

**Initiate Coverage**

**13 Aug 2020**

# Frontken Corporation Bhd

**BUY**

*Well poised to benefit from 5G technology*

**Target price: RM4.33**

|                     |               |
|---------------------|---------------|
| <b>Share Price</b>  | <b>RM3.47</b> |
| <b>Target Price</b> | <b>RM4.33</b> |

## Company Description

Frontken Corporation Bhd. provides surface metamorphosis technology with thermal spray coating processes.

## Stock Data

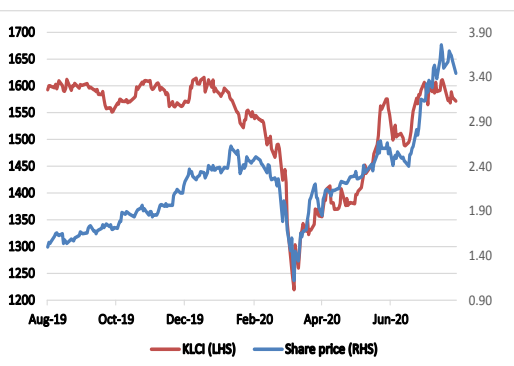
|                          |                   |
|--------------------------|-------------------|
| Bursa / Bloomberg code   | FRCB MK Equity    |
| Board / Sector           | Technology / Main |
| Syariah Compliant status | Yes               |
| Issued shares (m)        | 1047.97           |
| Par Value (RM)           | N/A               |
| Market cap. (RM'm)       | 3636.45           |
| 52-week price Range      | RM0.99-RM3.80     |
| Beta (against KLCI)      | 1.53              |
| 3-m Average Daily Volume | 6.07              |
| 3-m Average Daily Value  | 17.51             |

## Share Performance

|                  | 1m   | 3m   | 12m   |
|------------------|------|------|-------|
| Absolute (%)     | 10.2 | 37.2 | 119.6 |
| Relative (%-pts) | 12.6 | 34.3 | 127.9 |

## Major Shareholders

|                         | %     |
|-------------------------|-------|
| DAZZLE CLEAN LTD        | 21.60 |
| OOI KENG THYE           | 15.14 |
| CIMB Group Holdings Bhd | 3.66  |



**Historical Chart**

**Source: Bloomberg**

## Research Team

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## Investment Highlights

- **We initiate coverage on Frontken Corporation Bhd (Frontken) with a BUY call and target price of RM4.33.** We opine that this under-researched company deserves to be re-rated in view of its: 1) Bright outlook to benefit from Fifth Generation (5G) technology investment ; 2) Serving the niche market with low competition and high entry barrier; 3) Nimble business model; 4) Diversified business; and 5) Well-managed balance sheet.
- **A leader of providing precision cleaning services in the region.** Frontken is the leading precision cleaning service provider origins from Malaysia and now has strong footprints in Malaysia, Singapore, Taiwan, Philippines, and Indonesia.
- **Indirect beneficiary of huge 5G investments –** Frontken mainly provides precision cleaning, specialty coating, surface treatment, parts supply et cetera to improve machinery lifetimes and yielding for semiconductor/chip foundries. Seeing huge investments taken place by 5G developers such as Huawei, Nokia, Ericsson, Samsung, and others as well as launching of corresponding end-user applications (ex. Virtual Reality, A.I, Cloud Computing), 5G infrastructure market is expected to grow at 53.01% CAGR from 2020 to 2025. We believe a massive amount of semiconductors and chips are needed in the next 5 years in order to cater to the demand of 5G smart devices including smartphones, laptops, wearable devices and tablets. As a result, foundries will need more maintenance services for machinery to fulfil substantial chip orders from global smart device developers.
- **Commendable earnings growth.** We are projecting a CAGR growth of 16.6% for Frontken's bottom line from FY2019 to FY2021. The growth is underpinned by its semiconductor division while the O&G engineering division is expected to grow moderately due to the persistent low crude oil prices. We expect the growth engine driven by margin expansion instead of magnificent top line growth due to its business nature. Frontken will be providing more value-added services (higher margin) for the latest commercial viable 5nm nodes chips to one of the largest foundries in the world. In addition, Frontken has already been involved in the advanced precision cleaning for the 3nm R&D line which 3nm chip will go into commercial production sometime in 2021/2022. Meanwhile, new lines have been added in Taiwan plant recently with low cost incurred due to building upon existing facilities, hence further propel the Group's capacity to take up more works

in the future. Besides that, IoT, automotive semiconductors, and consumer electronic would need more chips in order to materialize seamless interaction between humans and machines.

- **Less competition in the niche market with high entry barrier** – Frontken has been the top-notch in the segment for almost a decade globally. The segment has not seen any new player for 5 to 8 years due to its huge initial investment and fast-changing technology development. We understand that there is no direct competitor in Malaysia but the closest one is in Taiwan which is Shih Her Technologies Inc. (3551 TT MK) while others are non-listed companies. Shih Her Technologies' performance has been lagging behind Frontken as it recorded lower operating efficiency for the past 5 years. Closer to home, local technology players such as ATE manufacturers and OSAT companies are facing fierce challenges globally in the likes of competitions from world leading players of ATE manufacturers such as Teradyne Inc. (U.S.), Advantest Corporation (Japan), and LTX-Credence (U.S.); and OSAT players who dominate in Taiwan and China namely ASE Technology, JCET Group, and Universal Scientific Industrial. Regional players located in the U.S, Taiwan, China, and Japan have advantages over Malaysian players due to its comprehensive value chain and strategic locations.
- **Nimble business model** - The Group's strategy to emphasize R&D in order to enjoy higher margin has successfully transformed itself in 2017. Frontken started to invest heavily in FY16 and FY17 in right timings to cater the demand of 10nm & 7nm nodes technology which would be commercialized in 2018 and 2020 respectively. The Group has been enjoying impressive profit growth in which EBITDA margin lifted to 34% in 2019 from 22% in 2017 amid restrained revenue growth of CAGR 4.63% from 2017 to 2019.
- **Diversified business** – Even though it is unlikely for semiconductor sector to experience immediate downturn in the near future, Frontken has expertise in serving other fields such as TFT/LCD which command lower margins as compared to semiconductor segment. Frontken has been switching from low margin business to high value added semiconductor along the years and benefit substantially from that with its significant capex and opex investments.
- **Expansion backed by sturdy balance sheet** – Frontken registered RM246.6m cash pile (44% of total assets) as of 2QFY2020. The Group's net cash position forms a good platform to increase investment and capitalise any opportunity during turbulence time which results in a bigger scale of the leading position in its business segment post-pandemic. We estimate the Group will continue to remain in net cash position for the next 2 years on the back of disciplined balance sheet management. Meanwhile, Frontken has not fixed any dividend policy but dividends delivered to shareholders are traditionally increased in tandem with earnings growth.

