

# Frontken Corp. Bhd (FRCB MK)

## 1Q22: Record turnover for Taiwan operations

### The good run continues; maintain BUY

FRCB posted another set of strong results in 1Q22, buttressed by record turnover and EBIT margins at its Taiwanese operations. Adopting a more conservative approach in an inflationary environment, we have lowered our valuation peg to 38x FY23E PER, at +0.5SD to the LT mean (from 44x FY23 PER, at +1SD). Our revised TP is now MYR3.55 (-13%), but our BUY call/forecasts are maintained, premised on FRCB's resilient demand and market-leading position as a niche SP to the largest wafer foundry globally.

### Results within expectations

Excluding EIs of MYR0.9m, FRCB's 1Q22 core net profit came in at MYR25.6m (+14% YoY, -14% QoQ). Results were within expectations at 20% of our/the street's full-year estimates as 1Q is historically the weakest quarter. Group turnover was up 15% YoY, largely due to improved contributions (+21% YoY) from its 93%-owned Taiwanese subsidiary (AGTC), that continues to benefit from the robust demand for its key customer's industry-leading advanced node (<5nm) chips amidst the ongoing upcycle.

### Taiwanese segmental margins hit an all-time high

Other key result takeaways: (i) EBIT margins remained elevated at 34%, underpinned by strong operational leverage at its Taiwanese ops (AGTC contributed c.86% to group EBIT with margins at a historical high of 41%); (ii) revenue for MY also grew 10% YoY from new workflow orders awarded as part of PG's umbrella contracts, in-line with higher oil prices; but (iii) segmental EBIT margins for MY/SG however dragged -8ppts/-5ppts YoY due to acute billing time lags, Covid-related worker shortages, and absence of wage relief subsidies in the previous year corresponding quarter; we opine that affected margins are likely to normalise in sequential quarters.

### Rising-rate environment = moderated valuation peg

With Phase 1 of FRCB's new plant in Kaohsiung set to be operational in 2H22, coupled with its key customer's (TSMC) forward guidance of achieving record gross margins of 56%-58% in 2Q22, we continue to remain upbeat on FRCB's prospects as a direct proxy to the ongoing mega-foundry super cycle. While our previous valuation peg of 44x FY23 PER (+1SD to LT mean) reflected this robust outlook, we now adopt a more conservative approach towards sector valuation premiums given the suppressive effect of aggressive Fed tightening by moderating our valuation peg to 38x FY23 PER (+0.5SD to LT Mean). Earnings forecasts, BUY rating are maintained.

FYE Dec (MYR m)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue	368	450	578	610	644
EBITDA	122	162	211	237	249
Core net profit	81	105	129	148	156
Core EPS (sen)	5.1	6.6	8.2	9.4	9.9
Core EPS growth (%)	17.3	29.1	23.5	14.3	5.7
Net DPS (sen)	2.7	4.0	4.1	4.7	5.0
Core P/E (x)	46.0	60.2	31.3	27.4	25.9
P/BV (x)	8.5	13.2	7.5	7.4	7.3
Net dividend yield (%)	1.1	1.0	1.6	1.8	1.9
ROAE (%)	20.1	22.8	25.4	27.1	28.3
ROAA (%)	14.3	16.5	18.8	20.2	21.1
EV/EBITDA (x)	28.2	37.7	18.3	16.4	15.8
Net gearing (%) (incl perps)	net cash	net cash	net cash	net cash	net cash
Consensus net profit	-	-	126	159	201
MKE vs. Consensus (%)	-	-	2.3	(6.9)	(22.5)

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## BUY

Share Price	MYR 2.57
12m Price Target	MYR 3.55 (+40%)
Previous Price Target	MYR 4.10

### Company Description

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

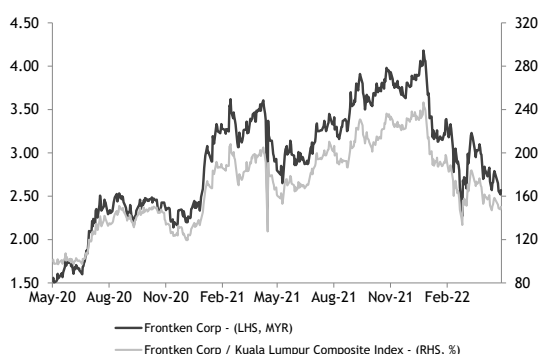
### Statistics

52w high/low (MYR)	4.18/2.27
3m avg turnover (USDm)	3.6
Free float (%)	61.0
Issued shares (m)	1,580
Market capitalisation	MYR4.1B
	USD927M

