

Company Result

30 July 2021

Frontken Corp Berhad

2QFY21: Steady growth

BUY

Maintained

Share Price	RM 3.29
Target Price	RM 3.86

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
FTSE4Good Index	Yes
ESG Rating	☆
Issued shares (m)	1572.41
Market cap. (RM'm)	5,173.23
52-week price Range(RM)	2.03-3.97
Beta (against KLCI)	1.36
3-m Average Daily Volume	6.30m
3-m Average Daily Value^	RM 18.93m

Share Performance

	1m	3m	12m
Absolute (%)	14.6	14.6	41.0
Relative (%-pts)	16.1	10.9	49.5

Major Shareholders

	%
DAZZLE CLEAN LTD	20.40
OOI KENG THYE	15.62
AmanahRaya Trustees Bhd	3.48
Estimated Free Float	57.38

Historical Chart



Source: Bloomberg

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Result

- **Frontken Corp posted a continuous strong quarter result for its 2QFY21, with a revenue of RM108.6m (+24% YoY and +5% QoQ) mainly attributable to the significant growth of the semiconductor business.**
- **Meanwhile, the Group recorded a higher PATAMI of RM24.7m (+8% QoQ and +23.7% YoY) mainly due to improved revenue and sales performance.**
- **Result slightly below expectations.** Overall, the Group's performance is slightly below expectations with the 1H21 PATAMI accounts for 41%/44% of our/consensus forecasts. However, we shall expect the Group to post stronger performance in 2HFY21.
- **Interruption of operations in Singapore dragged the segmental profit margin.** The Group posted a higher revenue (+7.5% YoY) but lower profit (-25.5%) for Singapore. The Singapore segment has been facing shortage of workforce because of the impact of the restricted movement in which the Malaysian employees were unable to commute to the Singapore office as well as Singapore government has removed the employers support subsidy resulted in lower profit margin of the geographical segment.
- **Foreign exchange loss in current quarter.** Frontken also recorded a foreign currency exchange loss of RM0.7m in current quarter as compared to a gain of RM0.7m in the previous quarter in its subsidiaries of Indonesia which has slightly affected the PAT margin.

Comments/Outlook

- **New facility with 2.5 times of current capacity available in 2022...** The Group completed its acquisition of property building in Kaohsiung, Taiwan via its subsidiary on 9 July 2021. The acquisition will enable its subsidiary to increase their current capacity by 2.5x.
- **... to cope with high demand from customers.** The newly acquired facility is expected to commence operation in next year in line with the proposed commercial production of the 3nm chips by the key customers. We have been guided by the management that the new facility will operate in nearly full utilization rate on its phase one of commencement and planning to expand the facility into phase 2 in the shortest time possible.
- **Actively seeking new land and facility for expansion...** We understand the management is actively seeking for new land in Taiwan beyond the new acquired building mentioned above.

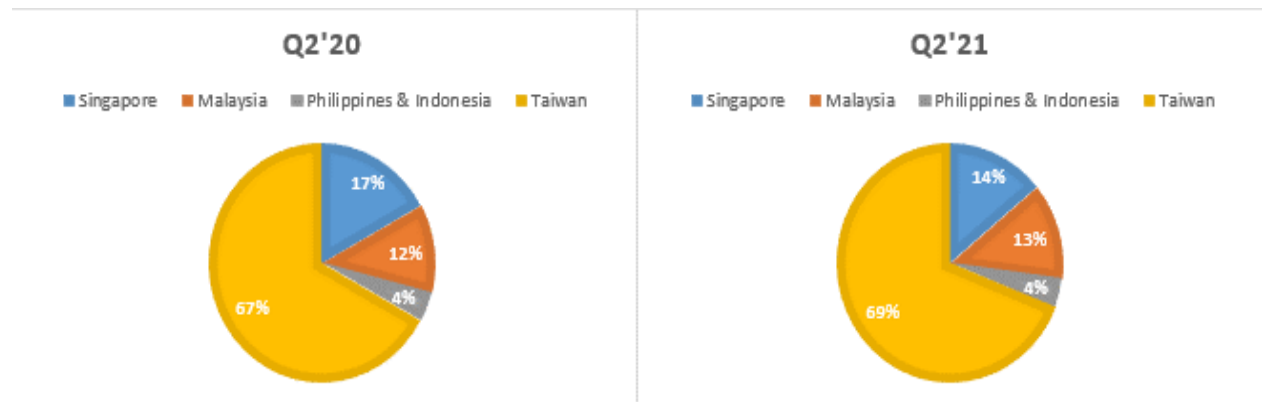
- **... and expected to benefit from the significant growth of the industry.** The global sales of semiconductors jumped 21.7% YoY in April 2021 to USD 41.8 billion and are projected to reach USD527.2 billion in 2021, +19.7% increase YoY. With the robust CAPEX incurred by the industry players and excessive demand of advanced nodes chips, Frontken is poised to benefit from the years to come.
- **Anticipating better O&G division.** The soon-to-be completed new facility in Pengerang is expected to support the contracts in O&G business and contribute to the growth of the division. We are optimistic that the O&G division will perform better than FY20 on the back of economic recovery and the strong rebound of Brent crude oil price.
- **Increase in net cash.** Frontken registered a net cash of RM315.1 million YTD, +8.1% growth from RM291.5 million in FY2020. The Group's strong cash flow position forms a solid foundation to its future expansion.