Hence, higher dividends shall be rewarded to investors for FY20-21F, estimated at 0.83-1.07% yield as the Group achieving higher profit in the near term.

### Valuation/Recommendation

- **BUY with a target price of RM4.33** - The TP was derived by ascribing a 41x PER to the Group's FY2021F EPS, which is slightly below +1 SD of 5-year mean PER on the back of accelerating of 5G development post COVID-19. Our TP renders an upside of 25% from its closing price of RM3.47.

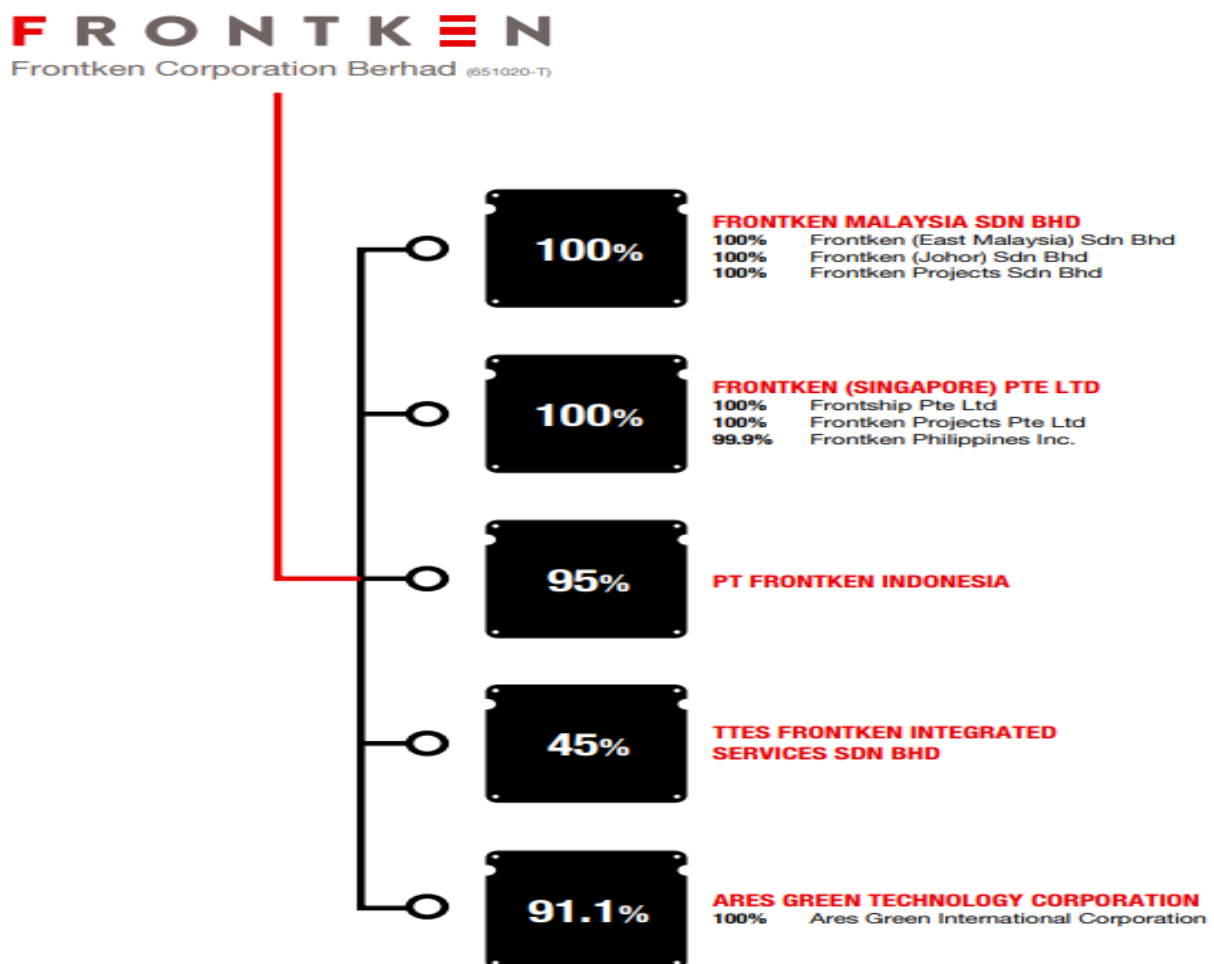
### Risks

- **Lower-than-expected demand for smart devices.**
- **Slowdown in 5G roll out as the Sino-US technology war intensifies.**
- **Potential natural disaster in Taiwan such as earthquake which would disrupt plant's operation.**
- **Stringent Standard Operating Procedure (SOP) for business reopening in relation to the pandemic.**
- **Business shutdown due to the second wave of the pandemic.**

## Background

Established in 1996, Frontken Group began as Frontken Singapore Pte Ltd, with a staff force of 12 and rented factory space of 1600 square meters. From there, Frontken grew to be a leading service provider of critical services for industries such as semiconductors, power generation alongside oil and gas services in various countries. For 24 years, Frontken has helped companies push the limits of what is possible by rejuvenating their parts and equipment and by giving them the best support possible. With a reputation for high-quality work, Frontken has enjoyed continued growth since its inception in 1996. Adaptation is part of the challenge and Frontken has proven time and time again to be able to provide the best solutions to its customers for any industry. Today, with more than 1000 employees in 7 countries, Frontken continues to provide the best possible solutions for industrial challenges throughout various sectors.

