

HLIB Research

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Tan J Young
jt@hlib.hongleong.com.my

(603) 2083 1721

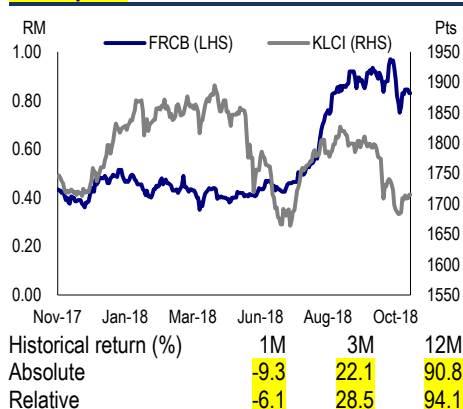
BUY (Maintain)

Target Price: **RM1.18**
Previously: **RM1.05**
Current Price: **RM0.91**

Capital upside	30.4%
Dividend yield	2.0%
Expected total return	32.4%

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)	1,048
Market capitalisation (RM m)	870
3-mth average volume ('000)	21,477
SC Shariah compliant	Yes

Major shareholders

Dazzle Clean	27.8%
Ooi Keng Thye	14.5%
CIMB Group Holdings Bhd	4.7%

Earnings summary

	FY18	FY19f	FY20f
FYE (Dec)			
PATMI – core (RM m)	54.4	62.0	66.6
EPS – core (sen)	5.2	5.9	6.3
P/E (x)	17.5	15.4	14.3

Frontken Corporation

All-time high results beat, auspicious outlook

Bucking seasonality, 4Q18 performance was strongest ever and lifted FY18 core net profit to RM54m (+59% YoY) which tops expectations. Declared second single dividend of 0.8 sen per share. This outstanding performance was mainly driven by stronger semiconductor contribution while O&G exhibited resiliency with third consecutive quarterly profit in 4Q18. Upward forecast revisions have led to higher TP of RM1.18 (20x of FY19 EPS). Maintain BUY.

Above expectations. FY18 revenue of RM327m translated into a stronger-than-expected core net profit of RM54m, accounting for 120% of HLIB and street full year forecasts, respectively. Again, 4Q18 performance was the third back-to-back record breaking quarter in terms of both top and bottom lines.

Dividend. Declared a second single tier dividend of 0.8 (4Q17: none) sen per share. The entitlement and distribution dates will be announced at a later date. YTD dividend amounted to 1.5 (FY17: 0.5) sen per share, representing 30% payout yielding 1.7% at current price.

QoQ. Turnover increased 3% to reach RM89m thanks to higher contributions from Singapore, more than sufficient to offset the weakness elsewhere. After one-off adjustments, core net profit grew 31% to RM20m attributable to improved margins on the back of better economies of scale.

YoY. Top line gained 10% driven by Singapore and Malaysia's contributions, which expanded 41% and 25% supported by both semiconductor and O&G businesses. Taiwan recorded marginally lower revenue of 1% due to weaker RM against TWD but at constant currency, it actually grew 2%. As a result, core earnings swelled by 83% on the back of operational excellence, lower D&A, net interest income and lower MI with increased stake in AGTC.

YTD. Revenue accelerated 10% supported by Taiwan (+9%), Malaysia (+15%) and Singapore (+17%) leveraging on stronger semiconductor demand. After excluding non-core items, bottom line spiked 59% to RM54m for the same reason mentioned above.

AGTC stake. Acquired additional 278k shares (or 0.82%) for RM1.2m in November 2018, increasing its interest to 89.59%.

O&G recovery. Record third consecutive quarterly profit with RM2.0m in 4Q18 bringing YTD PAT to RM2.3m. We believe the turnaround story remains intact and this performance is sustainable going forward considering Brent crude price remains stable at current levels.

Prospects. Despite concerns surrounding trade tension and softer economic outlook, management believes its momentum will continue and cautiously optimistic in FY19 while focus on the quality of services and cost management to stay competitive.

Forecast. FY19-20 EPS were revised upward by 13% and 9%, respectively based on latest data points.

Reiterate **BUY** with a higher TP of **RM1.18** (pegged to 20x of FY19 EPS), reflecting the earnings revision. We expect Frontken to experience 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); (4) O&G recovery; and (5) strong balance sheet (net cash of RM138m or 13 sen per share).

