

Company Result

5 November 2021

Frontken Corp Berhad

3Q21: Another record earnings

HOLD

Downgraded

Share Price	RM 3.82
Target Price	RM 3.79

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)	6006.61
52-week price Range(RM)	2.10-4.00
Beta (against KLCI)	1.28
3-m Average Daily Volume	5.36m
3-m Average Daily Value [^]	RM 19.15m

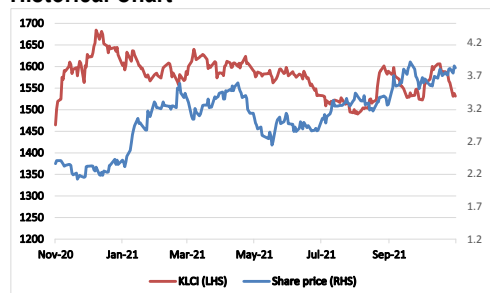
Share Performance

	1m	3m	12m
Absolute (%)	4.1	5.8	60.5
Relative (%-pts)	3.5	7.8	53.5

Major Shareholders

	%
OOI KENG THYE	15.62
DAZZLE CLEAN LTD	14.96
Vanguard Group Inc/The	2.57
Estimated Free Float	66.43

Historical Chart



Source: Bloomberg

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Result

- **Frontken Corporation Berhad (Frontken) posted a record quarterly result for its 3QFY21, with a higher revenue of RM116.6m (+23% YoY and +7.3% QoQ)** mainly due to the significant contribution by the subsidiaries of Taiwan and Malaysia on the robust growth in semiconductor business and improvement in O&G business.
- **Meanwhile, the Group recorded a higher PATAMI of RM27.3m (+27.9% YoY and +10.4% QoQ)** with the better revenue and strict cost management.
- **Result below expectations.** Frontken's 3Q21 results is below expectations as the 9M21 only accounts for 69%/64% of our/consensus forecasts due to lower-than-expected earnings contribution from Singapore segment and we believe it was partly caused by the rising of Covid-19 confirmed cases in September 2021 as well as the labour shortage issues in Singapore. However, we expect the Group to post stronger performance in 4QFY21 as it is usually the strongest quarter in the financial year.
- **Taiwan semiconductor business continues to show strong growth.** Frontken's Taiwan subsidiaries posted RM30.5m PBT in 3Q21 with growths of +33.4% YoY and +8% QoQ. The stellar growths are due to the strong demand from its customer's (TSMC) leading edge advance nodes chips.
- **QoQ improvement in local segment underpinned by O&G business.** The Group's Malaysia segment soared +52% QoQ in its PBT due to new orders for provision of manpower and equipment services from various contracts secured from Petronas.
- **Significant increase of Property, Plant and Equipment (PPE) under balance sheet.** An increase of approximately RM54m recorded in the current quarter from last quarter due to the completion in purchase of a new facility in Kaoshiung, Taiwan that expected to be commissioned in 2H22.

Comments/Outlook

- **Significant CAPEX and demand order of advanced nodes chips from TSMC benefiting Frontken's semiconductor business.** One of their customers – TSMC announced earlier this year that it plans to invest USD100b in the next three years to ramp up production of advanced nodes chips to cater the strong demand of the industry. This augurs well for the Group in the near future.
- **Expansion is well underway to meet customer demand.** The Group has completed the acquisition of the new facility in Kaoshiung, Taiwan in 3Q21 which is expected

to commence operation and production in 2H22 to increase their current capacity by approximately 2.5x.

