

# Frontken Corp. Bhd (FRCB MK)

## Another outstanding quarter

### A sequentially stronger 4Q21; maintain BUY

FRCB posted a sequentially stronger set of results in 4Q21 that was largely within expectations, and we expect it to have an even better FY22 owing to strong projected demand in both its SEMI and O&G segments. We introduce FY24E estimates and roll-forward valuations to FY23. We also lower our valuation peg to 44x FY23E PER, at +1SD to the LT mean (from 52x FY22 PER at +2SD), to account for the growing risk of monetary policy tightening. Our revised TP is now MYR4.10 (-5%) but maintain BUY on resilient demand prospects and market-leading position as niche service provider to global wafer mega-foundries amidst an industry upcycle.

### Results within expectations

Excluding exceptional items (MYR0.1m), FRCB's 4Q21 core net income was MYR29.7m (+25% YoY, +15 QoQ). This brought 12MFY21 core net income to MYR104.2m (+29% YoY), at 97% of our/the street's full-year estimates and largely in-line with expectations. A 2.5 sen interim was also declared, bringing total FY21 dividends to 4 sen (60% payout ratio; flat YoY).

### Taiwanese operations continue to outperform

Key takeaways from the 4Q21: (i) Group revenue/CNP (ex-EI) surged 20%/25% YoY as its 92%-owned Taiwanese subsidiary (AGTC) was a prime beneficiary of the strong demand for its key customer, TSMC's industry-leading advanced node (<5nm) chips; EBIT margins were at a historical high of 39% (vs. 30-38% in the previous 12 quarters) due to better operational leverage; (ii) its MY ops also posted strong turnover and EBIT growth of 9% and 64% YoY respectively, primarily from an uptick in PG's umbrella contracts in-line with the recent increase in E&P capex as Brent prices remained elevated; and (iii) its SG ops has likely put the worst of its 3Q21 labour constraints behind as EBIT/margins performed sequentially better (+27%/+6% ppts) from improved operational efficiency and EOS.

### To benefit in FY22 from twin demand drivers

WSTS posits that global semiconductor sales is expected to grow 8.8% in 2022 to hit USD601b, driven by the double-digit growth of logic and sensor chips as 5G smartphone (c.2.5x higher silicon content than its 4G predecessor) penetration gathers pace. TSMC had also posted record high sales in Jan 22 and continues to ramp up capacity by revising its FY22 capex guidance by c.40% to USD40-44b. This bodes favourably for FRCB's new facility in Kaohsiung with mgmt indicating that capacity is likely to be maxed out upon operational commencement. Increased domestic O&G capex spend by PG, supported by strong oil prices (>USD80/bbl), could provide further tailwinds for a solid FY22 in relation to its domestic ops.

| FYE Dec (MYR m)              | FY20A    | FY21A    | FY22E    | FY23E    | FY24E    |
|------------------------------|----------|----------|----------|----------|----------|
| Revenue                      | 368      | 450      | 578      | 610      | 644      |
| EBITDA                       | 122      | 162      | 211      | 237      | 249      |
| Core net profit              | 81       | 105      | 129      | 148      | 156      |
| Core EPS (sen)               | 5.1      | 6.6      | 8.2      | 9.4      | 9.9      |
| Core EPS growth (%)          | 17.3     | 29.1     | 23.5     | 14.3     | 5.7      |
| Net DPS (sen)                | 2.7      | 4.0      | 4.1      | 4.7      | 5.0      |
| Core P/E (x)                 | 46.0     | 60.2     | 37.2     | 32.5     | 30.8     |
| P/BV (x)                     | 8.5      | 13.2     | 8.9      | 8.7      | 8.7      |
| Net dividend yield (%)       | 1.1      | 1.0      | 1.3      | 1.5      | 1.6      |
| ROAE (%)                     | 20.1     | 22.8     | 25.4     | 27.1     | 28.3     |
| ROAA (%)                     | 14.3     | 16.5     | 18.8     | 20.2     | 21.1     |
| EV/EBITDA (x)                | 28.2     | 37.7     | 21.9     | 19.6     | 18.8     |
| Net gearing (%) (incl perps) | net cash | net cash | net cash | net cash | net cash |
| Consensus net profit         | -        | -        | 130      | 158      | na       |
| MKE vs. Consensus (%)        | -        | -        | (0.8)    | (6.3)    | na       |

