

HLIB Research

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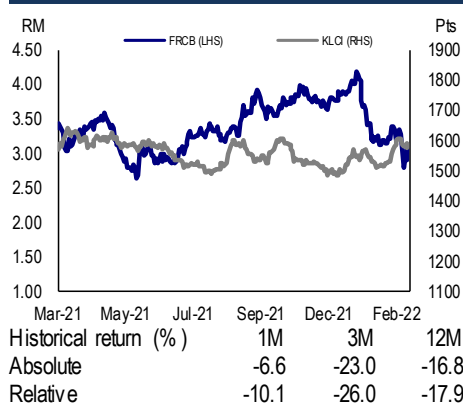
BUY (Maintain)

Target Price: **RM4.36**
Previously: **RM4.42**
Current Price: **RM3.05**

Capital upside	43.0%
Dividend yield	1.3%
Expected total return	44.3%

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)	1,580
Market capitalisation (RM m)	4,819
3-mth average volume ('000)	5,740
SC Shariah compliant	Yes
F4GBM Index member	Yes
ESG rating	★ ★ ★ ★

Major shareholders

Dazzle Clean	16.8%
Dazzle Clean Ooi Keng Thye	15.6%
Vanguard Group Inc	2.3%

Earnings summary

FYE (Dec)	FY21	FY22f	FY23f
PATMI - core (RM m)	105.5	121.7	137.8
EPS - core (sen)	6.7	7.7	8.7
P/E (x)	45.7	39.6	35.0

Frontken Corporation

4Q21 results within expectations

Record-breaking FY21 core net profit of RM106m (+28% YoY) matched our and street expectations. Top and bottom line growths were driven by semiconductor business though O&G business has seen robust improvement. It believes that the projected semiconductor upcycle due persistent higher demand of chips will be positive for its business in years to come. In the meantime, the progress of commissioning of new facility in Kaohsiung, Taiwan to meet key customer's projected increase in demand is on schedule. Reiterate BUY with lower TP of RM4.36, pegged to 50x of FY23 EPS. We like its unique exposure to leading-edge semiconductor frontend supply chain.

In line. All-time high 4Q21 core net profit of RM31m (+17% QoQ, +28% YoY) brought FY21's total to RM106m (+28% YoY) which was in line with HLIB and consensus expectations, accounting for 105% and 100% of full year forecasts, respectively. FY21 one-off adjustments include forex gain (+RM298k), PPE disposal gain (+RM26k), PPE written off (-RM3k) and allowance for impairment losses on receivables (+RM141k).

Dividend. Announced second single tire DPS of 2.5 sen (4Q20: 2.8 sen) where entitlement and payment dates will be announced at a later date. FY21 DPS 4.0 sen vs FY20's 2.7 sen.

QoQ. Turnover inched up 4% mainly due to better performances from all segments: Singapore (+6%), Malaysia (+7%), Taiwan (+3%), Philippines (+8%) and Indonesia (+42%) and Singapore (-6%). In turn, core net profit gained 12% to RM30m thanks to efficiency gain as EBITDA margin strengthened 1.4ppt.

YoY. Revenue saw a solid growth of 20% driven by Malaysia (+9%) and Taiwan (+29%), Singapore (+3%) and Indonesia (+58%), more than sufficient to offset the contraction in Philippines (-7%). Filtered down, core earnings rose 28% on the back of stronger EBITDA margin (+2.5ppt).

YTD. Top and bottom lines strengthened by 22% and 28%, respectively thanks to robust semiconductor business. In terms of segmental sales breakdown, Taiwan (+29%) led the pact, followed by Malaysia (+23%) and Singapore (+1%), while both Philippines (-2%) and Indonesia (-12%) experienced declines.

Semiconductor. Generated 85% (FY20: 85%) of group revenue in FY21 at RM381m and PAT improved 24% YoY. Frontken believes that the projected semiconductor upcycle due persistent higher demand of chips will be positive for its business in years to come. In the meantime, the progress of commissioning of new facility in Kaohsiung, Taiwan to meet key customer's projected increase in demand is on schedule.

O&G. Accounted for the remaining 15% of group turnover in FY21 at RM69m and PAT improved 222% YoY. It also noticed new orders from the various contracts for provision of manpower supply and mechanical rotating equipment services and parts with Petronas have picked up and hope that this momentum will escalate further throughout 2022. The completion of new facility in Pengerang was timely to offer extra services to customers.

Forecast. After updating our model, FY22-23 core net profit is revised by -1%.