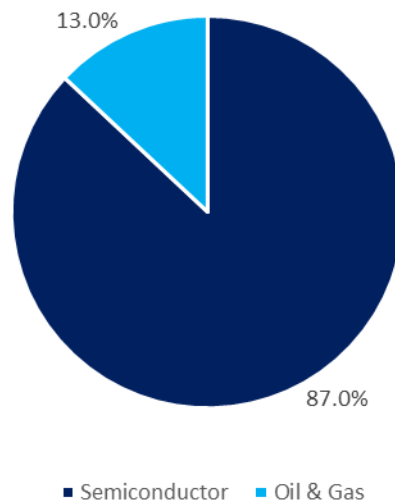
**Figure 1: Corporate structure of Frontken Corporation Bhd**



Source: Company

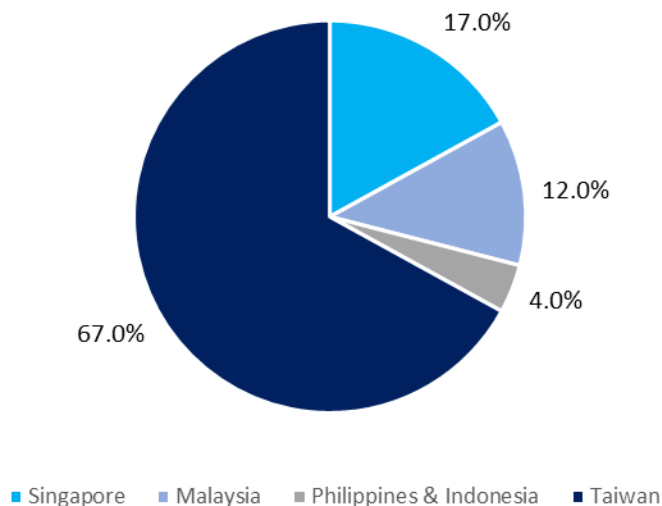
## Segmental analysis

**Figure 2: Segmental revenue Q2 FY2020**



Source: Company, JF Apex

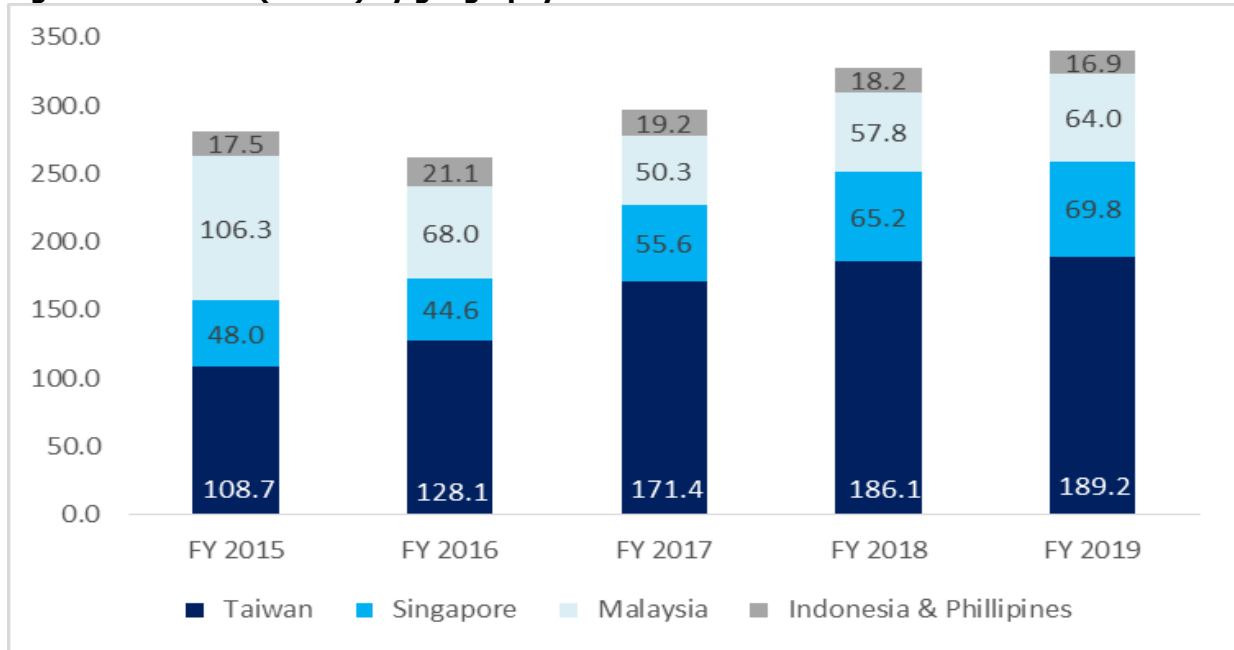
**Figure 3: Segmental revenue by geography Q2 FY2020**



Source: Company, JF Apex

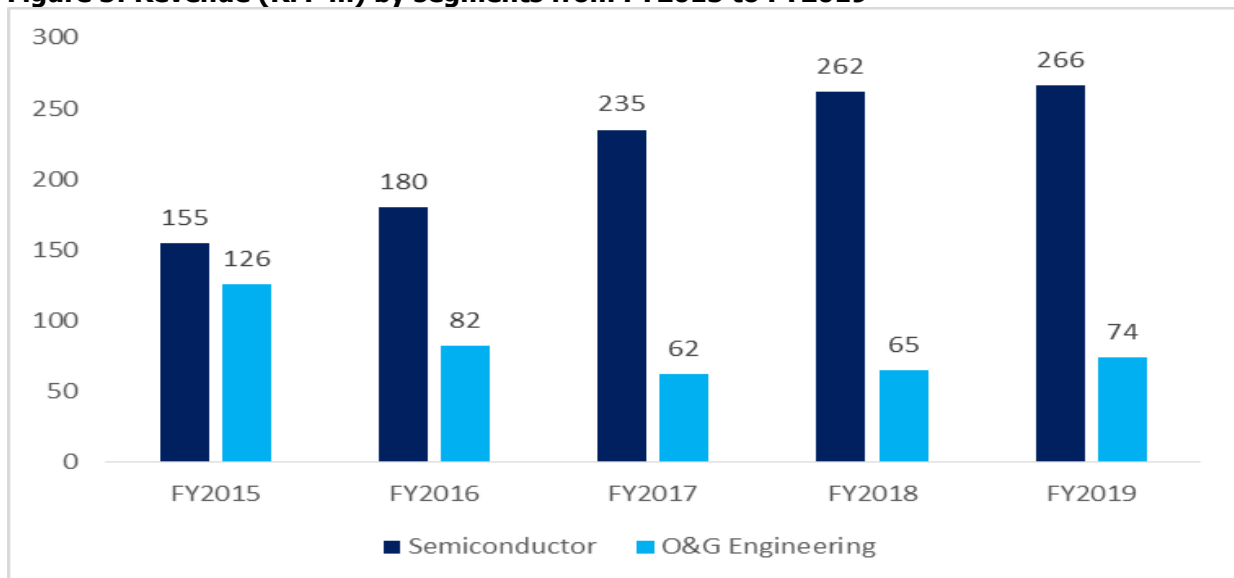
The Group's revenue in 2QFY2020 was derived from 2 business segments, namely Semiconductor and Oil & Gas.