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# BUY

|                       |                 |
|-----------------------|-----------------|
| Share Price           | MYR 3.05        |
| 12m Price Target      | MYR 4.10 (+36%) |
| Previous Price Target | MYR 4.30        |

### Company Description

Frontken specialises in engineering and precision cleaning services, mostly for semiconductors and O&G markets in Taiwan, Singapore and Malaysia.

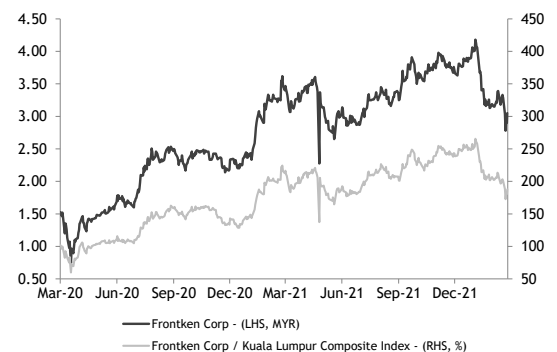
### Statistics

|                        |           |
|------------------------|-----------|
| 52w high/low (MYR)     | 4.18/2.28 |
| 3m avg turnover (USDm) | 4.8       |
| Free float (%)         | 60.2      |
| Issued shares (m)      | 1,575     |
| Market capitalisation  | MYR4.8B   |
|                        | USD1.1B   |

### Major shareholders:

|                          |       |
|--------------------------|-------|
| Dazzle Clean Ltd.        | 16.7% |
| OOI KENG THYE /FRONTKEN/ | 15.5% |
| Public Mutual Bhd.       | 4.6%  |

### Price Performance



|                       | -1M | -3M  | -12M |
|-----------------------|-----|------|------|
| Absolute (%)          | (4) | (19) | (16) |
| Relative to index (%) | (9) | (23) | (16) |

Source: FactSet

### Acronyms

AGTC - Ares Green Technology Corporation  
E&P - exploration & production  
EOS - economies of scale  
MY - Malaysia  
PG - Petronas Group  
O&G - oil & gas  
SEMI - semiconductor division  
SG - Singapore  
TSMC - Taiwan Semiconductor Manufacturing Co.  
WSTS - World Semiconductor Trade Statistics

EBIT - earnings before interest and tax  
EI - exceptional item  
PER - price-earnings ratio  
SD - standard deviation  
TP - target price