### Major shareholders:

Dazzle Clean Ltd.	16.7%
OOI KENG THYE / FRONTKEN/	14.8%
Public Mutual Bhd.	4.6%

### Price Performance



	-1M	-3M	-12M
Absolute (%)	(14)	(24)	(12)
Relative to index (%)	(11)	(23)	(10)

Source: FactSet

### Acronyms

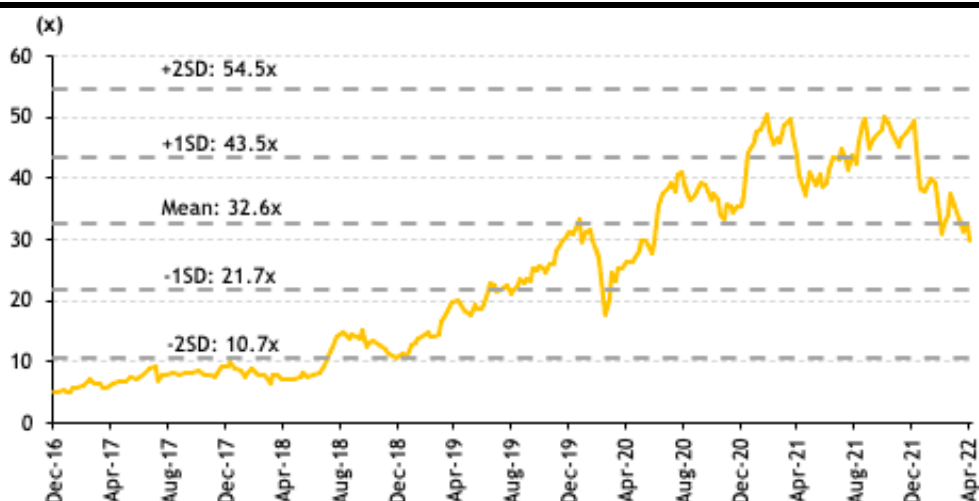
AGTC - Ares Green Technology Corporation  
 MY - Malaysia  
 nm - nanometer  
 PG - Petronas Group  
 SG - Singapore  
 SP - service provider  
 TSMC - Taiwan Semiconductor Manufacturing Co.

EBIT - earnings before interest and tax  
 EI - exceptional item  
 LT - long-term  
 PER - price-earnings ratio  
 SD - standard deviation  
 TP - target price

