

HLIB Research

PP 9484/12/2012 (031413)

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BUY (Maintain)

Target Price: **RM4.15**
Previously: **RM3.88**
Current Price: **RM3.82**

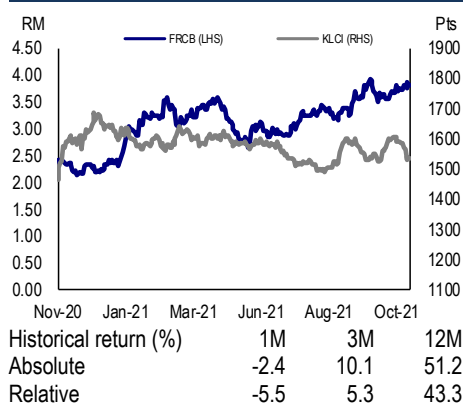
Capital upside 8.6%

Dividend yield 0.8%

Expected total return 9.4%

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)	5,834
3-mth average volume ('000)	5,606
SC Shariah compliant	Yes
F4GBM Index member	N/A
ESG rating	★

Major shareholders

Ooi Keng Thye	15.6%
Dazzle Clean	15.0%
Vanguard Group Inc	2.6%

Earnings summary

FYE (Dec)	FY20	FY21f	FY22f
PATMI - core (RM m)	82.7	100.8	122.5
EPS - core (sen)	5.2	6.4	7.8
P/E (x)	73.0	59.9	49.3

Frontken Corporation

Outdid itself again

9M21 core net profit of RM74m (+27% YoY) matched ours but missed street. Top and bottom line growths were mainly driven by semiconductor business though O&G business has seen robust improvement. AGTC has completed the acquisition of a building (Plant 2) situated in the Southern Taiwan Science Park at Kaohsiung City on 9 Jul 2021 to support a major customer's aggressive expansion. It is expected to be commissioned sometimes in 2H22. Reiterate BUY with higher TP of RM4.15, pegged to 50x of mid-FY23 EPS. We like its unique exposure to leading-edge semiconductor frontend supply chain.

Matched ours but missed consensus. All-time high 3Q21 core net profit of RM27m (+3% QoQ, +22% YoY) brought 9M21's total to RM74m (+27% YoY) which was in line with HLIB full year forecast at 74% but came below consensus at 69%. 9M21 one-off adjustments include forex gain (+RM389k), PPE disposal gain (+RM22k), PPE written off (-RM3k) and allowance for impairment losses on receivables (+RM139k).

Dividend. None (3Q20: none). YTD DPS 1.5 sen vs 9M20's 1.2 sen. Dividend is traditionally distributed semi-annually.

QoQ. Turnover inched up 7% mainly due to better performances from Malaysia (+13%), Taiwan (+9%) and Philippines (+6%), more than sufficient to offset the declines in Indonesia (-39%) and Singapore (-6%). In turn, core net profit gained 10% to RM27m thanks to efficiency gain as EBITDA margin strengthened 0.7ppt.

YoY. Revenue saw a solid growth of 23% driven by Malaysia (+43%) and Taiwan (+27%), more than sufficient to offset the contractions in Indonesia (-17%), Philippines (-8%) and Singapore (-1%). Filtered down, core earnings rose 22% on the back of stable EBITDA margin.

YTD. Top and bottom lines strengthened by 23% and 27%, respectively thanks to robust semiconductor business. In terms of segmental sales breakdown, Malaysia (+30%) led the pact, followed by Taiwan (+29%), Philippines and Singapore were rather flat and Indonesia was the sole loser (-22%).

Semiconductor. Generated 85% (3Q20: 88%) of group revenue in 3Q21 at RM99m and PAT improved 13% YoY. It has benefited from higher demand and strong orders from one of its customers' advanced nodes chip. The client's aggressive expansion augurs well for Frontken's semiconductor business for years to come. As such, 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 commissioned sometimes in 2H22.