Earnings Outlook/Revision

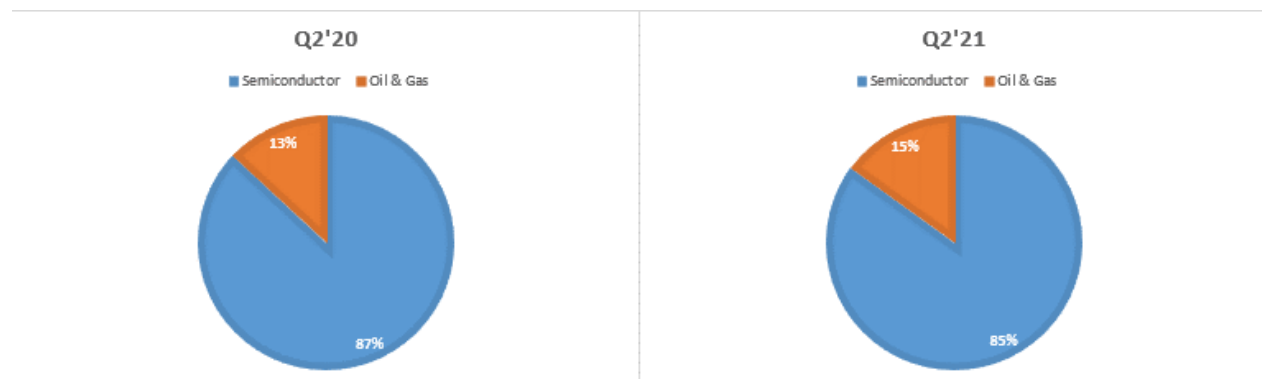
- **We are keeping our net earnings forecasts for FY21F and FY22F at RM116.9m and RM145m respectively.**

Valuation & Recommendation

- **Maintain BUY with an unchanged target price of RM3.86.** Our target price is pegged at PE multiple of 42x F22F which is in line with its +1SD of 3-year mean PER. Our fair value of the stock renders 17% upside to the current share price.

Revenue by Country Q2'20 vs Q2'21

Source: Company

Revenue by Industry Q2'20 vs Q2'21

Source: Company, JF Apex

Quarterly Figures

YEAR END DECEMBER	2Q21	2Q20	YoY	1Q20	QoQ	1H2021	1H2020	YoY
Revenue	108.6	87.6	24.0%	103.5	5.0%	212.1	172.5	23.0%
Operating expenses	(70.4)	(56.9)	23.6%	(66.1)	6.5%	(136.5)	(115.0)	18.6%
EBITDA	38.2	30.7	24.6%	37.4	2.2%	75.6	57.4	31.7%
Depreciation	(4.4)	(4.6)	3.3%	(4.4)	-1.0%	(8.8)	(9.3)	5.1%
Finance cost	(0.1)	(0.2)	19.1%	(0.2)	-28.0%	(0.3)	(0.4)	4.2%
Other operating income	0.9	2.0	-55.7%	2.2	59.5%	3.1	4.9	36.6%
PBT	34.5	27.9	23.7%	35.0	1.3%	69.5	52.6	32.1%
Tax	(7.5)	(6.1)	23.8%	(10.1)	25.3%	(17.6)	(12.6)	40.4%
PAT	27.0	21.8	23.7%	24.9	8.4%	51.9	40.1	29.5%
Minority interest	2.3	1.5	3.5%	2.0	12.9%	4.3	2.7	55.6%
PATAMI	24.7	20.3	21.7%	22.9	8.0%	47.6	37.3	27.6%
Operating margin	35%	35%	0.2 ppts	36%	-0.9 ppts	36%	33%	3.0 ppts
PBT margin	32%	32%	-0.1 ppts	34%	-2.0 ppts	33%	31%	2.0 ppts
Adjusted PATAMI margin	23%	23%	-0.4 ppts	22%	0.6 ppts	22%	22%	0.8 ppts
Tax rate	22%	22%	0 ppts	29%	7.0 ppts	25%	24%	1.5 ppts
SEGMENT REVENUE								
Singapore	15.5	14.4	7.5%	14.5	7.1%	30.0	30.0	0.0%
Malaysia	14.7	10.9	34.8%	14.9	-1.6%	29.6	23.9	23.7%
Philippines	3.6	3.2	12.9%	3.7	-1.6%	7.3	7.0	4.4%
Indonesia	0.2	0.2	-28.3%	0.2	-21.5%	0.4	0.5	-23.9%
Taiwan	74.6	58.9	26.8%	70.2	6.3%	144.8	111.1	30.4%
SEGMENT PROFIT								
Singapore	4.1	5.5	-25.5%	4.2	-2.7%	8.3	10.9	-23.8%
Malaysia	1.6	1.1	38.5%	2.9	-45.4%	4.5	3.3	37.5%
Philippines	0.6	0.4	68.9%	0.6	4.2%	1.2	0.9	41.3%
Indonesia	(0.1)	0.7	-113.5%	(0.2)	-51.5%	(0.3)	(0.1)	-172.5%
Taiwan	28.3	20.1	40.8%	27.5	2.8%	55.8	37.3	49.5%

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	7.4	9.2
BV/Share	0.28	0.29	0.33	0.38	0.46	0.32	0.37
P/B	12.0	11.6	10.3	8.9	7.3	10.4	9.0
P/E	178.0	119.4	68.2	51.5	43.4	45.7	36.8
Net gearing	Net Cash	Net Cash	Net Cash	Net Cash	Net Cash	Net Cash	Net Cash
Dividend yield	0.00%	0.15%	0.44%	0.74%	1.18%	1.10%	1.36%
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	3.70	4.59

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.

**capital gain + dividend yield*

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.

ESG RECOMMENDATIONS

- ☆☆☆☆ : Top 25% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSA Russell
- ☆☆☆ : Top 26-50% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSA Russell
- ☆☆ : Top 51-75% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSA Russell
- ☆ : Bottom 25% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSA Russell

Source: Bursa Malaysia and FTSE Russell

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