

HLIB Research

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Tan J Young

tytan@hlib.hongleong.com.my

(603) 2083 1721

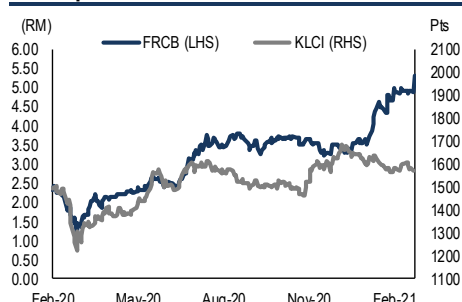
BUY (Maintain)

Target Price: **RM5.82**
Previously: **RM4.61**
Current Price: **RM5.32**

Capital upside	9.4%
Dividend yield	0.9%
Expected total return	10.3%

Sector coverage: Technology

Company description: Frontken is a leading surface engineering service provider in semiconductor and O&G markets.

Share price


Historical return (%)	1M	3M	12M
Absolute	19.6	58.8	119.8
Relative	22.0	62.1	115.1

Stock information

Bloomberg ticker	FRCB MK
Bursa code	0128
Issued shares (m)	1,048
Market capitalisation (RM m)	5,575
3-mth average volume ('000)	4,256
SC Shariah compliant	Yes
F4GBM Index member	N/A
ESG rating	★

Major shareholders

Dazzle Clean	20.4%
Ooi Keng Thye	15.1%
Kenanga Unit Trust	3.5%

Earnings summary

	FY20	FY21f	FY22f
FYE (Dec)			
PATMI – core (RM m)	82.7	100.8	122.5
EPS – core (sen)	7.9	9.6	11.3
P/E (x)	67.7	55.6	45.7

Frontken Corporation

Great results along with rewards

All-time high 4Q20 core net profit of RM24m (+11% QoQ, +25% YoY) matched expectations. This outperformance was mainly driven by Taiwan semi business coupled with relentless vigilance in cost discipline despite O&G industrywide slowdown. Frontken is planning to build new state-of-the-art facility to cater for 3/2nm demand. Reiterate BUY with higher TP of RM5.82, pegged to 50x of FY22 EPS. We like its unique exposure to leading-edge semiconductor frontend supply chain.

Newsbreak. (1) Bonus issue of 1 for every 2 shares held; (2) free warrant (5-year American style) of 1 for every 2 shares held. Both will be implemented concurrently. Expected to be completed in 2Q21 subject to regulatory and shareholders' approvals.

Results in line. Record-breaking 4Q20 core net profit of RM24m (+11% QoQ, +25% YoY) brought FY20's sum to RM83m (+18% YoY) which matched HLIB and consensus expectations at 100%, respectively. FY20 one-off adjustments include PPE disposal gain (RM1.6m), PPE written off (RM180k), allowance for impairment losses on receivables (RM202k), forex loss (RM937k) and withholding tax (RM1m) imposed on the dividend declared by AGTC.

Dividend. DPS of 2.8 sen (4Q19: 1.5 sen) with ex-date to be announced later. YTD DPS amounted to 4.0 sen (FY19: 2.5 sen).

QoQ. Turnover inched up 7% mainly due to better performances from all subsidiaries (Philippines: +7%, Taiwan: +2%, Malaysia: +41% and Singapore: +2%) except unit in Indonesia (-26%) due to O&G drag. Core net profit expanded by 11% to RM24m thanks to production process improvement leading to better cost management and lower effective tax rate.

YoY. Revenue saw a solid growth of 14% driven by Taiwan (+26%), Malaysia (+5%) and Philippines (+21%) which fully offset the contractions in Singapore (-15%) and Indonesia (-74%) attributable to the slowdown in O&G. In spite of that and higher MI charge, core earnings rose at a quicker pace of 25% thanks to margin improvement resulting from continual efforts to elevate efficiency across the Group.

YTD. Top and bottom lines gained 8% and 18%, respectively for the same reasons stated above.

Semiconductor. Generated 85% (FY19: 78%) of group revenue in FY20. Frontken is seeing advancement and deployment of new innovative technologies following global 5G rollout to benefit its business. It plans to expand Taiwan capacity by constructing a new state-of-the-art facility in anticipation of increase in demand for services related to tools involved in the most advanced node manufacturing.

O&G. Accounted for the remaining 15% of group turnover in FY20. It noticed that new orders are trickling from various umbrella contracts for provision of manpower supply and also mechanical rotating equipment services and parts.

Forecast. Updated model based on latest operating data points which lead to FY21-22 earnings adjustments of -3% and +10%, respectively.

