Shariah Compliant

Industrials

Malaysia

February 23, 2021

Maybank IB Research

Frontken Corp. Bhd (FRCB MK)

Record earnings in 4Q20

BUY

Share Price	MYR 5.32
12m Price Target	MYR 5.85 (+11%)
Previous Price Target	*MYR 5.60*

Maintain BUY

FY20 core earnings were within our expectations, at 103%/100% of our/consensus' estimates. We tweak FY21-22E net profit by c.5% p.a. and increase our TP to MYR5.85 TP (+25sen), pegged to an unchanged 47x FY22E PER at +2SD. Maintain BUY on favourable, near-term earnings growth catalysts from its semiconductor segment.

Another semiconductor-centric quarter

4Q20 core net profit was MYR23.8m (+23% YoY, +18% QoQ), resulting in FY20 core earnings of MYR81.0m (+17% YoY). The commendable 4Q20 earnings growth (YoY) was mainly driven by volume pick-up in the semiconductor segment in Taiwan, as well as higher demand and orders from its key customer's advanced nodes' equipment. This, however, was partly pulled back by lower O&G/engineering earnings in Singapore. FY20 revenue split for semiconductor:engineering was 85%:15% (FY19 was 78%:22%), while FY20 revenue growth for the semiconductor and engineering segments were +18% YoY and -25% YoY respectively.

Raising FY21-22E earnings

We nudge up our FY21-22E earnings by c.5% p.a. after adjusting for FY20 results (i.e. opex). Our key assumptions are largely unchanged, where near-term earnings growth is driven by the semiconductor segment. We also introduce our FY23E forecasts.

Positive outlook intact

We remain positive on Frontken's growth outlook which is premised on the broad semiconductor industry's upcycle (i.e. higher demand for chips and increase in wafer fab equipment spending). This, in turn, could result in higher volumes/orders for Frontken, particularly in Taiwan. Furthermore, this also ties in with Frontken's plans to expand its facilities in Taiwan, which are targeted to commence by early-2022 [land and/or building purchase(s) yet to be finalised]. The Group is backed by healthy net cash of 29sen/share (as at end-FY20), supporting future expansion and M&A.

FYE Dec (MYR m)	FY19A	FY20A	FY21E	FY22E	FY23E
Revenue	340	368	514	578	610
EBITDA	114	122	177	211	237
Core net profit	69	81	108	130	149
Core EPS (sen)	6.6	7.7	10.3	12.4	14.2
Core EPS growth (%)	27.2	17.3	33.8	20.1	14.4
Net DPS (sen)	2.5	4.0	5.2	6.2	7.1
Core P/E (x)	34.7	45.9	51.4	42.8	37.4
P/BV (x)	6.4	8.5	11.4	10.1	9.9
Net dividend yield (%)	1.1	1.1	1.0	1.2	1.3
ROAE (%)	19.7	20.1	23.4	25.0	26.7
ROAA (%)	14.2	14.3	16.9	18.5	19.9
EV/EBITDA (x)	19.4	28.2	30.3	25.5	22.8
Net gearing (%) (incl perp	net cash	net cash	net cash	net cash	net cash
Consensus net profit	-	-	108	130	na
MKE vs. Consensus (%)	-	-	0.0	(0.0)	na

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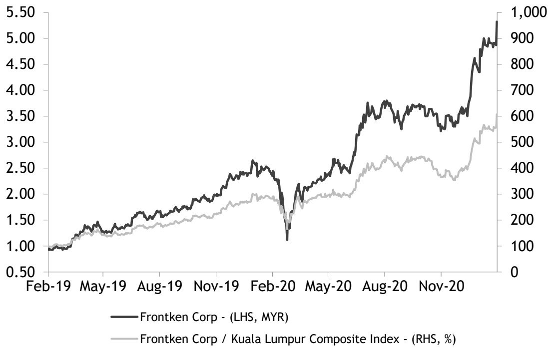
Company Description