Fig 1: Results summary

| FYE Dec (MYR'm)                  | Quarterly   |             |                    |             |                    | Cumulative   |              |                    |
|----------------------------------|-------------|-------------|--------------------|-------------|--------------------|--------------|--------------|--------------------|
|                                  | 4Q21        | 4Q20        | % YoY              | 3Q21        | % QoQ              | 12M21        | 12M20        | % YoY              |
| Revenue                          | 121.5       | 101.0       | 20.2               | 116.6       | 4.2                | 450.2        | 368.3        | 22.2               |
| <b>EBITDA</b>                    | <b>45.0</b> | <b>32.5</b> | <b>38.4</b>        | <b>41.3</b> | <b>8.9</b>         | <b>161.9</b> | <b>122.3</b> | <b>32.4</b>        |
| Depreciation                     | (4.3)       | (4.5)       | (5.5)              | (4.5)       | (5.6)              | (17.7)       | (18.4)       | (4.1)              |
| Other income                     | 1.0         | 3.2         | (68.3)             | 1.3         | (20.2)             | 5.0          | 9.8          | (48.8)             |
| <b>EBIT</b>                      | <b>41.8</b> | <b>31.2</b> | <b>33.7</b>        | <b>38.1</b> | <b>9.7</b>         | <b>149.3</b> | <b>113.7</b> | <b>31.3</b>        |
| Finance income                   | 0.2         | 0.2         | 2.4                | 0.2         | 16.9               | 0.8          | 1.3          | (32.7)             |
| Finance costs                    | (0.2)       | (0.1)       | 23.5               | (0.1)       | 37.3               | (0.6)        | (0.7)        | (7.8)              |
| <b>Pretax profit</b>             | <b>41.8</b> | <b>31.3</b> | <b>33.6</b>        | <b>38.1</b> | <b>9.6</b>         | <b>149.5</b> | <b>114.3</b> | <b>30.8</b>        |
| Tax expense                      | (9.4)       | (6.0)       | 56.5               | (8.1)       | 15.9               | (35.3)       | (25.9)       | 36.0               |
| Minority interest                | (2.8)       | (2.0)       | 42.7               | (2.7)       | 4.7                | (2.8)        | (2.0)        | 42.7               |
| <b>Net profit</b>                | <b>29.5</b> | <b>23.3</b> | <b>26.9</b>        | <b>27.3</b> | <b>8.2</b>         | <b>104.5</b> | <b>82.0</b>  | <b>27.5</b>        |
| <b>Net profit ex-EI</b>          | <b>29.7</b> | <b>23.8</b> | <b>24.7</b>        | <b>25.9</b> | <b>14.7</b>        | <b>104.2</b> | <b>81.0</b>  | <b>28.7</b>        |
| Basic EPS (sen)                  | 1.9         | 2.2         | (15.3)             | 1.7         | 8.0                | 7.4          | 7.8          | (5.6)              |
| <b>Margin (%)</b>                | <b>4Q21</b> | <b>4Q20</b> | <b>+/- ppt YoY</b> | <b>3Q21</b> | <b>+/- ppt QoQ</b> | <b>12M21</b> | <b>12M20</b> | <b>+/- ppt YoY</b> |
| EBIT                             | 34.4        | 30.9        | 3.5                | 32.6        | 1.7                | 33.2         | 30.9         | 2.3                |
| Pretax profit                    | 34.4        | 31.0        | 3.4                | 32.7        | 1.7                | 33.2         | 31.0         | 2.2                |
| Net profit ex-EI                 | 24.4        | 23.6        | 0.9                | 22.2        | 2.2                | 23.2         | 22.0         | 1.2                |
| <b>Segmental revenue (MYR'm)</b> | <b>4Q21</b> | <b>4Q20</b> | <b>+/- ppt YoY</b> | <b>3Q21</b> | <b>+/- ppt QoQ</b> | <b>12M21</b> | <b>12M20</b> | <b>+/- ppt YoY</b> |
| Taiwan                           | 84.1        | 65.2        | 29.0               | 81.5        | 3.2                | 310.4        | 240.5        | 29.1               |
| Singapore                        | 15.4        | 15.0        | 2.8                | 14.6        | 5.5                | 60.0         | 59.7         | 0.6                |
| Malaysia                         | 17.7        | 16.3        | 8.7                | 16.6        | 6.9                | 15.4         | 15.7         | (2.2)              |
| Philippines                      | 4.1         | 4.5         | (7.4)              | 3.8         | 7.7                | 63.9         | 51.8         | 23.3               |
| Indonesia                        | 0.1         | 0.1         | 58.1               | 0.1         | 41.7               | 0.6          | 0.7          | (12.1)             |
| <b>Segmental EBIT (MYR'm)</b>    | <b>4Q21</b> | <b>4Q20</b> | <b>+/- ppt YoY</b> | <b>3Q21</b> | <b>+/- ppt QoQ</b> | <b>12M21</b> | <b>12M20</b> | <b>+/- ppt YoY</b> |
| Taiwan                           | 32.8        | 22.9        | 42.8               | 30.5        | 7.3                | 119.0        | 83.1         | 43.2               |
| Singapore                        | 5.6         | 5.5         | 0.8                | 4.4         | 27.0               | 18.3         | 20.9         | (12.7)             |
| Malaysia                         | 3.0         | 1.8         | 63.7               | 2.4         | 24.0               | 9.8          | 7.6          | 28.8               |
| Philippines                      | 0.5         | 0.9         | (38.3)             | 0.7         | (22.0)             | 2.5          | 2.6          | (1.9)              |
| Indonesia                        | (0.1)       | 0.0         | (>100.0)           | 0.0         | >100.0)            | (0.4)        | (0.6)        | (33.2)             |
| <b>Segmental EBIT margin (%)</b> | <b>4Q21</b> | <b>4Q20</b> | <b>+/- ppt YoY</b> | <b>3Q21</b> | <b>+/- ppt QoQ</b> | <b>12M21</b> | <b>12M20</b> | <b>+/- ppt YoY</b> |
| Taiwan                           | 39.0        | 35.2        | 3.8                | 37.5        | 1.5                | 38.4         | 34.6         | 3.8                |
| Singapore                        | 36.3        | 37.0        | (0.7)              | 30.1        | 6.2                | 30.5         | 35.1         | (4.6)              |
| Malaysia                         | 16.8        | 11.2        | 5.7                | 14.5        | 2.3                | 64.1         | 48.7         | 15.4               |
| Philippines                      | 13.2        | 19.8        | (6.6)              | 18.2        | (5.0)              | 3.9          | 4.9          | (1.0)              |
| Indonesia                        | (89.7)      | 31.4        | (>100.0)           | 29.2        | (>100.0)           | (68.5)       | (90.2)       | 21.7               |

