

Company Result

27 February 2022

Frontken Corp Berhad

4Q21: Record earning as expected

HOLD

Maintained

Share Price	RM 3.05
Target Price	RM 3.46

Company Description

Frontken Corporation Bhd. provides surface metamorphosis technology with thermal spray coating processes.

Stock Data

Bursa / Bloomberg code	0128 / FRCB MK
Board / Sector	Main / Technology
Syariah Compliant status	Yes
FTSE4Good Index	Yes
ESG Rating	☆
Issued shares (m)	1572.41
Market cap. (RM'm)	4795.86
52-week price Range(RM)	2.55-4.22
Beta (against KLCI)	1.19
3-m Average Daily Volume	5.80m
3-m Average Daily Value^	RM 20.14m

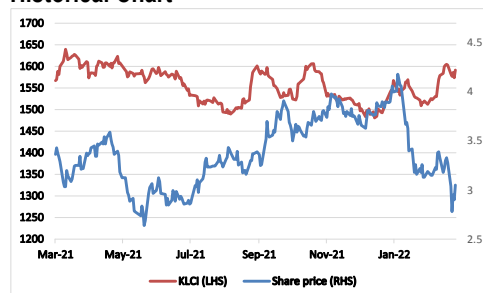
Share Performance

	1m	3m	12m
Absolute (%)	-2.6	-23.8	-12.2
Relative (%-pts)	-7.4	-22.6	-13.0

Major Shareholders

	%
DAZZLE CLEAN LTD	16.79
OOI KENG THYE	15.62
Vanguard Group Inc/The	2.29
Estimated Free Float	64.60

Historical Chart



Source: Bloomberg

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Result

- **Frontken Corporation Berhad (Frontken) posted a remarkable record 4QFY21 results, with a higher revenue of RM121.5m (+20.2% YoY and +4.2% QoQ)** mainly due to the robust growth contribution by its subsidiary in Taiwan - AGTC in semiconductor business as its customers ramped up production besides improvement in the Group's O&G business.
- **Meanwhile, the Group recorded a higher PATAMI of RM29.5m (+26.9% YoY and +8.2% QoQ)** on the back of better revenue and strict cost management.
- **Result in line with expectations.** Frontken's 4Q21 and FY21 results is in line with our/street expectations as the full year PATAMI accounts for 98%/99% of our/consensus forecasts with strong performance shown in 4QFY21.
- **Robust performance in semiconductor business.** 4Q21 semiconductor business continued to show robust growth as Taiwan's subsidiary – AGTC contributed RM32.8m in the quarter which increased 42.8% yoy and 7.3% qoq. The jump on results was mainly due to the high demand for advanced nodes chip.
- **O&G business showed positive momentum.** The Group's Malaysia segmental profit soared 63.7% YoY and 24% QoQ mainly due to the pick of services rendering to Petronas Group of Companies. We expect the momentum will continue in FY2022 as the elevated oil price has spurred activities in O&G sector.
- **Net cash position.** For FY21, Frontken's cash and cash equivalent stood at RM315.4m (RM0.2 per share) comparing to RM312.2m in FY20 after the spending on CAPEX of RM82.8m which was mainly used for plant 2 and equipment, dividend payout of RM52.9m and RM4.2m purchase of AGTC shares in FY21.
- **Dividend declared.** The Group has announced a second dividend in respect FY21 of 2.5 sen per share with the ex-date be announced at a later date. The dividend declared has brought total dividend for FY21 to 4 sen/share (on par with FY20: 4 sen/share).

Comments/Outlook

- **Robust demand of advanced nodes chip prompted semiconductor players or Frontken's customers with aggressive expansions which would benefit the Group for years to come.....** Semiconductor Industry Association (SIA) has projected the global semiconductor sales will exceed USD600 billion in CY22 on the back of rapid development in technology worldwide.