Reiterate **BUY** with lower TP of **RM4.36** (previously RM4.42), pegged to 50x of FY23 EPS, reflecting the earnings adjustment. 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 RM315m or 20 sen per share) to supports its Taiwan expansion.

Financial Forecast

All items in (RM m) unless otherwise stated

Income statement

FYE Dec	FY19	FY20	FY21	FY22f	FY23f
Revenue	339.9	368.3	450.2	494.0	548.2
COGS	(226.2)	(236.2)	(283.2)	(305.8)	(338.7)
EBITDA	113.7	132.1	167.0	188.2	209.6
D&A	(17.8)	(18.4)	(17.7)	(20.2)	(19.4)
EBIT	95.9	113.7	149.3	168.0	190.1
Net Interest Income	0.4	0.6	0.2	0.8	0.9
Associates	0.0	0.0	0.0	0.0	0.0
PBT	96.3	114.3	149.5	168.8	191.0
Tax	(22.0)	(25.9)	(35.3)	(39.8)	(45.1)
Net Profit	74.2	88.3	114.3	129.0	146.0
MI	(5.1)	(6.4)	(9.7)	(7.3)	(8.2)
PATAMI	69.2	82.0	104.6	121.7	137.8
Exceptionals	1.0	0.7	0.9	0.0	0.0
Adj PATAMI	70.1	82.7	105.5	121.7	137.8
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	6.6	7.7	8.7
Adj EPS (sen)	4.4	5.2	6.7	7.7	8.7
Adj FD EPS (sen)	4.4	5.2	6.7	7.7	8.7

Balance sheet

FYE Dec	FY19	FY20	FY21	FY22f	FY23f
Cash	197.2	290.5	249.6	286.4	357.0
Receivables	86.3	103.1	115.6	135.3	150.2
Inventories	15.1	20.0	19.6	25.1	27.8
Investment	0.0	0.0	0.0	0.0	0.0
PPE	145.5	139.0	222.3	232.1	223.6
Intangibles	33.8	33.8	33.8	33.8	33.8
Other Assets	37.9	31.8	77.7	77.7	77.7
Total Assets	515.7	618.1	718.5	790.3	870.1
Payables	84.0	18.8	21.5	25.1	27.8
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	162.0	162.0	162.0
Total liabilities	117.0	151.1	183.4	187.1	189.8
Shareholders' Funds	377.0	440.0	500.9	561.7	630.6
MI	21.8	27.0	34.2	41.5	49.7
Total S/H Equity	398.7	467.0	535.1	603.2	680.3
Ttl Liab&S/H Funds	515.7	618.1	718.5	790.3	870.1

Cashflow Analysis

FYE Dec	FY19	FY20	FY21	FY22f	FY23f
EBITDA	113.7	132.1	167.0	188.2	209.6
Tax Paid	(19.8)	(22.9)	(31.1)	(39.8)	(45.1)
WC Changes	21.3	11.1	3.0	(21.6)	(14.9)
Other	(0.3)	(0.6)	(0.1)	0.8	0.9
CFO	114.9	119.7	138.8	127.6	150.6
FCF	107.9	112.0	55.9	97.6	139.6
CAPEX(CF)	(7.0)	(7.7)	(82.8)	(30.0)	(11.0)
Acquisitions	(2.6)	(0.8)	(4.2)	0.0	0.0
Other	(2.4)	(3.4)	0.9	0.0	0.0
CFI	(12.1)	(11.9)	(86.2)	(30.0)	(11.0)
Dividend	(18.9)	(28.3)	(52.9)	(60.8)	(68.9)
Debt changes	(10.7)	(0.8)	0.0	0.0	0.0
Other	(4.2)	(4.8)	(8.2)	0.0	0.0
CFF	(33.7)	(33.9)	(61.1)	(60.8)	(68.9)
Net Cashflow	69.1	73.9	(8.5)	36.7	70.7

Quarterly financial summary

FYE Dec	4Q20	1Q21	2Q21	3Q21	4Q21
Revenue	101.0	103.5	108.6	116.6	121.5
COGS	(65.3)	(64.1)	(69.7)	(74.0)	(75.4)
EBITDA	35.8	39.4	38.9	42.6	46.0
D&A	(4.5)	(4.4)	(4.4)	(4.5)	(4.3)
EBIT	31.2	35.0	34.5	38.1	41.8
Net Interest Income	0.1	0.1	0.1	0.0	0.0
Associates	0.0	0.0	0.0	0.0	0.0
PBT	31.3	35.1	34.5	38.1	41.8
Tax	(6.0)	(10.1)	(7.5)	(8.1)	(9.4)
Net Profit	25.3	24.9	27.0	30.0	32.4
MI	(2.0)	(2.0)	(2.3)	(2.7)	(2.8)
PATAMI	23.3	22.9	24.7	27.3	29.6
Exceptionals	1.0	(0.7)	0.9	(0.8)	1.5
Adj PATAMI	24.2	22.2	25.7	26.5	31.0
Basic Shares (m)	1,580.0	1,580.0	1,580.0	1,580.0	1,580.0
Rep EPS (sen)	1.5	1.5	1.6	1.7	1.9
Adj EPS (sen)	1.5	1.4	1.6	1.7	2.0
Adj FD EPS (sen)	1.5	1.4	1.6	1.7	2.0