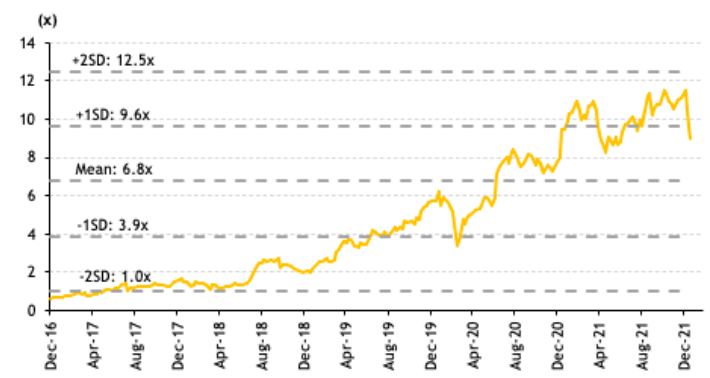
Source: Company data. Maybank IBG Research

**Fig 2: Frontken’s 1Y Fwd PER (currently trades at 36.3x)**



Source: Company data, Bloomberg, Maybank IGB Research

**Fig 3: Frontken’s 1Y Fwd PBV (currently trades at 9.0x)**



Source: Company data, Bloomberg, Maybank IGB Research

### Risk statement

There are several risk factors for our earnings estimates, target price and rating for Frontken. A sharp downturn in the global markets for electronics and/or oil & gas will affect the demand for Frontken’s services. Additionally, forex volatility, especially USD/MYR, will also affect Frontken’s earnings, as about 1/5 of the Group’s revenue is denominated in USD.

