

Company Update

23 September 2020

# Frontken Corporation Berhad

*Steady as she goes*

**BUY**

*Maintained*

Share Price	RM3.37
Target Price	RM4.33

## Company Description

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

## Stock Data

Bursa / Bloomberg code	0128 / FRCB MK
Board / Sector	Main / Technology
Syariah Compliant status	Yes
Issued shares (m)	1047.97
Par Value (RM)	N/A
Market cap. (RMm)	3531.65
52-week price Range	0.99-3.95
Beta (against KLCI)	1.53
3-m Average Daily Volume	5.23
3-m Average Daily Value <sup>^</sup>	17.56

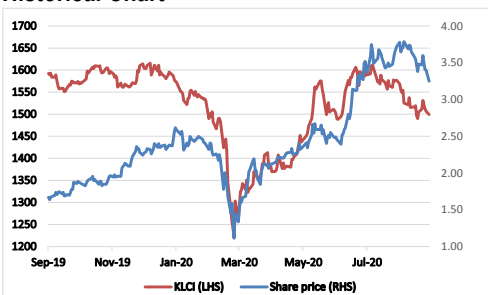
## Share Performance

	1m	3m	12m
Absolute (%)	-9.7	33.2	99.4
Relative (%-pts)	-5.4	35.5	110.9

## Major Shareholders

	%
DAZZLE CLEAN LTD	20.41
OOI KENG THYE	15.14
AmanahRaya Trustee Bhd	3.48

## Historical Chart



Source: Bloomberg

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## What's new

- **Unfazed by the tech war.** As checked with the management, Frontken's business outlook remains intact despite recent disruption arising from the "tech-war" between the US and China. We gather that its biggest client continues to be busy amid loss of order from one of the biggest Chinese smartphone makers in the world.

## Comment

- **No major disruption in smart device segment.** We understand that the outlook of smart devices remains optimistic and resilient after having a series of tussles between China and the US. Demand projection for 5G related devices is relatively strong on the back of prolonged COVID-19 pandemic, implanted online communicating behaviour, and quick adoption of 5G infrastructure in the world. Meanwhile, Frontken's biggest client in Taiwan is filled with orders for next year 2021 which bodes well for the Group even with lingering "tech-war" between the two hegemony. Hence, the robust demand for high-end chipsets indicating strong orders from a renowned upstream customer for 5G smart devices to be launched in end of October 2020 (following recent launch of its wearable devices and gadgets). In short, we still favour the Group for its business nature of serving a niche segment which is unlikely to face any stiff competition from Chinese players or to be targeted and involved in any turmoil alike "tech-war".

## Risk

- **China may retaliate?** Recent moves which were initiated by the US on China's technology companies such as Tiktok and Huawei have dented the bright outlook of the sector. Having said that, China is planning to spend multi-billion dollars to invigorate the local semiconductor industry, and the policy may take few years to bear fruit. Notably, China which accounts for approximately 20% of Apple's revenue might be the next target of the tech war after Huawei being sanctioned by the US. The fall of Apple could potentially have a tremendous impact on the global technological value chain.

## Valuation & Recommendation

- **Maintain BUY with an unchanged target price of RM4.33.** Our target price is pegged at PE multiple of 41x F21F which is in line with +1SD of 5-year mean PER. Our fair value of the stock renders 28.5% upside to the current share price.

## Financial Summary

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%	16.4%
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	13.1	12.0	11.6	10.3	8.9	7.8	6.8
P/E	8,863.1	177.4	119.1	68.0	51.4	41.1	31.9
Net gearing	Net Cash	Net Cash	Net Cash	Net Cash	Net Cash	Net Cash	Net Cash
Dividend yield	0.00%	0.00%	0.15%	0.44%	0.74%	0.85%	1.10%
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

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**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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