Financial Forecast

All items in (RM m) unless otherwise stated

Income statement

FYE Dec	FY17	FY18	FY19f	FY20f	FY21f
Revenue	296.6	327.2	358.2	376.1	394.9
COGS	(231.9)	(234.7)	(257.2)	(270.0)	(283.5)
EBITDA	64.7	92.6	101.0	106.1	111.4
D&A	(18.5)	(17.3)	(16.5)	(15.8)	(15.2)
EBIT	46.2	75.3	84.5	90.3	96.2
Net Interest Income	(0.1)	0.3	0.8	1.2	1.7
Associates	0.0	0.0	0.0	0.0	0.0
PBT	46.1	75.6	85.3	91.5	97.9
Tax	(9.7)	(18.6)	(18.0)	(19.3)	(20.7)
Net Profit	36.4	57.0	67.3	72.2	77.3
MI	(6.6)	(4.7)	(5.3)	(5.6)	(5.9)
PATAMI	29.9	52.3	62.0	66.6	71.4
Exceptionals	4.4	2.2	0.0	0.0	0.0
Adj PATAMI	34.3	54.4	62.0	66.6	71.4
Basic Shares (m)	1,053.0	1,053.0	1,053.0	1,053.0	1,053.0
Rep EPS (sen)	2.8	5.0	5.9	6.3	6.8
Adj EPS (sen)	3.3	5.2	5.9	6.3	6.8
Adj FD EPS (sen)	3.3	5.2	5.9	6.3	6.8

Balance sheet

FYE Dec	FY17	FY18	FY19f	FY20f	FY21f
Cash	119.3	133.0	186.0	241.9	300.7
Receivables	91.7	106.8	117.8	123.6	129.8
Inventories	13.5	13.7	14.1	14.8	15.5
Investment	2.0	0.0	0.0	0.0	0.0
PPE	150.0	140.4	133.9	128.1	122.9
Intangibles	33.8	33.8	33.8	33.8	33.8
Other Assets	20.8	27.4	27.4	27.4	27.4
Total Assets	431.1	455.1	512.8	569.5	630.1
Payables	79.8	82.4	91.6	96.2	101.0
ST borrowings	21.9	3.9	3.9	3.9	3.9
LT borrowings	11.5	7.5	7.5	7.5	7.5
Other Liabilities	11.8	16.5	16.5	16.5	16.5
Total liabilities	125.1	110.4	119.6	124.1	128.9
Shareholders' Funds	281.6	325.0	368.3	414.8	464.7
MI	24.4	19.6	24.9	30.6	36.5
Total S/H Equity	306.0	344.6	393.3	445.4	501.2
Ttl Liab&S/H Funds	431.1	455.1	512.8	569.5	630.1

Cashflow Analysis

FYE Dec	FY17	FY18	FY19f	FY20f	FY21f
EBITDA	64.7	92.6	101.0	106.1	111.4
Tax Paid	(7.9)	(14.2)	(18.0)	(19.3)	(20.7)
WC Changes	6.9	(14.6)	(2.1)	(2.0)	(2.1)
Other	5.3	(0.4)	0.8	1.2	1.7
CFO	69.0	63.3	81.7	86.0	90.3
FCF	48.9	55.8	71.7	76.0	80.3
CAPEX (CF)	(20.2)	(7.5)	(10.0)	(10.0)	(10.0)
Acquisitions	(13.3)	(7.1)	0.0	0.0	0.0
Other	1.3	7.5	0.0	0.0	0.0
CFI	(32.1)	(7.1)	(10.0)	(10.0)	(10.0)
Dividend	(5.2)	(10.0)	(18.7)	(20.1)	(21.5)
Debt changes	0.0	(16.7)	0.0	0.0	0.0
Other	(3.2)	(1.1)	0.0	0.0	0.0
CFF	(8.4)	(27.8)	(18.7)	(20.1)	(21.5)
Net Cashflow	28.6	28.4	53.0	55.9	58.8

Quarterly financial summary

FYE Dec	4Q17	1Q18	2Q18	3Q18	4Q18
Revenue	80.4	70.9	81.8	85.9	88.7
COGS	(62.0)	(55.3)	(58.0)	(61.2)	(60.2)
EBITDA	18.4	15.6	23.8	24.7	28.5
D&A	(4.7)	(4.5)	(4.3)	(4.2)	(4.3)
EBIT	13.7	11.1	19.5	20.5	24.2
Net Interest Income	(0.1)	(0.1)	0.0	0.2	0.2
Associates	0.0	0.0	0.0	0.0	0.0
PBT	13.6	11.0	19.5	20.6	24.4
Tax	(2.4)	(3.8)	(6.2)	(4.1)	(4.4)
Net Profit	11.3	7.2	13.3	16.5	20.0
MI	(1.4)	(0.9)	(1.2)	(1.3)	(1.3)
PATAMI	9.8	6.3	12.1	15.2	18.7
Exceptionals	0.9	0.8	0.7	(0.2)	0.9
Adj PATAMI	10.7	7.1	12.8	15.0	19.6
Basic Shares (m)	1,053.0	1,053.0	1,053.0	1,053.0	1,053.0
Rep EPS (sen)	0.9	0.6	1.1	1.4	1.8
Adj EPS (sen)	1.0	0.7	1.2	1.4	1.9
Adj FD EPS (sen)	1.0	0.7	1.2	1.4	1.9