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)	5.32/1.12
3m avg turnover (USDm)	4.3
Free float (%)	57.2
Issued shares (m)	1,053
Market capitalisation	MYR5.6B
	USD1.4B
Major shareholders:	
Dazzle Clean Ltd.	21.5%
OOI KENG THYE /FRONTKEN/	15.1%
Public Mutual Bhd.	3.5%

Price Performance



	-1M	-3M	-12M
Absolute (%)	20	59	120
Relative to index (%)	22	62	114

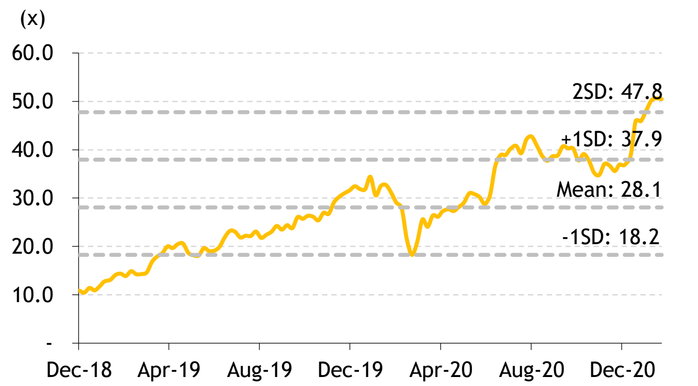
Source: FactSet

Fig 1: Results summary

FYE Dec (MYR'm)			Quarterly				Cumulative	
	4Q20	4Q19	%YoY	3Q20	%QoQ	FY20	FY19	%YoY
Revenue	101.0	88.9	*13.7*	94.8	*6.6*	368.3	339.9	*8.4*
EBITDA	**32.5**	**27.8**	***17.0***	**32.4**	***0.5***	**122.3**	**110.9**	***10.2***
Depreciation	(4.5)	(3.8)	*20.6*	(4.6)	*(0.9)*	(18.4)	(17.8)	*3.4*
Other income	3.2	0.3	*>1,000*	2.5	*30.7*	9.8	2.7	*>100*
EBIT	**31.2**	**24.3**	***28.6***	**30.3**	***3.2***	**113.7**	**95.9**	***18.6***
Finance income	0.2	0.4	*(40.3)*	0.2	*(6.7)*	1.3	1.2	*8.7*
Finance costs	(0.1)	(0.1)	*6.4*	(0.2)	*(6.3)*	(0.7)	(0.8)	*(11.8)*
Pretax profit	**31.3**	**24.5**	***27.7***	**30.3**	***3.1***	**114.3**	**96.3**	***18.7***
Tax expense	(6.0)	(4.9)	*22.9*	(7.3)	*(17.8)*	(25.9)	(22.0)	*17.7*
Minority interest	(2.0)	(1.4)	*41.4*	(1.7)	*18.5*	(2.0)	(1.4)	*41.4*
Net profit	**23.3**	**18.2**	***28.0***	**21.3**	***9.1***	**82.0**	**69.2**	***18.5***
Net profit ex-EI	**23.8**	**19.3**	***23.3***	**20.2**	***17.8***	**81.0**	**69.1**	***17.3***
Basic EPS (sen)	2.2	1.7	*27.6*	2.0	*8.8*	7.8	6.6	*18.3*
