

Company Name : Frontken Corporation Berhad
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Frontken to gain from high demand for chips due to AI boom

PETALING JAYA: The emergence of DeepSeek, a Chinese artificial intelligence (AI) startup, is positive for the overall development of AI and hence bodes well for Frontken Corp Bhd as increased adoption could see higher demand for semiconductors.

According to Affin Hwang Investment Bank Research, DeepSeek, which claims to rival the performance of its US counterparts at a fraction of the cost, may lead to evaluation of strategies by big tech firms.

"DeepSeek marks a significant advancement and could signal a beginning of an inflection point for the AI industry.

"The increased efficiency leads to a substantial reduction in costs and adoption barriers, which will likely accelerate AI adoption and application deployments, thereby driving potential incremental

demand for AI going forward," the research house said.

It highlighted that big tech firms such as Microsoft, Meta and Google, had reaffirmed their commitment to major AI investments in their recent earnings calls.

"Going forward, management expects 2025 to be a good year, given the rising demand from customers amid the AI boom and the planned mass production of new nodes technology.

"This is consistent with our team's view that the tech cycle will see a prolonged upturn, thanks to continued AI strength and fuelled by restocking across non-AI demand verticals, with the cycle peaking in 1H26," the research house said.

Based on SEMI's forecasts, semiconductor production capacity is expected to grow by 6.6% to 33.6 million wafers per month

in 2025, with the expansion mainly driven by demand for high-performance computing and generative AI applications.

"For future expansion, Frontken plans to acquire land near plant one, and is in discussions for the potential acquisition.

"If materialised, it will be used for the new project that it is currently working with original equipment manufacturers (OEMs)," Affin Hwang said.

It said the company has begun working on the project since last year on a small scale, and management is optimistic about the outlook and potential of the project, though it will take time to grow.

"The opportunity opens doors as equipment sales increase significantly and OEMs are required to localise servicing for customers, hence OEMs are keen to work with Frontken to fulfil the requirement.

"If this becomes fruitful, it signifies an expansion of the client base to having OEMs as customers. Besides, management remains keen on acquisition in the United States for geographical expansion, and continues to be in discussion for a potential acquisition," the research house said.

It has maintained a "buy" call, but with a lower 12-month target price of RM5.13 from RM5.45, based on a target price earnings (PE) ratio of 52 times applied to our 2025 earnings per share from 55 times 2025 PE.

"We believe Frontken deserves a valuation premium given its unique exposure to the front-end semiconductor equipment value chain. Frontken is also a major Bursa proxy for global AI growth and front-end semiconductor value chain," Affin Hwang said.

The stock was last traded at RM3.90, valuing it RM6.22bil.