

Results Update

Wednesday, 24 Feb 2010

For Internal Circulation Only

FBM KLCI : 1,266.43
Sector : Technology
Bloomberg : FRCB MK

TA SECURITIES HOLDINGS BERHAD
Menara TA One, 22 Jalan P Ramlee,
50250 Kuala Lumpur, Malaysia
Tel : 603 - 2072 1277
Fax : 603 - 2032 5048

Analyst : TA Research
Tel : 20721277 ext : 1641
e-mail : stchin@ta.com.my

Target RM0.20
Price (+48.1%)

RM0.135 Buy

Frontken Corporation Berhad

Hurt by One-Off Item

Share Info

Stock Code	FRONTKN
Listing	Main Board
Share Cap (m)	1011.4
Market Cap (RMm)	136.5
Par Value	0.10
52-wk Hi/Low (RM)	0.315/0.155
12-mth Avg Daily Vol ('000 st)	1670.0
Estimated Free Float (%)	64.7%
Beta	0.57
Major Shareholders (%)	
	Wong Hua Choon - 14.24%
	QSSB - 9.24%

Forecast Revision

	FY10	FY11
Forecast Revision	-35.4%	-
Revised Net profit (RMm)	18.7	24.9
Consensus	NA	NA
TA/Consensus (%)	NA	NA
Previous Rating	Buy (Maintained)	

	FY10	FY11
Net debt/equity (%)	12.3%	-9.0%
CFPS (sen)	0.8	2.0
P/CFPS (x)	17.5	6.6
ROE (%)	10.1%	11.4%
ROA (%)	6.9%	8.3%
NTA/Share (RM)	0.3	0.3
Price/NTA (x)	0.5	0.5
5-year EPS CAGR	18.8%	18.8%

Scorecard

	% of FY	
vs TA	66%	Below
vs Consensus	NA	NA

Share Performance (%)

Price chg	Frontken	KLCI
1 mth	-41.3%	-2.6%
3 mth	-20.6%	-0.4%
6 mth	-35.1%	7.8%
12 mth	-37.8%	41.6%

Review

- FY09 results were below expectations, hurt by paltry set of results in 4QFY09 results.
- On a sequential basis, 4QFY09 core net profit plunged 92.0% on the back of 4% decline in revenue. The significant contraction in bottomline was attributable to, 1) higher subcontracting cost, which amounted to RM2.6mn, 2) write-off of bad debts (RM522k), and 3) higher losses incurred by associate company.
- Frontken booked a one-off net gain from the recovery from insurers on the fire incidents in FY08. Stripping off the item, FY09 core net profit actually plunged 31.5% YoY to RM8.1mn despite a 5.1% growth in revenue.
- More than half of the group revenue was contributed by its Singapore subsidiary, which was also the key contributed RM10.2mn in operating profit. Malaysia business registered operating profit of RM2.2mn. Other operations cumulatively incurred operating losses of up to RM3.0mn.
- Management is optimistic about the outlook with encouraging rebound in demand from power generation, semiconductor and oil & gas sectors.

Impact

- We downgrade our earnings forecasts by 35.4% for FY10, taking cue from the higher operating costs, higher depreciation cost and narrowing margin. We are now being more conservative in our assumptions, preferring instead to monitor the situation before incorporating the additional growth items. We have also introduced FY11 forecast.