Fig 1: Frontken Corp's 1Q22 results summary

FYE Dec (MYR'm)	Quarterly					Cumulative		
	1Q22	1Q21	% YoY	4Q21	% QoQ	3M22	3M21	% YoY
Revenue	119.1	103.5	15.1	121.5	(1.9)	119.1	103.5	15.1
EBITDA	43.1	37.4	15.4	45.0	(4.2)	43.1	37.4	15.4
Depreciation	(4.1)	(4.4)	(7.4)	(4.3)	(4.5)	(4.1)	(4.4)	(7.4)
Other income	1.9	2.0	(7.6)	1.0	80.6	1.9	2.0	(7.6)
EBIT	40.9	35.0	16.9	41.8	(2.0)	40.9	35.0	16.9
Finance income	0.1	0.2	(38.2)	0.2	(32.7)	0.1	0.2	(38.2)
Finance costs	(0.2)	(0.2)	21.6	(0.2)	1.1	(0.2)	(0.2)	21.6
Pretax profit	40.9	35.1	16.6	41.8	(2.2)	40.9	35.1	16.6
Tax expense	(12.1)	(10.1)	19.0	(9.4)	27.9	(12.1)	(10.1)	19.0
Minority interest	(2.3)	(2.0)	14.0	(2.8)	(18.8)	(2.3)	(2.0)	14.0
Net profit	26.5	22.9	15.7	29.5	(10.3)	26.5	22.9	15.7
Net profit ex-EI	25.6	22.4	14.4	29.7	(13.9)	25.6	22.4	14.4
Basic EPS (sen)	1.7	2.2	(22.8)	1.9	(10.1)	1.7	2.2	(22.8)
Margin (%)	1Q22	1Q21	+/- ppt YoY	4Q21	+/- ppt QoQ	3M22	3M21	+/- ppt YoY
EBIT	34.3	33.8	0.5	34.4	(0.0)	34.3	33.8	0.5
Pretax profit	34.3	33.9	0.4	34.4	(0.1)	34.3	33.9	0.4
Net profit ex-EI	21.5	21.6	(0.1)	24.4	(3.0)	21.5	21.6	(0.1)
Segmental revenue (MYR'm)	1Q22	1Q21	+/- ppt YoY	4Q21	+/- ppt QoQ	3M22	3M21	+/- ppt YoY
Taiwan	84.9	70.2	21.0	84.1	1.0	84.9	70.2	21.0
Singapore	14.4	14.5	(0.6)	15.4	(6.3)	14.4	14.5	(0.6)
Malaysia	16.3	14.9	9.5	17.7	(7.9)	3.3	3.7	(10.5)
Philippines	3.3	3.7	(10.5)	4.1	(19.6)	16.3	14.9	9.5
Indonesia	0.2	0.2	(15.4)	0.1	25.0	0.2	0.2	(15.4)
Segmental EBIT (MYR'm)	1Q22	1Q21	+/- ppt YoY	4Q21	+/- ppt QoQ	3M22	3M21	+/- ppt YoY
Taiwan	35.2	27.5	28.2	32.8	7.5	35.2	27.5	28.2
Singapore	3.5	4.2	(15.9)	5.6	(36.7)	3.5	4.2	(15.9)
Malaysia	1.8	2.9	(37.7)	3.0	(40.1)	1.8	2.9	(37.7)
Philippines	0.4	0.6	(29.6)	0.5	(18.1)	0.4	0.6	(29.6)
Indonesia	(0.1)	(0.2)	(53.5)	(0.1)	(18.9)	(0.1)	(0.2)	(53.5)
Segmental EBIT margin (%)	1Q22	1Q21	+/- ppt YoY	4Q21	+/- ppt QoQ	3M22	3M21	+/- ppt YoY
Taiwan	41.5	39.2	2.3	39.0	2.5	41.5	39.2	2.3
Singapore	24.5	29.0	(4.5)	36.3	(11.8)	24.5	29.0	(4.5)
Malaysia	10.9	19.2	(8.3)	16.8	(5.9)	53.6	77.1	(23.5)
Philippines	13.4	17.1	(3.6)	13.2	0.2	2.7	4.3	(1.5)
Indonesia	(58.2)	(106.0)	47.7	(89.7)	31.5	(58.2)	(106.0)	47.7

Source: Company data. Maybank IBG Research

**Fig. 2: Frontken Corp's 12M forward PER band (currently trading at 29.7x)**


Source: Bloomberg, Maybank IBG Research

**Fig. 3: Frontken Corp's 12M forward PBV band (currently trading at 7.4x)**


Source: Bloomberg, Maybank IBG Research

## Risk statement

There are several risk factors for our earnings estimates, target price and rating for Frontken Corp. A sharp downturn in the global markets for electronics and/or oil & gas will affect the demand for Frontken Corp's services. Additionally, forex volatility, especially USD/MYR, will also affect Frontken Corp's earnings, as about 1/5 of the Group's revenue is denominated in USD.