Margin (%)	**4Q20**	**4Q19**	**+/- ppt**	**3Q20**	**+/- ppt**	**FY20**	**FY19**	**+/- ppt**
EBIT	*30.9*	*27.3*	*3.6*	*31.9*	*(1.0)*	*30.9*	*28.2*	*2.7*
Pretax profit	*31.0*	*27.6*	*3.4*	*32.0*	*(1.0)*	*31.0*	*28.3*	*2.7*
Net profit ex-EI	*23.6*	*21.7*	*1.8*	*21.3*	*2.2*	*22.0*	*20.3*	*1.7*
Segmental revenue (MYR'm)	**4Q20**	**4Q19**	**%YoY**	**3Q20**	**%QoQ**	**FY20**	**FY19**	**%YoY**
Taiwan	65.2	51.6	*26.4*	64.2	*1.5*	240.5	189.2	*27.1*
Singapore	15.0	17.7	*(15.3)*	14.7	*1.9*	59.7	69.9	*(14.6)*
Malaysia	16.3	15.6	*4.5*	11.6	*41.0*	15.7	16.0	*(1.6)*
Philippines	4.5	3.7	*21.0*	4.2	*6.8*	51.8	64.0	*(19.1)*
Indonesia	0.1	0.3	*(74.4)*	0.1	*(25.9)*	0.7	0.9	*(27.7)*
Segmental EBIT (MYR'm)	**4Q20**	**4Q19**	***%YoY***	**3Q20**	**%QoQ**	**FY20**	**FY19**	**%YoY**
Taiwan	22.9	16.7	*37.3*	22.9	*0.3*	83.1	57.1	*45.7*
Singapore	5.5	5.7	*(3.4)*	4.5	*22.2*	20.9	24.0	*(12.8)*
Malaysia	1.8	1.4	*26.4*	2.6	*(28.8)*	7.6	12.6	*(39.2)*
Philippines	0.9	0.4	*>100*	0.8	*9.0*	2.6	2.4	*7.4*
Indonesia	0.0	0.0	*(22.9)*	(0.5)	*NM*	(0.6)	(0.2)	*>100*
Segmental EBIT margin (%)	**4Q20**	**4Q19**	**+/- ppt**	**3Q20**	**+/- ppt**	**FY20**	**FY19**	**+/- ppt**
Taiwan	35.2	32.4	*2.8*	35.6	*(0.4)*	34.6	30.2	*4.4*
Singapore	37.0	32.4	*4.6*	30.8	*6.2*	35.1	34.4	*0.7*
Malaysia	40.7	39.0	*1.7*	61.1	*(20.3)*	14.8	19.6	*(4.9)*
Philippines	5.4	2.3	*3.2*	7.0	*(1.6)*	4.9	3.7	*1.2*
Indonesia	31.4	10.4	*21.0*	(450.9)	*NM*	(90.2)	(17.7)	*(72.5)*

