

HLIB Research

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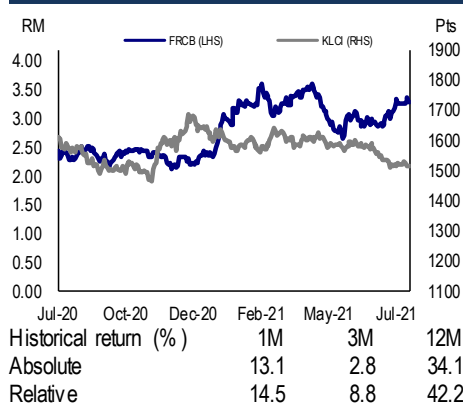
BUY (Maintain)

Target Price: **RM3.88**
Previously: **RM3.88**
Current Price: **RM3.29**

Capital upside	17.9%
Dividend yield	1.0%
Expected total return	18.9%

Sector coverage: Technology

Company description: Frontken is a leading surface engineering service provider in semiconductor and O&G markets.

Share price

Stock information

Bloomberg ticker	FRCB MK
Bursa code	0128
Issued shares (m)	1,572
Market capitalisation (RM m)	5,173
3-mth average volume ('000)	6,427
SC Shariah compliant	Yes
F4GBM Index member	N/A
ESG rating	★

Major shareholders

Dazzle Clean	20.4%
Ooi Keng Thye	15.6%
AmanahRayA Trustees Bhd	3.5%

Earnings summary

FYE (Dec)	FY20	FY21i	FY22f
PATMI – core (RM m)	82.7	100.8	122.5
EPS – core (sen)	5.2	6.4	7.8
P/E (x)	62.8	51.6	42.4

Frontken Corporation

Expecting stronger 2H after new high

1H21 core net profit of RM48m (+31% YoY) matched expectations. Announced first single tier DPS of 1.5 sen. Top and bottom line growths were mainly driven by semiconductor business. AGTC's newly acquired Plant 2's phase 1 capacity utilization is expected to be full from day 1 based on customer's projection and will begin Phase 2 expansion immediately. It is cautiously optimistic that O&G will perform better than last year. Reiterate BUY with unchanged TP of RM3.88, pegged to 50x of FY22 EPS. We like its unique exposure to leading-edge semiconductor frontend supply chain.

In line. All-time high 2Q21 core net profit of RM26m (+15% QoQ, +26% YoY) brought 1H21's total to RM48m (+31%) which matched HLIB and consensus, accounting for 47% and 44% full year forecasts, respectively. 2H is a seasonally stronger half for Frontken (1H20 core PAT accounted for 45% of FY20's). 1H21 one-off adjustments include forex gain (+RM7k), PPE disposal gain (+RM22k), PPE written off (-RM3k) and allowance for impairment losses on receivables (-RM283k).

Dividend. Announced first single tier DPS of 1.5 sen (2Q20: 1.2 sen) while entitlement and payment dates will be decided at a later date. YTD DPS 1.5 sen vs 1H20's 1.2 sen.

QoQ. Turnover inched up 5% mainly due to better performances from Malaysia (+17%), Singapore (+10%) and Taiwan (+7%), more than sufficient to offset the declines in Indonesia (-22%) and Philippines (-3%). While EBITDA margin lost 2.3ppt, core net profit gained by 15% to RM26m in the absence of the provision for surtax on undistributed earnings by AGTC in 1Q21.

YoY. Revenue saw a solid growth of 24% driven by Malaysia (+61%), Taiwan (+27%), Philippines (+12%) and Singapore (+10%), more than sufficient to offset Indonesia's decline (-28%). In turn, core earnings rose at a quicker pace of 26% partly aided by lower D&A (-4%).

YTD. Top and bottom lines strengthened by 23% and 31%, respectively thanks to robust semiconductor business. In terms of segmental sales breakdown, Malaysia (+36%) led the pact, followed by Taiwan (+31%), Philippines (+5%), Singapore (+1%) and Indonesia was the sole loser (-24%).

Semiconductor. Generated 85% (2Q20: 87%) of group revenue in 2Q21. AGTC has completed the acquisition of a building (Plant 2) situated in the Southern Taiwan Science Park at Kaohsiung City on 9 Jul 2021. It is expected to be operational next year in tandem with the proposed commercial production of the 3nm chips by its key customer in Taiwan. Plant 2's phase 1 capacity utilization is expected to be full from day 1 based on customer's projection and will begin Phase 2 expansion immediately.

O&G. Accounted for the remaining 15% of group turnover in 2Q21. It will continue to chase for new works in view of the strong Brent crude oil price recovery. Hence, it is cautiously optimistic that O&G will perform better than last year. Its new Pengerang facility will be completed soon.

Forecast. Unchanged.

