

Company Update

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For Internal Circulation Only

FBM KLCI : 1,295.32
Sector : Technology
Bloomberg : FRCB MK

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Target RM0.20
Price (+60.0%)

RM0.125 Buy

Share Info

Stock Code	FRONTKN
Listing	Main Board
Share Cap (m)	1011.4
Market Cap (RMm)	126.4
Par Value	0.10
52-wk Hi/Lo (RM)	0.315/0.125
12-mth Avg Daily Vol ('000 st)	2621.0
Estimated Free Float (%)	61.9%
Beta	0.54
Major Shareholders (%)	
	Wong Hua Choon - 19.94%
	QSSB - 9.24%
	Lembaga Tabung Haji - 5.19%

Forecast Revision

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

Financial Indicators

	FY10	FY11
Net debt/equity (%)	12.3%	-9.0%
CFPS (sen)	0.8	2.0
P/CFPS (x)	16.2	6.1
ROE (%)	10.1%	11.4%
ROA (%)	6.9%	8.3%
NTA/Share (RM)	0.3	0.3
Price/NTA (x)	0.5	0.4
5-year EPS CAGR	18.8%	18.8%

Share Performance (%)

Price chg	Frontken	FBM KLCI
1 mth	-10.7%	3.3%
3 mth	-26.5%	2.1%
6 mth	-34.6%	6.8%
12 mth	-53.4%	54.0%

Frontken Corporation Berhad

Brighter Outlook

We had the opportunity to talk with Frontken's CEO, Mr Willie Wong recently. Some of the key elements are summarised below:

2010- More Optimistic Outlook

Management claims that the worst is over for Frontken. Management's confidence is premised on a much more optimistic outlook for power generation, oil & gas and the semiconductor industry. The group has substantial exposure to the semiconductor and oil & gas industry, which cumulatively accounts more than 70% of the group's total revenue. This is followed by power generation and other segments.

Subsidiaries are Expected to Turnaround

Management expects its subsidiaries in Philippines, Thailand, Taiwan and Indonesia to turnaround this year. To recap, all these operations cumulatively incurred operating losses of about RM3.0mn in FY09. Capex this year would amount to RM15mn. Management guided that bulk of the capex will be allocated for Singapore, Philippines, Malaysia and Thailand.

AGTC to Perform Well This Year

Meanwhile, the conversion of production facilities into a newer design in Ares Green Technology Corporation (AGTC) is almost complete. This will enable AGTC to restructure and create at least 15% of renewed usable facilities that meet latest market demand. With the recent up-cycle in the semiconductor industry, AGTC is expecting to have more upside and to perform well this year.

Encouraging Growth Development in PV Industry

According to management, Q-Cell is the main contributor for its Solar/Photovoltaic (PV) segment. The group is following up with customers to bring in more businesses. Management expects an encouraging growth in the PV industry, as key manufacturers in the world like First Solar GmbH, Q-Cells AG and SunPower Corp have invested and set up presence in Malaysia. Frontken is currently a vendor for First Solar GmbH. Meanwhile, its discussion with SunPower has been delayed but qualification work is currently on-going.

Frontken is Well Positioned to Capitalise on Development in Solar Industry

According to Malaysian Industrial Development Authority (Mida) director-general, Datuk Jalilah Baba, the solar industry is one of Malaysia's top priority projects to generate clean energy and new growth areas in high-value-added manufacturing. There are currently five to six photovoltaic makers undertaking due diligence process to set up their facilities in Malaysia. Since there are not many companies involved in Solar/Photovoltaic (PV) application, we believe Frontken is well positioned to capitalise on this development.

Valuation

Maintain our buy recommendation on Frontken with a target price of RM0.20. 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	13.0	11.3	15.6	6.8	5.1
GDPS sen	0.0	0.0	0.0	0.0	0.0
Div Yield	na	na	na	na	na

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