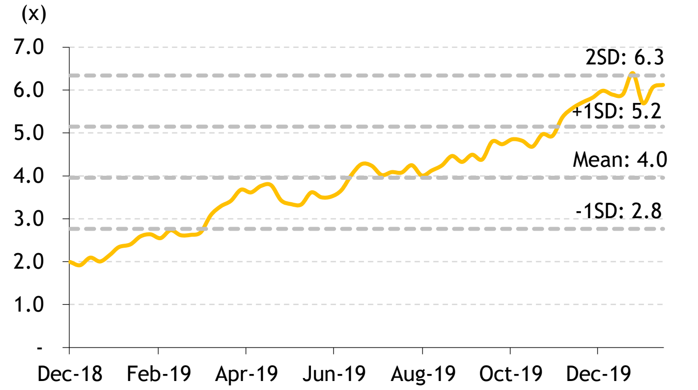
Source: Company data. Maybank Kim Eng

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 about 1/5 of the Group's revenue is denominated in USD.

FYE 31 Dec	FY19A	FY20A	FY21E	FY22E	FY23E
Key Metrics					
P/E (reported) (x)	22.0	36.8	51.4	42.8	37.4
Core P/E (x)	34.7	45.9	51.4	42.8	37.4
P/BV (x)	6.4	8.5	11.4	10.1	9.9
P/NTA (x)	6.4	9.9	12.7	11.4	10.0
Net dividend yield (%)	1.1	1.1	1.0	1.2	1.3
FCF yield (%)	5.4	3.3	0.3	1.9	2.6
EV/EBITDA (x)	19.4	28.2	30.3	25.5	22.8
EV/EBIT (x)	23.0	30.3	34.8	29.0	25.4
INCOME STATEMENT (MYR m)					
Revenue	339.9	368.3	513.8	577.9	609.9
Gross profit	148.1	123.5	213.4	246.7	275.8
EBITDA	113.7	122.3	177.4	211.5	237.3
Depreciation	(17.8)	(18.4)	(22.7)	(25.6)	(24.5)
Amortisation	0.0	0.0	0.0	0.0	0.0
EBIT	95.9	113.7	154.7	185.9	212.8
Net interest income /(exp)	0.4	0.6	0.9	0.9	0.9
Associates & JV	0.0	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	96.3	114.3	155.6	186.8	213.7
Income tax	(22.0)	(25.9)	(35.8)	(43.0)	(49.2)
Minorities	(5.1)	(6.4)	(11.4)	(13.7)	(15.6)
Discontinued operations	0.0	0.0	0.0	0.0	0.0
Reported net profit	69.2	82.0	108.4	130.2	148.9
Core net profit	69.1	81.0	108.4	130.2	148.9
BALANCE SHEET (MYR m)					
Cash & Short Term Investments	225.4	312.2	226.5	233.6	203.3
Accounts receivable	93.7	110.7	139.6	156.1	164.4
Inventory	15.1	20.0	21.5	23.7	23.9
Reinsurance assets	0.0	0.0	0.0	0.0	0.0
Property, Plant & Equip (net)	125.7	121.7	224.1	276.6	309.1
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	22.0	19.8	19.5	19.1	19.1
Total assets	**515.7**	**618.1**	**665.0**	**742.8**	**753.5**
ST interest bearing debt	0.8	0.0	0.0	0.0	0.0
Accounts payable	84.0	118.0	124.7	130.6	130.9
Insurance contract liabilities	0.0	0.0	0.0	0.0	0.0
LT interest bearing debt	11.9	9.5	1.3	1.3	1.3
Other liabilities	20.0	24.0	18.0	18.0	18.0
Total Liabilities	**117.0**	**151.1**	**144.1**	**150.0**	**150.3**
Shareholders Equity	377.0	440.0	488.2	553.3	562.7
Minority Interest	21.8	27.0	32.7	39.6	40.5
Total shareholder equity	**398.7**	**467.0**	**520.9**	**592.9**	**603.2**
Total liabilities and equity	**515.7**	**618.1**	**665.0**	**742.8**	**753.5**
CASH FLOW (MYR m)					
Pretax profit	96.3	114.3	155.6	186.8	213.7
Depreciation & amortisation	17.8	18.4	22.7	25.6	24.5
Adj net interest (income)/exp	(0.4)	(0.6)	(0.9)	(0.9)	(0.9)
Change in working capital	20.9	12.1	(23.8)	(12.8)	(8.2)
Cash taxes paid	(19.8)	(22.9)	(35.8)	(43.0)	(49.2)
Other operating cash flow	(0.1)	(0.6)	0.0	0.0	0.0
Cash flow from operations	135.8	131.8	117.8	155.7	180.0
Capex	(7.0)	(7.7)	(102.4)	(52.5)	(32.5)
Free cash flow	128.8	124.1	15.4	103.2	147.5
Dividends paid	(19.9)	(29.1)	(59.9)	(71.9)	(82.3)
Equity raised / (purchased)	0.0	0.0	0.0	0.0	0.0
Change in Debt	(13.0)	(5.7)	0.0	0.0	0.0
Other invest/financing cash flow	(5.8)	(4.8)	0.9	0.9	0.9
Effect of exch rate changes	1.7	6.2	0.0	0.0	2.0
Net cash flow	91.7	90.8	(43.6)	32.2	68.1

