Company Result

24 February 2021

Frontken Corp Berhad

BUY

FY20: Record profit with bonus issue

Maintained

Share Price	RM 5.32
Target Price	RM 5.78

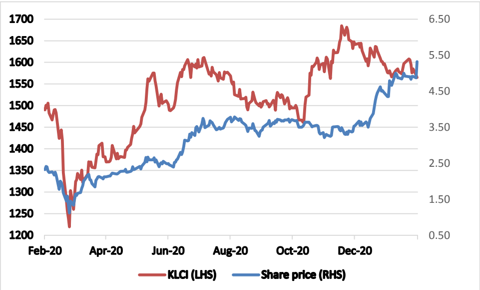
Company Description
Frontken Corporation Bhd. provides surface metamorphosis technology with thermal spray coating processes.

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. (RM'm)	5,575.19
52-week price Range(RM)	0.99 - 5.38
Beta (against KLCI)	1.24
3-m Average Daily Volume	4.26m
3-m Average Daily Value^	17.44m

Share Performance			
	1m	3m	12m
Absolute (%)	19.6	49.9	119.8
Relative (%-pts)	22.0	62.1	115.1

Major Shareholders	%
DAZZLE CLEAN LTD	20.41
OOI KENG THYE	15.14
AmanahRaya Trustees Bhd	3.48
Estimated Free Float	57.86

Historical Chart



Source: Bloomberg

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Result

- **Frontken Corp posted a remarkable fourth quarter results of FY20 with its PATAMI of RM23.3m (+28.0% YoY and +9.1% QoQ). This was in line with its growing revenue at RM101.0 million (+13.7% YoY and +6.6% QoQ) mainly attributable to the positive growth of the semiconductor business.**
- **Slightly below expectations.** The Group's FY2020 performance with PATAMI of RM82.0 million, up 18.5% YoY, is slightly below our and market estimates which accounts for 95%/94% of our/consensus earnings forecasts.
- **Bonus issue proposed.** Frontken has proposed the bonus issue of shares and free warrants on the basis of 1 bonus shares and 1 free warrant for every 2 existing shares.
- **Dividend declared.** Also, the Group has declared its second single tier dividend of 2.8 sen per share which make up of total dividend of 4 sen for the FY20 as compared to 2.5 sen in FY19.

Comments

- **Better YoY operational performance amid weaker oil and gas division.** The higher revenue/PAT contributions from Semiconductor division (+18%/+32%) were largely offset by disappointing O&G division with lower revenue/PAT (-25%/-81%) mainly due to the economic slowdown caused by the pandemic. Still, the Group managed to rake in higher revenue of RM101m (+13.7%), EBITDA of RM32.5m (+17%) and PBT of RM31.3m (+27.7%).
- **Commendable semiconductor business contributed to the highest PAT ever.** The Group posted a PAT of RM 25.3 million in 4Q2020 which was RM5.7million or 28.9% higher YoY. This was mainly due to the significant PAT improvement of 30.8% YoY from the semiconductor division.
- **Sturdy balance sheet.** Frontken registered a net cash of RM291.5 million in FY20, +47% growth from RM198.9 million in FY19. Meanwhile, net assets/share increased by 18% from 0.38 sen in FY19 to 0.45 sen in FY20. The Group's healthy balance sheet forms a solid foundation to its future expansion plans amid booming tech sector.
- **Growth underpinned by the expansion plans.** The Group is looking to expand its capacity in Taiwan by setting up a new state of the art facility which is targeted for completion in year 2022. This is to handle the high demand of upcoming advanced nodes chips with the advancement and deployment of new innovative technologies following with the roll up of 5G network globally. We are told by the management that the Group is also exploring to set up a new

facility in overseas to further support its customer's expansion abroad. The new facilities are expected to further improve the Group's profit margin moving forward.

- **Anticipating better performance of O&G division in FY2021.** Frontken has noticed that new orders started trickling in towards the end of year 2020 under its O&G division. We predict that the momentum will pick up further throughout 2021 on the back of economic recovery and recent strong surge of crude oil prices.

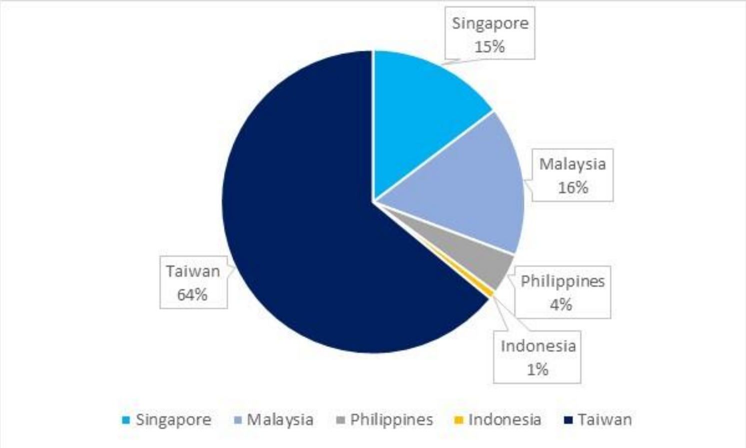
Earnings Outlook/Revision

- **We raise our FY21F & FY22F net earnings forecasts marginally by 5% and 7% to RM490.8m and RM578.6m respectively after lifting our revenue estimates in O&G division as mentioned above.**