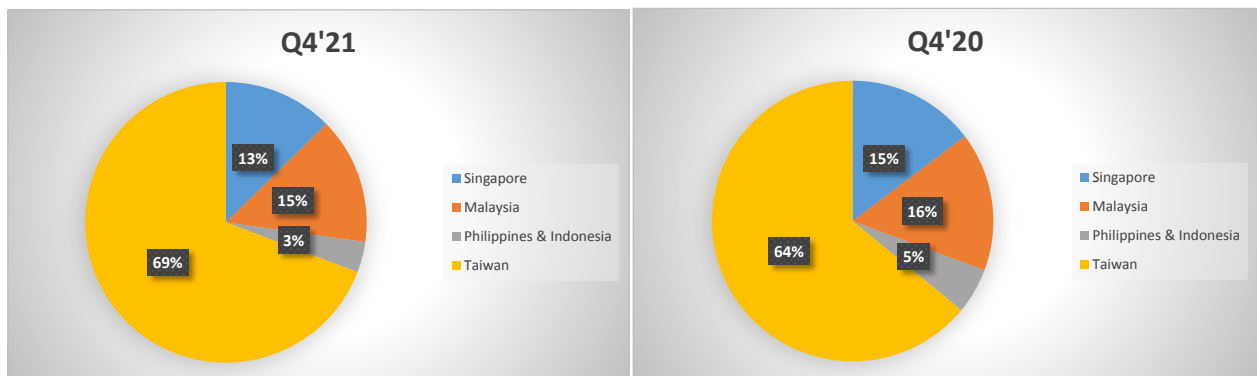
-and trigger Frontken's ambition to expand capacity to capitalise on growth opportunities in semiconductor business. Frontken has completed the acquisition of Plant 2 in Kaoshiung and is expected to commence operation and possible earnings to be kicked in 2HCY22. However, we could expect higher setup cost during 1HCY22. Overall, the Plant 2 is envisaged to have 2.5x of its current capacity. One third of Plant 2 are expected to commence operation in FY22 and the remaining in FY23. Furthermore, the strong balance sheet is able to support the expansion in Taiwan.
- **Timely completion of new facility in Pegerang, Johor in tandem with the positive momentum in O&G business.** With the strong orders from Petronas due to the booming activities re-emerge in O&G on the back rebound of economic and elevated oil price which augurs well for the Group. The completion of Pegerang facility in Jan 2022 which allows the Group to cater to the orders, and management is confident on the positive earnings contribution from the new Pegerang facility.

Earnings Outlook/Revision

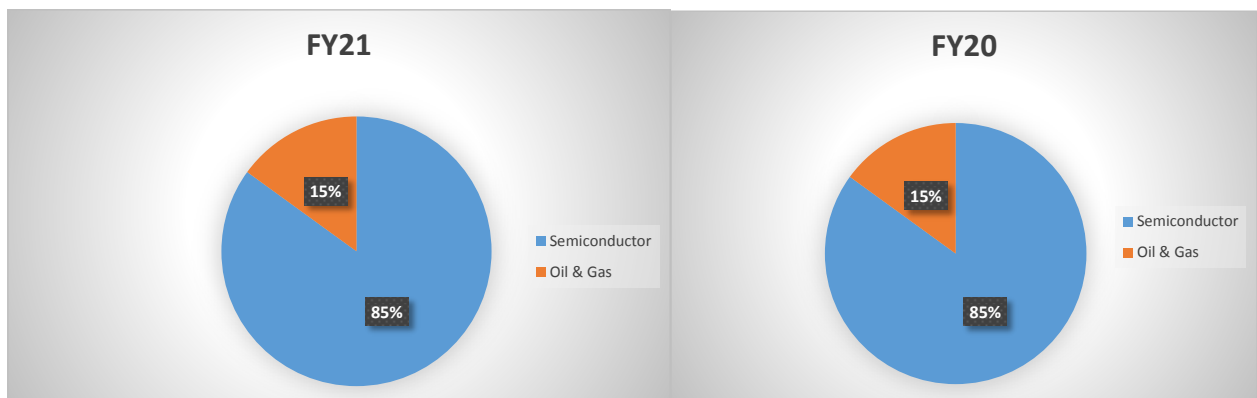
- **We keep our FY22F net earnings forecasts for RM130.3m and introduce our FY23F net earnings forecast of RM 145.3m with 11.5% YoY growth on the back of capacity expansions from the Kaoshiung (semiconductor) and Pengerang, Johor facility (oil & gas).**

Valuation & Recommendation

- **Maintain HOLD CALL with a lower target price of RM3.46 (from RM3.79) after ascribing lower PE multiple due to the valuation revision on technology stocks on the backdrop of rising interest rate.** Our revised target price is now pegged at PE multiple of 42x F22F EPS which is in line with its 3-year mean PER (+0.5 stdv previously). While we favour the stock for its growth prospects, we believe current price has discounted all the positives.