Reiterate **BUY** with higher TP of **RM5.82** (previously RM4.61), pegged to 50x (previously 45x) of FY22 EPS. 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 RM304m or 29 sen per share) to supports its Taiwan expansion.

Financial Forecast

All items in (RM m) unless otherwise stated

Income statement

FYE Dec	FY19	FY20	FY21f	FY22f	FY23f
Revenue	339.9	368.3	417.0	494.3	550.2
COGS	(226.2)	(236.2)	(259.7)	(306.3)	(340.2)
EBITDA	113.7	132.1	157.3	188.0	210.1
D&A	(17.8)	(18.4)	(20.3)	(21.4)	(20.2)
EBIT	95.9	113.7	137.0	166.6	189.9
Net Interest Income	0.4	0.6	1.5	1.7	1.9
Associates	0.0	0.0	0.0	0.0	0.0
PBT	96.3	114.3	138.5	168.3	191.8
Tax	(22.0)	(25.9)	(30.5)	(37.0)	(42.2)
Net Profit	74.2	88.3	108.0	131.2	149.6
MI	(5.1)	(6.4)	(7.2)	(8.7)	(9.8)
PATAMI	69.2	82.0	100.8	122.5	139.7
Exceptionals	1.0	0.7	0.0	0.0	0.0
Adj PATAMI	70.1	82.7	100.8	122.5	139.7
Basic Shares (m)	1,053.0	1,053.0	1,053.0	1,053.0	1,053.0
Rep EPS (sen)	6.6	7.8	9.6	11.6	13.3
Adj EPS (sen)	6.7	7.9	9.6	11.6	13.3
Adj FD EPS (sen)	6.7	7.9	9.6	11.6	13.3

Balance sheet

FYE Dec	FY19	FY20	FY21f	FY22f	FY23f
Cash	197.2	290.5	328.4	368.7	442.3
Receivables	86.3	103.1	114.2	135.4	150.7
Inventories	15.1	20.0	21.3	25.2	28.0
Investment	0.0	0.0	0.0	0.0	0.0
PPE	145.5	139.0	148.7	157.3	148.1
Intangibles	33.8	33.8	33.8	33.8	33.8
Other Assets	37.9	31.8	31.8	31.8	31.8
Total Assets	515.7	618.1	678.3	752.1	834.6
Payables	84.0	18.8	21.3	25.2	28.0
ST borrowings	0.8	0.0	0.0	0.0	0.0
LT borrowings	0.0	0.0	0.0	0.0	0.0
Other Liabilities	32.1	132.3	132.3	132.3	132.3
Total liabilities	117.0	151.1	153.6	157.4	160.2
Shareholders' Funds	377.0	440.0	490.4	551.6	621.5
MI	21.8	27.0	34.3	43.0	52.9
Total S/H Equity	398.7	467.0	524.7	594.7	674.4
Ttl Liab&S/H Funds	515.7	618.1	678.3	752.1	834.6

Cashflow Analysis

FYE Dec	FY19	FY20	FY21f	FY22f	FY23f
EBITDA	113.7	132.1	157.3	188.0	210.1
Tax Paid	(19.8)	(22.9)	(30.5)	(37.0)	(42.2)
WC Changes	21.3	11.1	(10.0)	(21.2)	(15.3)
Other	(0.3)	(0.6)	1.5	1.7	1.9
CFO	114.9	119.7	118.3	131.5	154.4
FCF	107.9	112.0	88.3	101.5	143.4
CAPEX (CF)	(7.0)	(7.7)	(30.0)	(30.0)	(11.0)
Acquisitions	(2.6)	(0.8)	0.0	0.0	0.0
Other	(2.4)	(3.4)	0.0	0.0	0.0
CFI	(12.1)	(11.9)	(30.0)	(30.0)	(11.0)
Dividend	(18.9)	(28.3)	(50.4)	(61.2)	(69.9)
Debt changes	(10.7)	(0.8)	0.0	0.0	0.0
Other	(4.2)	(4.8)	0.0	0.0	0.0
CCF	(33.7)	(33.9)	(50.4)	(61.2)	(69.9)
Net Cashflow	69.1	73.9	38.0	40.3	73.6

