

## EQUITIES

FRCB MK Outperform  
Price (at 14:33, 20 Aug 2021 GMT) RM3.16

Valuation	RM	3.64
- DCF (WACC 10.2%, beta 1.2, ERP 6.3%, RFR 3.2%, TGR 3.0%)		
12-month target	RM	3.90
Upside/Downside	%	+23.4
12-month TSR	%	+24.3
GICS sector		
Commercial & Professional Services		
Market cap	RMm	4,993
Market cap	US\$m	1,178
Free float	%	57
30-day avg turnover	US\$m	4.0
Number shares on issue	m	1,580

## Investment fundamentals

Year end 31 Dec		2020A	2021E	2022E	2023E
Revenue	bn	368.3	454.3	548.1	653.0
EBIT	bn	114.9	147.9	175.7	226.9
EBIT growth	%	18.5	28.7	18.8	29.1
Reported profit	bn	82.0	105.9	126.0	162.8
Adjusted profit	bn	82.0	105.9	126.0	162.8
EPS rep	sen	5.2	7.2	8.0	10.4
EPS rep growth	%	18.5	37.9	11.5	29.2
EPS adj	sen	5.2	7.4	8.0	10.4
EPS adj growth	%	18.5	42.2	8.1	29.2
PER rep	x	60.6	44.0	39.4	30.5
PER adj	x	60.6	42.6	39.4	30.5
Total DPS	sen	1.8	2.4	2.7	3.3
Total div yield	%	0.6	0.8	0.9	1.0
ROA	%	20.3	21.8	22.0	23.9
ROE	%	20.1	22.1	22.5	24.6
EV/EBITDA	x	34.9	28.1	23.5	18.3
Net debt/equity	%	-59.6	-55.9	-50.9	-54.9
P/BV	x	11.3	9.6	8.3	6.9

Source: FactSet, Macquarie Research, August 2021  
(all figures in MYR unless noted)

## Analysts

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## Frontken Corp (FRCB MK)

### Attractive volume play on bullish semi trends

## Key points

- ▶ We initiate on Frontken with an OP and TP of RM3.90 (24% implied TSR). Stronger fab utilisation & foundries' elevated capex are key growth drivers.
- ▶ Frontken is a leader in precision cleaning and we believe is Malaysia's best proxy for the front-end semicon industry.
- ▶ We forecast 21%/26% revenue/net profit CAGRs over FY20-23E.

#### We believe Malaysia's best front-end semicon-foundry proxy

Heavily entrenched in the semicon industry supply chain, Frontken Corp (FRCB) provides advanced precision-cleaning and surface-treatment services that extend the shelf life of chamber-process components for foundries and generates **~88% (FY20A) of its revenue outside Malaysia**. Given FRCB's exposure to tier-1 foundry customers, we believe it has high-quality recurring earnings. Mgmt doesn't disclose names of clients, but we believe TSMC is a key client (43% of FY22E revenue based on our est). FRCB offers unique exposure to the upstream semicon market, without the heavy capex investment associated with the foundry business (capex-to-sales ratio of >40% vs FRCB's ~5%). In line with our [Malaysia strategy](#) of staying well-exposed to tech/thematics and exporters, we initiate with Outperform and RM3.90 TP.

#### Large and growing global semiconductor market

Structural growth in data-centre capex, increased computing capacities and autos demand, and our expectations of a 5G product-cycle peak in 2022 drive [MQ's bullish stance](#) on the semiconductor market. Although the industry can be cyclical, we believe FRCB's services-based revenue model makes it more resilient, as its revenue is highly correlated to foundries' utilisation, affirming our view on its high-quality volume-driven earnings.

#### Hitched to the right horse (TSMC) with a unique competitive edge

TSMC's (2330 TT, NT\$552.00, OP, TP: NT\$765.90) heavy capex cycle bodes well for FRCB since they serve most foundries in Taiwan. [With capex guidance of US\\$100bn](#) (+150% in the next 4 years vs the last 4 years) to support leading-edge node development (7-5-3nm), we believe FRCB will benefit from being TSMC's LT partner, with resilient job orders. We expect its share of TSMC's repair and maintenance costs to reach 16% (30% revenue CAGR in FY20-23) from 9% in FY16. With node-migration breakthroughs by TSMC ([3nm by FY22E](#)) and new engineering processes, mgmt expects that even tougher precision-cleaning processes will be needed, aiding FRCB's sales and profitability.

Frontken's specialisation in critical component precision cleaning, which is a more complex cleaning process, strong R&D capabilities (~3-8% of rev) and relationships with key client enables it to co-develop cleaning solutions for the latest node technologies as early as 18-24 months pre-production. Frontken's significant operating leverage, given its experience in driving process improvements, creates entry barriers for peers, who have to contend with customers' stringent compliance standards.

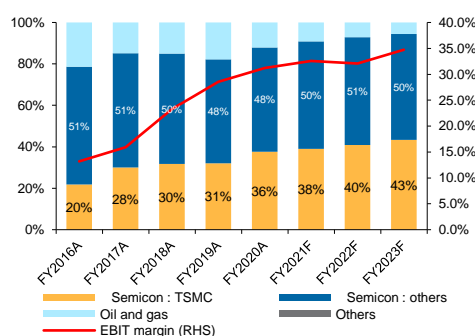
#### Valuation to remain buoyant amid strong momentum

We value FRCB at RM3.90, based on 43x (+1.5SD) CY22E net profit (exc. net interest). We believe its recurring, high-quality earnings and superior margins justify a premium. We estimate a 26% net profit CAGR over FY20-23E. LT drivers include: 1) the global outlook for semiconductor; 2) robust fab investments; and 3) node advancements.

## Inside

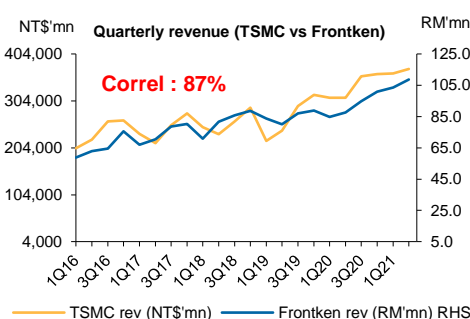
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**Higher contribution from semicon supported margin expansion (note : EBIT margin expanded 18ppt FY16-20 from 13% to 31% as they pivot towards higher value jobs)**



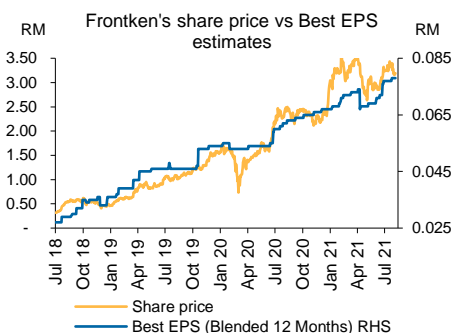
Source: Company data, Macquarie Research, August 2021

**Frontken's quarterly revenue has had 87% correlation with TSMC's quarterly revenue since 1Q2016**



Source: Company data, Macquarie Research, August 2021

**Frontken's EPS has enjoyed consistent upgrades since 2018, supporting share price**



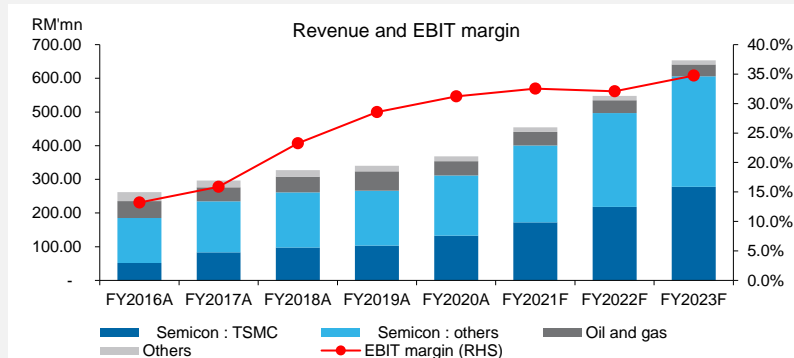
Source: Company data, Macquarie Research, August 2021

## High-precision cleaning-services leader

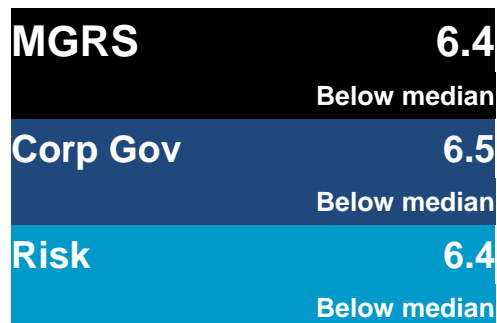
### Company profile

- Established in 1996, Frontken began as Frontken Singapore, which was subsequently incorporated in Malaysia in April 2004. It currently has 1,130 employees, with facilities in Malaysia, Singapore, Taiwan, the Philippines, and Indonesia. Its core services include advanced precision cleaning, recycling and refurbishment, advanced thermal spray coating and advance materials-engineering R&D support.
- The Group's customer portfolio comprises key players in the semiconductor, optoelectronics, oil and gas, and petrochemicals industries around the world, but it has the highest exposure to semiconductors (91% of FY22E revenue). Geographically, it has the highest exposure to Taiwan, where – we estimate – it will generate 67% of its FY22E revenue. Management says it serves >150 customers in the semiconductor industry in Taiwan alone, including Tier-1 foundries, which we believe includes TSMC (2330 TT, NT\$552.00, Outperform, TP: NT\$765.90, Nicolas Baratte).
- Industry dynamics.** We believe the most important competitive factors in the precision-cleaning business are quality, services and price. Quality is important, given the high investment in semiconductor equipment. Vendors must ensure that cleaned components are not damaged in the process while maintaining the efficiency of devices after re-assembly. Wafer fabrication runs 24 hours a day, 7 days a week; hence, service reliability is critical; unscheduled outages due to vendors' failure to meet deadlines affect the production process. Thus, client accreditations (especially by Tier 1 clients) lend credit to Frontken's technical and service competence.
- Resilient to semiconductor cyclicalities.** Among its client base, the constant requirement for precision-cleaning services (normally based on scheduled maintenance) provides stable and, to some extent, low-risk recurring revenue. Revenue is derived from Frontken's frequency / volume of services, which means higher fab utilisation will be a key revenue driver.
- Semiconductor rev increased from 55% in 2015 to 85% in 2020.** Mgmt's strategic shift towards semiconductors in the last 5 years has supported stellar margin expansion, where recurring wafer production, combined with continuous R&D to optimise its processes, has been fruitful and created a strong moat for its services. In the next 3 years, we est. semiconductor revenue share will grow marginally to 93% in FY23E (from 85% in FY20A), and margin expansion will come from foundries' expansion, supporting revenue and higher-value jobs (7-5-3nm). Our flat margin estimates for FY21/22E are due to higher costs due to capacity expansion (new Taiwan facilities operational mid-22).

