

Company Result

30 July 2021

Frontken Corp Berhad

2QFY21: Steady growth

BUY

Maintained

| | |
|---------------------|----------------|
| Share Price | RM 3.29 |
| Target Price | RM 3.86 |

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) | 5,173.23 |
| 52-week price Range(RM) | 2.03-3.97 |
| Beta (against KLCI) | 1.36 |
| 3-m Average Daily Volume | 6.30m |
| 3-m Average Daily Value^ | RM 18.93m |

Share Performance

| | 1m | 3m | 12m |
|------------------|------|------|------|
| Absolute (%) | 14.6 | 14.6 | 41.0 |
| Relative (%-pts) | 16.1 | 10.9 | 49.5 |

Major Shareholders

| | % |
|-------------------------|-------|
| DAZZLE CLEAN LTD | 20.40 |
| OOI KENG THYE | 15.62 |
| AmanahRaya Trustees Bhd | 3.48 |
| Estimated Free Float | 57.38 |

Historical Chart



Source: Bloomberg

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Result

- **Frontken Corp posted a continuous strong quarter result for its 2QFY21, with a revenue of RM108.6m (+24% YoY and +5% QoQ) mainly attributable to the significant growth of the semiconductor business.**
- **Meanwhile, the Group recorded a higher PATAMI of RM24.7m (+8% QoQ and +23.7% YoY) mainly due to improved revenue and sales performance.**
- **Result slightly below expectations.** Overall, the Group's performance is slightly below expectations with the 1H21 PATAMI accounts for 41%/44% of our/consensus forecasts. However, we shall expect the Group to post stronger performance in 2HFY21.
- **Interruption of operations in Singapore dragged the segmental profit margin.** The Group posted a higher revenue (+7.5% YoY) but lower profit (-25.5%) for Singapore. The Singapore segment has been facing shortage of workforce because of the impact of the restricted movement in which the Malaysian employees were unable to commute to the Singapore office as well as Singapore government has removed the employers support subsidy resulted in lower profit margin of the geographical segment.
- **Foreign exchange loss in current quarter.** Frontken also recorded a foreign currency exchange loss of RM0.7m in current quarter as compared to a gain of RM0.7m in the previous quarter in its subsidiaries of Indonesia which has slightly affected the PAT margin.

Comments/Outlook

- **New facility with 2.5 times of current capacity available in 2022...** The Group completed its acquisition of property building in Kaohsiung, Taiwan via its subsidiary on 9 July 2021. The acquisition will enable its subsidiary to increase their current capacity by 2.5x.
- **... to cope with high demand from customers.** The newly acquired facility is expected to commence operation in next year in line with the proposed commercial production of the 3nm chips by the key customers. We have been guided by the management that the new facility will operate in nearly full utilization rate on its phase one of commencement and planning to expand the facility into phase 2 in the shortest time possible.
- **Actively seeking new land and facility for expansion...** We understand the management is actively seeking for new land in Taiwan beyond the new acquired building mentioned above.

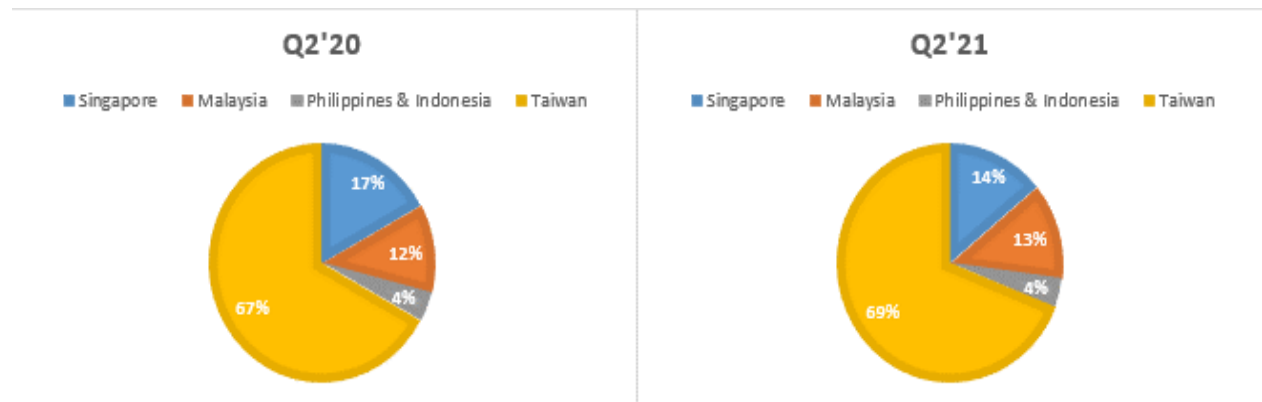
- **... and expected to benefit from the significant growth of the industry.** The global sales of semiconductors jumped 21.7% YoY in April 2021 to USD 41.8 billion and are projected to reach USD527.2 billion in 2021, +19.7% increase YoY. With the robust CAPEX incurred by the industry players and excessive demand of advanced nodes chips, Frontken is poised to benefit from the years to come.
- **Anticipating better O&G division.** The soon-to-be completed new facility in Pengerang is expected to support the contracts in O&G business and contribute to the growth of the division. We are optimistic that the O&G division will perform better than FY20 on the back of economic recovery and the strong rebound of Brent crude oil price.
- **Increase in net cash.** Frontken registered a net cash of RM315.1 million YTD, +8.1% growth from RM291.5 million in FY2020. The Group's strong cash flow position forms a solid foundation to its future expansion.