| FYE 31 Dec                          | FY20A        | FY21A         | FY22E        | FY23E        | FY24E        |
|-------------------------------------|--------------|---------------|--------------|--------------|--------------|
| <b>Key Metrics</b>                  |              |               |              |              |              |
| P/E (reported) (x)                  | 36.8         | 50.5          | 37.2         | 32.5         | 30.8         |
| Core P/E (x)                        | 46.0         | 60.2          | 37.2         | 32.5         | 30.8         |
| P/BV (x)                            | 8.5          | 13.2          | 8.9          | 8.7          | 8.7          |
| P/NTA (x)                           | 9.2          | 14.3          | 9.5          | 9.3          | 9.2          |
| Net dividend yield (%)              | 1.1          | 1.0           | 1.3          | 1.5          | 1.6          |
| FCF yield (%)                       | 3.3          | 0.3           | 1.8          | 3.0          | 3.2          |
| EV/EBITDA (x)                       | 28.2         | 37.7          | 21.9         | 19.6         | 18.8         |
| EV/EBIT (x)                         | 30.4         | 40.9          | 24.9         | 21.9         | 20.9         |
| <b>INCOME STATEMENT (MYR m)</b>     |              |               |              |              |              |
| Revenue                             | 368.3        | 450.2         | 577.9        | 609.9        | 644.2        |
| EBITDA                              | 122.3        | 161.9         | 211.5        | 237.1        | 249.2        |
| Depreciation                        | (18.4)       | (17.7)        | (25.6)       | (24.5)       | (24.5)       |
| Amortisation                        | 0.0          | 0.0           | 0.0          | 0.0          | 0.0          |
| EBIT                                | 113.7        | 149.3         | 185.9        | 212.6        | 224.7        |
| Net interest income / (exp)         | 0.6          | 0.2           | 0.9          | 0.9          | 0.9          |
| Associates & JV                     | 0.0          | 0.0           | 0.0          | 0.0          | 0.0          |
| Exceptionals                        | 0.0          | 0.0           | 0.0          | 0.0          | 0.0          |
| Other pretax income                 | 0.0          | 0.0           | 0.0          | 0.0          | 0.0          |
| Pretax profit                       | 114.3        | 149.5         | 186.8        | 213.5        | 225.6        |
| Income tax                          | (25.9)       | (35.3)        | (44.1)       | (50.4)       | (53.2)       |
| Minorities                          | (6.4)        | (9.7)         | (13.6)       | (15.5)       | (16.4)       |
| Discontinued operations             | 0.0          | 0.0           | 0.0          | 0.0          | 0.0          |
| Reported net profit                 | 82.0         | 104.5         | 129.2        | 147.6        | 156.0        |
| Core net profit                     | 81.0         | 104.6         | 129.2        | 147.6        | 156.0        |
| <b>BALANCE SHEET (MYR m)</b>        |              |               |              |              |              |
| Cash & Short Term Investments       | 312.2        | 228.3         | 218.4        | 188.0        | 151.8        |
| Accounts receivable                 | 110.7        | 123.3         | 156.1        | 164.4        | 173.2        |
| Inventory                           | 20.0         | 21.2          | 23.4         | 23.6         | 25.1         |
| Reinsurance assets                  | 0.0          | 0.0           | 0.0          | 0.0          | 0.0          |
| Property, Plant & Equip (net)       | 121.7        | 224.1         | 276.6        | 309.1        | 341.6        |
| Intangible assets                   | 33.8         | 33.8          | 33.8         | 33.8         | 33.8         |
| Investment in Associates & JVs      | 0.0          | 0.0           | 0.0          | 0.0          | 0.0          |
| Other assets                        | 19.8         | 19.5          | 19.0         | 19.0         | 19.0         |
| <b>Total assets</b>                 | <b>618.1</b> | <b>650.1</b>  | <b>727.3</b> | <b>737.8</b> | <b>744.4</b> |
| ST interest bearing debt            | 0.0          | 0.0           | 0.0          | 0.0          | 0.0          |
| Accounts payable                    | 118.0        | 124.3         | 130.1        | 130.5        | 132.4        |
| Insurance contract liabilities      | 0.0          | 0.0           | 0.0          | 0.0          | 0.0          |
| LT interest bearing debt            | 9.5          | 1.3           | 1.3          | 1.3          | 1.3          |
| Other liabilities                   | 24.0         | 18.0          | 18.0         | 18.0         | 18.0         |
| <b>Total Liabilities</b>            | <b>151.1</b> | <b>143.7</b>  | <b>149.5</b> | <b>149.8</b> | <b>151.8</b> |
| Shareholders Equity                 | 440.0        | 475.5         | 540.1        | 549.3        | 553.5        |
| Minority Interest                   | 27.0         | 30.9          | 37.7         | 38.6         | 39.1         |
| <b>Total shareholder equity</b>     | <b>467.0</b> | <b>506.4</b>  | <b>577.8</b> | <b>588.0</b> | <b>592.6</b> |
| <b>Total liabilities and equity</b> | <b>618.1</b> | <b>650.1</b>  | <b>727.3</b> | <b>737.8</b> | <b>744.4</b> |
| <b>CASH FLOW (MYR m)</b>            |              |               |              |              |              |
| Pretax profit                       | 114.3        | 149.5         | 186.8        | 213.5        | 225.6        |
| Depreciation & amortisation         | 18.4         | 17.7          | 25.6         | 24.5         | 24.5         |
| Adj net interest (income)/exp       | (0.6)        | (0.2)         | (0.9)        | (0.9)        | (0.9)        |
| Change in working capital           | 12.1         | (7.5)         | (29.2)       | (8.1)        | (8.3)        |
| Cash taxes paid                     | (22.9)       | (35.3)        | (44.1)       | (50.4)       | (53.2)       |
| Other operating cash flow           | (0.6)        | 0.0           | 0.0          | 0.0          | 0.0          |
| Cash flow from operations           | 131.8        | 124.1         | 138.2        | 178.5        | 187.7        |
| Capex                               | (7.7)        | (102.4)       | (52.5)       | (32.5)       | (32.5)       |
| Free cash flow                      | 124.1        | 21.7          | 85.7         | 146.0        | 155.2        |
| Dividends paid                      | (29.1)       | (68.8)        | (71.4)       | (81.6)       | (86.2)       |
| Equity raised / (purchased)         | 0.0          | 0.0           | 0.0          | 0.0          | 0.0          |
| Change in Debt                      | (5.7)        | 0.0           | 0.0          | 0.0          | 0.0          |
| Other invest/financing cash flow    | (4.8)        | 0.2           | 0.9          | 0.9          | 0.9          |
| Effect of exch rate changes         | 6.2          | 0.0           | 0.0          | 2.0          | 4.0          |
| <b>Net cash flow</b>                | <b>90.8</b>  | <b>(46.9)</b> | <b>15.2</b>  | <b>67.4</b>  | <b>73.9</b>  |