Valuation & Recommendation

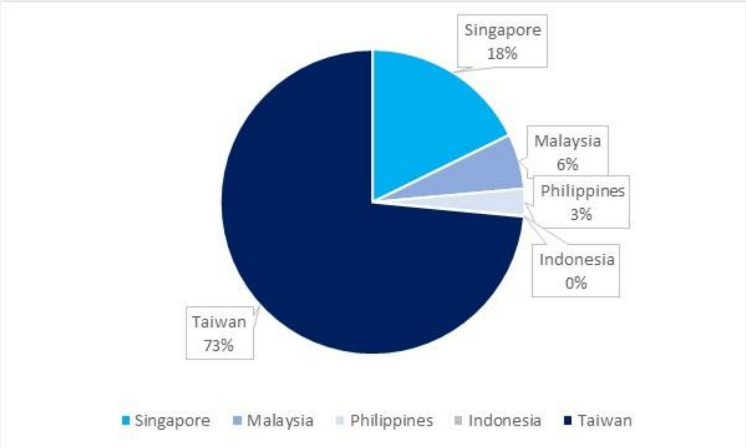
- **Maintain BUY with a higher target price of RM5.78 (from RM4.33) as we roll over our valuation to FY22F**. Our target price is now pegged at PE multiple of 42x F22F which is in line with +1SD of 3-year mean PER. Our fair value of the stock renders 9.0% upside to the current share price.