FYE 31 Dec	FY20A	FY21A	FY22E	FY23E	FY24E
<b>Key Metrics</b>					
P/E (reported) (x)	36.8	50.5	31.3	27.4	25.9
Core P/E (x)	46.0	60.2	31.3	27.4	25.9
P/BV (x)	8.5	13.2	7.5	7.4	7.3
P/NTA (x)	9.2	14.3	8.0	7.8	7.8
Net dividend yield (%)	1.1	1.0	1.6	1.8	1.9
FCF yield (%)	3.3	0.3	2.1	3.6	3.8
EV/EBITDA (x)	28.2	37.7	18.3	16.4	15.8
EV/EBIT (x)	30.4	40.9	20.8	18.3	17.5
<b>INCOME STATEMENT (MYR m)</b>					
Revenue	368.3	450.2	577.9	609.9	644.2
EBITDA	122.3	161.9	211.5	237.1	249.2
Depreciation	(18.4)	(17.7)	(25.6)	(24.5)	(24.5)
Amortisation	0.0	0.0	0.0	0.0	0.0
EBIT	113.7	149.3	185.9	212.6	224.7
Net interest income / (exp)	0.6	0.2	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	114.3	149.5	186.8	213.5	225.6
Income tax	(25.9)	(35.3)	(44.1)	(50.4)	(53.2)
Minorities	(6.4)	(9.7)	(13.6)	(15.5)	(16.4)
Discontinued operations	0.0	0.0	0.0	0.0	0.0
Reported net profit	82.0	104.5	129.2	147.6	156.0
Core net profit	81.0	104.6	129.2	147.6	156.0
<b>BALANCE SHEET (MYR m)</b>					
Cash & Short Term Investments	312.2	228.3	218.4	188.0	151.8
Accounts receivable	110.7	123.3	156.1	164.4	173.2
Inventory	20.0	21.2	23.4	23.6	25.1
Reinsurance assets	0.0	0.0	0.0	0.0	0.0
Property, Plant & Equip (net)	121.7	224.1	276.6	309.1	341.6
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	19.8	19.5	19.0	19.0	19.0
<b>Total assets</b>	<b>618.1</b>	<b>650.1</b>	<b>727.3</b>	<b>737.8</b>	<b>744.4</b>
ST interest bearing debt	0.0	0.0	0.0	0.0	0.0
Accounts payable	118.0	124.3	130.1	130.5	132.4
Insurance contract liabilities	0.0	0.0	0.0	0.0	0.0
LT interest bearing debt	9.5	1.3	1.3	1.3	1.3
Other liabilities	24.0	18.0	18.0	18.0	18.0
<b>Total Liabilities</b>	<b>151.1</b>	<b>143.7</b>	<b>149.5</b>	<b>149.8</b>	<b>151.8</b>
Shareholders Equity	440.0	475.5	540.1	549.3	553.5
Minority Interest	27.0	30.9	37.7	38.6	39.1
<b>Total shareholder equity</b>	<b>467.0</b>	<b>506.4</b>	<b>577.8</b>	<b>588.0</b>	<b>592.6</b>
<b>Total liabilities and equity</b>	<b>618.1</b>	<b>650.1</b>	<b>727.3</b>	<b>737.8</b>	<b>744.4</b>
<b>CASH FLOW (MYR m)</b>					
Pretax profit	114.3	149.5	186.8	213.5	225.6
Depreciation & amortisation	18.4	17.7	25.6	24.5	24.5
Adj net interest (income)/exp	(0.6)	(0.2)	(0.9)	(0.9)	(0.9)
Change in working capital	12.1	(7.5)	(29.2)	(8.1)	(8.3)
Cash taxes paid	(22.9)	(35.3)	(44.1)	(50.4)	(53.2)
Other operating cash flow	(0.6)	0.0	0.0	0.0	0.0
Cash flow from operations	131.8	124.1	138.2	178.5	187.7
Capex	(7.7)	(102.4)	(52.5)	(32.5)	(32.5)
Free cash flow	124.1	21.7	85.7	146.0	155.2
Dividends paid	(29.1)	(68.8)	(71.4)	(81.6)	(86.2)
Equity raised / (purchased)	0.0	0.0	0.0	0.0	0.0
Change in Debt	(5.7)	0.0	0.0	0.0	0.0
Other invest/financing cash flow	(4.8)	0.2	0.9	0.9	0.9
Effect of exch rate changes	6.2	0.0	0.0	2.0	4.0
<b>Net cash flow</b>	<b>90.8</b>	<b>(46.9)</b>	<b>15.2</b>	<b>67.4</b>	<b>73.9</b>

