

**Company Result**

# Frontken Corp. Berhad

**1Q22: No surprise**

11 May 2022

**HOLD**  
**Maintained**

<b>Share Price</b>	<b>RM 2.57</b>
<b>Target Price</b>	<b>RM 2.66</b>

**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)	4041.10
52-week price Range(RM)	2.19-4.22
Beta (against KLCI)	0.89
3-m Average Daily Volume	5.59m
3-m Average Daily Value^	RM 15.98m

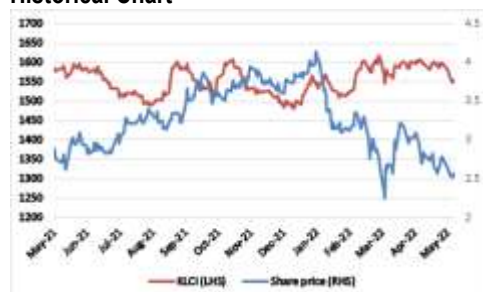
**Share Performance**

	1m	3m	12m
Absolute (%)	-4.8	-15.2	-8.2
Relative (%-pts)	-1.8	-21.6	-6.9

**Major Shareholders**

	%
DAZZLE CLEAN LTD	16.79
OOI KENG THYE	14.87
Vanguard Group Inc/The	2.15
Estimated Free Float	65.36

**Historical Chart**



Source: Bloomberg

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**Result**

- **Frontken Corporation Berhad (Frontken) posted RM119.1m (+15.1% yoy) revenue and RM26.5m PATAMI (+15.8% yoy) in its 1Q22 result.** The better YoY result was mainly due to contribution from semiconductor business thanks to the higher demand and stronger orders from the customer's advanced nodes chips.
- **Meanwhile, the Group recorded a lower QoQ performance in which revenue down -1.9% qoq and -10.3% qoq for PATAMI.** This was due to seasonal factor as Q1 had a short working period as a result of long public holiday.
- **Result in line with expectations.** We deem Frontken's 1Q22 result is in line with our/street expectations as the PATAMI accounts for 20%/21% of our/consensus full year forecasts as first quarter performance usually weaker than remaining quarters of the year. We shall expect a stronger performance in subsequent quarters.
- **Semiconductor business remained robust.** 1Q21 semiconductor business continued to show robust growth as the revenue from semiconductor customers grew 16% yoy whilst PAT surged +18% yoy. Meanwhile, its Taiwanese subsidiary - AGTC contributed RM35.2m in the quarter which increased 28.1% yoy and 7.5% qoq. The positive momentum of the semiconductor business was mainly due to high demand of chip which benefited Frontken's customers who are foundries of global wafer and chip and this is likely to remain in the near future.
- **Singapore segment faced challenges.** Singapore segment reported RM14.4m revenue (-0.6% yoy and 6.3% qoq) and RM3.5m PATAMI (-15.8% yoy and -36.7% qoq) in this quarter. The sluggish performance in Singapore segment was mainly dragged down by the shortage of workforce and delay of O&G customer orders attributable to the disruption of O&G supply chain in relation to Russia-Ukraine conflicts.
- **Positive momentum in local business revenue.** Malaysia segment reported RM16.3m revenue which was up +9.5% yoy largely attributed to new order of manpower supply and mechanical rotating service from Petronas Group. However, the earnings of the segment decreased -38.4% yoy due to deviation of cost and billing as cost was front loaded. However, we shall see profit to be gradually booked in in the later stage.

**Comments/Outlook**

- **No significant contribution from Plant 2 in current FY.** We do not expect any significant earnings contribution from Plant 2 in Taiwan as the Phase 1 will only commence its

operation in end of the FY. Nonetheless, we expect positive earnings growth for the Group in FY23 and FY24 upon extension of Phase 2 and 3 in Plant 2.