Revenue by geography 4QFY2020



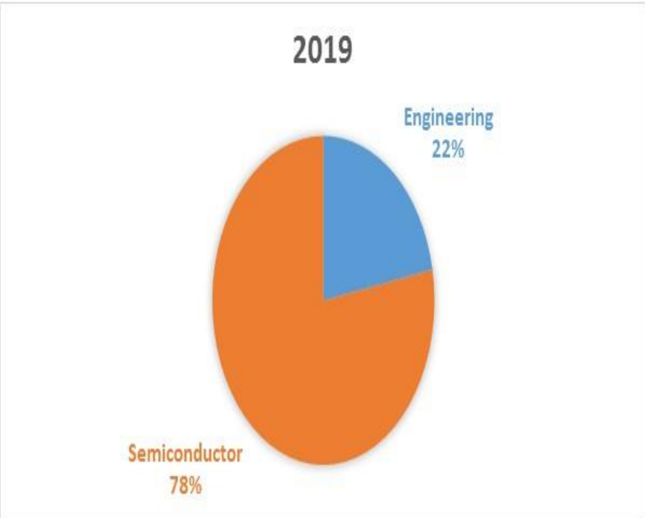
Source: Company, JF Apex

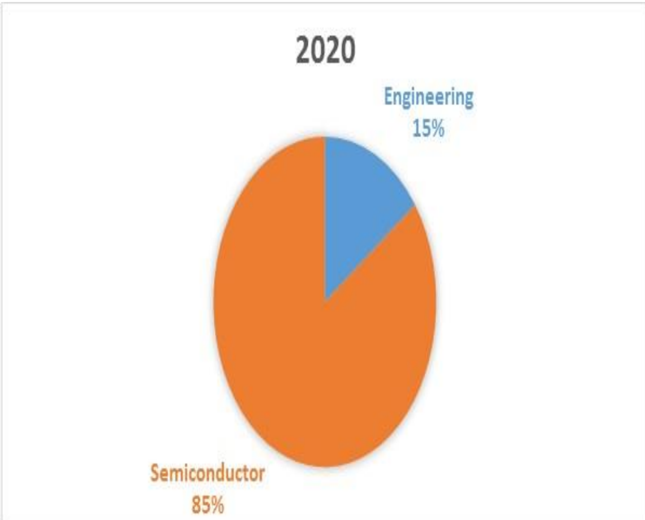
Operating profit by geography 4QFY2020



Source: Company, JF Apex

Revenue by operating segment FY19 vs FY20





Source: Company

Quarterly Figures

YEAR END DECEMBER	4Q20	4Q19	YoY	3Q20	QoQ	2020	2019	YoY
Revenue	101.0	88.9	13.7%	94.8	6.6%	368.3	339.9	8.4%
Operating expenses	(68.5)	(61.1)	12.1%	(62.4)	9.8%	(246.0)	(229.0)	7.4%
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%
Finance cost	(0.1)	(0.1)	6.4%	(0.2)	-6.3%	(0.7)	(0.8)	11.8%
Other operating income	3.5	0.6	467.4%	2.7	27.8%	11.0	3.9	183.4%
PBT	**31.3**	**24.5**	27.7%	**30.3**	3.1%	**114.3**	**96.3**	18.7%
Tax	(6.0)	(4.9)	22.9%	(7.3)	-17.8%	(25.9)	(22.0)	17.7%
PAT	**25.3**	**19.6**	28.9%	**23.0**	9.8%	**88.3**	**74.2**	19.0%
Minority interest	2.0	1.4	2.9%	1.7	18.5%	6.4	5.1	25.5%
PATAMI	**23.3**	**18.2**	28.0%	**21.3**	9.1%	**82.0**	**69.2**	18.5%
Operating margin	32%	31%	0.9 ppts	34%	-2.0 ppts	33%	33%	0.6 ppts
PBT margin	31%	28%	3.4 ppts	32%	-1.0 ppts	31%	28%	2.7 ppts
Adjusted PATAMI margin	23%	20%	2.6 ppts	23%	0.5 ppts	22%	20%	1.9 ppts
Tax rate	19%	20%	-0.8 ppts	24%	-4.9 ppts	23%	23%	-0.2 ppts
SEGMENT REVENUE								
Singapore	15.0	17.7	-15.3%	14.7	1.9%	59.7	69.8	-14.5%
Malaysia	16.3	15.6	4.5%	11.6	41.0%	51.8	64.0	-19.1%
Philippines	4.5	3.7	21.0%	4.2	6.8%	15.7	16.0	-1.6%
Indonesia	0.9	0.3	156.0%	0.1	641.4%	0.7	0.9	-27.7%
Taiwan	65.2	51.6	26.4%	64.2	1.5%	240.5	189.2	27.1%
SEGMENT PROFIT								
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	150.0%	0.8	9.0%	2.6	2.4	7.8%
Indonesia	0.0	0.0	-22.9%	-0.5	-105.2%	(0.6)	(0.2)	-268.9%
Taiwan	22.9	16.7	37.3%	22.9	0.3%	83.1	57.1	45.7%

Operating Segment	**FY2020**	**FY2020**	**YoY**
Revenue	**RM'mil**	**RM'mil**	**%**
Semiconductor	312.2	265.5	18%
Oil & Gas Engineering	56.1	74.4	-25%

Source: Company, JF Apex

Financial Summary

Year ending 31 December	FY16	FY17	FY18	FY19	FY20	FY21F	FY22F
	RM'm	RM'm	RM'm	RM'm	RM'm	RM'm	RM'm
Revenue	261.9	296.6	327.2	339.9	368.3	490.8	578.6
Operating profit/EBIT	44.3	61.4	88.0	110.9	122.3	181.6	225.4
PBT	33.3	46.1	75.6	96.2	114.3	160.7	199.3
PAT	27.3	36.4	57.0	74.2	88.3	123.7	153.5
PATAMI	20.0	29.8	52.2	69.1	82.0	116.9	145.0
Growth (%)							
Revenue	-6.7%	13.2%	10.3%	3.9%	8.4%	33.3%	17.9%
Operating profit	80.8%	38.6%	43.3%	26.0%	10.3%	48.5%	24.1%
PBT	108.1%	38.4%	64.0%	27.2%	18.8%	40.7%	24.0%
PAT	187.4%	33.3%	56.6%	30.2%	19.0%	40.1%	24.0%
Net profit	4900.0%	49.0%	75.2%	32.4%	18.6%	42.7%	24.0%
Margin (%)							
Operating profit	16.9%	20.7%	26.9%	32.6%	33.2%	37.0%	39.0%
PBT	12.7%	15.5%	23.1%	28.3%	31.0%	32.7%	34.5%
PAT	10.4%	12.3%	17.4%	21.8%	24.0%	25.2%	26.5%
Net profit	7.6%	10.0%	16.0%	20.3%	22.3%	23.8%	25.1%
ROE	6.8%	9.8%	15.1%	17.3%	18.6%	23.7%	25.5%
ROA	4.9%	6.9%	11.5%	13.4%	12.9%	17.3%	17.9%
EPS	1.9	2.8	5.0	6.6	7.8	11.1	13.8
BV/Share	0.28	0.29	0.33	0.38	0.46	0.49	0.56
P/B	18.9	18.3	16.3	14.0	11.5	10.9	9.5
P/E	280.1	188.0	107.3	81.1	68.3	47.9	38.6
Net gearing	Net Cash	Net Cash	Net Cash	Net Cash	Net Cash	Net Cash	Net Cash
Dividend yield	0.00%	0.09%	0.28%	0.47%	0.75%	1.04%	1.29%
Dividend payout	0.0%	17.8%	30.1%	37.9%	51.1%	50.0%	50.0%
DPS (sen)	0.00	0.50	1.49	2.49	4.00	5.55	6.89

Source: Company, JF Apex

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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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