Valuation Ratios

FYE Dec	FY17	FY18	FY19f	FY20f	FY21f
PER (x)	31.9	18.2	15.4	14.3	13.4
Core PER (x)	27.8	17.5	15.4	14.3	13.4
FD PER (x)	27.8	17.5	15.4	14.3	13.4
DPS (sen)	0.5	1.5	1.8	1.9	2.0
Net DY (%)	0.6	1.7	2.0	2.1	2.3
Book/share (sen)	26.7	30.9	35.0	39.4	44.1
P/Book (x)	3.4	2.9	2.6	2.3	2.1
FCF/share (sen)	4.6	5.3	6.8	7.2	7.6
FCF yield (%)	5.1	5.9	7.5	8.0	8.4
Mkt Cap	953.0	953.0	953.0	953.0	953.0
Net Cash(Debt)	85.8	121.5	174.5	230.5	289.3
EV	867.1	831.4	778.4	722.5	663.7
EV/EBITDA (x)	13.4	9.0	7.7	6.8	6.0
ROE (%)	12.2	16.7	16.8	16.1	15.4
Current Ratio (x)	2.2	2.9	3.3	3.8	4.3
Quick Ratio (x)	2.1	2.8	3.2	3.7	4.1
Interest Cover (x)	49.7	132.5	246.1	262.9	280.2

Other Ratios

FYE Dec	FY17	FY18	FY19f	FY20f	FY21f
Sales Growth (%)		10.3	9.5	5.0	5.0
EBITDA Growth (%)		43.1	9.1	5.0	5.0
EBIT Growth (%)		62.8	12.3	6.8	6.6
PBT Growth (%)		63.9	12.8	7.3	7.0
Net Profit Growth (%)		56.6	18.1	7.3	7.0
EBITDA Margin (%)	21.8	28.3	28.2	28.2	28.2
EBIT Margin (%)	15.6	23.0	23.6	24.0	24.4
PBT Margin (%)	15.6	23.1	23.8	24.3	24.8
Net Profit Margin (%)	12.3	17.4	18.8	19.2	19.6
Net Debt/Equity (%)	N Cash	N Cash	N Cash	N Cash	N Cash
CAPEX/Sales (%)	6.8	2.3	2.8	2.7	2.5

Figure #1 **Quarterly results comparison**

FYE Dec (RM m)	4Q17	3Q18	4Q18	QoQ	YoY	FY17	FY18	YoY
Revenue	80.4	85.9	88.7	3.3	10.3	296.6	327.2	10.3
EBITDA	18.4	24.7	28.5	15.3	54.7	64.7	92.6	43.1
EBITDA Margin	22.9	28.8	32.1			21.8	28.3	
EBIT	13.7	20.5	24.2	18.1	76.6	46.2	75.3	62.8
PBT	13.6	20.6	24.4	18.3	79.1	46.1	75.6	63.9
PAT	11.3	16.5	20.0	21.0	77.7	36.4	57.0	56.6
Reported PATMI	9.8	15.2	18.7	23.0	90.1	29.9	52.3	75.0
Core PATMI	10.7	15.0	19.6	30.8	82.9	34.3	54.4	58.9
Reported EPS (sen)	0.9	1.4	1.8	23.0	90.1	2.8	5.0	75.0
Core EPS (sen)	1.0	1.4	1.9	30.8	82.9	3.3	5.2	58.9

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Hong Leong Investment Bank Berhad (10209-W)

Level 28, Menara Hong Leong,

No. 6, Jalan Damanlela,

Bukit Damansara,

50490 Kuala Lumpur

Tel: (603) 2083 1800

Fax: (603) 2083 1766

Stock rating definitions

BUY	Expected absolute return of +10% or more over the next 12 months.
HOLD	Expected absolute return of -10% to +15% 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 definitions

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.