

HLIB Research

PP 9484/12/2012 (031413)

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BUY (Maintain)

Target Price:	RM4.36
Previously:	RM4.42
Current Price:	RM3.05
Capital upside	43.0%
Dividend yield	1.3%
Expected total return	44.3%

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)	1,580
Market capitalisation (RM m)	4,819
3-mth average volume ('000)	5,740
SC Shariah compliant	Yes
F4GBM Index member	Yes
ESG rating	****

Major shareholders

Dazzle Clean	16.8%
Dazzle Clean Ooi Keng Thye	15.6%
Vanguard Group Inc	2.3%

Earnings summary

FYE (Dec)	FY21	FY22	FY23f
PATMI - core (RM m)	105.5	121.7	137.8
EPS - core (sen)	6.7	7.7	8.7
P/E (x)	45.7	39.6	35.0

Frontken Corporation

4Q21 results within expectations

Record-breaking FY21 core net profit of RM106m (+28% YoY) matched our and street expectations. Top and bottom line growths were driven by semiconductor business though O&G business has seen robust improvement. It believes that the projected semiconductor upcycle due persistent higher demand of chips will be positive for its business in years to come. In the meantime, the progress of commissioning of new facility in Kaohsiung, Taiwan to meet key customer's projected increase in demand is on schedule. Reiterate BUY with lower TP of RM4.36, pegged to 50x of FY23 EPS. We like its unique exposure to leading-edge semiconductor frontend supply chain.

In line. All-time high 4Q21 core net profit of RM31m (+17% QoQ, +28% YoY) brought FY21's total to RM106m (+28% YoY) which was in line with HLIB and consensus expectations, accounting for 105% and 100% of full year forecasts, respectively. FY21 one-off adjustments include forex gain (+RM298k), PPE disposal gain (+RM26k), PPE written off (-RM3k) and allowance for impairment losses on receivables (+RM141k).

Dividend. Announced second single tire DPS of 2.5 sen (4Q20: 2.8 sen) where entitlement and payment dates will be announced at a later date. FY21 DPS 4.0 sen vs FY20's 2.7 sen.

QoQ. Turnover inched up 4% mainly due to better performances from all segments: Singapore (+6%), Malaysia (+7%), Taiwan (+3%), Philippines (+8%) and Indonesia (+42%) and Singapore (-6%). In turn, core net profit gained 12% to RM30m thanks to efficiency gain as EBITDA margin strengthened 1.4ppt.

YoY. Revenue saw a solid growth of 20% driven by Malaysia (+9%) and Taiwan (+29%), Singapore (+3%) and Indonesia (+58%), more than sufficient to offset the contraction in Philippines (-7%). Filtered down, core earnings rose 28% on the back of stronger EBITDA margin (+2.5ppt).

YTD. Top and bottom lines strengthened by 22% and 28%, respectively thanks to robust semiconductor business. In terms of segmental sales breakdown, Taiwan (+29%) led the pact, followed by Malaysia (+23%) and Singapore (+1%), while both Philippines (-2%) and Indonesia (-12%) experienced declines.

Semiconductor. Generated 85% (FY20: 85%) of group revenue in FY21 at RM381m and PAT improved 24% YoY. Frontken believes that the projected semiconductor upcycle due persistent higher demand of chips will be positive for its business in years to come. In the meantime, the progress of commissioning of new facility in Kaohsiung, Taiwan to meet key customer's projected increase in demand is on schedule.

O&G. Accounted for the remaining 15% of group turnover in FY21 at RM69m and PAT improved 222% YoY. It also noticed new orders from the various contracts for provision of manpower supply and mechanical rotating equipment services and parts with Petronas have picked up and hope that this momentum will escalate further throughout 2022. The completion of new facility in Pengerang was timely to offer extra services to customers.

Forecast. After updating our model, FY22-23 core net profit is revised by -1%.

Reiterate **BUY** with lower TP of **RM4.36** (previously RM4.42), pegged to 50x of FY23 EPS, reflecting the earnings adjustment. We like Frontken for its 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), and (4) strong balance sheet (net cash of RM315m or 20 sen per share) to supports its Taiwan expansion.