- Revenue grew 9% to RM87.6m mainly due to higher contribution from semiconductor which contributed RM74.5m in 2QFY2020, which was 19% higher YoY as compared to 2QFY2019. Nevertheless, O&G segment delivered RM13.1m which was significant lower (-25% YoY) than corresponding period.
- In geographical perspective, Taiwan contributed positively (+35% YoY) to 2QFY2020 top line but largely neutralized by businesses across all other regions where recorded a negative double digit growth.
- As a result, 2QFY2020 operating profit was largely contributed by Taiwan (+55% YoY) while other regions posted unlovely results.

**Figure 4: Revenue (RM' m) by geography from FY2015 to FY2019**

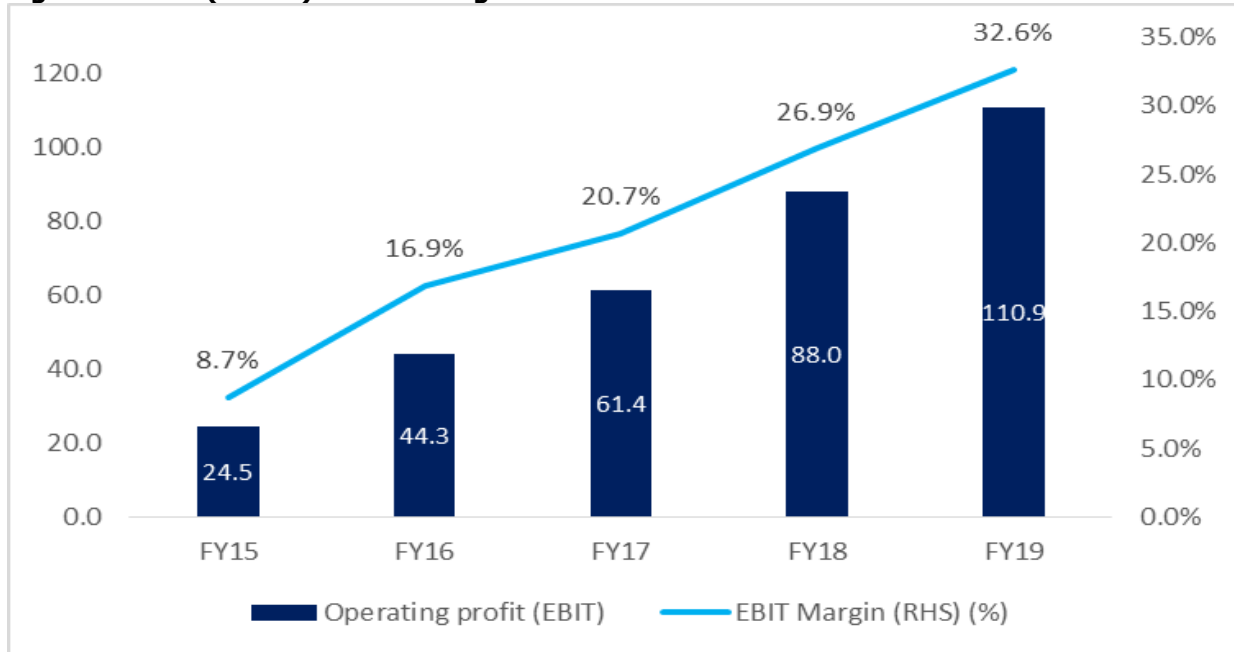
Source: Company, JF Apex

Revenue for the past 5 years has been driven by Taiwan, Singapore, and Malaysia segments where those areas located most of the facilities. However, we understand that the Group still maintains exposure to Indonesia and Philippines, hoping turnaround in particular areas as well as diversify geographical risk in order to handle extraordinary operation interference similar to COVID-19 lockdown. Singapore and Malaysia segments strategically contributed to the Group's top line in the past 3 years to offset the subdued growth of the Taiwan segment.

