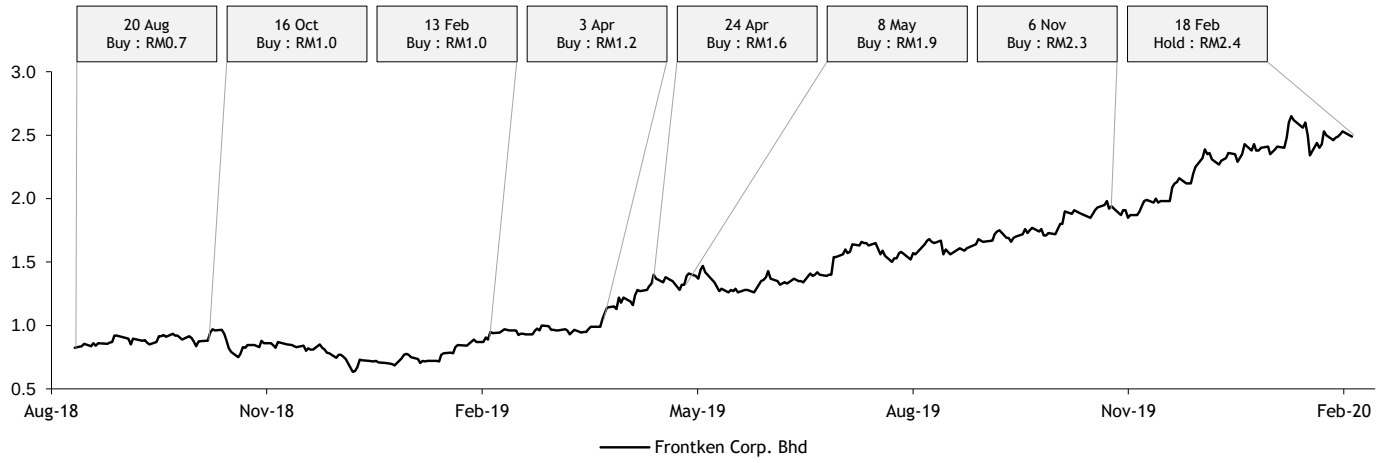

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