Valuation Ratios

FYE Dec	FY19	FY20	FY21	FY22f	FY23f
PER (x)	69.7	58.8	46.1	39.6	35.0
Core PER (x)	68.7	58.3	45.7	39.6	35.0
FD PER (x)	68.7	58.3	45.7	39.6	35.0
DPS (sen)	1.7	2.7	4.0	3.9	4.4
Net DY (%)	0.5	0.9	1.3	1.3	1.4
Book/share (sen)	23.9	27.8	31.7	35.6	39.9
P/Book (x)	12.8	11.0	9.6	8.6	7.6
FCF/share (sen)	6.8	7.1	3.5	6.2	8.8
FCF yield (%)	2.2	2.3	1.2	2.0	2.9
Mkt Cap	4,819.0	4,819.0	4,819.0	4,819.0	4,819.0
Net Cash/Debt	196.3	290.5	249.6	286.4	357.0
EV	4,622.7	4,528.5	4,569.4	4,532.6	4,462.0
EV/EBITDA (x)	40.7	34.3	27.4	24.1	21.3
ROE (%)	18.6	18.8	21.1	21.7	21.8
Current Ratio (x)	3.5	22.0	17.9	17.8	19.2
Quick Ratio (x)	3.3	20.9	17.0	16.8	18.2
Interest Cover (x)	126.8	170.4	242.8	N/A	N/A

Other Ratios

FYE Dec	FY19	FY20	FY21	FY22f	FY23f
Sales Growth (%)		8.4	22.2	9.7	11.0
EBITDA Growth (%)		16.2	26.4	12.7	11.4
EBIT Growth (%)		18.6	31.4	12.5	13.2
PBT Growth (%)		18.7	30.9	12.9	13.2
Net Profit Growth (%)		19.0	29.4	12.9	13.2
EBITDA Margin (%)	33.4	35.9	37.1	38.1	38.2
EBIT Margin (%)	28.2	30.9	33.2	34.0	34.7
PBT Margin (%)	28.3	31.0	33.2	34.2	34.8
Net Profit Margin (%)	21.8	24.0	25.4	26.1	26.6
Net Debt/Equity (%)	Cash	Cash	Cash	Cash	Cash
CAPEX/Sales (%)	2.1	2.1	18.4	6.1	2.0

Figure #1 **Quarterly results comparison**

FYE Dec (RM m)	4Q20	3Q21	4Q21	QoQ	YoY	FY20	FY21	YoY
Revenue	101.0	116.6	121.5	4.2	20.2	368.3	450.2	22.2
EBITDA	35.8	42.6	46.0	8.1	28.8	132.1	167.0	26.4
EBITDA Margin	35.4	36.5	37.9			35.9	37.1	
EBIT	31.2	38.1	41.8	9.7	33.8	113.7	149.3	31.3
PBT	31.3	38.1	41.8	9.6	33.6	114.3	149.5	30.9
PAT	25.3	30.0	32.4	7.9	28.1	88.3	114.2	29.3
Reported PATMI	23.3	27.3	29.6	8.3	26.9	82.0	104.5	27.5
Core PATMI	24.2	26.5	31.0	17.1	28.0	82.7	105.5	27.5
Reported EPS (sen)	1.5	1.7	1.9	8.3	26.9	5.2	6.6	27.5
Core EPS (sen)	1.5	1.7	2.0	17.1	28.0	5.2	6.7	27.5

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Stock rating guidelines

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.

Sector rating guidelines

OVERWEIGHT	Sector expected to outperform the market over the next 12 months.
NEUTRAL	Sector expected to perform in-line with the market over the next 12 months.
UNDERWEIGHT	Sector expected to underperform the market over the next 12 months.

The stock rating guidelines as stipulated above serves as a guiding principle to stock ratings. However, apart from the abovementioned quantitative definitions, other qualitative measures and situational aspects will also be considered when arriving at the final stock rating. Stock rating may also be affected by the market capitalisation of the individual stock under review.