Revenue by Country Q4'21 vs Q4'20

Source: Company

Revenue by Industry FY21 vs FY20

Source: Company, JF Apex

Quarterly Figures

YEAR END DECEMBER	4Q21	4Q20	YoY	3Q21	QoQ	FY2021	FY2020	YoY
Revenue	121.5	101.0	20.2%	116.6	4.2%	450.2	368.3	22.2%
Operating expenses	(76.5)	(68.5)	11.6%	(75.3)	1.6%	(288.3)	(246.0)	17.2%
EBITDA	45.0	32.5	38.4%	41.3	8.9%	161.9	122.3	32.4%
Depreciation	(4.3)	(4.5)	5.5%	(4.5)	-5.6%	(17.7)	(18.4)	4.1%
Finance cost	(0.2)	(0.1)	23.5%	(0.1)	-37.3%	(0.6)	(0.7)	7.8%
Other operating income	1.2	3.5	-64.0%	1.5	15.6%	5.8	11.0	47.0%
PBT	41.8	31.3	33.6%	38.1	9.6%	149.5	114.3	30.8%
Tax	(9.4)	(6.0)	56.5%	(8.1)	15.9%	(35.3)	(25.9)	36.0%
PAT	32.3	25.3	28.1%	30.0	7.9%	114.2	88.3	29.3%
Minority interest	2.8	2.0	3.3%	2.7	4.7%	9.7	6.4	53.0%
PATAMI	29.5	23.3	26.9%	27.3	8.2%	104.5	82.0	27.5%
Margin (%/ppts)								
Operating margin	37%	32%	4.9	35%	1.6	36%	33%	2.8
PBT margin	34%	31%	3.4	33%	1.7	33%	31%	2.2
Adjusted PATAMI margin	24%	23%	1.3	23%	0.9	23%	22%	1.0
Tax rate	23%	19%	3.3	21%	1.2	24%	23%	0.9
SEGMENT REVENUE								
Singapore	15.4	15.0	2.8%	14.6	5.5%	60.0	59.7	0.6%
Malaysia	17.7	16.3	8.7%	16.6	6.9%	63.9	51.8	23.3%
Philippines	4.1	4.5	-7.4%	3.8	7.7%	15.4	15.7	-2.2%
Indonesia	0.1	0.9	-84.2%	0.1	41.7%	0.6	0.7	-12.1%
Taiwan	84.1	65.2	29.0%	81.5	3.2%	310.4	240.5	29.1%
SEGMENT PROFIT								
Singapore	5.6	5.5	0.8%	4.4	27.0%	18.3	20.9	-12.7%
Malaysia	3.0	1.8	63.7%	2.4	24.0%	9.8	7.6	28.8%
Philippines	0.5	0.9	-38.3%	0.7	-22.0%	2.5	2.6	-2.3%
Indonesia	(0.1)	0.0	N/A	0.0	N/A	(0.4)	(0.6)	-33.2%
Taiwan	32.8	22.9	42.8%	30.5	7.3%	119.0	83.1	43.2%

Source: Company, JF Apex

Financial Summary

Year ending 31 December	FY16	FY17	FY18	FY19	FY20	FY21	FY22F	FY23F
	RM'm	RM'm	RM'm	RM'm	RM'm	RM'm	RM'm	RM'm
Revenue	261.9	296.6	327.2	339.9	368.3	450.2	518.7	613.0
Operating profit/EBIT	44.3	61.4	88.0	110.9	122.3	161.9	201.5	250.1
PBT	33.3	46.1	75.6	96.2	114.3	149.5	179.0	199.7
PAT	27.3	36.4	57.0	74.2	88.3	114.2	137.8	153.7
PATAMI	20.0	29.8	52.2	69.1	82.0	104.5	130.3	145.3
Growth (%)								
Revenue	-6.7%	13.2%	10.3%	3.9%	8.4%	22.2%	15.2%	18.2%
Operating profit	80.8%	38.6%	43.3%	26.0%	10.3%	32.4%	24.5%	24.1%
PBT	108.1%	38.4%	64.0%	27.2%	18.8%	30.8%	19.8%	11.5%
PAT	187.4%	33.3%	56.6%	30.2%	19.0%	29.3%	20.7%	11.5%
Net profit	4900.0%	49.0%	75.2%	32.4%	18.6%	27.5%	24.7%	11.5%
Margin (%)								
Operating profit	16.9%	20.7%	26.9%	32.6%	33.2%	36.0%	38.9%	40.8%
PBT	12.7%	15.5%	23.1%	28.3%	31.0%	33.2%	34.5%	32.6%
PAT	10.4%	12.3%	17.4%	21.8%	24.0%	25.4%	26.6%	25.1%
Net profit	7.6%	10.0%	16.0%	20.3%	22.3%	23.2%	25.1%	23.7%

Source: Company, JF Apex

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JF APEX SECURITIES - RESEARCH RECOMMENDATION FRAMEWORK
STOCK RECOMMENDATIONS

BUY : The stock's total returns* are expected to exceed 10% within the next 12 months.
HOLD : The stock's total returns* are expected to be within +10% to – 10% within the next 12 months.
SELL : The stock's total returns* are expected to be below -10% within the next 12 months.
TRADING BUY : The stock's total returns* are expected to exceed 10% within the next 3 months.
TRADING SELL : The stock's total returns* are expected to be below -10% within the next 3 months.

**capital gain + dividend yield*

SECTOR RECOMMENDATIONS

OVERWEIGHT : The industry as defined by the analyst is expected to exceed 10% within the next 12 months.
MARKETWEIGHT : The industry as defined by the analyst is expected to be within +10% to – 10% within the next 12 months.
UNDERWEIGHT : The industry as defined by the analyst, is expected to be below -10% within the next 12 months.

ESG RECOMMENDATIONS

☆☆☆☆ : Top 25% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSA Russell
 ☆☆☆ : Top 26-50% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSA Russell
 ☆☆☆ : Top 51-75% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSA Russell
 ☆ : Bottom 25% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSA Russell

Source: Bursa Malaysia and FTSE Russell

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