Earnings Outlook/Revision

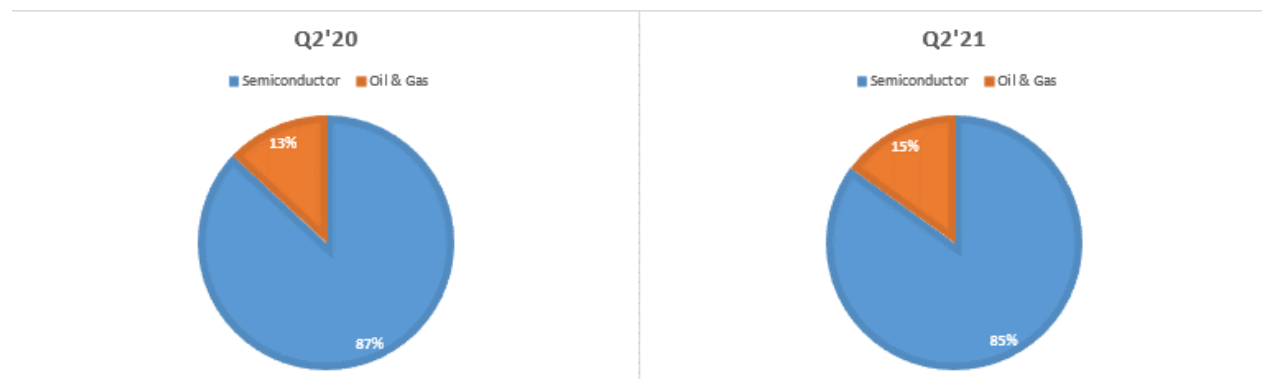
- **We are keeping our net earnings forecasts for FY21F and FY22F at RM116.9m and RM145m respectively.**

Valuation & Recommendation

- **Maintain BUY with an unchanged target price of RM3.86.** Our target price is pegged at PE multiple of 42x F22F which is in line with its +1SD of 3-year mean PER. Our fair value of the stock renders 17% upside to the current share price.

Revenue by Country Q2'20 vs Q2'21


Source: Company

Revenue by Industry Q2'20 vs Q2'21


Source: Company, JF Apex

Quarterly Figures

| YEAR END DECEMBER | 2Q21 | 2Q20 | YoY | 1Q20 | QoQ | 1H2021 | 1H2020 | YoY |
|------------------------|-------------|-------------|-----------|-------------|-----------|-------------|-------------|----------|
| Revenue | 108.6 | 87.6 | 24.0% | 103.5 | 5.0% | 212.1 | 172.5 | 23.0% |
| Operating expenses | (70.4) | (56.9) | 23.6% | (66.1) | 6.5% | (136.5) | (115.0) | 18.6% |
| EBITDA | 38.2 | 30.7 | 24.6% | 37.4 | 2.2% | 75.6 | 57.4 | 31.7% |
| Depreciation | (4.4) | (4.6) | 3.3% | (4.4) | -1.0% | (8.8) | (9.3) | 5.1% |
| Finance cost | (0.1) | (0.2) | 19.1% | (0.2) | -28.0% | (0.3) | (0.4) | 4.2% |
| Other operating income | 0.9 | 2.0 | -55.7% | 2.2 | 59.5% | 3.1 | 4.9 | 36.6% |
| PBT | 34.5 | 27.9 | 23.7% | 35.0 | 1.3% | 69.5 | 52.6 | 32.1% |
| Tax | (7.5) | (6.1) | 23.8% | (10.1) | 25.3% | (17.6) | (12.6) | 40.4% |
| PAT | 27.0 | 21.8 | 23.7% | 24.9 | 8.4% | 51.9 | 40.1 | 29.5% |
| Minority interest | 2.3 | 1.5 | 3.5% | 2.0 | 12.9% | 4.3 | 2.7 | 55.6% |
| PATAMI | 24.7 | 20.3 | 21.7% | 22.9 | 8.0% | 47.6 | 37.3 | 27.6% |
| Operating margin | 35% | 35% | 0.2 ppts | 36% | -0.9 ppts | 36% | 33% | 3.0 ppts |
| PBT margin | 32% | 32% | -0.1 ppts | 34% | -2.0 ppts | 33% | 31% | 2.0 ppts |
| Adjusted PATAMI margin | 23% | 23% | -0.4 ppts | 22% | 0.6 ppts | 22% | 22% | 0.8 ppts |
| Tax rate | 22% | 22% | 0 ppts | 29% | 7.0 ppts | 25% | 24% | 1.5 ppts |
| SEGMENT REVENUE | | | | | | | | |
| Singapore | 15.5 | 14.4 | 7.5% | 14.5 | 7.1% | 30.0 | 30.0 | 0.0% |
| Malaysia | 14.7 | 10.9 | 34.8% | 14.9 | -1.6% | 29.6 | 23.9 | 23.7% |
| Philippines | 3.6 | 3.2 | 12.9% | 3.7 | -1.6% | 7.3 | 7.0 | 4.4% |
| Indonesia | 0.2 | 0.2 | -28.3% | 0.2 | -21.5% | 0.4 | 0.5 | -23.9% |
| Taiwan | 74.6 | 58.9 | 26.8% | 70.2 | 6.3% | 144.8 | 111.1 | 30.4% |
| SEGMENT PROFIT | | | | | | | | |
| Singapore | 4.1 | 5.5 | -25.5% | 4.2 | -2.7% | 8.3 | 10.9 | -23.8% |
| Malaysia | 1.6 | 1.1 | 38.5% | 2.9 | -45.4% | 4.5 | 3.3 | 37.5% |
| Philippines | 0.6 | 0.4 | 68.9% | 0.6 | 4.2% | 1.2 | 0.9 | 41.3% |
| Indonesia | (0.1) | 0.7 | -113.5% | (0.2) | -51.5% | (0.3) | (0.1) | -172.5% |
| Taiwan | 28.3 | 20.1 | 40.8% | 27.5 | 2.8% | 55.8 | 37.3 | 49.5% |

