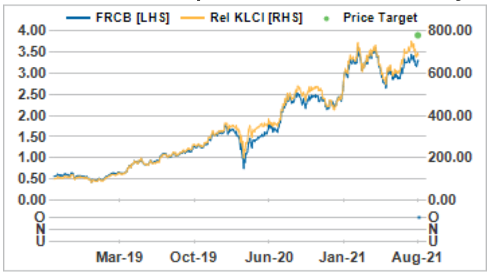
EQUITIES

FRCB MK		Outperform
Price (at 08:51, 26 Aug 2021 GMT)		RM3.30
Valuation	RM	3.64
- DCF (WACC 10.2%, beta 1.2, ERP 6.3%, RFR 3.2%, TGR 3.0%)		
12-month target	RM	3.90
Upside/Downside	%	+18.2
12-month TSR	%	+19.0
Volatility Index		High
GICS sector		
Commercial & Professional Services		
Market cap	RMm	5,215
Market cap	US$m	1,236
Free float	%	57
30-day avg turnover	US$m	3.5
Number shares on issue	m	1,580

Investment fundamentals

Year end 31 Dec		2020A	2021E	2022E	2023E
Revenue	bn	368.3	454.3	548.1	653.0
EBIT	bn	114.9	147.9	175.7	226.9
EBIT growth	%	18.5	28.7	18.8	29.1
Reported profit	bn	82.0	105.9	126.0	162.8
Adjusted profit	bn	82.0	105.9	126.0	162.8
EPS rep	sen	5.2	7.2	8.0	10.4
EPS rep growth	%	18.5	37.9	11.5	29.2
EPS adj	sen	5.2	7.4	8.0	10.4
EPS adj growth	%	18.5	42.2	8.1	29.2
PER rep	x	63.3	45.9	41.2	31.9
PER adj	x	63.3	44.5	41.2	31.9
Total DPS	sen	1.8	2.4	2.7	3.3
Total div yield	%	0.5	0.7	0.8	1.0
ROA	%	20.3	21.8	22.0	23.9
ROE	%	20.1	22.1	22.5	24.6
EV/EBITDA	x	36.6	29.4	24.6	19.1
Net debt/equity	%	-59.6	-55.9	-50.9	-54.9
P/BV	x	11.8	10.0	8.6	7.2

FRCB MK rel KLCI performance, & rec history



Note: Recommendation timeline - if not a continuous line, then there was no Macquarie coverage at the time or there was an embargo period.
Source: FactSet, Macquarie Research, August 2021
(all figures in MYR unless noted)

Frontken Corp (FRCB MK)

ASEAN Conference 2021: Malaysia's proxy for the front-end semicon industry

Event

- We hosted Mr Nicholas Ng (CEO of Frontken), Mr Eric Hee (CFO of Frontken) and Ms Jolene Chay (Corporate Vice President) at our ASEAN conference.

Impact

- **Value proposition.** Mgmt reiterated their competitiveness to stay entrenched within TSMC (2330 TT, NT$585.00, Outperform, TP: NT$765.90, Nicolas Baratte) or other key clients' supply chain lies on their capability in handling more advanced nodes (7-5-3nm) vs their competitors who specialise in other areas (coating, precision cleaning of older nodes etc). Barrier from Frontken's perspective is incremental when there's node migration, as it is already handling the most advanced nodes, which supports margin expansion.
- **Market share.** Although they did not guide what's the market share Frontken has for the precision cleaning services within TSMC, mgmt reiterated it has consistently ranked Top 4 in the past few years when audit reviews were done by its key clients. During this audit review, Frontken will be assessed based on its R&D capability (Frontken spends 3-8% of revenue on R&D and mgmt expects it will remain at high single digit range), service quality such as turnaround time, waste water treatment initiatives and others.
- **Expansion plans for 2nd plant in Taiwan.** Mgmt guided the utilisation of its 2nd plant in Taiwan will be done in 3 phases when it is operational in 2H2022. The floor space utilisation will be dependent on the 3nm chips demand for its key customer. In the 1st phase, mgmt expects they will be utilising 35-40% of the space and visibility in terms of progression to 2nd phase will most likely be shared in 1H2022. Having said that, higher costs are also expected from hiring more employees, training and procurement of more machines to automate more processes in the near term.
- **Margin expansion.** In the LR, once the volume of precision cleaning services picks up at the 2nd plant and chips production process stabilises from the clients' side resulting in less contamination, margin expansion can be expected from its current level as operating leverage kicks in. Recall, Frontken reported 32% EBIT margin in Q2'21. MQ estimates EBIT margin remains flat FY21/22E but expands to 35% in FY23E.
- **Cash utilisation.** Since Frontken is in a net cash position (RM413mn in Q2'21), mgmt said it is eyeing smaller companies to acquire which would provide geographical exposure in other markets such as US, Europe and even China, to save on setting up costs when its penetrates into a new market. However, travel restrictions have delayed the M&A due dilligence progress.