Reiterate **BUY** with unchanged TP of **RM3.88**, pegged to 50x of FY22 EPS. We like Frontken for its multi-year growth ahead on the back of: (1) sustainable global semiconductor market outlook, (2) robust fab investment, (3) leading edge technology (7nm and below), and (4) strong balance sheet (net cash of RM326m or 31 sen per share) to supports its Taiwan expansion.

Financial Forecast

All items in (RM m) unless otherwise stated

Income statement

FYE Dec	FY19	FY20	FY21f	FY22f	FY23f
Revenue	339.9	368.3	417.0	494.3	550.2
COGS	(226.2)	(236.2)	(259.7)	(306.3)	(340.2)
EBITDA	113.7	132.1	157.3	188.0	210.1
D&A	(17.8)	(18.4)	(20.3)	(21.4)	(20.2)
EBIT	95.9	113.7	137.0	166.6	189.9
Net Interest Income	0.4	0.6	1.5	1.7	1.9
Associates	0.0	0.0	0.0	0.0	0.0
PBT	96.3	114.3	138.5	168.3	191.8
Tax	(22.0)	(25.9)	(30.5)	(37.0)	(42.2)
Net Profit	74.2	88.3	108.0	131.2	149.6
MI	(5.1)	(6.4)	(7.2)	(8.7)	(9.8)
PATAMI	69.2	82.0	100.8	122.5	139.7
Exceptionals	1.0	0.7	0.0	0.0	0.0
Adj PATAMI	70.1	82.7	100.8	122.5	139.7
Basic Shares (m)	1,580.0	1,580.0	1,580.0	1,580.0	1,580.0
Rep EPS (sen)	4.4	5.2	6.4	7.8	8.8
Adj EPS (sen)	4.4	5.2	6.4	7.8	8.8
Adj FD EPS (sen)	4.4	5.2	6.4	7.8	8.8

Balance sheet

FYE Dec	FY19	FY20	FY21f	FY22f	FY23f
Cash	197.2	290.5	328.4	368.7	442.3
Receivables	86.3	103.1	114.2	135.4	150.7
Inventories	15.1	20.0	21.3	25.2	28.0
Investment	0.0	0.0	0.0	0.0	0.0
PPE	145.5	139.0	148.7	157.3	148.1
Intangibles	33.8	33.8	33.8	33.8	33.8
Other Assets	37.9	31.8	31.8	31.8	31.8
Total Assets	515.7	618.1	678.3	752.1	834.6
Payables	84.0	18.8	21.3	25.2	28.0
ST borrowings	0.8	0.0	0.0	0.0	0.0
LT borrowings	0.0	0.0	0.0	0.0	0.0
Other Liabilities	32.1	132.3	132.3	132.3	132.3
Total liabilities	117.0	151.1	153.6	157.4	160.2
Shareholders' Funds	377.0	440.0	490.4	551.6	621.5
MI	21.8	27.0	34.3	43.0	52.9
Total S/H Equity	398.7	467.0	524.7	594.7	674.4
Ttl Liab&S/H Funds	515.7	618.1	678.3	752.1	834.6

Cashflow Analysis

FYE Dec	FY19	FY20	FY21f	FY22f	FY23f
EBITDA	113.7	132.1	157.3	188.0	210.1
Tax Paid	(19.8)	(22.9)	(30.5)	(37.0)	(42.2)
WC Changes	21.3	11.1	(10.0)	(21.2)	(15.3)
Other	(0.3)	(0.6)	1.5	1.7	1.9
CFO	114.9	119.7	118.3	131.5	154.4
FCF	107.9	112.0	88.3	101.5	143.4
CAPEX(CF)	(7.0)	(7.7)	(30.0)	(30.0)	(11.0)
Acquisitions	(2.6)	(0.8)	0.0	0.0	0.0
Other	(2.4)	(3.4)	0.0	0.0	0.0
CFI	(12.1)	(11.9)	(30.0)	(30.0)	(11.0)
Dividend	(18.9)	(28.3)	(50.4)	(61.2)	(69.9)
Debt changes	(10.7)	(0.8)	0.0	0.0	0.0
Other	(4.2)	(4.8)	0.0	0.0	0.0
CFF	(33.7)	(33.9)	(50.4)	(61.2)	(69.9)
Net Cashflow	69.1	73.9	38.0	40.3	73.6

