Shariah Compliant

Industrials

Malaysia

Frontken Corp. Bhd (FRCB MK)

Riding the industry upcycle

BUY

Share Price	MYR 3.82
12m Price Target	MYR 4.30 (+13%)
Previous Price Target	*MYR 3.90*

Robust growth outlook; maintain BUY

9MFY21 core net profit was in-line with our/the streets FY21 core earnings estimates. Our earnings forecast and BUY call are maintained, but our TP is nudged higher to MYR4.30 from a re-calibration of the LT mean, albeit still pegged to an unchanged +2SD to the 3Y mean, at 52x FY22 PER (from 47x previously). We remain sanguine on its LT prospects, underpinned by the semiconductor industry's accelerating upcycle, its ongoing expansion in Taiwan, and the steady recovery of the O&G industry. Reiterate BUY.

9M21 results within expectations

Excluding exceptional items (MYR1.4m), 3Q21 recurring net income came in at MYR25.9m (+28% YoY, -2% QoQ). This brought 9MFY21 core net income to MYR74.6m (+30% YoY), at 69% of our/the street's full-year estimates. The results were largely in-line with expectations, as we expect 4Q21 to be sequentially stronger, per its historical 2H performance in prior years.

Taiwan outshines but Singapore labours

Key takeaways from the 3Q21 results: (i) Revenue/EBIT contributions surged 26%/33% YoY from its 91%-owned Taiwanese subsidiary, AGTC, as it benefitted from strong demand for its key customer's industry-leading advanced node chips; (ii) revenue and EBIT margins at its M'sian ops also grew 43% and 2% YoY respectively, mainly due to an increase in orders from Petronas Group's umbrella contracts – in tandem with the recent uptick in E&P activity supported by an elevated oil price environment; while (iii) its S'porean ops continued to struggle due to workforce shortages and order delays from heightened gov't-imposed Covid-19 lockdown measures.

Expansion plans to drive earnings growth

Mgmt guides that its new 118k sq ft Taiwan plant (potentially doubling LT capacity) is set to be operational by 2H22 (our model has yet to factor in earnings growth from this venture, pending operational visibility). With its key Taiwanese customer also pledging USD100b for capacity expansion through to CY24, we opine that FRCB is well-placed to ride the semiconductor industry's relentless upcycle. Elsewhere, its new Pengerang facility will help catalyse domestic earnings growth from FY22 onwards, in-line with the start-up of Petronas' IPC towards the end of 4Q21.

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)	4.4	5.1	6.9	8.3	9.5
Core EPS growth (%)	27.2	17.3	33.8	20.1	14.4
Net DPS (sen)	1.7	2.7	3.4	4.1	4.7
Core P/E (x)	34.8	46.0	55.5	46.2	40.4
P/BV (x)	6.4	8.5	12.3	10.9	10.7
Net dividend yield (%)	1.1	1.1	0.9	1.1	1.2
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)	19.5	28.2	32.8	27.5	24.7
Net gearing (%) (incl perps)	net cash	net cash	net cash	net cash	net cash
Consensus net profit	-	-	108	131	161
MKE vs. Consensus (%)	-	-	0.8	(0.3)	(7.6)

Company Description

Frontken specialises in engineering and precision cleaning services, mostly for semiconductors and O&G markets in Taiwan, Singapore and Malaysia.

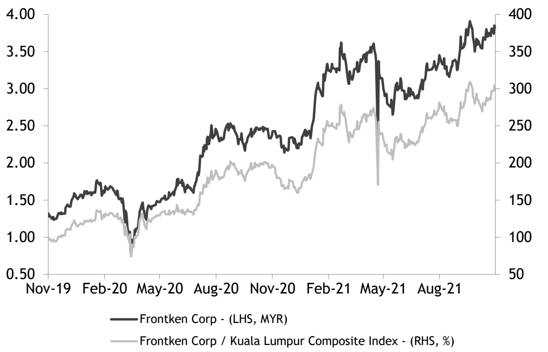
Statistics

52w high/low (MYR)	3.91/2.14
3m avg turnover (USDm)	4.6
Free float (%)	59.3
Issued shares (m)	1,575
Market capitalisation	MYR6.0B
	USD1.4B

Major shareholders:

Dazzle Clean Ltd.	17.6%
OOI KENG THYE /FRONTKEN/	15.5%
Public Mutual Bhd.	4.6%

Price Performance



	-1M	-3M	-12M
Absolute (%)	4	11	61
Relative to index (%)	3	8	54

Source: FactSet

Acronyms

AGTC - Ares Green Technology Corporation
IPC - Integrated Petrochemical Complex

E&P - exploration & production
LT - long-term
O&G - oil & gas
sq ft - square feet