| FYE 31 Dec                             | FY20A    | FY21A    | FY22E    | FY23E    | FY24E    |
|--|----------|----------|----------|----------|----------|
| <b>Key Ratios</b>                      |          |          |          |          |          |
| <b>Growth ratios (%)</b>               |          |          |          |          |          |
| Revenue growth                         | 8.4      | 22.2     | 28.4     | 5.5      | 5.6      |
| EBITDA growth                          | 7.6      | 32.4     | 30.6     | 12.1     | 5.1      |
| EBIT growth                            | 18.6     | 31.3     | 24.6     | 14.4     | 5.7      |
| Pretax growth                          | 18.7     | 30.8     | 25.0     | 14.3     | 5.7      |
| Reported net profit growth             | 18.5     | 27.5     | 23.6     | 14.3     | 5.7      |
| Core net profit growth                 | 17.3     | 29.1     | 23.5     | 14.3     | 5.7      |
| <b>Profitability ratios (%)</b>        |          |          |          |          |          |
| EBITDA margin                          | 33.2     | 36.0     | 36.6     | 38.9     | 38.7     |
| EBIT margin                            | 30.9     | 33.2     | 32.2     | 34.9     | 34.9     |
| Pretax profit margin                   | 31.0     | 33.2     | 32.3     | 35.0     | 35.0     |
| Payout ratio                           | 51.1     | 60.3     | 50.0     | 50.0     | 50.0     |
| <b>DuPont analysis</b>                 |          |          |          |          |          |
| Net profit margin (%)                  | 22.3     | 23.2     | 22.4     | 24.2     | 24.2     |
| Revenue/Assets (x)                     | 0.6      | 0.7      | 0.8      | 0.8      | 0.9      |
| Assets/Equity (x)                      | 1.4      | 1.4      | 1.3      | 1.3      | 1.3      |
| ROAE (%)                               | 20.1     | 22.8     | 25.4     | 27.1     | 28.3     |
| ROAA (%)                               | 14.3     | 16.5     | 18.8     | 20.2     | 21.1     |
| <b>Liquidity &amp; Efficiency</b>      |          |          |          |          |          |
| Cash conversion cycle                  | (22.9)   | (28.9)   | (28.7)   | (22.0)   | (16.0)   |
| Days receivable outstanding            | 99.9     | 93.5     | 87.0     | 94.6     | 94.3     |
| Days inventory outstanding             | 25.8     | 25.1     | 24.6     | 25.7     | 25.1     |
| Days payables outstanding              | 148.5    | 147.6    | 140.3    | 142.3    | 135.3    |
| Dividend cover (x)                     | 2.0      | 1.7      | 2.0      | 2.0      | 2.0      |
| Current ratio (x)                      | 3.2      | 2.7      | 2.8      | 2.6      | 2.4      |
| <b>Leverage &amp; Expense Analysis</b> |          |          |          |          |          |
| Asset/Liability (x)                    | 4.1      | 4.5      | 4.9      | 4.9      | 4.9      |
| Net gearing (%) (incl perps)           | net cash | net cash | net cash | net cash | net cash |
| Net gearing (%) (excl. perps)          | net cash | net cash | net cash | net cash | net cash |
| Net interest cover (x)                 | na       | na       | na       | na       | na       |
| Debt/EBITDA (x)                        | 0.1      | 0.0      | 0.0      | 0.0      | 0.0      |
| Capex/revenue (%)                      | 2.1      | 22.7     | 9.1      | 5.3      | 5.0      |
| Net debt/ (net cash)                   | (302.7)  | (226.9)  | (217.1)  | (186.6)  | (150.5)  |