FYE 31 Dec	FY19A	FY20A	FY21E	FY22E	FY23E
Key Ratios					
Growth ratios (%)					
Revenue growth	3.9	8.4	39.5	12.5	5.5
EBITDA growth	22.9	7.6	45.0	19.2	12.2
EBIT growth	27.5	18.6	36.1	20.2	14.5
Pretax growth	27.3	18.7	36.2	20.1	14.4
Reported net profit growth	32.4	18.5	32.3	20.1	14.4
Core net profit growth	27.2	17.3	33.8	20.1	14.4
Profitability ratios (%)					
EBITDA margin	33.4	33.2	34.5	36.6	38.9
EBIT margin	28.2	30.9	30.1	32.2	34.9
Pretax profit margin	28.3	31.0	30.3	32.3	35.0
Payout ratio	37.9	51.1	50.0	50.0	50.0
DuPont analysis					
Net profit margin (%)	20.3	22.3	21.1	22.5	24.4
Revenue/Assets (x)	0.7	0.6	0.8	0.8	0.8
Assets/Equity (x)	1.4	1.4	1.4	1.3	1.3
ROAE (%)	19.7	20.1	23.4	25.0	26.7
ROAA (%)	14.2	14.3	16.9	18.5	19.9
Liquidity & Efficiency					
Cash conversion cycle	(18.6)	(22.9)	(32.9)	(22.0)	(20.6)
Days receivable outstanding	109.8	99.9	87.7	92.1	94.6
Days inventory outstanding	27.0	25.8	24.9	24.6	25.7
Days payables outstanding	155.4	148.5	145.5	138.8	140.9
Dividend cover (x)	2.6	2.0	2.0	2.0	2.0
Current ratio (x)	3.3	3.2	2.8	2.8	2.7
Leverage & Expense Analysis					
Asset/Liability (x)	4.4	4.1	4.6	5.0	5.0
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 (%)	2.1	2.1	19.9	9.1	5.3
Net debt/ (net cash)	(212.6)	(302.7)	(225.1)	(232.2)	(201.9)

Source: Company; Maybank

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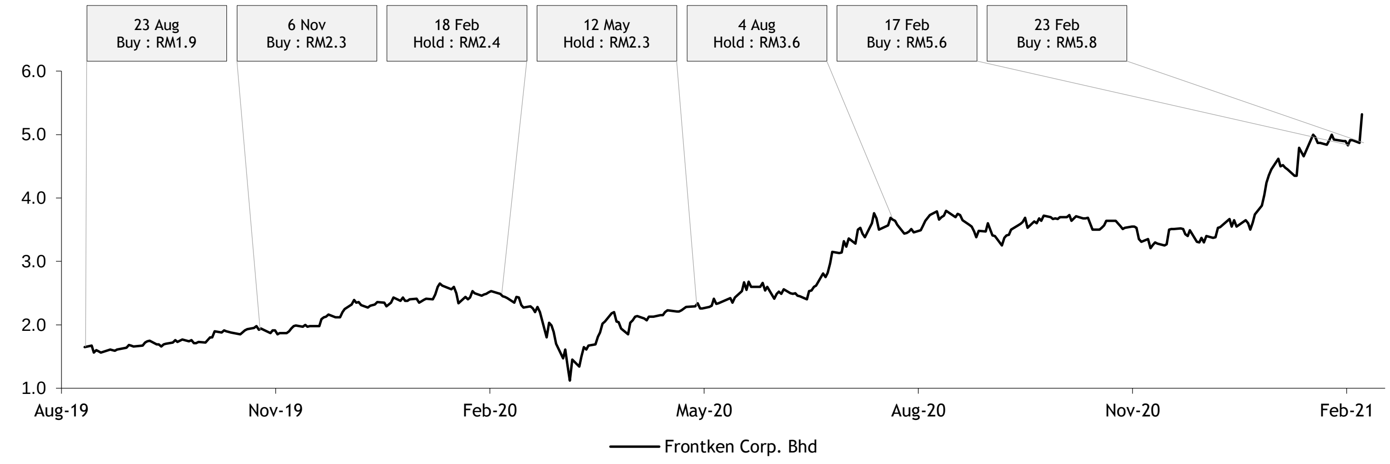

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