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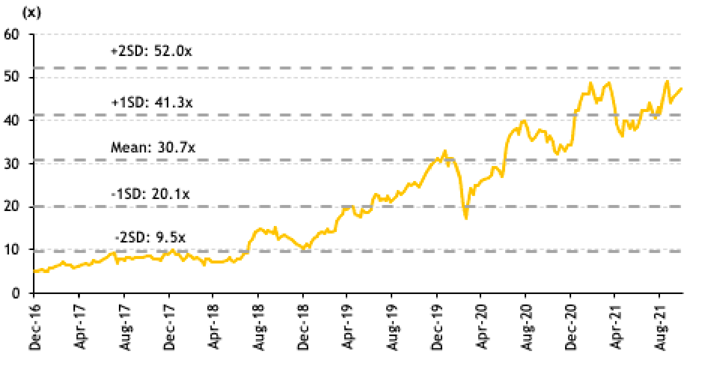
Fig 1: Results summary

FYE Dec (MYR'm)	Quarterly					Cumulative		
	3Q21	3Q20	*% YoY*	2Q21	*% QoQ*	9M21	9M20	*% YoY*
Revenue	116.6	94.8	*23.0*	108.6	*7.3*	328.7	267.3	*23.0*
EBITDA	**41.3**	**32.4**	***27.7***	**38.2**	***8.1***	**116.9**	**89.8**	***30.2***
Depreciation	(4.5)	(4.6)	*(0.8)*	(4.4)	*2.1*	(13.4)	(13.9)	*(3.6)*
Other income	1.3	2.5	*(48.0)*	0.7	*89.8*	4.0	6.5	*(39.1)*
EBIT	**38.1**	**30.3**	***25.8***	**34.5**	***10.4***	**107.5**	**82.4**	***30.4***
Finance income	0.2	0.2	*(18.3)*	0.2	*(13.3)*	0.6	1.0	*(39.8)*
Finance costs	(0.1)	(0.2)	*(15.7)*	(0.1)	*(6.9)*	(0.4)	(0.5)	*(16.8)*
Pretax profit	**38.1**	**30.3**	***25.7***	**34.5**	***10.4***	**107.7**	**83.0**	***29.8***
Tax expense	(8.1)	(7.3)	*11.0*	(7.5)	*8.0*	(25.8)	(19.9)	*29.8*
Minority interest	(2.7)	(1.7)	*61.5*	(2.3)	*18.3*	(2.7)	(1.7)	*61.5*
Net profit	**27.3**	**21.3**	***27.9***	**24.7**	***10.4***	**75.0**	**58.7**	***27.7***
Net profit ex-EI	**25.9**	**20.2**	***28.0***	**26.3**	***(1.6)***	**74.6**	**57.2**	***30.3***
Basic EPS (sen)	1.7	2.0	*(14.7)*	1.6	*10.8*	5.5	5.6	*(1.8)*
Margin (%)	**3Q21**	**3Q20**	**+/- ppt YoY**	**2Q21**	**+/- ppt QoQ**	**9M21**	**9M20**	**+/- ppt YoY**
EBIT	*32.6*	*31.9*	*0.7*	*31.7*	*0.9*	*32.7*	*30.8*	*1.9*
Pretax profit	*32.7*	*32.0*	*0.7*	*31.8*	*0.9*	*32.8*	*31.0*	*1.7*
Net profit ex-EI	*22.2*	*21.3*	*0.9*	*24.2*	*(2.0)*	*22.7*	*21.4*	*1.3*
Segmental revenue (MYR'm)	**3Q21**	**3Q20**	**+/- ppt YoY**	**2Q21**	**+/- ppt QoQ**	**9M21**	**9M20**	**+/- ppt YoY**
Taiwan	81.5	64.2	*26.9*	74.6	*9.2*	226.3	175.3	*29.1*
Singapore	14.6	14.7	*(0.7)*	15.5	*(6.0)*	44.6	44.7	*(0.2)*
Malaysia	16.6	11.6	*43.3*	14.7	*13.1*	11.2	11.2	*(0.1)*
Philippines	3.8	4.2	*(8.2)*	3.6	*5.7*	46.1	35.5	*30.1*
Indonesia	0.1	0.1	*(17.2)*	0.2	*(38.9)*	0.5	0.6	*(22.4)*
Segmental EBIT (MYR'm)	**3Q21**	**3Q20**	**+/- ppt YoY**	**2Q21**	**+/- ppt QoQ**	**9M21**	**9M20**	**+/- ppt YoY**
Taiwan	30.5	22.9	*33.4*	28.3	*8.0*	86.3	60.2	*43.4*
Singapore	4.4	4.5	*(3.0)*	4.1	*7.6*	12.7	15.4	*(17.6)*
Malaysia	2.4	2.6	*(6.0)*	1.6	*52.0*	6.9	5.8	*17.8*
Philippines	0.7	0.8	*(13.8)*	0.6	*12.0*	2.0	1.7	*17.4*
Indonesia	0.0	(0.5)	*n.m.*	(0.1)	*n.m.*	(0.3)	(0.6)	*(55.4)*
Segmental EBIT margin (%)	**3Q21**	**3Q20**	**+/- ppt YoY**	**2Q21**	**+/- ppt QoQ**	**9M21**	**9M20**	**+/- ppt YoY**
Taiwan	37.5	35.6	*1.8*	37.9	*(0.4)*	38.1	34.3	*3.8*
Singapore	30.1	30.8	*(0.7)*	26.3	*3.8*	28.4	34.5	*(6.0)*
Malaysia	62.5	61.1	*1.5*	43.5	*19.0*	14.9	16.4	*(1.5)*
Philippines	4.2	7.0	*(2.8)*	4.3	*(0.0)*	4.2	4.7	*(0.5)*
Indonesia	29.2	n.m.	*n.m.*	n.m.	*n.m.*	n.m.	n.m.	*n.m.*