Financial Forecast

Financial Forec	ast										
All items in (RM m) unless other	erwise stated										
Income statement						Quarterly financial st	ummarv				
FYE Dec	FY19	FY20	FY21	FY22f	FY23f	FYE Dec	4Q20	1Q21	2Q21	3Q21	4Q21
Revenue	339.9	368.3	450.2	494.0	548.2	Revenue	101.0	103.5	108.6	116.6	121.5
COGS	(226.2)	(236.2)	(283.2)	(305.8)	(338.7)	COGS	(65.3)	(64.1)	(69.7)	(74.0)	(75.4)
EBITDA	`113.Ź	`132.1	`167.Ó	`188.Ź	209.6	EBITDA	`35.Ŕ	`39.4	`38.9	`42.6	`46.Ó
D&A	(17.8)	(18.4)	(17.7)	(20.2)	(19.4)	D&A	(4.5)	(4.4)	(4.4)	(4.5)	(4.3)
EBIT	`95.9	113.7	149.3	168.Ó	190.1	EBIT	31.Ź	35.Ó	34.5	38.1	41.8
Net Interest Income	0.4	0.6	0.2	0.8	0.9	Net Interest Income	0.1	0.1	0.1	0.0	0.0
Associates	0.0	0.0	0.0	0.0	0.0	Associates	0.0	0.0	0.0	0.0	0.0
PBT	96.3	114.3	149.5	168.8	191.0	PBT	31.3	35.1	34.5	38.1	41.8
Tax	(22.0)	(25.9)	(35.3)	(39.8)	(45.1)	Tax	(6.0)	(10.1)	(7.5)	(8.1)	(9.4)
Net Profit	`74.2	88.3	114.3	129.0	146.0	Net Profit	25.3	`24.9	27.Ó	30.0	32.4
MI	(5.1)	(6.4)	(9.7)	(7.3)	(8.2)	MI	(2.0)	(2.0)	(2.3)	(2.7)	(2.8)
PATAMI	69.2	82.0	104.6	121.7	137.8	PATAMI	23.3	22.9	24.7	27.3	29.6
Exceptionals	1.0	0.7	0.9	0.0	0.0	Exceptionals	1.0	(0.7)	0.9	(0.8)	1.5
Adj PATAMI	70.1	82.7	105.5	121.7	137.8	Adj PATAMI	24.2	22.2	25.7	26.5	31.0
Basic Shares (m)	1,580.0	1,580.0	1,580.0	1,580.0	1,580.0	Basic Shares (m)	1,580.0	1,580.0	1,580.0	1,580.0	1,580.0
Rep EPS (sen)	4.4	5.2	6.6	7.7	8.7	Rep EPS (sen)	1.5	1.5	1.6	1.7	1.9
Adj EPS (sen)	4.4	5.2	6.7	7.7	8.7	Adj EPS (sen)	1.5	1.4	1.6	1.7	2.0
Adj FD EPS (sen)	4.4	5.2	6.7	7.7	8.7	Adj FD EPS (sen)	1.5	1.4	1.6	1.7	2.0
Dalamas abast						Valuation Dation					
Balance sheet	FV40	FV20	EV24	EVAN	EVOOL	Valuation Ratios	EV40	EV20	EV24	EVOOL	LVOOL
FYE Dec	FY19	FY20	FY21	FY22f	FY23f	FYE Dec	FY19	FY20	FY21	FY22f	FY23f
Cash	197.2	290.5	249.6	286.4	357.0	PER(x)	69.7	58.8	46.1	39.6	35.0
Receivables	86.3	103.1	115.6	135.3	150.2	Core PER (x)	68.7	58.3	45.7	39.6	35.0
Inventories	15.1	20.0	19.6	25.1	27.8	FD PER (x)	68.7	58.3	45.7	39.6	35.0
Investment PPE	0.0	0.0	0.0	0.0	0.0	DPS (sen)	1.7	2.7 0.9	4.0	3.9 1.3	4.4
	145.5 33.8	139.0 33.8	222.3 33.8	232.1 33.8	223.6 33.8	Net DY (%)	0.5	27.8	1.3	35.6	1.4 39.9
Intangibles	33.6 37.9			33.0 77.7	33.0 77.7	Book/share (sen) P/Book (x)	23.9	11.0	31.7 9.6	33.6 8.6	
Other Assets Total Assets	57.9 515.7	31.8 618.1	77.7 718.5	790.3	870.1	FCF/share (sen)	12.8 6.8	7.1	3.5	6.2	7.6 8.8
Pay ables	84.0	18.8	21.5	25.1	27.8	FCF yield (%)	2.2	2.3	1.2	2.0	2.9
ST borrowings	04.0	0.0	0.0	0.0	0.0	Mkt Cap	4,819.0	4,819.0	4,819.0	4,819.0	4,819.0
LT borrowings	0.0	0.0	0.0	0.0	0.0	Net Cash(Debt)	196.3	290.5	249.6	286.4	357.0
Other Liabilities	32.1	132.3	162.0	162.0	162.0	EV	4,622.7	4,528.5	4,569.4	4,532.6	4,462.0