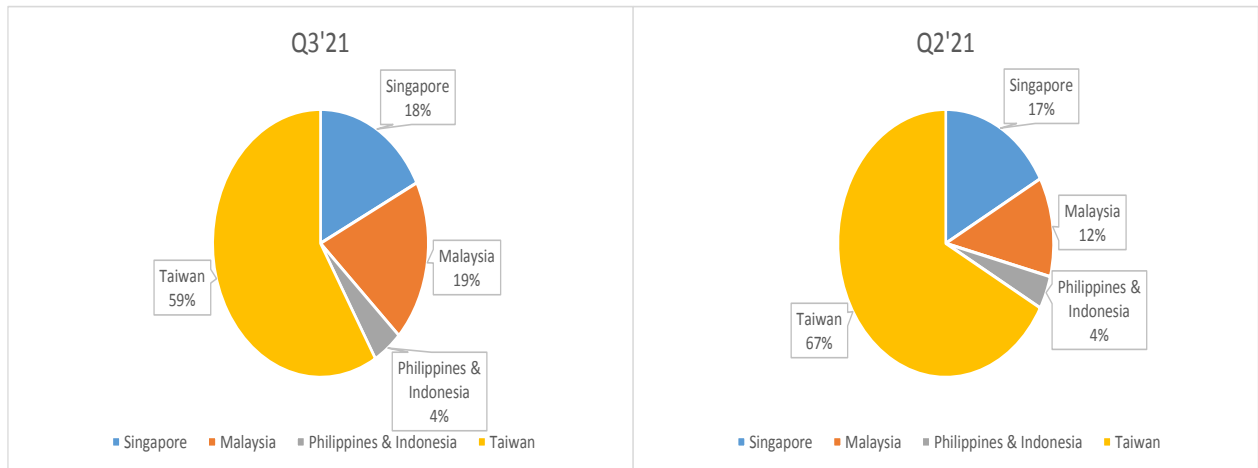
- **Challenges exist in Singapore segment.** The Group's Singapore subsidiaries are facing challenging environment with the workforce shortage and delay in customer orders mainly attributable to the safety measure implemented by the Singapore government due to the elevated Covid-19 cases since September this year.
- **Increasing labor cost in Taiwan expected to dent profit margin.** We have been briefed by the management that the labour cost in Taiwan has showed rising trend which would bring substantially impact to the Group's subsidiary in Taiwan. Government of Taiwan has approved to raise the minimum wage by +5% with effect from 1 Jan 2022 and this is anticipated to endanger the bottom line of Frontken.

Earnings Outlook/Revision

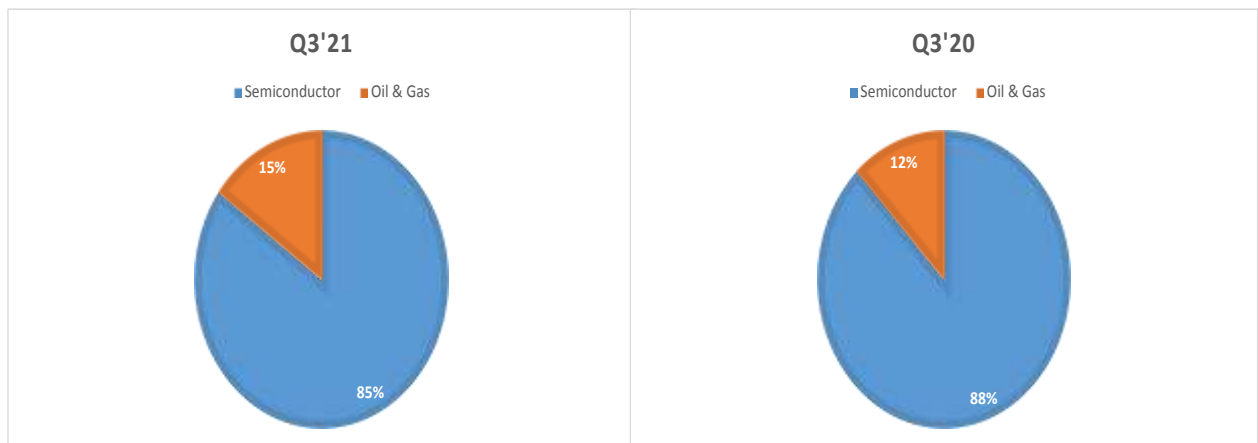
- **We slash our net earnings forecasts for FY21F and FY22F to RM 106.9m and RM 130.3m from RM116.9m and RM145m respectively after revising down the revenue forecast from Singapore segment and lower our profit margin forecast on Taiwan subsidiary in view of higher labor cost and depreciation resulting from the expansion.**

Valuation & Recommendation

- **Downgraded to HOLD from BUY** following the recent spike of share price which met our previous target price. **We lower our target price to RM3.79 (from RM3.86) after slashing our earnings forecasts.** Our revised target price is now pegged at PE multiple of 46x F22F EPS which is in line with its +0.5SD of 3-year mean PER. Whilst we favour the stock for its growth prospects, we believe current price has discounted all the positives.

