

Company Name : FRONTKEN CORPORATION BERHAD

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Frontken ready to cater for TSMC's new chip foundry in Taiwan

BY KAMARUL AZHAR

As chips get smaller with the narrowing of the distance between nodes, high-precision cleaning services providers have to keep up and adopt more advanced technology to serve the semiconductor industry.

This is what Frontken Corp Bhd has been doing over the last two years, investing up to RM40 million in new high-precision cleaning equipment.

"We invest in new technology. As you go to smaller nodes (and) more complex processes, the equipment that they use become more sophisticated. Therefore, the way to service the equipment is a lot more difficult," chief financial officer Eric Hee tells *The Edge* in an interview. "We spent about RM40 million over the past two years renovating our existing facility. We added new lines to cater for new processes. We have a Class 10 cleanroom in our facility," he adds.

The air in a Class 10 cleanroom has 10,000 particles of more than 0.1 micrometre per cu m, compared with a Class 100 cleanroom, which might have 100,000 particles of more than 0.1 micrometre per cu m.

Frontken has an 84.6%-owned subsidiary in Taiwan, Ares Green Technology Corp Ltd, which provides semiconductor foundries

such as Taiwan Semiconductor Manufacturing Co Ltd (TSMC) with high-precision cleaning and maintenance services.

Recently, TSMC announced that it is investing in a new foundry in Tainan Science Park in Taiwan. The new foundry, which is estimated to cost US\$16 billion, will be able to produce chips with a node distance of just three nanometres (nm).

The foundry, which is expected to start production in 2022, will be the first in the world to produce 3nm chips as TSMC works towards maintaining its leading position in the global pure play contract chip manufacturing industry.

As for Ares Green, it has been keeping up with the foundries by employing new technology equipment. "We just expanded our facilities last year, putting in new equipment and lines. We are now equipped to meet the next phase of TSMC's production," says Hee. TSMC is targeting to start the mass production of 7nm chips next year.

"You can see that from our revenue as well. The increase was surely coming from the additional capacity by TSMC," he adds. TSMC started mass producing 10nm chips — the smallest in circulation — in the fourth quarter last year.

In the fourth quarter ended Dec 31, 2016 (4QFY2016), Frontken's Taiwan operating



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revenue came in at RM36.8 million, up from RM33.8 million in the preceding quarter and RM30.1 million in the previous corresponding quarter.

In 2QFY2017, Frontken's Taiwan operations recorded a top line of RM41.05 million compared with RM35.4 million 1QFY2017 and RM30.6 million in 2QFY2016. The Taiwan operations contributed over 58% to

Frontken's revenue and almost 90% of its operating profit in 2QFY2017. Frontken also has operations in Malaysia, Singapore, Indonesia and the Philippines.

However, competition for high-precision cleaning jobs in Taiwan — where the semiconductor industry contributes substantially to the country's economy — can be fierce. And Ares Green is not the only service provider in the country.

"The service standards that we have to meet are very high. We have to be able to meet the turnaround time and also the quality. When you refurbish and clean a particular tool, the deposition cannot be seen with naked eyes.

"You put the tools through a microscope to see how many times of deposition is permissible. It cannot be perfectly clean, there is an acceptable level of how many depositions that are still allowed to be seen. At the end of the day, we are able to meet our clients' requirements," explains Hee.

Frontken's Indonesia operations contributes the least profit as it mostly serves the oil and gas (O&G) industry, which has seen a reduction in the number of jobs. In 2QFY2017, it recorded an operating loss of RM341,000 on revenue of RM296,000. This is a drop from the tiny operating profit of RM1,000 in 2QFY2016 and revenue of RM855,000.

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Indonesian market is tough but Frontken 'won't throw in the towel'

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Hee admits the market is tough but says Frontken will not throw in the towel. Frontken also serves the O&G industry in Malaysia and Singapore.

Year to date, Frontken's share price has rallied 138.43% to close at 40 sen per share last Thursday. It is trading at 21 times FY2016 earnings per share of two sen, and 15.38 times based on Kenanga Research's estimated EPS of 2.6 sen for FY2017.

In a July 20 report, Kenanga Research says Frontken's higher expo-

sure to the semiconductor industry now compared with three years ago makes the group a proxy for the current semiconductor industry upcycle.

"In a span of three years, the group has switched from its focus on heavy O&G-related services to higher-margin semiconductor services, which contributed 70% of revenue to the group in FY2016.

"Consequently, the group achieved its highest core net profit margin of 7.8% over the past five years. This was (achieved) on the back of stronger revenue, predom-

inantly driven by higher-margin services to semiconductor customers," says analyst Desmond Chong in the report.

Kenanga Research assigned a "trading buy" rating to Frontken, with a target price of 43 sen per share. The company's share price was 36.5 sen per share then.

Now that Frontken's share price has almost realised its full value as ascribed by Kenanga Research, can it breach that level and continue its upward trajectory? Or is the stock too expensive?

Based on US-based Semiconductor Industry Association's data, semiconductor sales in August reached US\$35 billion globally for the first time, an increase of 23.9% from August 2016 and 4% from the previous month's US\$33.6 billion.

Meanwhile, the World Semiconductor Trade Statistics has revised its 2017/2018 growth forecasts to 11.5% and 2.7%, from 6.5% and 2.3% respectively, with higher growth forecasts mainly for sensors and integrated circuits, says Chong.

"Based on our correlation study

on the group's year-on-year semiconductor business growth, as well as the global semiconductor sales' growth, the correlation is as high as 85.5% over the span of the last five years, with multipliers between 2.8 times and 12.8 times," he adds.

"As the group's customers are mainly from the front-end semiconductor value chain that are now focusing on leading-edge foundry technology, we believe the group will continue to enjoy better sales and high margins amid the booming semiconductor sector." ■