Total liabilities	117.0	151.1	183.4	187.1	189.8	EV/EBITDA (x)	40.7	34.3	27.4	24.1	21.3
Shareholders' Funds	377.0	440.0	500.9	561.7	630.6	ROE (%)	18.6	18.8	21.1	21.7	21.8
MI	21.8	27.0	34.2	41.5	49.7	Current Ratio (x)	3.5	22.0	17.9	17.8	19.2
Total S/H Equity	398.7	467.0	535.1	603.2	680.3	Quick Ratio (x)	3.3	20.9	17.0	16.8	18.2
Ttl Liab&S/H Funds	515.7	618.1	718.5	790.3	870.1	Interest Cover (x)	126.8	170.4	242.8	N/A	N/A
Cashflow Analysis						Other Ratios					
FYE Dec	FY19	FY20	FY21	FY22f	FY23f	FYE Dec	FY19	FY20	FY21	FY22f	FY23f
EBITDA	113.7	132.1	167.0	188.2	209.6	Sales Growth (%)	1113	8.4	22.2	9.7	11.0
Tax Paid	(19.8)	(22.9)	(31.1)	(39.8)	(45.1)	EBITDA Growth (%)		16.2	26.4	12.7	11.4
WC Changes	21.3	11.1	3.0	(21.6)	(14.9)	EBIT Growth (%)		18.6	31.4	12.5	13.2
Other	(0.3)	(0.6)	(0.1)	0.8	0.9	PBT Growth (%)		18.7	30.9	12.9	13.2
CFO	114.9	119.7	138.8	127.6	150.6	Net Profit Growth (%)		19.0	29.4	12.9	13.2
FCF	107.9	112.0	55.9	97.6	139.6	EBITDA Margin (%)	33.4	35.9	37.1	38.1	38.2
CAPEX(CF)	(7.0)	(7.7)	(82.8)	(30.0)	(11.0)	EBIT Margin (%)	28.2	30.9	33.2	34.0	34.7
Acquisitions	(2.6)	(0.8)	(4.2)	0.0	0.0	PBT Margin (%)	28.3	31.0	33.2	34.2	34.8
Other	(2.4)	(3.4)	0.9	0.0	0.0	Net Profit Margin (%)	21.8	24.0	25.4	26.1	26.6
CFI	(12.1)	(11.9)	(86.2)	(30.0)	(11.0)	Net Debt/Equity (%)	Cash	Cash	Cash	Cash	Cash
Dividend	(18.9)	(28.3)	(52.9)	(60.8)	(68.9)	CAPEX/Sales (%)	2.1	2.1	18.4	6.1	2.0
Debt changes	(10.3)	(0.8)	0.0	0.0	0.0	3711 E74 3 4103 (70)	۷. ۱	۷. ۱	10.7	0.1	2.0
Other	(4.2)	(4.8)	(8.2)	0.0	0.0						
CFF	(33.7)	(33.9)	(61.1)	(60.8)	(68.9)						
Net Cashflow	(33. <i>1)</i> 69.1	73.9	(8.5)	36.7	70.7						
110t Odsilliow	09.1	10.0	(0.0)	30.1	10.1						

Figure #1 Quarterly results comparison

FYE Dec (RM m)	4Q20	3Q21	4Q21	QoQ	YoY	FY20	FY21	YoY
Revenue	101.0	116.6	121.5	4.2	20.2	368.3	450.2	22.2
EBITDA	35.8	42.6	46.0	8.1	28.8	132.1	167.0	26.4
EBITDA Margin	35.4	36.5	37.9			35.9	37.1	
EBIT	31.2	38.1	41.8	9.7	33.8	113.7	149.3	31.3
PBT	31.3	38.1	41.8	9.6	33.6	114.3	149.5	30.9
PAT	25.3	30.0	32.4	7.9	28.1	88.3	114.2	29.3
Reported PATMI	23.3	27.3	29.6	8.3	26.9	82.0	104.5	27.5
Core PATMI	24.2	26.5	31.0	17.1	28.0	82.7	105.5	27.5
Reported EPS (sen)	1.5	1.7	1.9	8.3	26.9	5.2	6.6	27.5
Core EPS (sen)	1.5	1.7	2.0	17.1	28.0	5.2	6.7	27.5

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Stock rating guidelines

BUY

Expected absolute return of +10% or more over the next 12 months.

HOLD

Expected absolute return of -10% to +10% 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 guidelines

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.

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