Source: Company; Maybank

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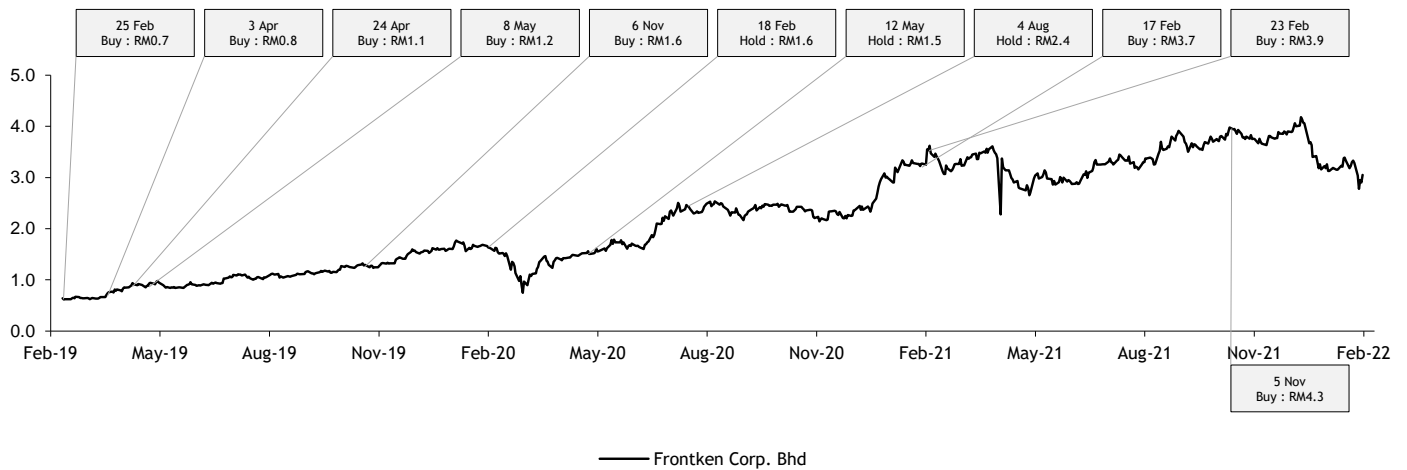
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