**Figure 5: Revenue (RM' m) by segments from FY2015 to FY2019**

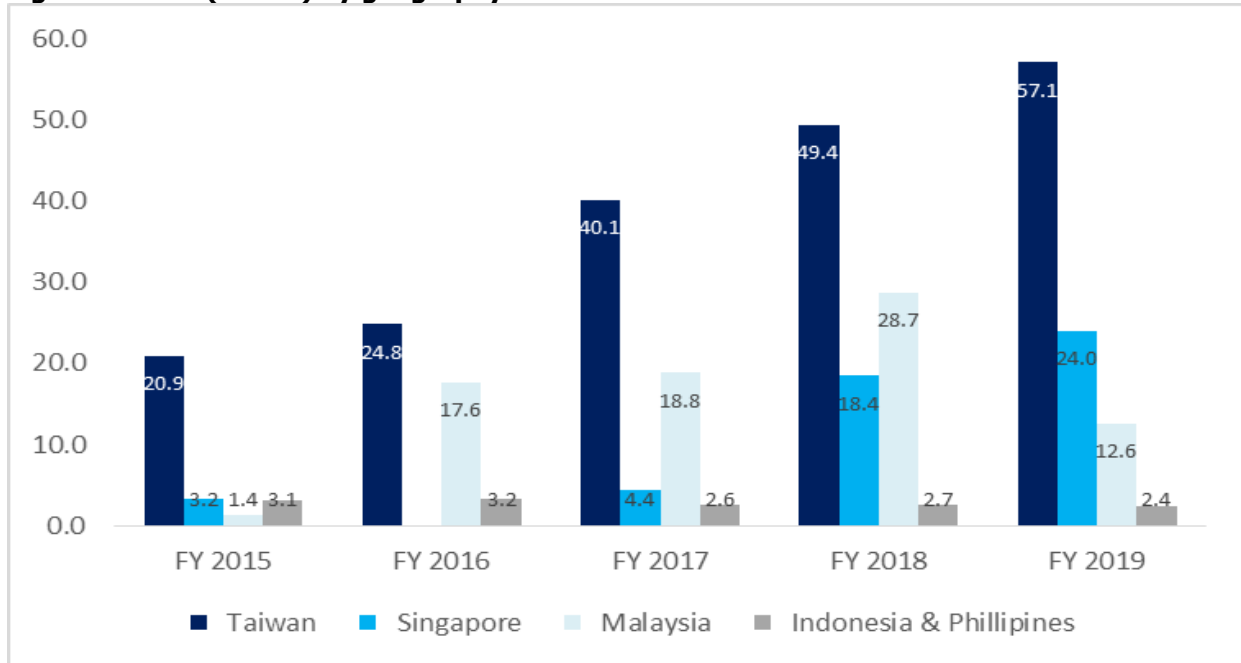
Source: Company, JF Apex

The Group registered a 5-year CAGR of 11.32% for its top line growth in semiconductor while O&G engineering segment had been going down from FY2015 to FY2017 mainly due to capex cut from upstream players resulted from oil prices slump in CY2015. Furthermore, we believe the semiconductor segment grew strongly in FY2017 largely due to launch of revolutionizing iPhone X in November CY2017, upstream players had to ramp up production ahead of product launching to cater demands in the subsequent year. Thereafter, the growth of global semiconductor slowed down because of trade war initiated by Trump and the segment recorded negative growth in CY2018.

**Figure 6: EBIT (RM' m) & EBIT Margin from FY2015 to FY2019**

Source: Company, JF Apex

Frontken achieved substantial growth in the past 5 years by delivering 34.5% operating profit CAGR and impressive operating profit margin improvement over the years whereby EBIT margin lifted from 8.7% in FY2015 to 32.6% in FY2019. We think the negligible debt position helped Frontken for its bottom line due to lower finance cost. The Group has been largely benefited from the semiconductor boom since the ubiquitousness of smartphones. Also, the Group is believed to be able to ride on the up-trending wave on 5G technology development with the soaring popularity of other smart devices (smartwatch, tablet, and autonomous vacuum) as well as the advancement of semiconductor technology.

**Figure 7: EBIT (RM' m) by geography from FY2015 to FY2019**

Source: Company, JF Apex

Taiwan segment contributed the major operating profits from FY2015 to FY2019 while the Singapore segment started to pick up since FY2018 as well as the Malaysia segment in the same period of time. Notably, the acquisition of an additional stake in Taiwan's subsidiary happened in 2017 lifted the contribution from the Taiwan segment substantially, reflected in FY2018 and FY2019. Meanwhile, more orders from semiconductor clients in Singapore was the main reason for huge contribution in FY2018 and FY2019 pursuant to trade diversion resulted from Sino-US trade war in which more foundries shifted away from their operations from China to other SEA regions, hence lifting the Group's operating profit to record high in FY2019 despite result was dragged by the subdued performance of the Malaysia segment. Unfortunately, profits contribution from Malaysia was creeping higher but showing volatility.



## Business overview

### SEMICONDUCTOR DIVISION

Frontken provides maintenance and analysis services for companies in the semiconductor industry with a keen focus on precision cleaning, refurbishment, maintenance and coating applications. Facilities region-wide are equipped with their own unique capabilities to undertake and perform R&D, surface analytical services, and precision cleaning.

**Figure 8: Core semiconductor business**



**Figure 9: Facilities**



Taiwan- Tainan



Singapore- Jurong



Malaysia - Kulim



Malaysia - Melaka



Malaysia- Kuching



Malaysia – Bukit Mertajam  
**FRONTKEN**

Source: Company, JF Apex

## **OIL & GAS ENGINEERING DIVISION**

Frontken continues its long history in engineering services by offering a wide range of support capabilities for engineering projects across various sectors. These capabilities range from manufacturing and maintenance at Frontken facilities to on-site services for individual projects.

**Figure 10: Core Oil & Gas services**

| Repair  | Overhaul   |
|---|--|
| Provision of repair services utilizing the following processes: <ul style="list-style-type: none"> <li>• Thermal Spray</li> <li>• Welding</li> <li>• Selective Brush Plating</li> <li>• Machining process</li> <li>• Precision Cylindrical &amp; Surface grinding</li> <li>• Dynamic Balancing</li> </ul> | <ul style="list-style-type: none"> <li>• In- shop overhaul &amp; servicing of rotating equipment/components</li> <li>• On-board/ In shop overhaul &amp; servicing of marine vessel bow thrusters</li> </ul>  |
| Refurbishment   | Parts & Production Supply  |
| <ul style="list-style-type: none"> <li>• Refurbishment of damaged rotating &amp; stationary components</li> </ul>   | <ul style="list-style-type: none"> <li>• Manufacturing of re-engineer components/ parts</li> <li>• Fabrication of components based on supplied drawings and/ or specifications</li> <li>• Coating/ Cladding on client mass production parts</li> </ul> |