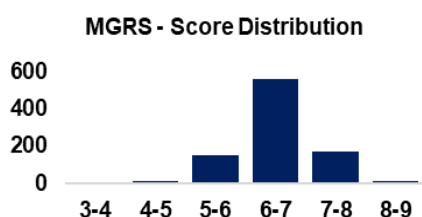
**Fig 1 We expect to see 21% revenue CAGRs in FY20-23E and EBIT margin to expand to 35% in FY23**



Source: Company data, Macquarie Research, August 2021



Quartiles (Q1: best) and distribution are based on our Asian coverage universe



Source: Macquarie Research, August 2021

In 2015, we launched the Macquarie we launched the Macquarie Governance and Risk Score (MGRS) to assess corporate governance ('CG') and inherent risk ('Risk') to published accounts. This series of reports marks an expansion of MGRS to our [entire Asian coverage](#) as well as an update of our proprietary set of questions. In MGRS, each covering analyst uses their on-the-ground knowledge to answer 120-130 questions (c.65% objective) spread across six CG and four risk categories, the results of which generate a score. In these sheets, the analysts highlight key points within assessments and identify areas in which form might not match substance. Click the link below for the detailed methodology.

## ESG Research

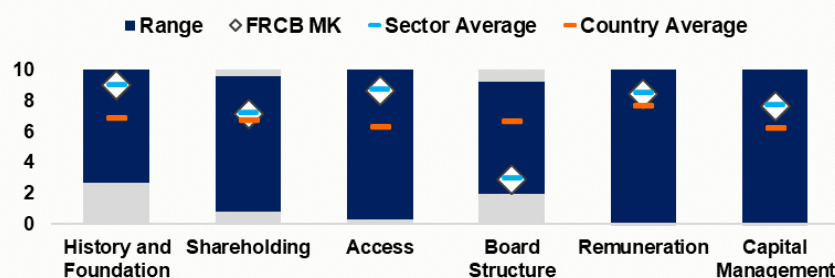
## Macquarie Governance and Risk Score

### Summary

Frontken provides high-precision cleaning and surface treatment services to extend the shelf life of chamber-process components for foundries. Given its business model, it is an indirect beneficiary of semiconductor manufacturing expansion plans, servicing more than 150 clients in Taiwan alone. High customer concentration risk (36% of FY20 revenue for Tier-1 global foundry) drags on its MGRS scores. Besides its key client, no other client generates more than 10% of its yearly revenue.

### Corporate Governance

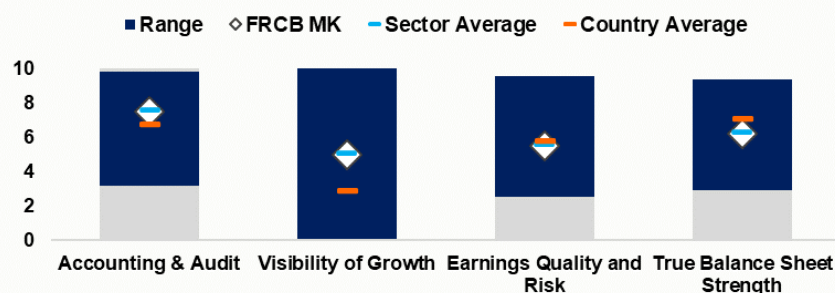
- Frontken scores relatively well across all segments except board structure due to no split between CEO/Chairman, no female representation on its board and the limited number of independent directors (2 out of 5 board members).
- Frontken organises quarterly calls with the investment community after results are released and access to management is given, including the CEO.



Source: Bloomberg, FactSet, Macquarie Research, August 2021

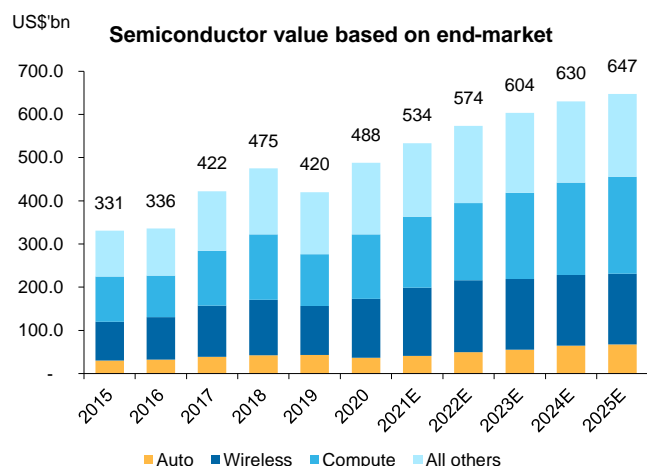
### Risk

- Customer concentration due to high percentage linked to Tier-1 foundry (which we believe is TSMC) drags earnings risks while a net-cash position drags on balance-sheet strength. Frontken had RM424mn cash as of 2Q21 which will be used to partially fund its expansion plans in the next 2-3 years (high capex cycle FY21-22E) and potential M&A opportunities.



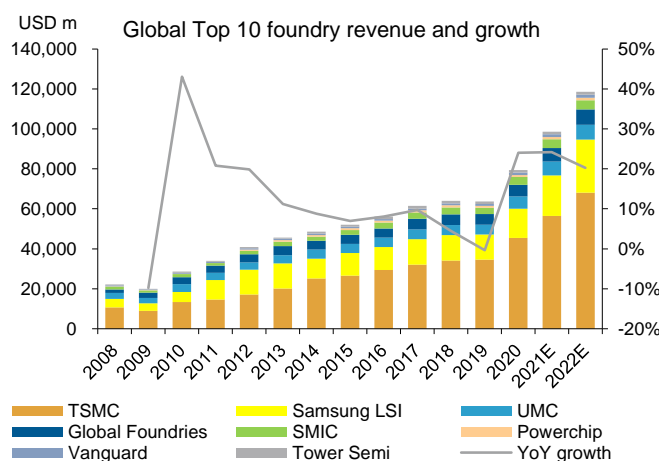
Source: Bloomberg, FactSet, Macquarie Research, August 2021

**Fig 2** Gartner estimates the semicon end-market's value could be US\$650bn in 2025F...



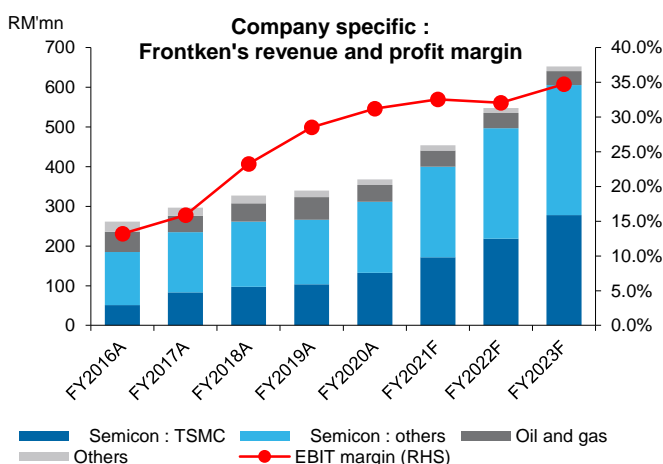
Source: Gartner, IDC, Macquarie Research, August 2021

**Fig 3** ...with the top-10 foundries set to enjoy a 23% revenue CAGR over FY20-23E



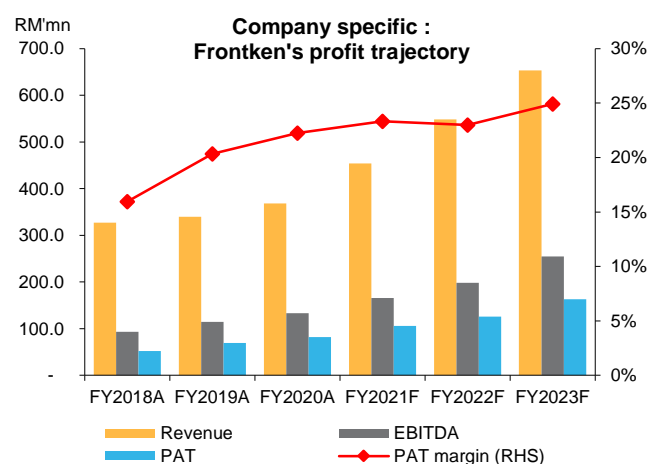
Source: Gartner, IDC, Company data, [Macquarie Research](#), August 2021

**Fig 4** FRCB is a key technology partner for global foundries; we estimate a revenue CAGR of 21% in FY20-23...



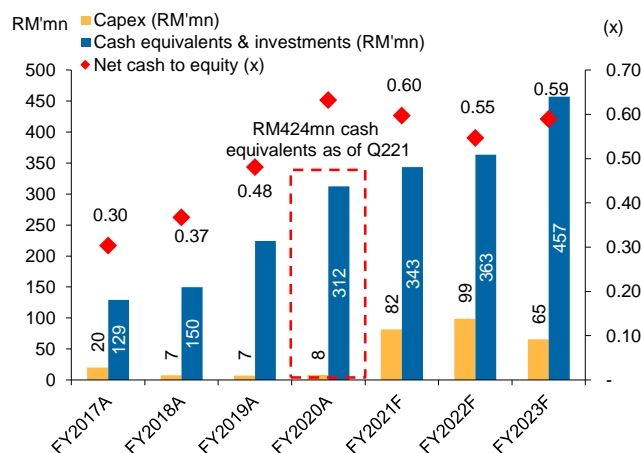
Source: Company data, Macquarie Research, August 2021

**Fig 5** ...supporting 26% CAGR net profit growth. We est. the profit margin will expand to ~27% on operating leverage...



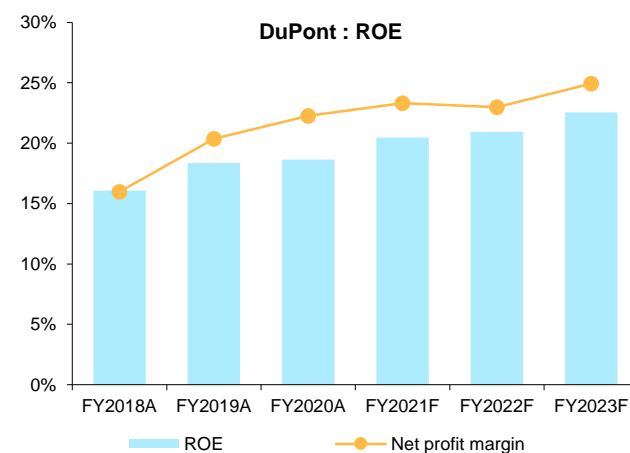
Source: Company data, Macquarie Research, August 2021

**Fig 6** ...and low capex intensity vs foundries. But ample cash holdings will support its elevated capex next few years