Source: Company, JF Apex

Financial Summary

| Year ending 31 December | FY16 | FY17 | FY18 | FY19 | FY20 | FY21F | FY22F |
|-------------------------|----------|----------|----------|----------|----------|----------|----------|
| | 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 | 490.8 | 578.6 |
| Operating profit/EBIT | 44.3 | 61.4 | 88.0 | 110.9 | 122.3 | 181.6 | 225.4 |
| PBT | 33.3 | 46.1 | 75.6 | 96.2 | 114.3 | 160.7 | 199.3 |
| PAT | 27.3 | 36.4 | 57.0 | 74.2 | 88.3 | 123.7 | 153.5 |
| PATAMI | 20.0 | 29.8 | 52.2 | 69.1 | 82.0 | 116.9 | 145.0 |
| Growth (%) | | | | | | | |
| Revenue | -6.7% | 13.2% | 10.3% | 3.9% | 8.4% | 33.3% | 17.9% |
| Operating profit | 80.8% | 38.6% | 43.3% | 26.0% | 10.3% | 48.5% | 24.1% |
| PBT | 108.1% | 38.4% | 64.0% | 27.2% | 18.8% | 40.7% | 24.0% |
| PAT | 187.4% | 33.3% | 56.6% | 30.2% | 19.0% | 40.1% | 24.0% |
| Net profit | 4900.0% | 49.0% | 75.2% | 32.4% | 18.6% | 42.7% | 24.0% |
| Margin (%) | | | | | | | |
| Operating profit | 16.9% | 20.7% | 26.9% | 32.6% | 33.2% | 37.0% | 39.0% |
| PBT | 12.7% | 15.5% | 23.1% | 28.3% | 31.0% | 32.7% | 34.5% |
| PAT | 10.4% | 12.3% | 17.4% | 21.8% | 24.0% | 25.2% | 26.5% |
| Net profit | 7.6% | 10.0% | 16.0% | 20.3% | 22.3% | 23.8% | 25.1% |
| ROE | 6.8% | 9.8% | 15.1% | 17.3% | 18.6% | 23.7% | 25.5% |
| ROA | 4.9% | 6.9% | 11.5% | 13.4% | 12.9% | 17.3% | 17.9% |
| EPS | 1.9 | 2.8 | 5.0 | 6.6 | 7.8 | 7.4 | 9.2 |
| BV/Share | 0.28 | 0.29 | 0.33 | 0.38 | 0.46 | 0.32 | 0.37 |
| P/B | 12.0 | 11.6 | 10.3 | 8.9 | 7.3 | 10.4 | 9.0 |
| P/E | 178.0 | 119.4 | 68.2 | 51.5 | 43.4 | 45.7 | 36.8 |
| Net gearing | Net Cash | Net Cash | Net Cash | Net Cash | Net Cash | Net Cash | Net Cash |
| Dividend yield | 0.00% | 0.15% | 0.44% | 0.74% | 1.18% | 1.10% | 1.36% |
| Dividend payout | 0.0% | 17.8% | 30.1% | 37.9% | 51.1% | 50.0% | 50.0% |
| DPS (sen) | 0.00 | 0.50 | 1.49 | 2.49 | 4.00 | 3.70 | 4.59 |

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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