**Figure 11: Facilities**

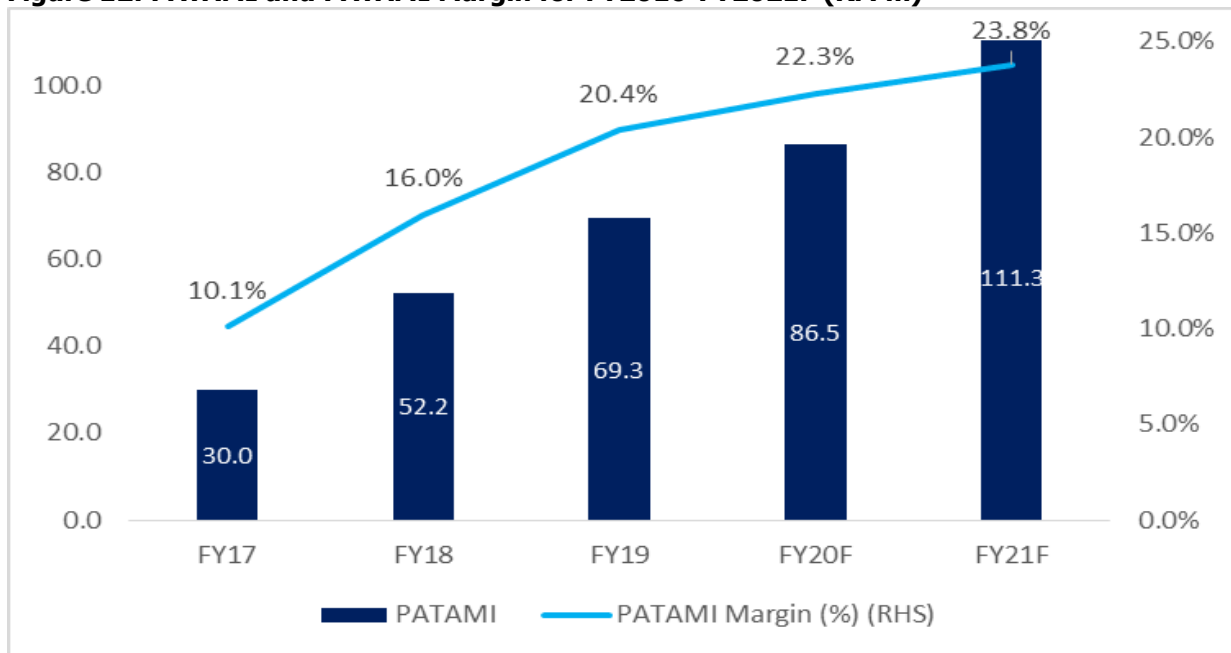


**FRONTKEN**

Source: Company, JF Apex

## Financial Outlook

**Figure 12: PATAMI and PATAMI Margin for FY2016-FY2021F (RM'm)**



Source: Company, JF Apex

We are projecting a 3-year-CAGR growth of 11.3% in Frontken's top line from FY2019-FY2021. The growth is underpinned by its ample of capacity in the semiconductor division. Moreover, according to our forecast, profit after tax and minorities interest (PATAMI) is set to grow at 3-year-CAGR of 16.6% mainly due to positive relationship between technology development and profit margin expansion, as Frontken is set to benefit from higher profit margin resulting from technology advancement (smaller nodes). We estimate a flattish net profit growth for the O&G business to exercise our cautiousness on uncertainty emerges from low crude oil prices. Minimal finance costs are expected in the near future as we envisage the Group will remain in a net cash position for the next 2 years.

## Financial Summary

**Figure 13: Financial overview**

| Year ending 31 December | FY15     | FY16     | FY17     | FY18     | FY19     | FY20F    | FY21F    |
|-------------------------|----------|----------|----------|----------|----------|----------|----------|
|                         | RM'm     | RM'm     | RM'm     | RM'm     | RM'm     | RM'm     | RM'm     |
| Revenue                 | 280.6    | 261.9    | 296.6    | 327.2    | 339.9    | 387.8    | 467.7    |
| Operating profit/EBIT   | 24.5     | 44.3     | 61.4     | 88.0     | 110.9    | 135.7    | 173.1    |
| PBT                     | 16.0     | 33.3     | 46.1     | 75.6     | 96.2     | 119.4    | 152.9    |
| PAT                     | 9.5      | 27.3     | 36.4     | 57.0     | 74.2     | 91.9     | 117.7    |
| PATAMI                  | 0.4      | 20.0     | 29.8     | 52.2     | 69.1     | 86.4     | 111.3    |
| <b>Growth (%)</b>       |          |          |          |          |          |          |          |
| Revenue                 |          | -6.7%    | 13.2%    | 10.3%    | 3.9%     | 14.1%    | 20.6%    |
| Operating profit        |          | 80.8%    | 38.6%    | 43.3%    | 26.0%    | 22.4%    | 27.5%    |
| PBT                     |          | 108.1%   | 38.4%    | 64.0%    | 27.2%    | 24.1%    | 28.1%    |
| PAT                     |          | 187.4%   | 33.3%    | 56.6%    | 30.2%    | 23.9%    | 28.1%    |
| Net profit              |          | 4900.0%  | 49.0%    | 75.2%    | 32.4%    | 25.0%    | 28.8%    |
| <b>Margin (%)</b>       |          |          |          |          |          |          |          |
| Operating profit        | 8.7%     | 16.9%    | 20.7%    | 26.9%    | 32.6%    | 35.0%    | 37.0%    |
| PBT                     | 5.7%     | 12.7%    | 15.5%    | 23.1%    | 28.3%    | 30.8%    | 32.7%    |
| PAT                     | 3.4%     | 10.4%    | 12.3%    | 17.4%    | 21.8%    | 23.7%    | 25.2%    |
| Net profit              | 0.1%     | 7.6%     | 10.0%    | 16.0%    | 20.3%    | 22.3%    | 23.8%    |
| ROE                     | 0.1%     | 6.8%     | 9.8%     | 15.1%    | 17.3%    | 19.1%    | 21.2%    |
| ROA                     | 0.1%     | 4.9%     | 6.9%     | 11.5%    | 13.4%    | 14.9%    | 16.3%    |
| EPS                     | 0.0      | 1.9      | 2.8      | 5.0      | 6.6      | 8.2      | 10.6     |
| BV/Share                | 0.26     | 0.28     | 0.29     | 0.33     | 0.38     | 0.43     | 0.50     |
| P/B                     | 13.5     | 12.3     | 11.9     | 10.6     | 9.2      | 8.1      | 6.9      |
| P/E                     | 9,126.1  | 182.7    | 122.6    | 70.0     | 52.9     | 42.3     | 32.8     |
| Net gearing             | Net Cash | Net Cash | Net Cash | Net Cash | Net Cash | Net Cash | Net Cash |
| Dividend yield          | 0.00%    | 0.00%    | 0.15%    | 0.43%    | 0.72%    | 0.83%    | 1.07%    |
| Dividend payout         | 0.0%     | 0.0%     | 17.8%    | 30.1%    | 37.9%    | 35.0%    | 35.0%    |
| DPS (sen)               | 0.00     | 0.00     | 0.50     | 1.49     | 2.49     | 2.87     | 3.70     |