FYE 31 Dec	FY20A	FY21A	FY22E	FY23E	FY24E
<b>Key Ratios</b>					
<b>Growth ratios (%)</b>					
Revenue growth	8.4	22.2	28.4	5.5	5.6
EBITDA growth	7.6	32.4	30.6	12.1	5.1
EBIT growth	18.6	31.3	24.6	14.4	5.7
Pretax growth	18.7	30.8	25.0	14.3	5.7
Reported net profit growth	18.5	27.5	23.6	14.3	5.7
Core net profit growth	17.3	29.1	23.5	14.3	5.7
<b>Profitability ratios (%)</b>					
EBITDA margin	33.2	36.0	36.6	38.9	38.7
EBIT margin	30.9	33.2	32.2	34.9	34.9
Pretax profit margin	31.0	33.2	32.3	35.0	35.0
Payout ratio	51.1	60.3	50.0	50.0	50.0
<b>DuPont analysis</b>					
Net profit margin (%)	22.3	23.2	22.4	24.2	24.2
Revenue/Assets (x)	0.6	0.7	0.8	0.8	0.9
Assets/Equity (x)	1.4	1.4	1.3	1.3	1.3
ROAE (%)	20.1	22.8	25.4	27.1	28.3
ROAA (%)	14.3	16.5	18.8	20.2	21.1
<b>Liquidity &amp; Efficiency</b>					
Cash conversion cycle	(22.9)	(28.9)	(28.7)	(22.0)	(16.0)
Days receivable outstanding	99.9	93.5	87.0	94.6	94.3
Days inventory outstanding	25.8	25.1	24.6	25.7	25.1
Days payables outstanding	148.5	147.6	140.3	142.3	135.3
Dividend cover (x)	2.0	1.7	2.0	2.0	2.0
Current ratio (x)	3.2	2.7	2.8	2.6	2.4
<b>Leverage &amp; Expense Analysis</b>					
Asset/Liability (x)	4.1	4.5	4.9	4.9	4.9
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	0.0	0.0	0.0	0.0
Capex/revenue (%)	2.1	22.7	9.1	5.3	5.0
Net debt/ (net cash)	(302.7)	(226.9)	(217.1)	(186.6)	(150.5)

Source: Company; Maybank IBG Research

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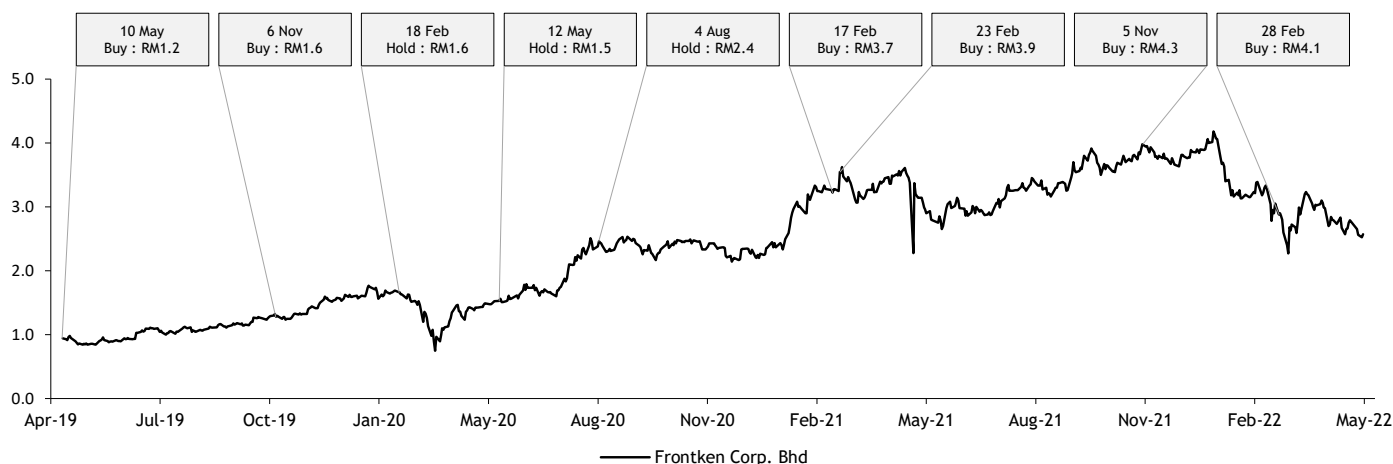
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