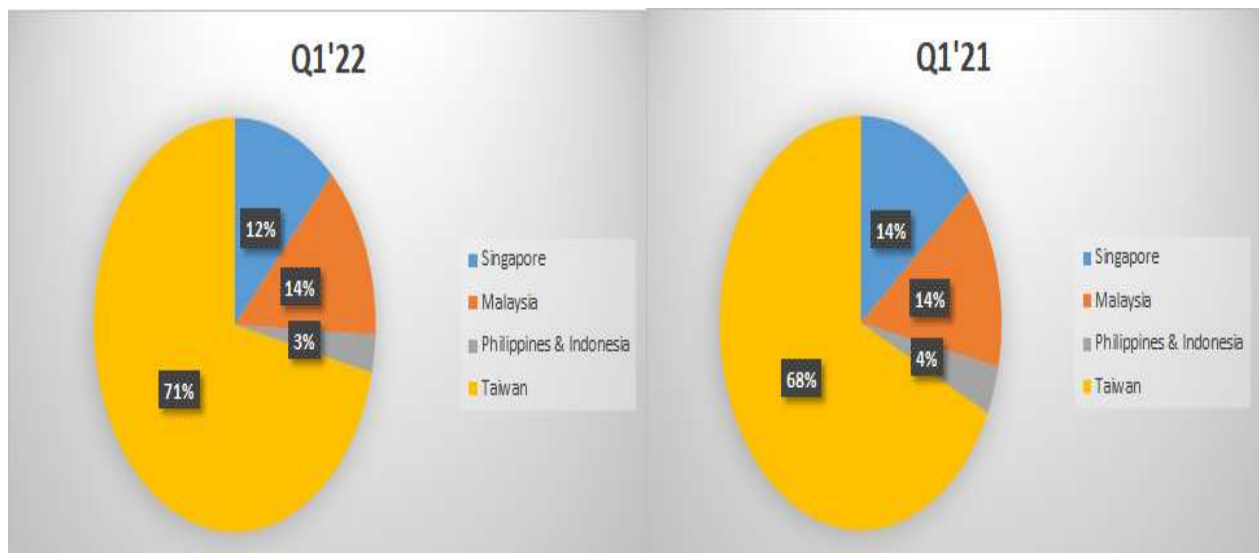
- **Plant 2 is more than just an increase of capacity.** The expansion of Plant 2 in Taiwan is expected to increase 2.5x of current capacity. Meanwhile, the completion of Plant 2 is not purely increasing the capacity but improving the efficiency of Plant 1 as well. Hence, we do expect a better margin of the Group beyond the completion of Plant 2.
- **Operating cost expected to increase.** We foresee the operation cost to be increased in the near term after the commencement of Plant 2 in Taiwan and completion of Pengerang facility. Meanwhile, we were briefed by the management that the raw material cost are still stable and they do not foresee any high fluctuation in the near term.
- **Outlook remains positive.** We are still optimistic on the Group earnings performance moving forward in tandem with promising outlook of semiconductor as WSTS predicted 8.8% yoy growth of global semiconductor market in CY2022 due to tight supply and limited capacity coupled with the strong demand of advance nodes chips.

### Earnings Outlook/Revision

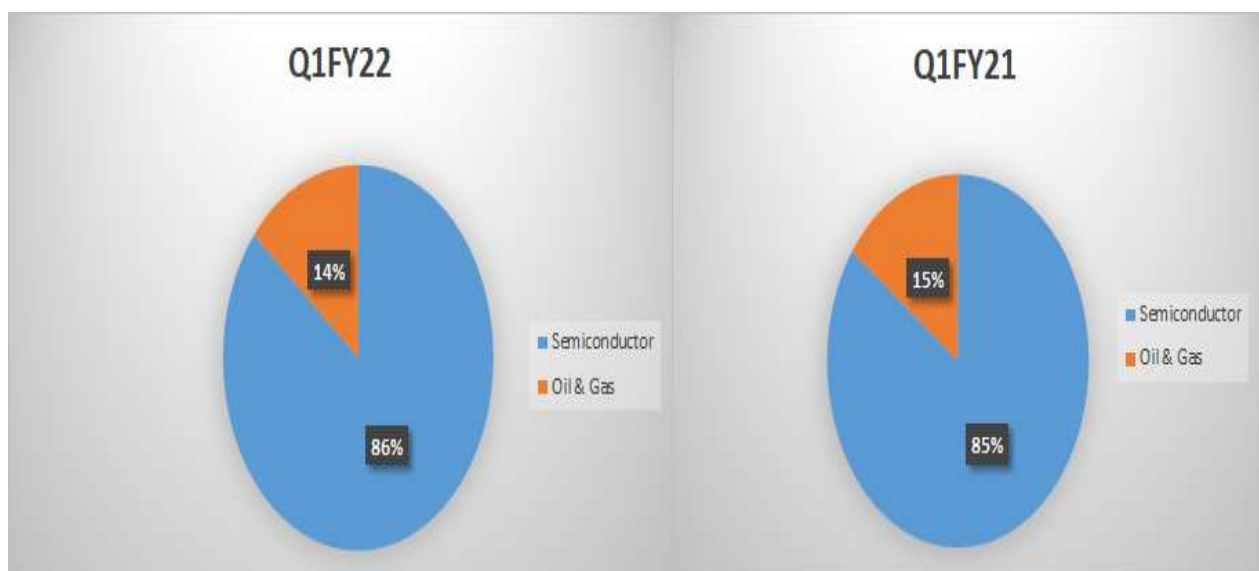
- **We keep our FY22F net earnings forecast of RM130.3m (24.7% yoy growth) and FY23F net earnings forecast of RM145.3m (11.5% yoy growth).**

### Valuation & Recommendation

- **Maintain HOLD CALL with a lower target of RM2.66 (from RM3.46) after ascribing lower PER due to the valuation revision of technology stock on the back of rapid rising of interest rate which dents the valuations of growth stocks.** Our revised target price is now pegged at PE multiple of 32x F22F EPS which is -0.8stdv of its 3-year mean PER. While we favour the stock for its growth prospects, we believe current price has discounted all the positives.