Source: Company data, Macquarie Research, August 2021

**Fig 7** DuPont: ROE to improve to 23%, supported by its improved profit margin



Source: Company data, Macquarie Research, August 2021

## Attractive volume play on bullish semi trends

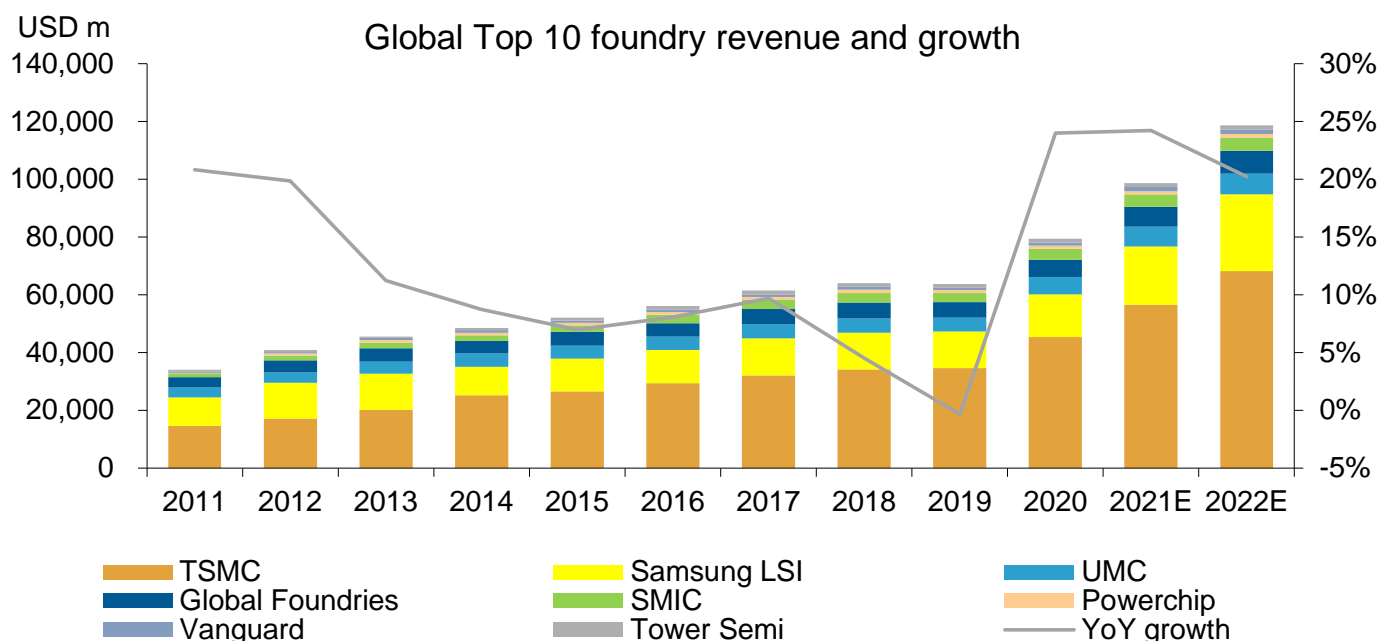
Fig 8 SWOT analysis

Strengths	Weaknesses
<ul style="list-style-type: none"> <li>Excellent track record in execution of precision cleaning, in our view, as well as co-development of next-generation precision-cleaning solutions, together with OEMs and foundries.</li> <li>Able to pick and choose higher-margin business from customers while facing minimal cost-down/pricing competition from competitors</li> <li>Besides TSMC (40% of rev FY22E), no other customers generate &gt;5% of its revenue – a diversified customer base (Frontken has &gt;150 customers in Taiwan alone)</li> <li>Strong technology collaborations. Has existing collaborations (&gt;15 years) with Lam Research from the US, which opened its <a href="#">800,000 sq ft manufacturing facility</a> in Penang, Malaysia, in Aug 2021.</li> </ul>	<ul style="list-style-type: none"> <li>O&amp;G segment is a drag on overall returns.</li> <li>Low risk appetite and relatively passive; prefers not to aggressively gain market share from competitors who offer lower prices for their services.</li> </ul>
Opportunities	Threats
<ul style="list-style-type: none"> <li>Frontken is undertaking due diligence to follow key customer TSMC in Arizona. It would be a lower-return operation (due to high costs and low initial volumes), but with high LT upside potential. No decision has been made, and further announcements are expected in 2022. Although this may drag earnings in the near term, we believe news flow will support multiple expansion.</li> <li>We believe O&amp;G is a drag on its earnings and see opportunity for disposal of the company's O&amp;G arm to boost ROEs as discussed by the company</li> </ul>	<ul style="list-style-type: none"> <li>The semiconductor sector is cyclical. Over-expansion at the peak of the cycle could lead to lower returns.</li> <li>Highly focused on a few major customers. If customers lose technological advantages to their competitors, it would also affect Frontken's growth opportunities.</li> </ul>

Source: Company data, Macquarie Research, August 2021

### MQ expects global foundries' revenue to see a 22% CAGR in FY20-22E

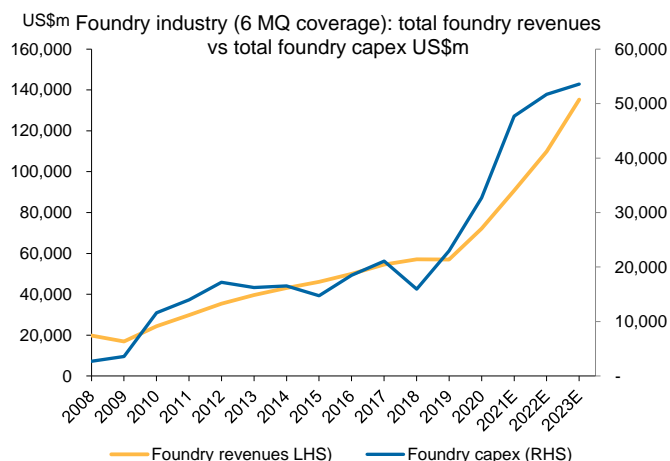
Fig 9 As a house, MQ expects revenues of the top-10 foundries globally to see a 22% CAGR in FY20-22E, largely driven by the #1 player, TSMC (which we believe is Frontken's key client)



Source: Gartner, IDC, Company data, Macquarie Research, August 2021

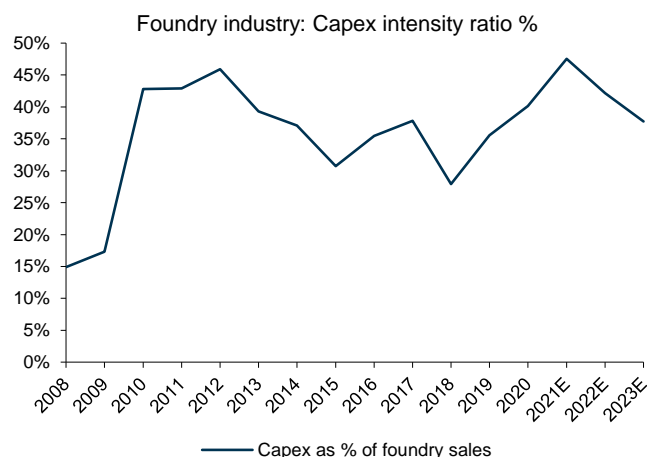


**Fig 10 For the 6 foundry companies covered by Macquarie, we expect capex to pick up at a 26% CAGR in FY20-22E...**



Source: Company data, Macquarie Research, August 2021

**Fig 11 ...where we expect capex as a % of foundry sales to be ~42-48% in FY21-22E**



Source: Company data, Macquarie Research, August 2021

**Our Co-head of Asia Tech Research, Nicolas Baratte, does not believe there will be a risk of overcapacity for foundries**

Since Frontken's customer base of >150 clients (in Taiwan alone) include other global foundries as well, we believe increased capex guidance by the top 10 global foundries should bode well for Frontken, as demand for its precision-cleaning services will be higher, affirming our house view on strong chip demand. Our Co-head of Asia Tech Research, Senior Analyst, Nicolas Baratte, per his series of foundry sector reports, believes that – given the US\$100bn semiconductor plans of the US and the EU and the foundry capex of Intel US\$20bn, Samsung US\$35bn, and TSMC US\$100bn – there will not be a risk of [overcapacity](#). Macquarie forecasts suggest that capex levels correspond to the value of the semi industry increasing at a 7% CAGR over 2020-24, with foundry growing at at 7%. Higher capex is also supported by structural demand coming from higher silicon content in PCs and servers, smartphones and auto, and expected content growth to keep leading-edge nodes (7-5-3nm EUV) at full capacity in 2-3 years. The US/EU funding plans will also not come on top of Intel's/Samsung's/ TSMC's capex but will fund these firms. Recently, he estimated that legacy foundry capex will [add 14% capacity over 3 years](#) (FY22-24E), which is sufficient and should be compared to a 5% shipment CAGR over FY14-20.

### Riding high on TSMC's coat-tails

TSMC benefits from its technology leadership, which allows rapid time-to-market for foundry customers. Due to better time-to-market and a faster yield learning curve, TSMC has maintained a dominant position in nanometer technologies. HPC will be its main growth driver, with 3nm demand driven by HPC and smartphones. In its recent [2Q21 analyst briefing](#), TSMC raised its US\$ revenue growth guidance to >20% in 2021. Management expects TSMC's latest 3nm volume production to be in production in 2H22, in line with Frontken's completion of its new Taiwan facility. We believe it is crucial for Frontken to expand its facilities to ensure a presence near its key customers, and improved production flows will also help improve its margins.

### TSMC's aggressive capex of US\$100bn in the next 3 years bodes well for Frontken

Robust 2021 capex guidance of US\$30bn (US\$100bn in FY21-23E is +150% over the next 4 years compared to the past 4 years) was well above market expectations and continues to highlight its commitment to technology leadership, as well as structural underpinnings that fuel demand for advanced chipmaking technology. The breakdown of 2021 capex consists of 80% for advanced nodes, 7-5-3nm, 10% for advanced packaging and masks, and 10% for specialty and mature nodes. Taiwan will remain the base for R&D and core of manufacturing; new nodes will be ramped up in Taiwan. 80% allocation for advanced nodes means that a more complex precision-cleaning process will be required from Frontken, which will further support its revenue and profit-growth trajectory.

**TSMC's aggressive capex guidance highlights its emphasis on technology leadership and expectation of high chip demand...**

**Highly personalised customer-centric approach has created a retention moat for its services within TSMC's supply chain**

### **High retention moat: continuous R&D, pricing roadmap, and faster turnaround time**

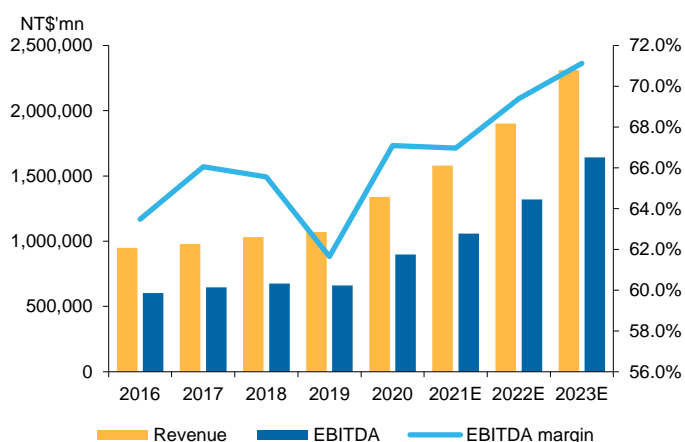
TSMC's aggressive capex signals how foundries are investing to make chips denser, faster and more energy efficient. Frontken's management believes its focus on cleaning critical components of foundries' equipments and continuous R&D in ultra-purity cleaning processes and surface treatments to increase efficiency, thus creating operating leverage, allows it to be competitive vs peers and sustain high customer-satisfaction levels, making its business difficult to disrupt for competitors. As nodes get smaller, the levels of particle and deposition contamination have become increasingly critical to increase parts' shelf life.

