

HLIB Research

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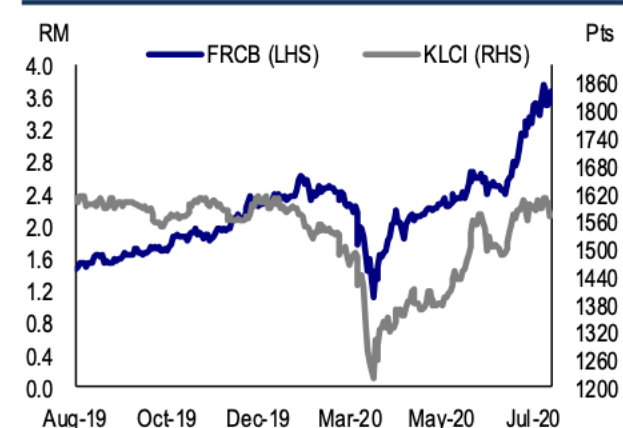
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BUY (Maintain)

Target Price: **RM3.96**
Previously: **RM3.47**
Current Price: **RM3.69**

Capital upside	7.3%
Dividend yield	0.8%
Expected total return	8.1%

Sector coverage: Technology

Company description: Frontken is a leading surface engineering service provider in semiconductor and O&G markets.

Share price


Historical return (%)	1M	3M	12M
Absolute	40.8	67.0	146.0
Relative	38.8	47.2	151.4

Stock information

Bloomberg ticker	FRCB MK
Bursa code	0128
Issued shares (m)	1,048
Market capitalisation (RM m)	3,867
3-mth average volume ('000)	6,221
SC Shariah compliant	Yes

Major shareholders

Dazzle Clean	21.6%
Ooi Keng Thye	15.1%
Kenanga Unit Trust	3.7%

Earnings summary

FYE (Dec)	FY19	FY20i	FY21f
PATMI – core (RM m)	69.6	82.4	104.3
EPS – core (sen)	6.6	7.8	9.9
P/E (x)	55.8	47.2	37.3

Frontken Corporation

Another record but the best is yet to come

All-time high 2Q20 core net profit of RM20m (+25% QoQ, +18% YoY) matched expectations. This outperformance was mainly driven by Taiwan semi business coupled with relentless vigilance in cost discipline despite Covid-19 lockdown impact. Output for 5nm is expected to outstrip earlier forecast and Frontken is not only involved in cleaning new parts, but also new equipment. Based on its unique exposure to world's leading-edge semiconductor frontend supply chain, we raise our TP to RM3.96, pegged to 40x of FY21 EPS. Reiterate BUY.

In line. Record-breaking 2Q20 core net profit of RM20m (+25% QoQ, +18% YoY) brought 1H20's sum to RM37m (+12% YoY) which is within expectations, accounting for 45% and 43% of HLIB and consensus full year estimates, respectively. 2H is a seasonally stronger half for Frontken. One-off adjustments include forex gain (RM51k) and allowance for impairment losses on receivables (RM64k).

Dividend. Announced first single tier dividend of 1.2 sen (2Q19: 1.0 sen) per share. The entitlement and payment dates will be announced at a later date.

QoQ. Despite Covid-19 lockdowns, turnover inched up 3% thanks to Taiwan's growth (+13%) which was more than sufficient to negate the weaknesses in Singapore (-7%), Malaysia (-17%), Philippines (-15%) and Indonesia (-12%). However, core net profit expanded at a much faster pace of 25% to RM20m attributable to continual efforts in improving production processes leading to better cost management.

YoY. Revenue saw a solid growth of 9% mainly driven by Taiwan's semiconductor (+35%) which fully offset the contractions in Singapore (-15%), Malaysia (-28%), Philippines (-22%) and Indonesia (-31%) attributable to the slowdown in O&G as well as outbreak induced lockdowns. For the same explanation above, core earnings rose 18% despite higher MI charge.

YTD. Top and bottom lines gained 5% and 12%, respectively for the same reasons stated above. We note that Taiwan revenue expanded by 25% with corresponding earnings growth of 47% on the back of margin improvement of 5ppt to 34%.

Semiconductor. Generated 87% (1Q20: 82%) of group revenue in 2Q20. Frontken is seeing advancement and deployment of new innovative technologies following global 5G rollout to benefit its business. Demand momentum is robust driven by its undisputable leading position in precision cleaning of the advanced nodes including 7nm and 5nm. Output for 5nm is expected to outstrip earlier forecast and Frontken is not only involved in cleaning new parts, but also new equipment.

O&G. Accounted for the remaining 13% of group turnover in 2Q20. It noticed that new orders are trickling from various umbrella contracts for provision of manpower supply and also mechanical rotating equipment services and parts. While it hopes for more favourable 2H, global oil demand and Covid-19 pandemic remain as key risks.

Forecast. Unchanged as results are in line.

Maintain **BUY** with higher TP of **RM3.96** (previously RM3.47) as we raise PE multiple from 35x to 40x of FY21 EPS. We justify this valuation based on its unique exposure to world's leading-edge semiconductor frontend supply chain which is currently in high demand on the back of national strategic and security interests. We like Frontken for