Quarterly financial summary

FYE Dec	2Q20	3Q20	4Q20	1Q21	2Q21
Revenue	87.6	94.8	101.0	103.5	108.6
COGS	(55.2)	(60.0)	(65.3)	(64.1)	(69.7)
EBITDA	32.4	34.8	35.8	39.4	38.9
D&A	(4.6)	(4.6)	(4.5)	(4.4)	(4.4)
EBIT	27.8	30.3	31.2	35.0	34.5
Net Interest Income	0.1	0.1	0.1	0.1	0.1
Associates	0.0	0.0	0.0	0.0	0.0
PBT	27.9	30.3	31.3	35.1	34.5
Tax	(6.1)	(7.3)	(6.0)	(10.1)	(7.5)
Net Profit	21.8	23.0	25.3	24.9	27.0
MI	(1.5)	(1.7)	(2.0)	(2.0)	(2.3)
PATAMI	20.3	21.3	23.3	22.9	24.7
Exceptionals	0.0	0.5	1.0	(0.7)	0.9
Adj PATAMI	20.3	21.8	24.2	22.2	25.7
Basic Shares (m)	1,580.0	1,580.0	1,580.0	1,580.0	1,580.0
Rep EPS (sen)	1.3	1.4	1.5	1.5	1.6
Adj EPS (sen)	1.3	1.4	1.5	1.4	1.6
Adj FD EPS (sen)	1.3	1.4	1.5	1.4	1.6

Valuation Ratios

FYE Dec	FY19	FY20	FY21f	FY22f	FY23f
PER (x)	75.2	63.4	51.6	42.4	37.2
Core PER (x)	74.1	62.8	51.6	42.4	37.2
FD PER (x)	74.1	62.8	51.6	42.4	37.2
DPS (sen)	2.5	4.0	3.2	3.9	4.4
Net DY (%)	0.8	1.2	1.0	1.2	1.3
Book/share (sen)	23.9	27.8	31.0	34.9	39.3
P/Book (x)	13.8	11.8	10.6	9.4	8.4
FCF/share (sen)	6.8	7.1	5.6	6.4	9.1
FCF yield (%)	2.1	2.2	1.7	2.0	2.8
Mkt Cap	5,198.2	5,198.2	5,198.2	5,198.2	5,198.2
Net Cash/Debt	196.3	290.5	328.4	368.7	442.3
EV	5,001.9	4,907.7	4,869.8	4,829.5	4,755.9
EV/EBITDA (x)	44.0	37.2	31.0	25.7	22.6
ROE (%)	18.6	18.8	20.6	22.2	22.5
Current Ratio (x)	3.5	22.0	21.7	21.0	22.2
Quick Ratio (x)	3.3	20.9	20.7	20.0	21.2
Interest Cover (x)	126.8	170.4	N/A	N/A	N/A

Other Ratios

FYE Dec	FY19	FY20	FY21f	FY22f	FY23f
Sales Growth (%)		8.4	13.2	18.5	11.3
EBITDA Growth (%)		16.2	19.1	19.5	11.7
EBIT Growth (%)		18.6	20.5	21.6	14.0
PBT Growth (%)		18.7	21.2	21.5	14.0
Net Profit Growth (%)		19.0	22.3	21.5	14.0
EBITDA Margin (%)	33.4	35.9	37.7	38.0	38.2
EBIT Margin (%)	28.2	30.9	32.9	33.7	34.5
PBT Margin (%)	28.3	31.0	33.2	34.0	34.9
Net Profit Margin (%)	21.8	24.0	25.9	26.6	27.2
Net Debt/Equity (%)	Cash	Cash	Cash	Cash	Cash
CAPEX/Sales (%)	2.1	2.1	7.2	6.1	2.0

Figure #1 **Quarterly results comparison**

FYE Dec (RM m)	2Q20	1Q21	2Q21	QoQ	YoY	1H20	1H21	YoY
Revenue	87.6	103.5	108.6	4.9	24.0	172.5	212.1	23.0
EBITDA	32.4	39.4	38.9	(1.2)	20.1	61.5	78.3	27.3
EBITDA Margin	37.0	38.1	35.8			35.7	36.9	
EBIT	27.8	35.0	34.5	(1.4)	24.0	52.2	69.4	33.1
PBT	27.9	35.1	34.5	(1.5)	23.7	52.6	69.6	32.2
PAT	21.8	24.9	27.0	8.4	23.7	40.1	51.9	29.5
Reported PATMI	20.3	22.9	24.7	8.0	21.7	37.3	47.7	27.6
Core PATMI	20.3	22.2	25.7	15.4	26.2	36.7	47.9	30.6
Reported EPS (sen)	1.3	1.5	1.6	8.0	21.7	2.4	3.0	27.6
Core EPS (sen)	1.3	1.4	1.6	15.4	26.2	2.3	3.0	30.6

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BUY	Expected absolute return of +10% or more over the next 12 months.
HOLD	Expected absolute return of -10% to +10% over the next 12 months.
SELL	Expected absolute return of -10% or less over the next 12 months.
UNDER REVIEW	Rating on the stock is temporarily under review which may or may not result to a change from the previous rating.
NOT RATED	Stock is not or no longer within regular coverage.

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OVERWEIGHT	Sector expected to outperform the market over the next 12 months.
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