We note, however, that the company does not disclose its R&D expenses in its filings, but take comfort that its margin expansion of 180 pps in FY16-20 (from 13% to 31% EBIT margins in FY16 to FY20) is a testament to its claims. Management guided that it has historically spent between 3-8% of its revenue on R&D, and we expect it will remain elevated at a high-single-digit % with leading-edge node production. We note that its EBIT expansion is due to 2 reasons:

- 1) A strategic shift to increase semiconductor revenue from 55% in 2015 to 85% in 2020
- 2) more focused R&D in semiconductor, given the recurring nature of the business, helps efficiency.

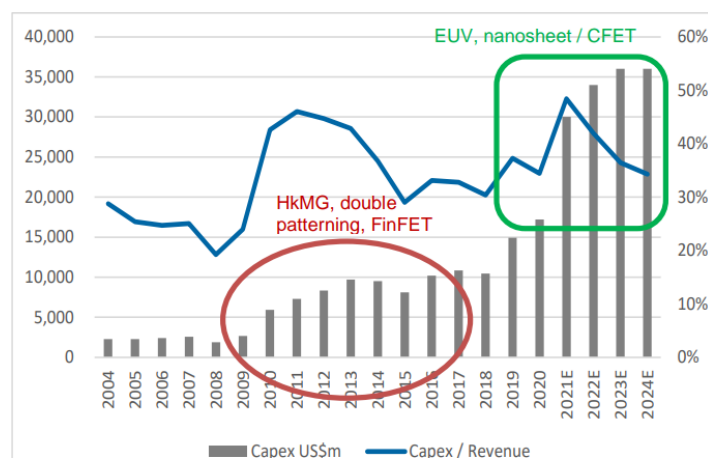
Although it has a cost reduction roadmap with its key clients for older nodes, to reduce clients' operating costs, its faster turnaround time and quality of data collection, using high-end metrology equipment, have created a strong retention moat for its services and provide opportunities for Frontken to participate in new node development processes, which naturally should allow it to command premium pricing, since it is a privilege its competitors might not get.

**Fig 12 Macquarie expects TSMC's revenue/profit to see a 20% CAGR in FY20-23E, with rising profit margins (target GPM of >50%)**



Source: Company data, Macquarie Research, August 2021

**Fig 13 TSMC's capex of US\$100bn in FY21-23E signals strong client engagement, which MQ believes, is a strong pipeline from AMD, Nvidia and Intel outsourcing...**



Source: Company data, [Macquarie Research](#), August 2021

## Revenue drivers

### TSMC: ~40% of FY22E revenue; other foundries ~51% of FY22E revenue

*Frontken's quarterly revenue has had an 87% correlation to TSMC's revenue since Q1'2016*

*Barrier from Frontken's perspective is incremental when there's node migration, as it is already handling the most advanced nodes*

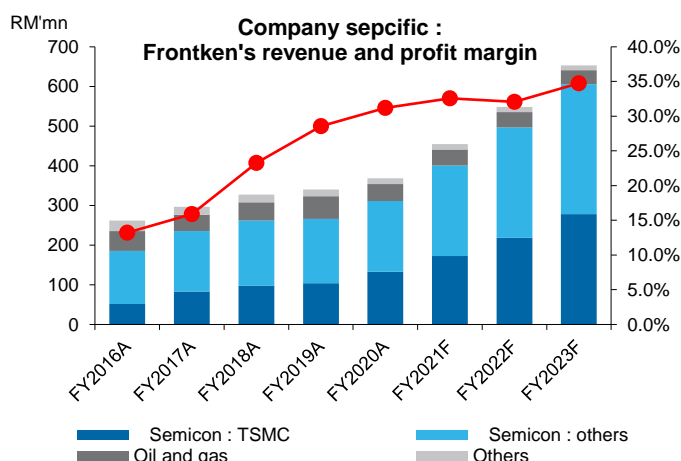
*FRCB spends 18-24 months during clients' R&D stage, providing problem-solving support for new-node production*

We forecast Frontken's semiconductor revenue (91% FY22E) to deliver a 25% CAGR, supported by increasing wallet share from key customer TSMC and other foundries it has been supporting. As for TSMC, we expect Frontken's wallet share as a percentage of its repair and maintenance costs to increase from 10% in FY17 to 16% in FY23E, supporting 28% growth in revenue from TSMC. We believe Frontken's services demand will be driven by more high-value-add services from TSMC's nodes advancements (5nm to 3nm).

Historically, Frontken's performance has strongly correlated to TSMC; we observed an 87% / 73% revenue/ net profit correlation based on both companies' quarterly results since 1<sup>st</sup> quarter 2016. TSMC's revenue and profit enjoyed 11%/ 15% CAGRs over FY17-20 vs Frontken's at 8%/40% over the same period. **Why?** Although technological advancements, from its clients' perspectives, are relatively steep to migrate from 5nm to 3nm, the barrier from Frontken's perspective is incremental, as it is already handling the most advanced nodes. Usually, it would have spent 18-24 months getting involved in the very early stages of its clients' R&D processes and providing problem-solving support for new nodes until commercial production. As it handles more of the same tools over time, efficiency is developed, and significant operating leverage is acquired. Historically, Frontken has had no difficulty in handling new tools that are required by its customers in the production of their most advanced chips.

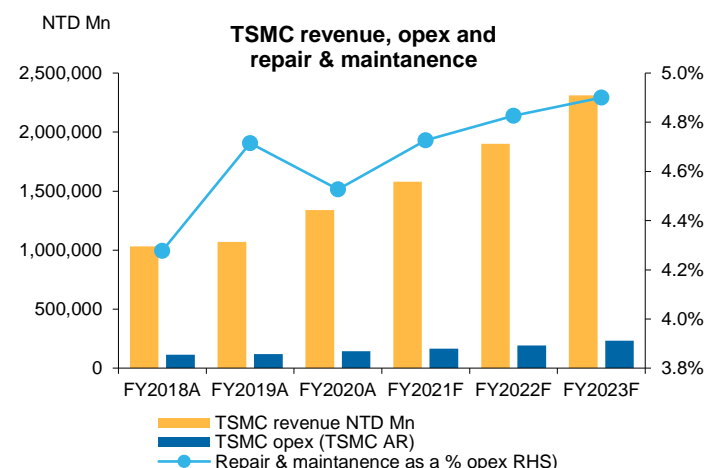
As for the other foundries, we forecast a 22% revenue CAGR over FY20-23 on other foundries' aggressive capex plans (26% CAGR FY20-22E). The close and long-established relationships that Frontken has had with existing clients (some >10 years) enables clients to trust Frontken with their products' intellectual property (IP) and designs. Management attributes the resilient earnings outlook to high customer stickiness.

**Fig 14** We forecast a 21% revenue CAGR over FY20-23E and higher contributions from the semiconductor sector to drive margin expansion



Source: Company data, Macquarie Research, August 2021

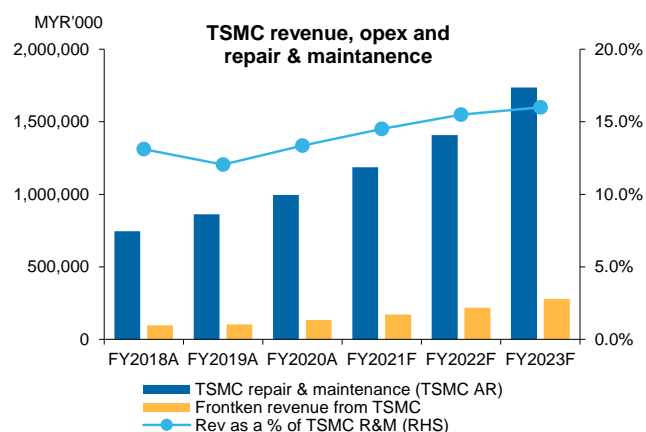
**Fig 15** As for its key client, MQ estimates TSMC to deliver a 20% revenue CAGR in FY20-23E, with opex at ~10% of its revenue in the next 3 years



Source: Company data, Macquarie Research, August 2021

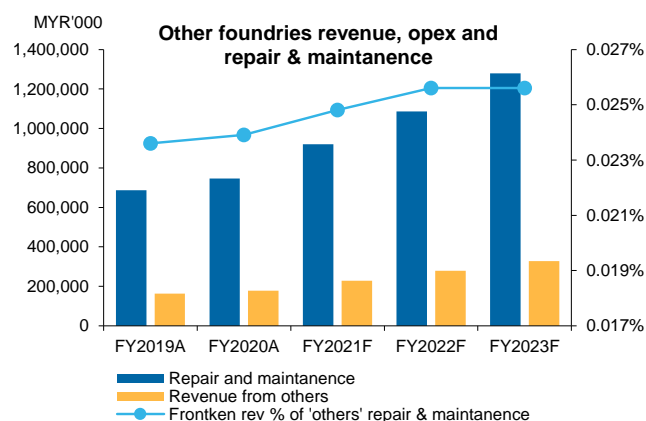


**Fig 16** We estimate Frontken's wallet share of TSMC's repair and maintenance costs will increase to ~16% in FY23E, supporting a 28% revenue CAGR from TSMC over FY20-23E



Source: Company data, Macquarie Research, August 2021

**Fig 17** As for other foundries, we estimate its wallet share of their repair and maintenance services to increase, supporting a 22% revenue CAGR in FY20-23E



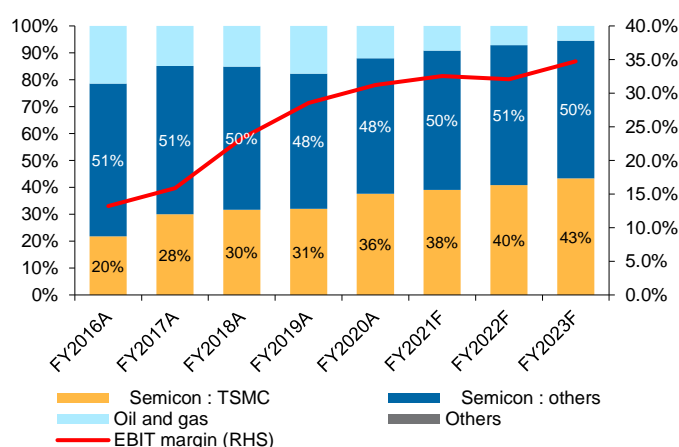
Source: Company data, Macquarie Research, August 2021

### Margin expansion: we expect EBIT margin to expand to 35% FY23E

**Significant operating leverage gained from optimization of process technologies, supporting margin expansion**

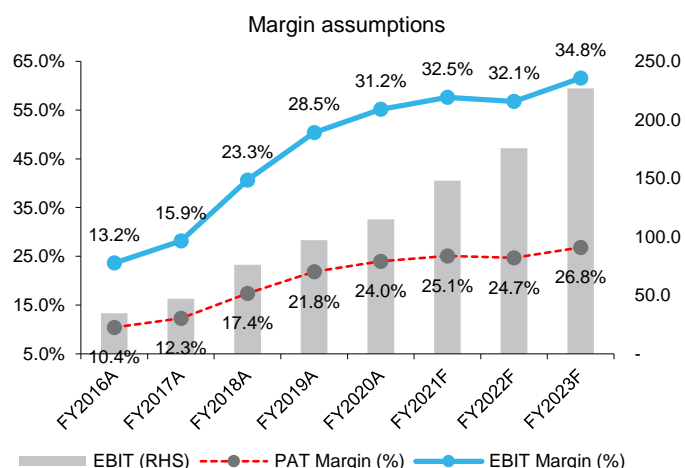
Historically, we see that Frontken's business pivot to higher revenue contributions from the semicon industry, particularly TSMC, has been the key driver of its **EBIT margin**, which **expanded 18ppts over FY16-20 from 13% to 31%**. We believe this margin improvement was the result of higher services fees for handling the complex process of advanced wafer fabrication. We forecast its EBIT margin to expand to ~34% in FY23E (from 31% in FY20A). We also note that Frontken commands superior margins vs peers (25% profit margin in FY22E vs peers' 9-16% based on Bloomberg estimates).