Source: Company, JF Apex

**Figure 14: Balance sheet overview**

| Year ending 31 Dec                   | FY15<br>RMm  | FY16<br>RMm  | FY17<br>RMm  | FY18<br>RMm  | FY19<br>RMm  | FY20F<br>RMm | FY21F<br>RMm |
|--------------------------------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| <b>Non-current assets</b>            | <b>172.8</b> | <b>190.5</b> | <b>188.7</b> | <b>177.5</b> | <b>181.5</b> | <b>202.3</b> | <b>240.2</b> |
| -PPE                                 | 135.7        | 152.0        | 150.0        | 140.0        | 145.4        | 164.7        | 201.7        |
| -Investments in associates           | 2            | 2.0          | 2.0          | 0.0          | 0.0          | -            | -            |
| -Goodwill on consolidation           | 33.7         | 33.7         | 33.7         | 33.7         | 33.7         | 33.7         | 33.7         |
| -Fixed deposits with licensed banks  |              | 1.2          | 1.2          | 1.1          | 1.2          | 1.4          | 1.5          |
| -Deferred tax assets                 | 1.4          | 1.6          | 1.7          | 2.1          | 2.3          | 2.6          | 3.2          |
| <b>Current asset</b>                 | <b>217.0</b> | <b>217.8</b> | <b>242.3</b> | <b>277.5</b> | <b>334.2</b> | <b>376.0</b> | <b>440.6</b> |
| -Inventories                         | 11.8         | 10.9         | 13.5         | 13.7         | 15.1         | 10.5         | 7.8          |
| -Amount owing by contract customer   | 7.3          | -            | -            | -            | -            | -            | -            |
| -Other receivables                   | 6.1          | 5.0          | 5.3          | 6.7          | 7.4          | 5.2          | 3.8          |
| -Trade and non trade receivables     | 87.0         | 96.1         | 91.7         | 106.9        | 86.3         | 60.1         | 44.8         |
| -Amount owing by an associate        | 1.3          | 1.3          | 1.3          | 0.0          | 0.0          | -            | -            |
| -Current tax assets                  | -            | 1.2          | 1.2          | 0.0          | 0.0          | -            | -            |
| -Short term investments              | -            | 9.0          | 3.5          | 13.3         | 10.7         | 7.4          | 5.6          |
| -Deposits with licensed banks        | 15.3         | 4.7          | 6.5          | 3.6          | 16.3         | 11.3         | 8.5          |
| -Cash and bank balances              | 94.5         | 88.7         | 119.3        | 133.0        | 197.0        | 281.5        | 370.1        |
| <b>Total Assets</b>                  | <b>389.8</b> | <b>408.2</b> | <b>431.0</b> | <b>455.0</b> | <b>515.7</b> | <b>578.3</b> | <b>680.8</b> |
| <b>Non-current liabilities</b>       | <b>32.3</b>  | <b>25.4</b>  | <b>16.0</b>  | <b>12.3</b>  | <b>15.0</b>  | <b>11.6</b>  | <b>14.0</b>  |
| -Bank borrowings (LT)                | 26.0         | 20.2         | 11.5         | 7.5          | -            | -            | -            |
| -Hire purchase payables              | 0.4          | -            | -            | 1.3          | 11.9         | 9.2          | 11.1         |
| -Deferred tax liabilities            | 3.4          | 1.7          | 1.2          | 0.7          | 0.4          | 0.3          | 0.4          |
| -Other payables                      | 2.4          | 3.1          | 3.2          | 2.8          | 2.7          | 2.1          | 2.5          |
| <b>Current liabilities</b>           | <b>87.8</b>  | <b>86.9</b>  | <b>109.0</b> | <b>98.0</b>  | <b>101.9</b> | <b>115.3</b> | <b>140.3</b> |
| -Other payables and accrued expenses | 37.5         | 52.5         | 60.5         | 63.5         | 67.1         | 76.6         | 93.2         |
| -Trade and non-trade payables        | 31.1         | 20.8         | 19.1         | 18.1         | 16.9         | 19.3         | 23.5         |
| -Bank borrowings (ST)                | 16.2         | 8.5          | 16.8         | 4.0          | 0.8          | -            | -            |
| -Lease liabilities                   | -            | -            | -            | 0.9          | 3.0          | 3.4          | 4.2          |
| -Current tax liabilities             | 2.3          | 5.0          | 7.3          | 11.7         | 14.0         | 16.0         | 19.4         |
| -Bank overdraft                      | 0.7          | -            | 5.2          | -            | -            | -            | -            |
| <b>Equities</b>                      | <b>271.2</b> | <b>295.4</b> | <b>305.0</b> | <b>344.6</b> | <b>398.7</b> | <b>451.8</b> | <b>524.2</b> |
| -Share capital                       | 105.3        | 105.3        | 118.9        | 118.9        | 118.9        | 119.0        | 119.0        |
| -Non-controlling interest            | 34.7         | 33.8         | 24.4         | 19.6         | 21.7         | 21.4         | 21.4         |
| -Reserves                            | 45           | 51.5         | 34.4         | 36.1         | 42.1         | 39.3         | 39.3         |
| -Retained earnings                   | 86.2         | 104.7        | 128.3        | 170.0        | 216.0        | 272.2        | 344.5        |

Source: Company, JF Apex

**Figure 15: Cash flow overview**

| Year ending 31 Dec        | FY15<br>RMm  | FY16<br>RMm  | FY17<br>RMm  | FY18<br>RMm  | FY19<br>RMm  | FY20F<br>RMm | FY21F<br>RMm |
|---------------------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| <b>Beginning CF</b>       | <b>52.6</b>  | <b>100.1</b> | <b>91.0</b>  | <b>119.6</b> | <b>148.0</b> | <b>217.2</b> | <b>281.5</b> |
| Operating Cash Flow       | 48.7         | 44.4         | 69.0         | 63.3         | 114.9        | 116.6        | 169.6        |
| Investing Cash Flow       | (7.4)        | (35.0)       | (32.0)       | (7.1)        | (12.0)       | (24.0)       | (40.2)       |
| Financing Cash Flow       | 6.2          | (18.5)       | (8.4)        | (27.8)       | (33.7)       | (28.4)       | (40.8)       |
| <b>Net change in CACE</b> | <b>47.5</b>  | <b>(9.1)</b> | <b>28.6</b>  | <b>28.4</b>  | <b>69.2</b>  | <b>64.2</b>  | <b>88.6</b>  |
| <b>FCF</b>                | <b>100.1</b> | <b>91.0</b>  | <b>119.6</b> | <b>148.0</b> | <b>217.2</b> | <b>281.5</b> | <b>370.1</b> |