Action and recommendation

- Maintain Outperform recommendation. We forecast 21%/26% revenue/net profit CAGR FY20-23E supporting its FY22E PER of 45x. Frontken is our top pick among the Malaysian technology names under our coverage. Our pecking order is Frontken > Inari Amertron (INRI MK, RM3.50, Outperform, TP: RM4.15, Ben Shane Lim) > Greatech Technology (GREATEC MK, RM6.91, Outperform, TP: RM8.70) >ViTrox Corp. (VITRO MK, RM19.10, Neutral, TP: RM20.00, Ben Shane Lim). *(Refer to our initiation report here).*

Analysts
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Important disclosures:

Recommendation definitions

Macquarie – Asia and USA
Outperform – expected return >10%
Neutral – expected return from -10% to +10%
Underperform – expected return <-10%

Macquarie – Australia/New Zealand
Outperform – expected return >10%
Neutral – expected return from 0% to 10%
Underperform – expected return <0%

Note: expected return is reflective of a Medium Volatility stock and should be assumed to adjust proportionately with volatility risk

Volatility index definition*

This is calculated from the volatility of historical price movements.

Very high–highest risk – Stock should be expected to move up or down 60–100% in a year – investors should be aware this stock is highly speculative.

High – stock should be expected to move up or down at least 40–60% in a year – investors should be aware this stock could be speculative.

Medium – stock should be expected to move up or down at least 30–40% in a year.

Low–medium – stock should be expected to move up or down at least 25–30% in a year.

Low – stock should be expected to move up or down at least 15–25% in a year.
* Applicable to select stocks in Asia/Australia/NZ

Recommendations – 12 months
Note: Quant recommendations may differ from Fundamental Analyst recommendations

Financial definitions

All "Adjusted" data items have had the following adjustments made:
Added back: goodwill amortisation, provision for catastrophe reserves, IFRS derivatives & hedging, IFRS impairments & IFRS interest expense
Excluded: non recurring items, asset revals, property revals, appraisal value uplift, preference dividends & minority interests

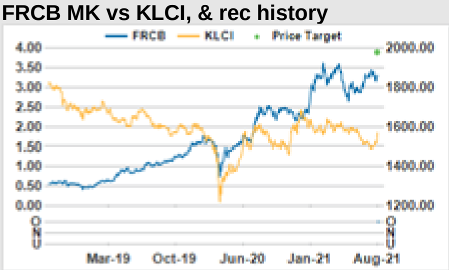
EPS = adjusted net profit / efpowa*
ROA = adjusted ebit / average total assets
ROA Banks/Insurance = adjusted net profit /average total assets
ROE = adjusted net profit / average shareholders funds
Gross cashflow = adjusted net profit + depreciation
*equivalent fully paid ordinary weighted average number of shares

All Reported numbers for Australian/NZ listed stocks are modelled under IFRS (International Financial Reporting Standards).

Recommendation proportions – For quarter ending 30 Jun 2021

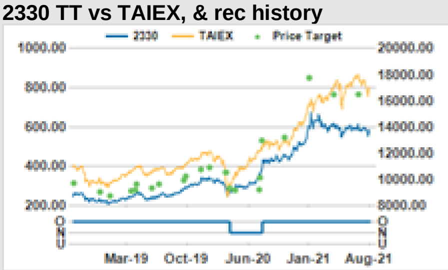
	AU/NZ	Asia	USA	
Outperform	62.67%	68.26%	75.58%	(for global coverage by Macquarie, 5.24% of stocks followed are investment banking clients)
Neutral	31.00%	21.81%	24.42%	(for global coverage by Macquarie, 2.12% of stocks followed are investment banking clients)
Underperform	6.33%	9.94%	0.00%	(for global coverage by Macquarie, 0.00% of stocks followed are investment banking clients)

FRCB MK vs KLCI, & rec history



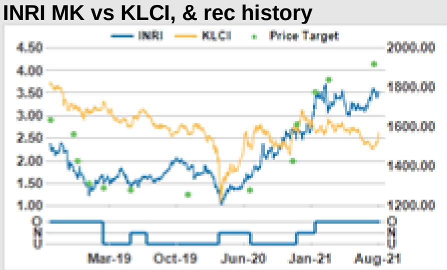
(all figures in MYR currency unless noted)

2330 TT vs TAIEX, & rec history



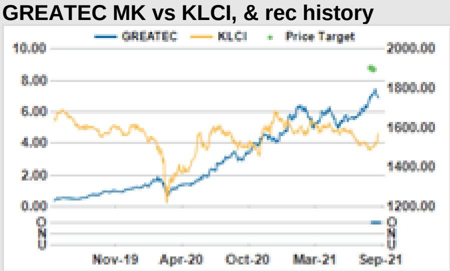
(all figures in TWD currency unless noted)