**Fig 18** As semicon revenue share increases to 93% in FY23E ...



Source: Company data, Macquarie Research, August 2021

**Fig 19** ...node migration for the semiconductor segment, supports Frontken's EBIT margin expansion moving forward to ~35% in FY23E

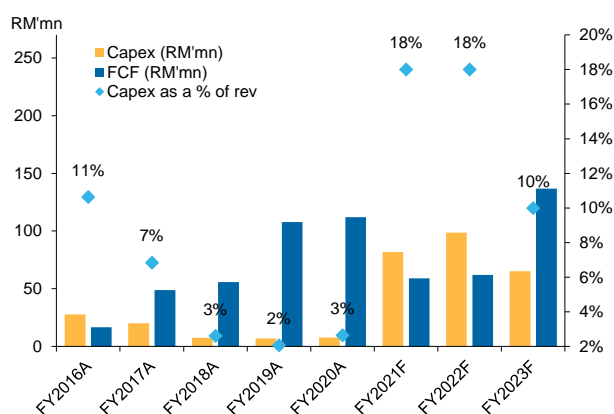


Source: Company data, Macquarie Research, August 2021

### Tight working capital management and firm net cash position should support capex expansion in the next few years

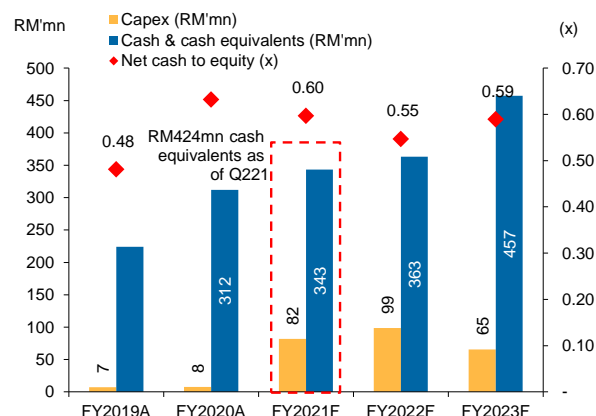
Frontken is a cash-generative business, with free cash flow delivering a 32% CAGR over FY17-20. Its average capex spending has been minimal, at an average of RM16mn/annum in the last 5 years, which also supports its ample cash balances, which saw a 34% CAGR during the same period. It generated, on average, ~RM120mn/annum of operating cashflow in the past 2 years. However, we expect elevated capex spending of ~RM80-100mn in FY21-22, declining to RM65mn in FY23 to support its facility expansion plans in Taiwan.

**Fig 20 We expect capex to be elevated in the next few years, in line with key customers' capex guidance ...**



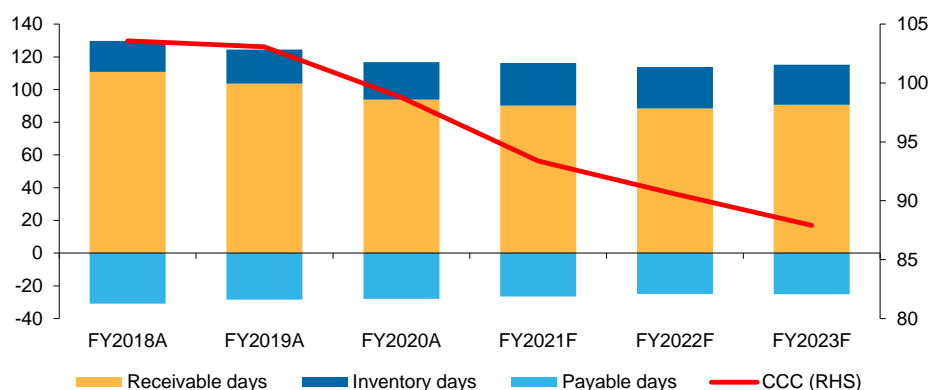
Source: Company data, Macquarie Research, August 2021

**Fig 21 ...ample cash will help support Frontken's expansion plans moving forward; we est. net cash to equity of 0.55x FY223E**



Source: Company data, Macquarie Research, August 2021

**Fig 22 Cash conversion cycle (CCC) number of days has been on a declining trend due to shorter receivable days on faster payments by key clients**



Source: Company data, Macquarie Research, August 2021

### Facilities expansion plans...

Frontken acquired a building in Kaohsiung, Taiwan on 9 July 2021 which will increase its capacity by 2.5x. The company recently spent RM53mn to acquire a new facility in Taiwan as part of its expansion plans to support its key customers. However, expansion will be done in 3 phases and management expects during phase 1, Plant 2 in Taiwan will not run at full capacity.

Given ample cash holdings and room to gear up, management is actively looking for land and facilities to expand in Taiwan which corroborates with our view on its robust order visibility. Frontken's CEO guides that order visibility from its key client is relatively firm in the next 10 years, supported by clients' aggressive capex plans as well.

## Valuation, recommendation, risks

We initiate on Frontken with an Outperform call and RM3.90 target price (implying 23% upside). We value the stock by pegging FY22E net profit (exc. interest) to a 12-month forward 43x PER, 1.5SD above its 3-year average, which is supported by a 26% profit CAGR in FY20-23E (vs an historical 40% profit CAGR over FY17-20).

**Fig 23 Target price of RM3.90**

	FY2020A	FY2021F	FY2022F	FY2023F
Revenue	368,319	454,346	548,059	653,002
3-year rolling revenue CAGR	7%	12%	17%	21%
Net profit	81,967	105,949	125,972	162,789
Net profit (ex-interest expense)	88,984	114,416	135,947	175,535
3-year rolling net profit CAGR	40%	27%	22%	26%
Target PE (at 43x PER)	43	43	43	43
<b>Valuation @43x PER</b>	<b>3,795,168</b>	<b>4,879,863</b>	<b>5,798,119</b>	<b>7,486,569</b>
+ Net cash / (debt)			329,266	
Net valuation			6,127,385	
No. of shares			1,571,840	
<b>Target price (RM)</b>			<b>3.90</b>	
Share price (RM)			3.16	
Upside/(downside)			23.4%	

Source: Company data, Macquarie Research, August 2021

**Fig 24 Bear, base and bull case**

	FY2020A	FY2021F	FY2022F	FY2023F
<b>Bear case @ valuations of RM2.60</b>				
PE ratio at TP	45.8x	35.5x	29.9x	23.1x
P/B ratio at TP	6.2x	6.6x	6.8x	5.7x
EV/EBITDA ratio at TP	18.4x	18.7x	19.1x	14.5x
FCF yield (%)	4.18	1.73	1.52	3.44
<b>Base case @ valuations of RM3.90</b>				
PE ratio at TP	69.4x	53.8x	45.2x	35.0x
P/B ratio at TP	9.3x	9.9x	10.2x	8.5x
EV/EBITDA ratio at TP	28.6x	29.0x	29.4x	22.5x
FCF yield (%)	2.79	1.16	1.01	2.30
<b>Bull case @ valuations of RM4.40</b>				
PE ratio at TP	77.6x	60.2x	50.6x	39.2x
P/B ratio at TP	10.5x	11.1x	11.5x	9.6x
EV/EBITDA ratio at TP	32.5x	32.9x	33.4x	25.6x
FCF yield (%)	2.47	1.02	0.90	2.04

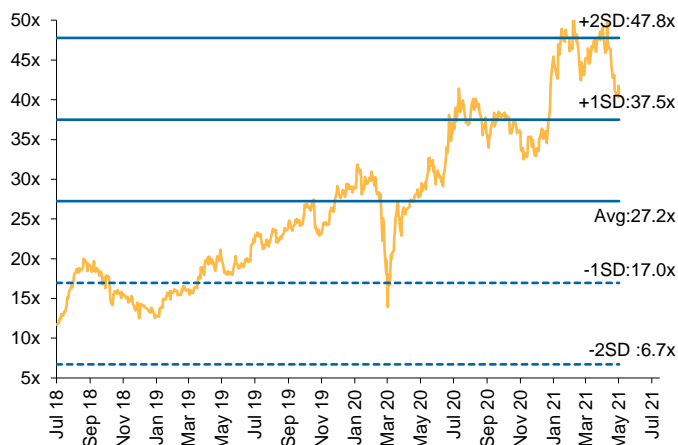
Source: Company data, Macquarie Research, August 2021

**Fig 25 Largely in line vs consensus but picks up in FY23E as we assume higher profit from higher plant utilisation expected to be completed in 2H2022. We assume higher costs related to expansion plans in FY21-22E**

Year Ending (MYR '000s)	FY2021F	FY2022F	FY2023F
Revenue	454,346	548,059	653,002
Consensus	469,750	547,000	603,000
variance (%)	-3.3%	0.2%	8.3%
EBITDA	165,941	198,022	254,844
Consensus	166,667	200,000	232,000
variance (%)	-0.4%	-1.0%	9.8%
EBIT	147,871	175,724	226,937
Consensus	155,000	189,500	210,333
variance (%)	-4.6%	-7.3%	7.9%
Net Profit	105,949	125,972	162,789
Consensus	108,250	132,250	152,000
variance (%)	-2.1%	-4.7%	7.1%

Source: Company data, Macquarie Research, August 2021

**Fig 26 1-yr fwd PER: Frontken is trading at +1.5SD, based on its 3-year historical average**



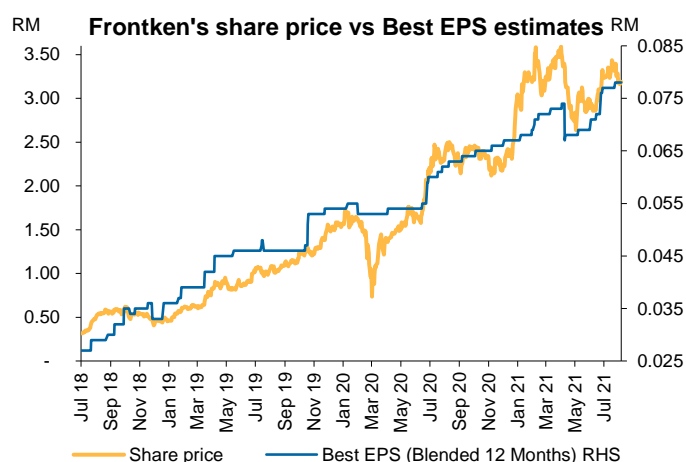
Source: Company data, Macquarie Research, August 2021

**Fig 27 1-yr fwd PB: Frontken is trading slightly above its 3-year historical average**



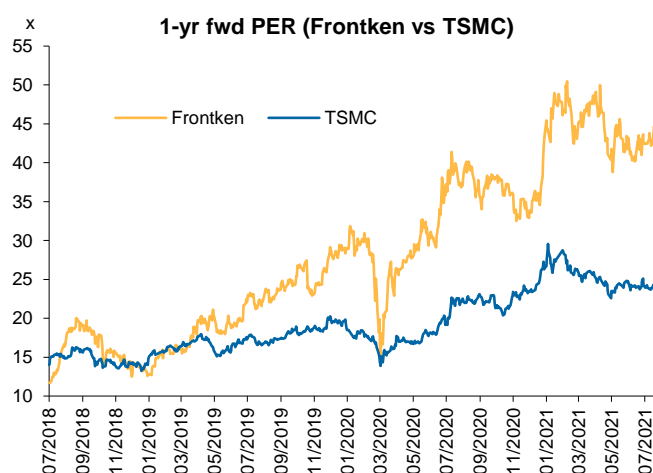
Source: Company data, Macquarie Research, August 2021

**Fig 28 Frontken has enjoyed consistent upgrades in outlook / EPS, which further support its share price rerating...**



Source: Company data, Macquarie Research, August 2021

**Fig 29 ...although it trades at a premium vs TSMC, its profit has grown at a faster rate as well (TSMC's profit CAGR was 15% in FY2017-20 vs Frontken's 40%)**



Source: Company data, Macquarie Research, August 2021

## Relative valuation

**Valuation fairly consistent with M'sian darling tech stocks, although we believe it deserves a valuation premium vs local peers, as it provides front-end exposure to the semiconductor market**

Valuations of Malaysia technology companies have never been cheap (KLTEC PER 47x for FY21E) relative to regional tech players, reflecting the scarcity premium for exposure in this space.