Revenue by Country Q3'21 vs Q2'21

Source: Company

Revenue by Industry Q3'21 vs Q3'20

Source: Company, JF Apex

Quarterly Figures

YEAR END DECEMBER	3Q21	3Q20	YoY	1Q20	QoQ	9M2021	9M2020	YoY
Revenue	116.6	94.8	23.0%	108.6	7.3%	328.7	267.3	23.0%
Operating expenses	(75.3)	(62.4)	20.6%	(70.4)	6.9%	(211.8)	(177.5)	19.3%
EBITDA	41.3	32.4	27.7%	38.2	8.1%	116.9	89.8	30.2%
Depreciation	(4.5)	(4.6)	0.8%	(4.4)	-2.1%	(13.4)	(13.9)	3.6%
Finance cost	(0.1)	(0.2)	15.7%	(0.1)	-6.9%	(0.4)	(0.5)	16.8%
Other operating income	1.5	2.7	-45.5%	0.9	65.4%	4.6	7.6	39.2%
PBT	38.1	30.3	25.7%	34.5	10.4%	107.7	83.0	29.8%
Tax	(8.1)	(7.3)	11.0%	(7.5)	8.0%	(25.8)	(19.9)	29.8%
PAT	30.0	23.0	30.4%	27.0	11.0%	81.9	63.1	29.8%
Minority interest	2.7	1.7	4.4%	2.3	18.3%	6.9	4.4	57.7%
PATAMI	27.3	21.3	27.9%	24.7	10.4%	75.0	58.7	27.7%
Operating margin	35%	34%	1 ppts	35%	0 ppts	36%	34%	2.0 ppts
PBT margin	33%	32%	1 ppts	32%	1 ppts	33%	31%	2.0 ppts
Adjusted PATAMI margin	23%	23%	0 ppts	23%	0 ppts	23%	22%	1.0 ppts
Tax rate	21%	24%	-3 ppts	22%	-1 ppts	24%	24%	0 ppts
SEGMENT REVENUE								
Singapore	14.6	14.7	-0.7%	15.5	-6.1%	44.6	44.7	-0.2%
Malaysia	16.6	11.6	43.3%	14.7	13.1%	46.1	36.5	26.5%
Philippines	3.8	4.2	-8.2%	3.6	5.7%	11.2	11.2	-0.1%
Indonesia	0.1	0.1	-17.2%	0.2	-38.9%	0.5	0.6	-22.4%
Taiwan	81.5	64.2	26.9%	74.6	9.2%	226.3	175.3	29.1%
SEGMENT PROFIT								
Singapore	4.4	4.5	-3.0%	4.1	7.6%	12.7	15.4	-17.6%
Malaysia	2.4	2.6	-6.0%	1.6	52.0%	6.9	5.8	17.8%
Philippines	0.7	0.8	-13.8%	0.6	12.0%	2.0	1.7	16.7%
Indonesia	0.0	(0.5)	-105.4%	(0.1)	-128.9%	(0.3)	(0.6)	55.4%
Taiwan	30.5	22.9	33.4%	28.3	8.0%	86.3	60.2	43.4%

Source: Company, JF Apex

Financial Summary

Year ending 31 December	FY16	FY17	FY18	FY19	FY20	FY21F	FY22F
	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	443.2	518.7
Operating profit/EBIT	44.3	61.4	88.0	110.9	122.3	164.0	201.5
PBT	33.3	46.1	75.6	96.2	114.3	146.9	179.0
PAT	27.3	36.4	57.0	74.2	88.3	113.1	137.8
PATAMI	20.0	29.8	52.2	69.1	82.0	106.9	130.3
Growth (%)							
Revenue	-6.7%	13.2%	10.3%	3.9%	8.4%	20.3%	17.0%
Operating profit	80.8%	38.6%	43.3%	26.0%	10.3%	34.1%	22.9%
PBT	108.1%	38.4%	64.0%	27.2%	18.8%	28.6%	21.9%
PAT	187.4%	33.3%	56.6%	30.2%	19.0%	28.1%	21.9%
Net profit	4900.0%	49.0%	75.2%	32.4%	18.6%	30.4%	21.9%
Margin (%)							
Operating profit	16.9%	20.7%	26.9%	32.6%	33.2%	37.0%	38.9%
PBT	12.7%	15.5%	23.1%	28.3%	31.0%	33.1%	34.5%
PAT	10.4%	12.3%	17.4%	21.8%	24.0%	25.5%	26.6%
Net profit	7.6%	10.0%	16.0%	20.3%	22.3%	24.1%	25.1%
ROE	6.8%	9.8%	15.1%	17.3%	18.6%	21.8%	23.4%
ROA	4.9%	6.9%	11.5%	13.4%	13.6%	18.0%	18.9%
EPS	1.9	2.8	5.0	6.6	7.8	6.8	8.2
BV/Share	0.28	0.29	0.33	0.38	0.43	0.28	0.31
P/B	13.6	13.1	11.7	10.1	8.9	13.5	12.2
P/E	201.1	135.0	77.1	58.2	49.1	56.5	46.3
Net gearing	Net Cash	Net Cash	Net Cash	Net Cash	Net Cash	Net Cash	Net Cash
DPS (sen)	0.00	0.50	1.49	2.49	4.00	3.38	4.12

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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