Source: Company, JF Apex

## Valuation/Recommendation

- **BUY with a target price of RM4.33** - The TP was derived by ascribing a 41x PER to the Group's FY2021F EPS, which is slightly below +1 SD of 5-year mean PER on the back of accelerating of 5G development post COVID-19. Our TP renders an upside of 25% from its closing price of RM3.47.
- **Firm dividend yield under prevailing low interest rate environment** - We forecast gross DPS of 2.87 sen /share and 3.70 sen / share for FY2020F and FY2021F respectively, assuming a dividend payout ratio of 35% of its net profit. This will translate into a gross dividend yield of 0.87% and 1.07% respectively.

## Peer Comparison

**Figure 16: Peer comparison (Regional)**

| Company                   | Ticker  | Stock | Price @ | Target | Market | PE(x)  |           |             | PB(x) | ROE | Div. |
|---------------------------|---------|-------|---------|--------|--------|--------|-----------|-------------|-------|-----|------|
|                           |         |       |         |        |        | Recom. | 12-Aug-20 | Price (TWD) |       |     |      |
| SHIH HER TECHNOLOGIES INC | 3551 TT | N/A   | 50.20   | N/A    | 2,850  | 11.1   | 9.2       | -           | 1.0   | 8.3 | 3.4  |

Source: JF Apex, Bloomberg

**Figure 17: Peer comparison (Local)**

| Company                      | Ticker  | Stock | Price @ | Target | Market | PE(x)  |           |            | PB(x) | ROE  | Div. |
|------------------------------|---------|-------|---------|--------|--------|--------|-----------|------------|-------|------|------|
|                              |         |       |         |        |        | Recom. | 13-Aug-20 | Price (RM) |       |      |      |
| FRONTKEN CORP BHD            | FRCB MK | BUY   | 3.47    | 4.33   | 3,636  | 48.7   | 42.8      | 35.4       | 8.8   | 19.6 | 0.7  |
| D&O GREEN TECHNOLOGIES BHD   | DOGT MK | N/A   | 0.81    | N/A    | 918    | 31.2   | 32.4      | 23.1       | 7.0   | 28.0 | 0.6  |
| INARI AMERTRON BHD           | INRI MK | N/A   | 2.09    | N/A    | 6,826  | 41.9   | 45.4      | 31.2       | 5.7   | 13.8 | 2.1  |
| JHM CONSOLIDATION BHD        | JHMC MK | N/A   | 1.57    | N/A    | 875    | 32.0   | 28.5      | 19.4       | 4.3   | 14.0 | 1.0  |
| KESM INDUSTRIES BHD          | KESM MK | N/A   | 8.40    | N/A    | 361    | 64.1   | 88.4      | 22.1       | 1.0   | 1.6  | 0.9  |
| MALAYSIAN PACIFIC INDUSTRIES | MPI MK  | N/A   | 14.50   | N/A    | 2,884  | 20.6   | 21.2      | 18.5       | 2.1   | 10.2 | 1.9  |
| UNISEM (M) BERHAD            | UNI MK  | N/A   | 3.36    | N/A    | 2,443  | ###    | 27.1      | 21.3       | 1.8   | 0.1  | 1.8  |

Source: JF Apex, Bloomberg

## Risks

- **Lower than expected demand for smart devices.**

Smart devices demand could be potentially slower due to unprecedented economic impact posed by COVID-19 which would reflect in CY2021 and CY2022.

- **Slowdown in 5G roll out as the Sino-US technology war intensifies.**

Tech war has begun in 2018 as a derivative of Sino-US trade war. It badly hit global semiconductor market in 2018. Closer to date, the tech war has been escalated with cartel in western countries being formed to block China's internet magnate in 5G deployments.

- **Potential natural disaster in Taiwan such as earthquake which would disrupt plant's operation.**

On average, Taiwan has 2-3 earthquakes with a 6.0-7.0 magnitude and 22 with a 5.0-6.0 magnitude each year. Notably, a big chunk of profit for Frontken is stemming from Taiwan and the Group couldn't afford a sizeable magnitude of earthquake at any point in time.

- **Stringent Standard Operating Procedure (SOP) for business reopening in relation to the pandemic.**

The high infection rate of COVID-19 causing stringent hygienic operating procedure and it might cause higher cost to the group's operation.

- **Business shutdown due to the second wave of the pandemic.**

The acceleration of COVID-19 cases globally could potentially trigger the second city lockdown as for instance Melbourne, Australia is undergoing 2<sup>nd</sup> lockdown as the COVID-19 becomes uncontrollable.



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**JF APEX SECURITIES - RESEARCH RECOMMENDATION FRAMEWORK**
**STOCK RECOMMENDATIONS**

**BUY** : The stock's total returns\* are expected to exceed 10% within the next 12 months.  
**HOLD** : The stock's total returns\* are expected to be within +10% to – 10% within the next 12 months.  
**SELL** : The stock's total returns\* are expected to be below -10% within the next 12 months.  
**TRADING BUY** : The stock's total returns\* are expected to exceed 10% within the next 3 months.  
**TRADING SELL** : The stock's total returns\* are expected to be below -10% within the next 3 months.

**SECTOR RECOMMENDATIONS**

**OVERWEIGHT** : The industry as defined by the analyst is expected to exceed 10% within the next 12 months.  
**MARKETWEIGHT** : The industry as defined by the analyst is expected to be within +10% to – 10% within the next 12 months.  
**UNDERWEIGHT** : The industry as defined by the analyst, is expected to be below -10% within the next 12 months.

\*capital gain + dividend yield

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Published & Printed By:  
**JF Apex Securities Berhad** (47680-X)  
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