Quarterly financial summary

FYE Dec	4Q19	1Q20	2Q20	3Q20	4Q20
Revenue	88.9	84.9	87.6	94.8	101.0
COGS	(60.9)	(55.8)	(55.2)	(60.0)	(65.3)
EBITDA	28.0	29.1	32.4	34.8	35.8
D&A	(3.8)	(4.7)	(4.6)	(4.6)	(4.5)
EBIT	24.3	24.4	27.8	30.3	31.2
Net Interest Income	0.2	0.3	0.1	0.1	0.1
Associates	0.0	0.0	0.0	0.0	0.0
PBT	24.5	24.7	27.9	30.3	31.3
Tax	(4.9)	(6.5)	(6.1)	(7.3)	(6.0)
Net Profit	19.6	18.2	21.8	23.0	25.3
MI	(1.4)	(1.2)	(1.5)	(1.7)	(2.0)
PATAMI	18.2	17.0	20.3	21.3	23.3
Exceptionals	1.3	(0.7)	0.0	0.5	1.0
Adj PATAMI	19.4	16.3	20.3	21.8	24.2
Basic Shares (m)	1,053.0	1,053.0	1,053.0	1,053.0	1,053.0
Rep EPS (sen)	1.7	1.6	1.9	2.0	2.2
Adj EPS (sen)	1.8	1.6	1.9	2.1	2.3
Adj FD EPS (sen)	1.8	1.6	1.9	2.1	2.3

Valuation Ratios

FYE Dec	FY19	FY20	FY21f	FY22f	FY23f
PER (x)	81.0	68.3	55.6	45.7	40.1
Core PER (x)	79.9	67.7	55.6	45.7	40.1
FD PER (x)	79.9	67.7	55.6	45.7	40.1
DPS (sen)	2.5	4.0	4.8	5.8	6.6
Net DY (%)	0.5	0.8	0.9	1.1	1.2
Book/share (sen)	35.8	41.8	46.6	52.4	59.0
P/Book (x)	14.9	12.7	11.4	10.2	9.0
FCF/share (sen)	10.2	10.6	8.4	9.6	13.6
FCF yield (%)	1.9	2.0	1.6	1.8	2.6
Mkt Cap	5,602.0	5,602.0	5,602.0	5,602.0	5,602.0
Net Cash(Debt)	196.3	290.5	328.4	368.7	442.3
EV	5,405.6	5,311.5	5,273.5	5,233.3	5,159.7
EV/EBITDA (x)	47.6	40.2	33.5	27.8	24.6
ROE (%)	18.6	18.8	20.6	22.2	22.5
Current Ratio (x)	3.5	22.0	21.7	21.0	22.2
Quick Ratio (x)	3.3	20.9	20.7	20.0	21.2
Interest Cover (x)	126.8	170.4	N/A	N/A	N/A

Other Ratios

FYE Dec	FY19	FY20	FY21f	FY22f	FY23f
Sales Growth (%)		8.4	13.2	18.5	11.3
EBITDA Growth (%)		16.2	19.1	19.5	11.7
EBIT Growth (%)		18.6	20.5	21.6	14.0
PBT Growth (%)		18.7	21.2	21.5	14.0
Net Profit Growth (%)		19.0	22.3	21.5	14.0
EBITDA Margin (%)	33.4	35.9	37.7	38.0	38.2
EBIT Margin (%)	28.2	30.9	32.9	33.7	34.5
PBT Margin (%)	28.3	31.0	33.2	34.0	34.9
Net Profit Margin (%)	21.8	24.0	25.9	26.6	27.2
Net Debt/Equity (%)	Cash	Cash	Cash	Cash	Cash
CAPEX/Sales (%)	2.1	2.1	7.2	6.1	2.0

Figure #1 **Quarterly results comparison**

FYE Dec (RM m)	4Q19	3Q20	4Q20	QoQ	YoY	FY19	FY20	YoY
Revenue	88.9	94.8	101.0	6.6	13.7	339.9	368.3	8.4
EBITDA	28.0	34.8	35.8	2.6	27.5	113.7	132.1	16.2
EBITDA Margin	31.5	36.8	35.4			33.4	35.9	
EBIT	24.3	30.3	31.2	3.2	28.6	95.9	113.7	18.6
PBT	24.5	30.3	31.3	3.1	27.7	96.3	114.3	18.7
PAT	19.6	23.0	25.3	9.8	28.9	74.2	88.3	19.0
Reported PATMI	18.2	21.3	23.3	9.1	28.0	69.2	82.0	18.5
Core PATMI	19.4	21.8	24.2	11.3	24.7	70.1	82.7	17.9
Reported EPS (sen)	1.7	2.0	2.2	9.1	28.0	6.6	7.8	18.5
Core EPS (sen)	1.8	2.1	2.3	11.3	24.7	6.7	7.9	17.9

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Hong Leong Investment Bank Berhad (10209-W)

Level 28, Menara Hong Leong,

No. 6, Jalan Damanlela,

Bukit Damansara,

50490 Kuala Lumpur

Tel: (603) 2083 1800

Fax: (603) 2083 1766

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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