**Revenue by Country Q1'22 vs Q1'21**

Source: Company, JF Apex

**Revenue by Industry FY21 vs FY20**

Source: Company, JF Apex

### Quarterly Figures

YEAR END DECEMBER	1Q22	1Q21	YoY	4Q21	QoQ
Revenue	119.1	103.5	15.1%	121.5	-1.9%
Operating expenses	(76.0)	(66.1)	15.0%	(76.5)	-0.6%
<b>EBITDA</b>	<b>43.1</b>	<b>37.4</b>	15.3%	<b>45.0</b>	-4.2%
Depreciation	(4.1)	(4.4)	7.1%	(4.3)	-4.5%
Finance cost	(0.2)	(0.2)	7.0%	(0.2)	-1.1%
Other operating income	2.0	2.2	-9.0%	1.2	61.1%
<b>PBT</b>	<b>40.9</b>	<b>35.0</b>	16.7%	<b>41.8</b>	2.2%
Tax	(12.1)	(10.1)	19.5%	(9.4)	27.9%
<b>PAT</b>	<b>28.8</b>	<b>24.9</b>	15.6%	<b>32.3</b>	-11.0%
Minority interest	2.3	2.0	1.1%	2.8	-18.8%
<b>PATAMI</b>	<b>26.5</b>	<b>22.9</b>	15.8%	<b>29.5</b>	-10.3%
<b>Margin (%/ppts)</b>					
Operating margin	36%	36%	0.1	37%	-0.8
PBT margin	34%	34%	0.5	34%	-0.1
Adjusted PATAMI margin	22%	22%	0.1	24%	-2.1
Tax rate	30%	29%	0.7	23%	7.0
<b>SEGMENT REVENUE</b>					
Singapore	14.4	14.5	-0.6%	15.4	-6.3%
Malaysia	16.3	14.9	9.5%	17.7	-7.9%
Philippines	3.3	3.7	-9.9%	4.1	-19.6%
Indonesia	0.2	0.2	-15.0%	0.1	25.0%
Taiwan	84.9	70.2	21.0%	84.1	1.0%
<b>SEGMENT PROFIT</b>					
Singapore	3.5	4.2	-15.8%	5.6	-36.7%
Malaysia	1.8	2.9	-38.4%	3.0	-40.1%
Philippines	0.4	0.6	-25.5%	0.5	-18.1%
Indonesia	(0.1)	(0.2)	N/A	(0.1)	N/A
Taiwan	35.2	27.5	28.1%	32.8	7.5%

Source: Company, JF Apex

## Financial Summary

Year ending 31 December	FY16	FY17	FY18	FY19	FY20	FY21	FY22F	FY23F
	RM'm	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	450.2	518.7	613.0
Operating profit/EBIT	44.3	61.4	88.0	110.9	122.3	161.9	201.5	250.1
PBT	33.3	46.1	75.6	96.2	114.3	149.5	179.0	199.7
PAT	27.3	36.4	57.0	74.2	88.3	114.2	137.8	153.7
PATAMI	20.0	29.8	52.2	69.1	82.0	104.5	130.3	145.3
<b>Growth (%)</b>								
Revenue	-6.7%	13.2%	10.3%	3.9%	8.4%	22.2%	15.2%	18.2%
Operating profit	80.8%	38.6%	43.3%	26.0%	10.3%	32.4%	24.5%	24.1%
PBT	108.1%	38.4%	64.0%	27.2%	18.8%	30.8%	19.8%	11.5%
PAT	187.4%	33.3%	56.6%	30.2%	19.0%	29.3%	20.7%	11.5%
Net profit	4900.0%	49.0%	75.2%	32.4%	18.6%	27.5%	24.7%	11.5%
<b>Margin (%)</b>								
Operating profit	16.9%	20.7%	26.9%	32.6%	33.2%	36.0%	38.9%	40.8%
PBT	12.7%	15.5%	23.1%	28.3%	31.0%	33.2%	34.5%	32.6%
PAT	10.4%	12.3%	17.4%	21.8%	24.0%	25.4%	26.6%	25.1%
Net profit	7.6%	10.0%	16.0%	20.3%	22.3%	23.2%	25.1%	23.7%

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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