Compared to its local peers, we believe its exposure to the front-end semiconductor market (91% of FY22E revenue) justifies its premium valuation when compared to other technology names in Bursa Malaysia, which are more back-end related. Unisem, which is an outsourced assembly and testing (OSAT) semiconductor company, trades at a discount vs Frontken, in line with our thesis of premium valuation attached to the front-end semiconductor market. Although we are cognisant of its precision-cleaning peers regionally, we believe, due to the unique Malaysia technology landscape, we think Frontken should be compared to its Malaysian peers as the Malaysian technology companies differ from regional peers due to the uniqueness of the structural domestic market; we believe the sector is simply too small and there is high liquidity chasing too few good ideas / good thematic.

For the technology stocks under our coverage, we prefer **Frontken > Inari > Greatech > Vitrox**.

(Refer to our recent reports on [Greatech](#), [Inari](#) and [Vitrox](#))

**Fig 30 Relative valuation vs Malaysian technology peers**

Name	Bbg Code	Rec	TSR	Price (Icy)	Mkt cap (US\$m)	PER (x)			EV/EBITDA (x)			EV/Sales		
						20A	21E	22E	20A	21E	22E	20A	21E	22E
Malaysia technology peers														
Frontken	FRCB	OP	24%	3.16	1,178	60.6	42.6	39.4	34.9	28.1	23.5	12.7	10.3	8.5
Greatec	GREATEC MK	OP	23%	7.10	2,102	104.4	53.4	40.8	82.3	46.8	33.9	20.8	17.0	12.8
Inari	INRI MK	OP	21%	3.43	2,984	74.8	36.6	31.9	44.8	26.7	22.8	6.6	8.0	6.9
Vitrox	VITRO MK	N	4%	19.64	2,193	85.4	52.0	44.3	76.9	46.5	39.5	14.3	13.2	11.5
Pentamaster	PENT MK	na	na	5.29	891	54.5	43.0	35.7	30.9	24.4	19.9	8.0	6.5	5.5
MI Technovation	MI MK	na	na	3.99	774	52.5	41.6	30.7	52.9	36.2	25.4	12.5	8.9	6.5
Globetronics	GTB MK	na	na	2.07	328	26.5	24.1	20.3	13.6	13.3	11.8	7.2	4.6	4.2
Unisem	UNI MK	na	na	8.56	1,632	48.2	30.5	26.0	19.5	14.7	13.2	3.5	4.1	3.8
Kellington	KGRB MK	na	na	1.23	187	24.6	24.1	20.5	30.1	17.7	15.2	1.2	1.7	1.5
UWC	UWC MK	na	na	5.56	1,447	113.5	63.9	42.8	78.7	45.8	31.4	11.2	17.8	12.9
Mkt weighted average						76.3	44.5	36.1	54.0	33.6	26.6	11.0	10.8	8.7

Source: Company data, Macquarie Research, August 2021. All estimates are from Bloomberg except for Frontken, which is Macquarie's estimates.



## Risks

### Customer concentration risks

- ⇒ We estimate 40% of FY22 revenue will be from TSMC. While customer concentration is never a positive, the fact that Frontken has tied its fortunes (revenue / net profit increased at 8%/40% CAGR FY17-20) to one of the largest global foundries makes us feel comfortable about its prospects. We also estimate ~80% of its revenue is generated from publicly listed companies.

### Inventory correction for semiconductor industry

- ⇒ The global chip shortage started end-2020 and has affected several industries from automobiles to smartphones and home appliances forcing car makers to halt production lines. It was worsened in 2021 by a fire at a chip plant in Japan and blackout in Texas, where a few chipmakers have factories. Our MQ semiconductor team expects semi supply to remain tight until 2022, improving in 2023.

### Natural disasters such as earthquakes and droughts in operating countries; Taiwan particularly

- ⇒ Taiwan experiences major earthquakes at least 2-3 times a year at 6-7 magnitude, most recently in [April 2021](#). These earthquakes will have a supply chain impact on semiconductor players and its value chain in Taiwan, Frontken included.
- ⇒ [Drought hitting Taiwan](#) also adds strain to Frontken's operations that serve >150 customers in Taiwan mainly semiconductor foundries. As Taiwan experiences the worst drought in >50 years, TSMC has resorted to [trucking in tanks of water](#) from the island's greener south side to maintain production. It however reaffirms so far there will be no impact on its production. The industry requires huge quantities of water to churn out chips and the Taiwanese government began rationing water late last year as the island experienced zero monsoons for the first time since the 1950s.

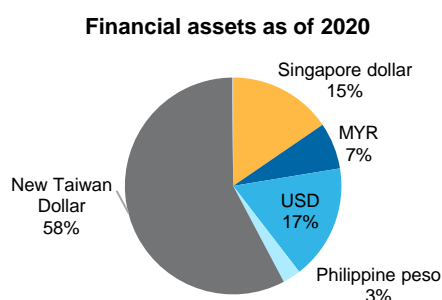
### Power outages in Taiwan

- ⇒ Intermittent [power outages](#) do occur in Taiwan that have affected TSMC's facilities where it has experienced a [brief power dip](#). However, TSMC has taken emergency response measures with prepared generators to minimize the potential impact.

### Foreign currency risks

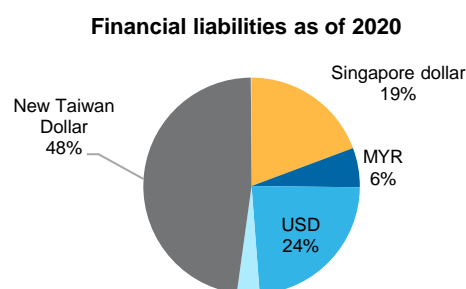
- ⇒ >90% of its financial assets are denominated in non-MYR which is mitigated by financial liabilities denominated in foreign currency as well. This means its sales and purchases are denominated in local currencies of the countries it operates. Having said that, the forex exposure is subject to translation risks as its financial statements are in MYR.

Fig 31 93% of its financial assets in non-MYR...



Source: Company data, Macquarie Research, August 2021

Fig 32 ...which is cushioned by financial liabilities denominated in foreign currency based on the countries of its operations



Source: Company data, Macquarie Research, August 2021

## Appendices

### Management team

#### Chairman / CEO - Nicholas Ng Wai Pin

He was re-designated as the Chairman / CEO of the Company on 29 March 2018. He holds a Bachelor of Law degree from the University of Auckland and was admitted to the roll of barristers and solicitors of the High Court of New Zealand in 1989. He was admitted as an Advocate and Solicitor of the High Court of Malaya in 1993. He later became a Director and CEO of an oil and gas services company listed on Bursa Malaysia Securities Berhad with regional operations, before returning to private practice in law. From September 2005 to February 2009, he was the COO of a company listed on the Singapore Exchange Limited and was seconded as the CEO of a company listed on the Australian Stock Exchange. He is also the Executive Chairman of Ares Green Technology Corporation, a public company in Taiwan, R.O.C., a subsidiary of FCB. He also sits on the board of BSL Corporation Berhad as an Independent Non-Executive Director.

#### Executive Director / Chief Scientist – Dr Tay Kiang Meng

Dr Tay Kiang Meng is responsible for R&D leading the Group's technology roadmap, formalising the Group's quality systems, developing critical manufacturing technologies for Frontken's semiconductor technology and advanced materials engineering, and exploring new technology opportunities for the Group. He has >20 years of professional experiences in technology development, R&D, and has led some of the most significant technology innovations in semiconductor-related manufacturing technology and advanced materials engineering.

An engineer and scientist by training, Dr Tay began his professional R&D experience with research think tank, Gintic Institute of Manufacturing Technology, Singapore. Dr Tay has received honours and awards in many of his academic, research and technology development work. Dr Tay also sits on the board of the FCB's subsidiary, Ares Green Technology Corporation.

#### Chief Financial Officer – Hee Kok Hiong

Hee Kok Hiong is a Fellow member of the Association of Chartered Certified Accountants (UK) and Chartered Accountant of Malaysia Institute of Accountants. He has more than twenty years of working experience in the areas of finance and administration where he started his career as an audit assistant at Ernst & Young in 1996 where he led and managed various statutory and special audits of companies in a wide spectrum of industries. He left the firm in 2001 to join a co-operative society as its Manager for Finance & Administration Department. Prior to joining Frontken as the Group Financial Controller in 2009, he was the Group Financial Controller of a private company with business operations worldwide, where he spent 5 years overseeing its finance, administration and human resource functions. Mr Hee also sits on the board of FCB's subsidiaries namely Ares Green Technology Corporation, Frontken Philippines Inc., TTES Frontken Integrated Services Sdn Bhd, Frontken Projects Sdn Bhd and PT Frontken Indonesia.

### Regional precision-cleaning peers

We believe Frontken's premium valuation vs regional peers such as Komico, Shih Her and Ultra Clean is justified due to its higher profit margin which we attribute to management's focus on R&D to further optimise its processes. Notwithstanding, its closest peer Komico is the biggest semiconductor production equipment (SPE) parts cleaning / coating service provider in Korea, and has also recently expanded to Taiwan. Its top 2 clients (Samsung / Hynix) accounted for ~60% of its 2020 sales. Sales from the Taiwan subsidiaries were at a 30% CAGR in FY17-20 indicating successful landing in Intel, TSMC, Micron etc.

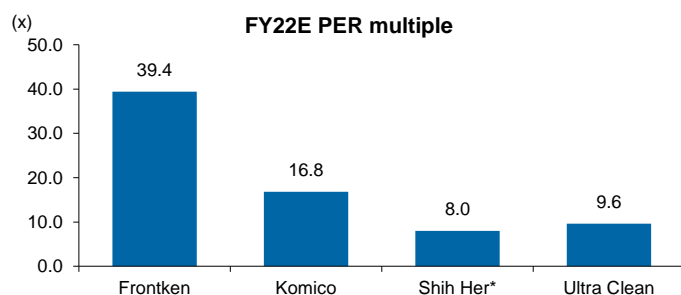
(refer to our MacVisit reports for [Komico](#), [Unisem](#)).