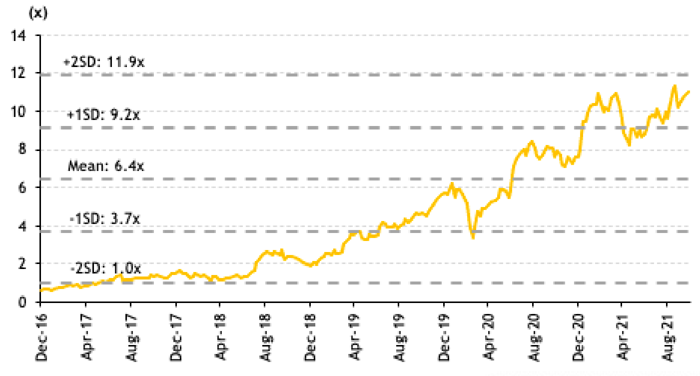
Source: Company data. Maybank Kim Eng

Fig 2: Frontken's 1Y Fwd PER (currently trades at 47.4x)



Source: Company data, Bloomberg, Maybank KE

Fig 3: Frontken's 1Y Fwd PBV (currently trades at 11.0x)



Source: Company data, Bloomberg, 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	55.5	46.2	40.4
Core P/E (x)	34.8	46.0	55.5	46.2	40.4
P/BV (x)	6.4	8.5	12.3	10.9	10.7
P/NTA (x)	7.0	9.2	13.2	11.6	11.4
Net dividend yield (%)	1.1	1.1	0.9	1.1	1.2
FCF yield (%)	5.4	3.3	0.3	1.7	2.5
EV/EBITDA (x)	19.5	28.2	32.8	27.5	24.7
EV/EBIT (x)	23.1	30.4	37.6	31.3	27.5
INCOME STATEMENT (MYR m)					
Revenue	339.9	368.3	513.8	577.9	609.9
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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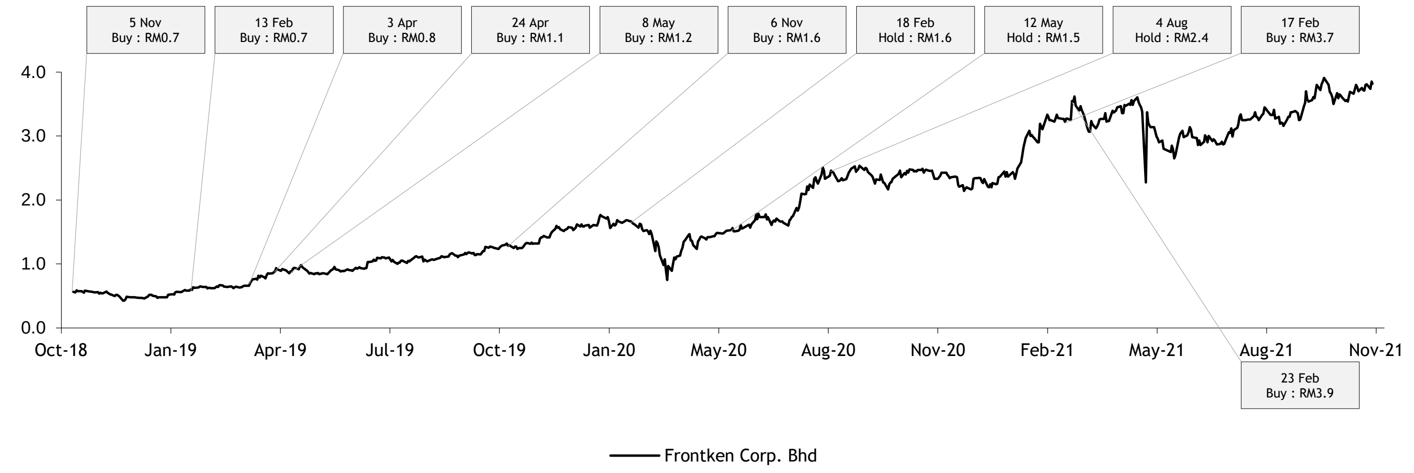

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