INRI MK vs KLCI, & rec history



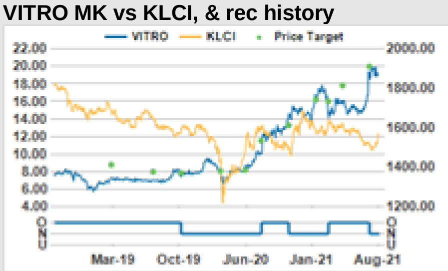
(all figures in MYR currency unless noted)

GREATEC MK vs KLCI, & rec history



(all figures in MYR currency unless noted)

VITRO MK vs KLCI, & rec history



(all figures in MYR currency unless noted)

Note: Recommendation timeline – if not a continuous line, then there was no Macquarie coverage at the time or there was an embargo period.
Source: FactSet, Macquarie Research, August 2021

12-month target price methodology

FRCB MK: RM3.90 based on a PER methodology

2330 TT: NT$765.90 based on a PER methodology

INRI MK: RM4.15 based on a PER methodology

GREATEC MK: RM8.70 based on a PER methodology

VITRO MK: RM20.00 based on a PER methodology

Company-specific disclosures:

Important disclosure information regarding the subject companies covered in this report is available publicly at www.macquarie.com/research/disclosures. Clients receiving this report can additionally access previous recommendations (from the year prior to publication of this report) issued by this report's author at https://www.macquarieinsights.com.

Date	Stock Code (BBG code)	Recommendation	Target Price
24-Aug-2021	FRCB MK	Outperform	RM3.90

Target price risk disclosures:
FRCB MK: High customer concentration risks (41% from TSMC alone FY22E), high geographical risks 67% revenue from Taiwan. Correction in semiconductor industry will also affect Frontken. Besides that, natural disasters in Taiwan could potentially affect the company's operations (draught, earthquake).

2330 TT: Any inability to compete successfully in their markets may harm the business. This could be a result of many factors which may include geographic mix and introduction of improved products or service offerings by competitors. The results of operations may be materially affected by global economic conditions generally, including conditions in financial markets. The company is exposed to market risks, such as changes in interest rates, foreign exchange rates and input prices. From time to time, the company will enter into transactions, including transactions in derivative instruments, to manage certain of these exposures.

INRI MK: Dependence on Broadcom for the bulk of earnings (estimated at around 70% of total group revenues) is a source of concern notwithstanding the strong underlying relationship that has scope for further broadening. Escalation of trade war in China could lead to boycott of products of INRI's main customer. Inari is aggressively expanding its capacity and is looking to venture into new product verticals. There is risk that Inari will not be able to secure contracts from clients to utilise this new capacity. The group has enjoyed a positive margin tailwind from the depreciation of the Ringgit against the USD given over 90% of revenues are in USD whilst only c.50% of costs are in the USD. This dynamic would reverse if the Ringgit were to start strengthening on a sustained basis. The group's core revenue generating subsidiary Inari Technology Sdn. Bhd. (ITSB) has been granted tax exemptions for various divisions. If exemptions are not renewed or extended, then a normalisation of tax rate would be a significant drag on forecast earnings growth. Positive risks to TP include: Sharp rebound in Optoelectronic-related revenues, new customer onboarding, higher-than-expected 5G smartphone demand.

GREATEC MK: Any inability to compete successfully in their markets may harm the business. This could be a result of many factors which may include geographic mix and introduction of improved products or service offerings by competitors. The results of operations may be materially affected by global economic conditions generally, including conditions in financial markets. The company is exposed to market risks, such as changes in interest rates, foreign exchange rates and input prices. From time to time, the company will enter into transactions, including transactions in derivative instruments, to manage certain of these exposures.

VITRO MK: Any inability to compete successfully in their markets may harm the business. This could be a result of many factors which may include geographic mix and introduction of improved products or service offerings by competitors. The semiconductor industry is cyclical in nature. While Vitrox has a diversified client base and exposure to various sub-segments, the results of operations may be materially affected by global economic conditions generally, including conditions in financial markets. Vitrox is exposed to supply chain risk. The company is highly reliant on cameras and motion parts that it cannot produce itself. Disruption to the supply chain may place a constraint on earnings growth. A prolonged Covid-19 outbreak that substantially disrupts the semiconductor supply chain will be a risk to ViTrox. Competition from Chinese peers is also a risk for the 3DAOI segment. The company is exposed to market risks, such as changes in interest rates, foreign exchange rates and input prices. From time to time, the company will enter into transactions, including transactions in derivative instruments, to manage certain of these exposures.

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