Outlook

- The recent uptrend in the semiconductor industry further reinforces our positive view on the sector. Frontken could turn out to be a key beneficiary, given its business in the semiconductor sector focuses in machineries/equipment, which are widely used in upstream processes such as wafer fabrication processes.
- In Taiwan, Frontken's unit, Ares Green Technology Corporation (AGTC) is currently converting its 10 year old production facilities into a newer design to fit current market demand. Management guided that the revamped production facilities will allow AGTC to restructure and create at least 15% of renewed usable facilities that meet latest market demand. Management added that more orders are coming back and potentially, new breakthrough in the existing market. With the latest R&D achievement, AGTC is expecting to perform well this year.
- Management believes that semiconductor sector has fully recovered in Singapore and Malaysia and expects its operation in both countries to achieve earnings growth this year. Key drivers to earnings would be new business development as well as further gain in market share.
- The group has started to get some business in Solar/Photovoltaic segment. It aims to develop this into a new revenue stream in the medium to long term. Management did not rule out the possibility that this sector will become a significant contributor to the group's revenue in 2-3 years time. Although the renewable energy sector is relatively young, nonetheless, it has promising potential for growth over the next ten years, in our view.

Valuation

- We have revised downward our target price to RM0.20 after the earnings adjustment. Maintain buy on Frontken with total potential upside of 48.1%. Potential re-rating catalysts include: (1) faster-than-expected economic recovery and improvement in end customer spending, (2) favourable industry demand and trends, and (3) strong pick-up in its parts manufacturing segment.

Share Price chart



Source : Bloomberg

Earnings Summary (RMmn)

YE Dec 31	FY07	FY08	FY09	FY10F	FY11F
Revenue	105.4	130.5	137.2	192.1	235.9
Pretax profit	6.9	19.4	8.1	34.8	43.6
Taxation	-2.5	-0.5	-0.6	-8.7	-10.9
Net profit	4.0	18.8	8.1	18.7	24.9
Core Net Profit	9.7	11.2	8.1	18.7	24.9
Core EPS sen	0.96	1.11	0.80	1.85	2.46
EPS growth	-7.8%	15.4%	-27.5%	130.3%	33.3%
PER x	14.1	12.2	16.8	7.3	5.5
GDPS sen	0.0	0.0	0.0	0.0	1.0
Div Yield	na	na	na	na	na

4Q09 Results Analysis (RMmn)

YE 31 Dec	3Q09	4Q09	QOQ	FY08	FY09	YOY
Turnover	35.66	34.22	-4.0%	130.6	137.2	5.1%
EBITDA	10.06	3.05	-69.7%	24.1	23.8	-1.1%
Depreciation & Amortisation	(3.45)	(3.42)	0.8%	(11.3)	(13.5)	-20.0%
Net Int Inc/ (exp)	(0.89)	(1.13)	-26.8%	(4.2)	(3.9)	8.6%
EI	0.00	0.00	nm	7.0	0.0	nm
Associates	(0.26)	(0.26)	-1.2%	1.3	(1.3)	nm
Pretax	5.66	(0.30)	nm	19.4	8.1	-58.2%
Taxation	(0.77)	0.53	nm	(0.5)	(0.6)	-12.1%
MI	(0.07)	(0.16)	>-100%	0.1	(0.6)	nm
Net Profit	4.96	0.40	-92.0%	18.9	8.1	-57.0%
Net Profit adj	4.96	0.40	-92.0%	11.8	8.1	-31.5%
EPS (sen)	0.49	0.04	-92.0%	1.2	0.8	-31.5%
GDPS (sen)	0.00	0.00		0.0	0.0	
EBITDA Margin	28.2%	8.9%		18.5%	17.4%	
Pretax Margin	15.9%	-0.9%		14.9%	5.9%	
Net Margin	13.9%	1.2%		9.1%	5.9%	
Tax Rate	-13.6%	-178.5%		-2.6%	-6.9%	

Disclaimer

The information in this report has been obtained from sources believed to be reliable. Its accuracy or completeness is not guaranteed and opinions are subject to change without notice. This report is for information only and not to be construed as a solicitation for contracts. We accept no liability for any direct or indirect loss arising from the use of this document. We, our associates, directors, employees may have an interest in the securities and/or companies mentioned herein.

for TA SECURITIES HOLDINGS BERHAD (14948-M)
(A Participating Organisation of Bursa Malaysia Securities Berhad)
Kaladher Govindan, Head of Research