**Fig 33 Relative valuation vs regional peers in precision cleaning business**

Name	Bbg Code	Price (lcy)	Mkt cap (US\$m)	PER (x)			EV/EBITDA (x)			EV/Sales		
				20A	21E	22E	20A	21E	22E	20A	21E	22E
Frontken	FRCB MK	3.16	1,178	60.6	42.6	39.4	34.9	28.1	23.5	12.7	10.3	8.5
<b>Precision cleaning</b>												
Komico	183300 KS	71,500	670	30.5	18.4	15.7	13.9	8.9	7.9	2.4	3.1	2.6
Shih Her	3551 TT	59.70	134	n/a	n/a	n/a	n/a	n/a	n/a	1.2	n/a	n/a
Ultra Clean	UCTT US	43.03	1,809	14.9	10.2	9.1	11.0	7.5	6.4	1.0	1.0	0.9
<b>Subtotal average</b>				<b>17.9</b>	<b>11.7</b>	<b>18.1</b>	<b>11.8</b>	<b>10.3</b>	<b>11.2</b>	<b>7.5</b>	<b>6.5</b>	<b>1.4</b>
<b>Mkt cap weighted average</b>				<b>31.3</b>	<b>21.3</b>	<b>19.3</b>	<b>18.6</b>	<b>13.9</b>	<b>11.8</b>	<b>4.9</b>	<b>4.2</b>	<b>3.5</b>
<b>Simple average</b>				<b>35.3</b>	<b>23.7</b>	<b>21.4</b>	<b>19.9</b>	<b>14.8</b>	<b>12.6</b>	<b>4.3</b>	<b>4.8</b>	<b>4.0</b>

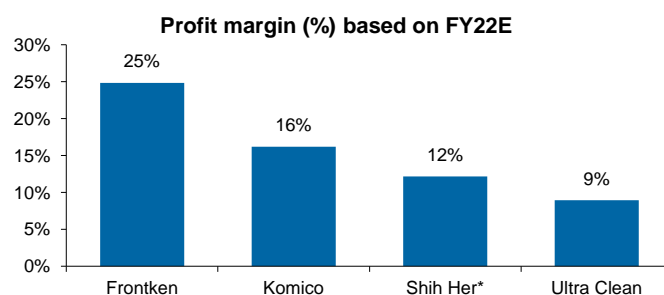
Source: Company data, Bloomberg, Macquarie Research, August 2021. Based on intra-day 23 Aug prices. All estimates are from Bloomberg except for Frontken, which Macquarie's estimates. Frontken is the only stock we cover in this list.

**Fig 34 Frontken trades at a premium vs regional precision cleaning peers...**



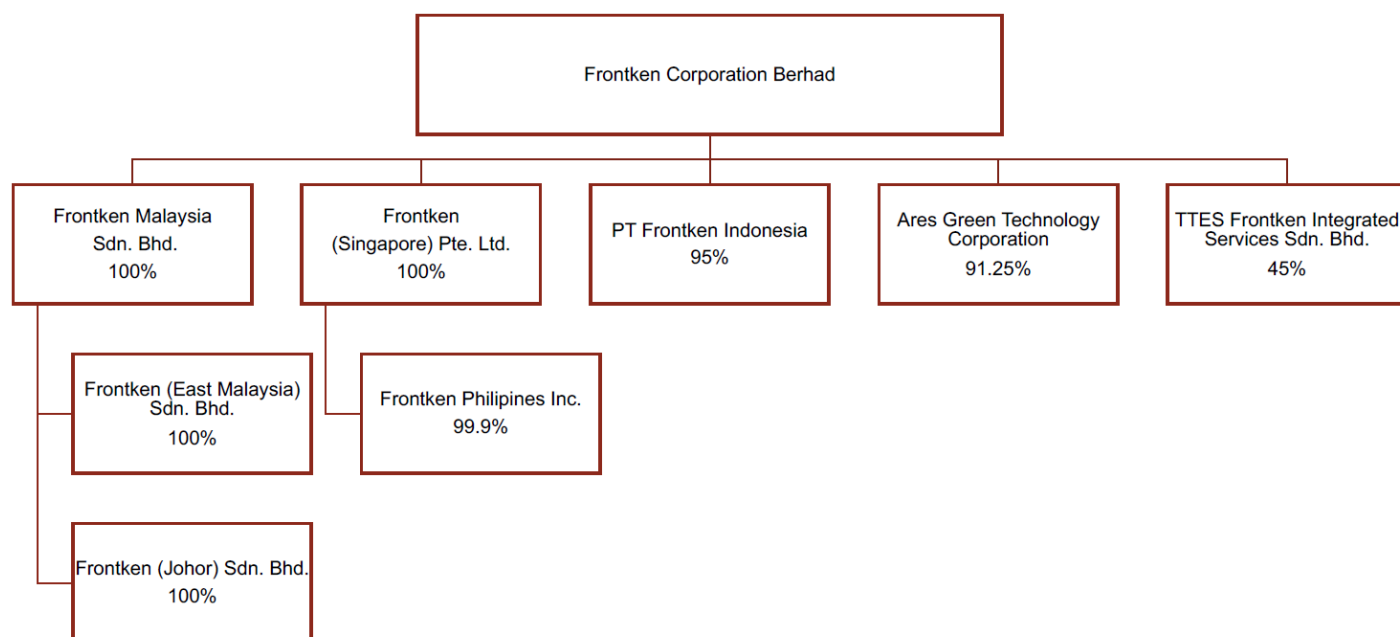
Source: Company data, Macquarie Research, August 2021. Shih Her estimate is based on actual FY20 (no analyst coverage). Frontken's est. is from MQ estimates and for Komico and Ultra Clean, PER multiple is based on Bloomberg's estimates.

**Fig 35 ...but also commands higher profit margin as well vs peers**



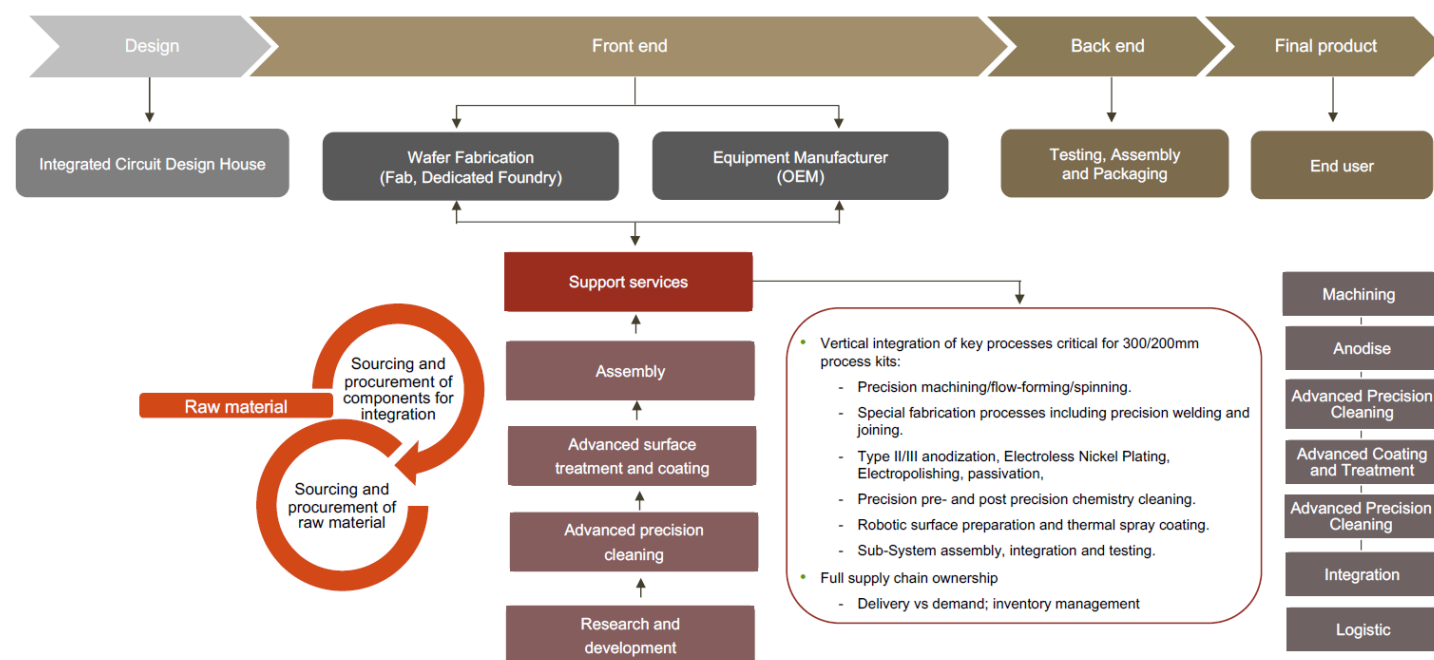
Source: Company data, Macquarie Research, August 2021. Shih Her estimate is based on actual FY20 (no analyst coverage). Frontken's est. is from MQ estimates and for Komico and Ultra Clean, PER multiple is based on Bloomberg's estimates.