O&G. Accounted for the remaining 15% of group turnover in 3Q21 at RM18m and PAT improved 333% YoY. Noticed robust improvement due to new orders trickling in from the various umbrella contracts for provision of manpower supply and also mechanical rotating equipment services and parts that it has with Petronas companies. It hopes that momentum will pick up going forward as the soon to be completed new Pengerang facility will be ready to support the contracts in hand.

Forecast. Unchanged.

Reiterate **BUY** with higher TP of **RM4.15** (previously RM3.88), pegged to 50x of mid-FY23 EPS (previously 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 RM282m or 18 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	3Q20	4Q20	1Q21	2Q21	3Q21
Revenue	94.8	101.0	103.5	108.6	116.6
COGS	(60.0)	(65.3)	(64.1)	(69.7)	(74.0)
EBITDA	34.8	35.8	39.4	38.9	42.6
D&A	(4.6)	(4.5)	(4.4)	(4.4)	(4.5)
EBIT	30.3	31.2	35.0	34.5	38.1
Net Interest Income	0.1	0.1	0.1	0.1	0.0
Associates	0.0	0.0	0.0	0.0	0.0
PBT	30.3	31.3	35.1	34.5	38.1
Tax	(7.3)	(6.0)	(10.1)	(7.5)	(8.1)
Net Profit	23.0	25.3	24.9	27.0	30.0
MI	(1.7)	(2.0)	(2.0)	(2.3)	(2.7)
PATAMI	21.3	23.3	22.9	24.7	27.3

Exceptionals	0.5	1.0	(0.7)	0.9	(0.8)
Adj PATAMI	21.8	24.2	22.2	25.7	26.5

Basic Shares (m)	1,580.0	1,580.0	1,580.0	1,580.0	1,580.0
Rep EPS (sen)	1.4	1.5	1.5	1.6	1.7
Adj EPS (sen)	1.4	1.5	1.4	1.6	1.7
Adj FD EPS (sen)	1.4	1.5	1.4	1.6	1.7

Valuation Ratios

FYE Dec	FY19	FY20	FY21f	FY22f	FY23f
PER (x)	87.3	73.6	59.9	49.3	43.2
Core PER (x)	86.0	73.0	59.9	49.3	43.2
FD PER (x)	86.0	73.0	59.9	49.3	43.2
DPS (sen)	1.7	2.7	3.2	3.9	4.4
Net DY (%)	0.4	0.7	0.8	1.0	1.2
Book/share (sen)	23.9	27.8	31.0	34.9	39.3
P/Book (x)	16.0	13.7	12.3	10.9	9.7
FCF/share (sen)	6.8	7.1	5.6	6.4	9.1
FCF yield (%)	1.8	1.9	1.5	1.7	2.4
Mkt Cap	6,035.6	6,035.6	6,035.6	6,035.6	6,035.6
Net Cash(Debt)	196.3	290.5	328.4	368.7	442.3
EV	5,839.3	5,745.1	5,707.2	5,666.9	5,593.3
EV/EBITDA (x)	51.4	43.5	36.3	30.1	26.6
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)	3Q20	2Q21	3Q21	QoQ	YoY	9M20	9M21	YoY
Revenue	94.8	108.6	116.6	7.3	23.0	267.3	328.7	23.0
EBITDA	34.8	38.9	42.6	9.5	22.3	96.3	120.9	25.5
EBITDA Margin	36.8	35.8	36.5			36.0	36.8	
EBIT	30.3	34.5	38.1	10.4	25.8	82.4	107.5	30.4
PBT	30.3	34.5	38.1	10.4	25.7	83.0	107.7	29.8
PAT	23.0	27.0	30.0	11.0	30.4	63.1	81.9	29.8
Reported PATMI	21.3	24.7	27.3	10.4	27.9	58.7	75.0	27.7
Core PATMI	21.8	25.7	26.5	3.3	21.6	58.5	74.4	27.3
Reported EPS (sen)	1.4	1.6	1.7	10.4	27.9	3.7	4.7	27.7
Core EPS (sen)	1.4	1.6	1.7	3.3	21.6	3.7	4.7	27.3

Bursa, HLIB Research

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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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