Fig 36 Frontken's group structure



Source: Company data, Macquarie Research, August 2021

Fig 37 Frontken's value chain



Source: Company data, Macquarie Research, August 2021

## Frontken Corp (FRCB MK, Outperform, Target Price: RM3.90)

Quarterly Results						Profit & Loss					
		3Q/21A	4Q/21E	1Q/22E	2Q/22E			2020A	2021E	2022E	2023E
Revenue	bn	114	114	137	137	Revenue	bn	368	454	548	653
Gross Profit	bn	37	37	45	45	Gross Profit	bn	122	148	182	235
Cost of Goods Sold	bn	77	77	92	92	Cost of Goods Sold	bn	246	307	366	418
EBITDA	bn	41	41	50	50	EBITDA	bn	133	166	198	255
Depreciation	bn	5	5	6	6	Depreciation	bn	18	18	22	28
Amortisation of Goodwill	bn	0	0	0	0	Amortisation of Goodwill	bn	0	0	0	0
Other Amortisation	bn	0	0	0	0	Other Amortisation	bn	0	0	0	0
EBIT	bn	37	37	44	44	EBIT	bn	115	148	176	227
Net Interest Income	bn	-0	-0	-0	-0	Net Interest Income	bn	-1	-0	-0	-0
Associates	bn	0	0	0	0	Associates	bn	0	0	0	0
Exceptionals	bn	0	0	0	0	Exceptionals	bn	0	0	0	0
Forex Gains / Losses	bn	0	0	0	0	Forex Gains / Losses	bn	0	0	0	0
Other Pre-Tax Income	bn	0	0	0	0	Other Pre-Tax Income	bn	0	0	0	0
Pre-Tax Profit	bn	37	37	44	44	Pre-Tax Profit	bn	114	147	175	226
Tax Expense	bn	-8	-8	-10	-10	Tax Expense	bn	-26	-33	-40	-51
Net Profit	bn	28	28	34	34	Net Profit	bn	88	114	135	175
Minority Interests	bn	-2	-2	-2	-2	Minority Interests	bn	-6	-8	-9	-12
Reported Earnings	bn	26	26	31	31	Reported Earnings	bn	82	106	126	163
Adjusted Earnings	bn	26	26	31	31	Adjusted Earnings	bn	82	106	126	163
EPS (rep)	sen	2.0	2.0	2.0	2.0	EPS (rep)	sen	5.2	7.2	8.0	10.4
EPS (adj)	sen	2.0	2.0	2.0	2.0	EPS (adj)	sen	5.2	7.4	8.0	10.4
EPS Growth yoy (adj)	%	55.1	55.1	48.6	-0.9	EPS Growth (adj)	%	18.5	42.2	8.1	29.2
						PE (rep)	x	60.6	44.0	39.4	30.5
						PE (adj)	x	60.6	42.6	39.4	30.5
EBITDA Margin	%	36.5	36.5	36.1	36.1	Total DPS	sen	1.8	2.4	2.7	3.3
EBIT Margin	%	32.5	32.5	32.1	32.1	Total Div Yield	%	0.6	0.8	0.9	1.0
Earnings Split	%	25.0	25.0	25.0	25.0	Basic Shares Outstanding	m	1,571,954	1,571,840	1,571,840	1,571,840
Revenue Growth	%	23.4	23.4	20.6	20.6	Diluted Shares Outstanding	m	1,571,954	1,473,642	1,571,840	1,571,840
EBIT Growth	%	28.7	28.7	18.8	18.8						
Profit and Loss Ratios						Cashflow Analysis					
		2020A	2021E	2022E	2023E			2020A	2021E	2022E	2023E
Revenue Growth	%	8.4	23.4	20.6	19.1	EBITDA	bn	133	166	198	255
EBITDA Growth	%	16.1	24.4	19.3	28.7	Tax Paid	bn	-26	-33	-40	-51
EBIT Growth	%	18.5	28.7	18.8	29.1	Chgs in Working Cap	bn	11	9	3	3
Gross Profit Margin	%	33.2	32.5	33.1	36.0	Net Interest Paid	bn	-1	-0	-0	-0
EBITDA Margin	%	36.2	36.5	36.1	39.0	Other	bn	2	0	0	0
EBIT Margin	%	31.2	32.5	32.1	34.8	Operating Cashflow	bn	120	141	161	206
Net Profit Margin	%	22.3	23.3	23.0	24.9	Acquisitions	bn	-1	0	0	0
Payout Ratio	%	34.1	33.0	33.9	32.0	Capex	bn	-8	-82	-99	-65
EV/EBITDA	x	34.9	28.1	23.5	18.3	Asset Sales	bn	2	0	0	0
EV/EBIT	x	40.5	31.5	26.5	20.5	Other	bn	-5	0	0	0
Balance Sheet Ratios						Investing Cashflow	bn	-12	-82	-99	-65
ROE	%	20.1	22.1	22.5	24.6	Dividend (Ordinary)	bn	-29	-28	-42	-43
ROA	%	20.3	21.8	22.0	23.9	Equity Raised	bn	-1	0	0	0
ROIC	%	40.9	60.5	55.7	55.3	Debt Movements	bn	0	0	0	0
Net Debt/Equity	%	-59.6	-55.9	-50.9	-54.9	Other	bn	-2	0	0	0
Interest Cover	x	172.3	299.9	356.4	460.2	Financing Cashflow	bn	-32	-28	-42	-43
Price/Book	x	11.3	9.6	8.3	6.9	Net Chg in Cash/Debt	bn	42	31	20	98
Book Value per Share		0.3	0.3	0.4	0.5	Free Cashflow	bn	112	59	62	141
						Balance Sheet					
		2020A	2021E	2022E	2023E			2020A	2021E	2022E	2023E
Cash	bn	290	322	342	440	Cash	bn	290	322	342	440
Receivables	bn	103	121	147	175	Receivables	bn	103	121	147	175
Inventories	bn	20	23	27	31	Inventories	bn	20	23	27	31
Investments	bn	22	22	22	22	Investments	bn	22	22	22	22
Fixed Assets	bn	139	203	279	316	Fixed Assets	bn	139	203	279	316
Intangibles	bn	34	34	34	34	Intangibles	bn	34	34	34	34
Other Assets	bn	10	12	14	16	Other Assets	bn	10	12	14	16
Total Assets	bn	618	736	863	1,033	Total Assets	bn	618	736	863	1,033
Payables	bn	19	23	28	32	Payables	bn	19	23	28	32
Short Term Debt	bn	3	3	3	3	Short Term Debt	bn	3	3	3	3
Long Term Debt	bn	10	10	10	10	Long Term Debt	bn	10	10	10	10
Provisions	bn	23	29	35	41	Provisions	bn	23	29	35	41
Other Liabilities	bn	97	118	142	169	Other Liabilities	bn	97	118	142	169
Total Liabilities	bn	151	183	217	254	Total Liabilities	bn	151	183	217	254
Shareholders' Funds	bn	440	518	602	722	Shareholders' Funds	bn	440	518	602	722
Minority Interests	bn	27	35	44	57	Minority Interests	bn	27	35	44	57
Other	bn	0	0	0	0	Other	bn	0	0	0	0
Total S/H Equity	bn	467	553	647	779	Total S/H Equity	bn	467	553	647	779
Total Liab & S/H Funds	bn	618	736	863	1,033	Total Liab & S/H Funds	bn	618	736	863	1,033

All figures in MYR unless noted.

Source: Company data, Macquarie Research, August 2021



## Important disclosures:

## Recommendation definitions

## Macquarie – Asia and USA

Outperform – expected return >10%  
 Neutral – expected return from -10% to +10%  
 Underperform – expected return <-10%

## Macquarie – Australia/New Zealand

Outperform – expected return >10%  
 Neutral – expected return from 0% to 10%  
 Underperform – expected return <0%

Note: expected return is reflective of a Medium Volatility stock and should be assumed to adjust proportionately with volatility risk

## Volatility index definition\*

This is calculated from the volatility of historical price movements.

**Very high-highest risk** – Stock should be expected to move up or down 60–100% in a year – investors should be aware this stock is highly speculative.

**High** – stock should be expected to move up or down at least 40–60% in a year – investors should be aware this stock could be speculative.

**Medium** – stock should be expected to move up or down at least 30–40% in a year.

**Low-medium** – stock should be expected to move up or down at least 25–30% in a year.

**Low** – stock should be expected to move up or down at least 15–25% in a year.

\* Applicable to select stocks in Asia/Australia/NZ

**Recommendations** – 12 months

**Note:** Quant recommendations may differ from Fundamental Analyst recommendations

## Financial definitions

All "Adjusted" data items have had the following adjustments made:

Added back: goodwill amortisation, provision for catastrophe reserves, IFRS derivatives & hedging, IFRS impairments & IFRS interest expense

Excluded: non recurring items, asset revals, property revals, appraisal value uplift, preference dividends & minority interests

**EPS** = adjusted net profit / efpowa\*

**ROA** = adjusted ebit / average total assets

**ROA Banks/Insurance** = adjusted net profit / average total assets

**ROE** = adjusted net profit / average shareholders funds

**Gross cashflow** = adjusted net profit + depreciation

\*equivalent fully paid ordinary weighted average number of shares

All Reported numbers for Australian/NZ listed stocks are modelled under IFRS (International Financial Reporting Standards).

## Recommendation proportions – For quarter ending 30 Jun 2021

	AU/NZ	Asia	USA
Outperform	62.67%	68.26%	75.58%
Neutral	31.00%	21.81%	24.42%
Underperform	6.33%	9.94%	0.00%

(for global coverage by Macquarie, 5.24% of stocks followed are investment banking clients)

(for global coverage by Macquarie, 2.12% of stocks followed are investment banking clients)

(for global coverage by Macquarie, 0.00% of stocks followed are investment banking clients)

## FRCB MK vs KLCI, &amp; rec history



(all figures in MYR currency unless noted)

## GREATEC MK vs KLCI, &amp; rec history



(all figures in MYR currency unless noted)

## INRI MK vs KLCI, &amp; rec history



(all figures in MYR currency unless noted)

## VITRO MK vs KLCI, &amp; rec history



(all figures in MYR currency unless noted)

## 2330 TT vs TAIEX, &amp; rec history



(all figures in TWD currency unless noted)

Note: Recommendation timeline – if not a continuous line, then there was no Macquarie coverage at the time or there was an embargo period.  
 Source: FactSet, Macquarie Research, August 2021

## 12-month target price methodology

FRCB MK: RM3.90 based on a PER methodology

2330 TT: NT\$765.90 based on a PER methodology

GREATEC MK: RM8.70 based on a PER methodology

INRI MK: RM4.15 based on a PER methodology

VITRO MK: RM20.00 based on a PER methodology

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**2330 TT:** Any inability to compete successfully in their markets may harm the business. This could be a result of many factors which may include geographic mix and introduction of improved products or service offerings by competitors. The results of operations may be materially affected by global economic conditions generally, including conditions in financial markets. The company is exposed to market risks, such as changes in interest rates, foreign exchange rates and input prices. From time to time, the company will enter into transactions, including transactions in derivative instruments, to manage certain of these exposures.

**GREATEC MK:** Any inability to compete successfully in their markets may harm the business. This could be a result of many factors which may include geographic mix and introduction of improved products or service offerings by competitors. The results of operations may be materially affected by global economic conditions generally, including conditions in financial markets. The company is exposed to market risks, such as changes in interest rates, foreign exchange rates and input prices. From time to time, the company will enter into transactions, including transactions in derivative instruments, to manage certain of these exposures.

**INRI MK:** Dependence on Broadcom for the bulk of earnings (estimated at around 70% of total group revenues) is a source of concern notwithstanding the strong underlying relationship that has scope for further broadening. Escalation of trade war in China could lead to boycott of products of INRI's main customer. Inari is aggressively expanding its capacity and is looking to venture into new product verticals. There is risk that Inari will not be able to secure contracts from clients to utilise this new capacity. The group has enjoyed a positive margin tailwind from the depreciation of the Ringgit against the USD given over 90% of revenues are in USD whilst only c.50% of costs are in the USD. This dynamic would reverse if the Ringgit were to start strengthening on a sustained basis. The group's core revenue generating subsidiary Inari Technology Sdn. Bhd. (ITSB) has been granted tax exemptions for various divisions. If exemptions are not renewed or extended, then a normalisation of tax rate would be a significant drag on forecast earnings growth. Positive risks to TP include: Sharp rebound in Optoelectronic-related revenues, new customer onboarding, higher-than-expected 5G smartphone demand.

**VITRO MK:** Any inability to compete successfully in their markets may harm the business. This could be a result of many factors which may include geographic mix and introduction of improved products or service offerings by competitors. The semiconductor industry is cyclical in nature. While Vitrox has a diversified client base and exposure to various sub-segments, the results of operations may be materially affected by global economic conditions generally, including conditions in financial markets. Vitrox is exposed to supply chain risk. The company is highly reliant on cameras and motion parts that it cannot produce itself. Disruption to the supply chain may place a constraint on earnings growth. A prolonged Covid-19 outbreak that substantially disrupts the semiconductor supply chain will be a risk to Vitrox. Competition from Chinese peers is also a risk for the 3DAOI segment. The company is exposed to market risks, such as changes in interest rates, foreign exchange rates and input prices. From time to time, the company will enter into transactions, including transactions in derivative instruments, to manage certain of these exposures.

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