

**HLIB Research**

PP 9484/12/2012 (031413)

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**BUY** (Maintain)

**Target Price:** **RM3.20**
**Previously:** **RM3.20**
**Current Price:** **RM2.57**

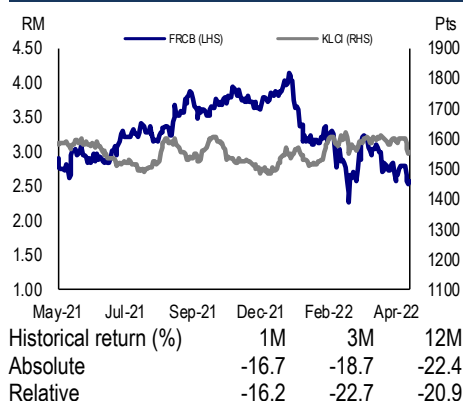
Capital upside 24.5%

Dividend yield 1.6%

Expected total return 26.1%

**Sector coverage:** Technology

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

**Share price**

**Stock information**

Bloomberg ticker	FRCB MK
Bursa code	0128
Issued shares (m)	1,580
Market capitalisation (RM m)	4,061
3-mth average volume ('000)	5,733
SC Shariah compliant	Yes
F4GBM Index member	Yes
ESG rating	★★★★

**Major shareholders**

Dazzle Clean	16.8%
Ooi Keng Thye	14.9%
Vanguard Group Inc	2.2%

**Earnings summary**

	FY21	FY22f	FY23f
FYE (Dec)			
PATMI – core (RM m)	105.5	121.7	137.8
EPS – core (sen)	6.7	7.7	8.7
P/E (x)	38.5	33.4	24.1

# Frontken Corporation

## 1Q22 results in line

1Q22 core net profit of RM29m (-7% QoQ, +30% YoY) matched expectations. While sequential weakness was due to seasonality, YoY performance was solid thanks to strong orders from both semiconductor in Taiwan and O&G in Malaysia. Frontken believes that the projected substantial increase in production by the semiconductor companies and persistent higher demand of chips will be a boon for its business in years to come. At the same time, it is cautiously optimistic on O&G to perform better than FY21. Reiterate BUY with unchanged TP of RM3.20, pegged to 30x of FY23 EPS. We like its unique exposure to leading-edge semiconductor frontend supply chain.

**Within expectations.** 1Q22 core net profit of RM29m (-7% QoQ, +30% YoY) was in line, accounting for 24% and 23% of HLIB and consensus full year forecasts, respectively. 1Q21 one-off adjustments include forex gain (-RM917k), PPE disposal gain (-RM17k) and provision for surtax on undistributed earnings by AGTC (+RM3.4m).

**Dividend.** None (1Q21: none).

**QoQ.** Turnover was down by 2% mainly due to seasonal weakness given shorter business period in 1Q as a result of long public holidays. In terms of segment, the better performances from Taiwan (+1%) and Indonesia (+25%) were neutralized by declines in Singapore (-6%), Malaysia (-8%) and Philippines (-20%). In turn, core net profit fell by 7% to RM29m while EBITDA margin was held steady at 38%.

**YoY.** Revenue saw a solid growth of 15% driven by Taiwan (+21%) and Malaysia (+10%) which fully offset the contractions in Singapore (-1%), Philippines (-11%) and Indonesia (-15%). Volume in the semiconductor business picked up significantly due to higher demand and strong orders from one of its customers' advanced nodes chips which benefited AGTC. At the same time, it also experienced higher orders from various contracts from provision of manpower supply and also mechanical rotating equipment services that Malaysia unit has with the Petronas Group of Companies. The softness in Singapore was caused by workforce shortage attributable to Covid-19 safety measures and delay in O&G orders attributable to Russia-Ukraine war disruption. In turn, core earnings rose at a quicker pace of 30%.

**Semiconductor.** Generated 86% (1Q21: 85%) of group revenue in 1Q22. According to WSTS, global semiconductor market is projected to grow by 8.8% in 2022 to USD601bn with expansions from all regions and product categories. As such, wafer foundries are likely to remain strong due to tight supply caused by capacity. Frontken believes that the projected substantial increase in production by the semiconductor companies and persistent higher demand of chips will be a boon for its business in years to come. AGTC's Plant 2 phase 1 expansion is slightly ahead of schedule and to be completed by 1H21.

**O&G.** Accounted for the remaining 14% of group turnover in 1Q22. Frontken is cautiously optimistic to perform better than FY21 due to increased demand partially caused by disruption in the global O&G supply.

**Forecast.** Unchanged.

Reiterate **BUY** with unchanged TP of **RM3.20** based on PE multiple of 30x of FY23 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 RM332m or 21 sen per share) to support its Taiwan expansion.

## Financial Forecast

All items in (RM m) unless otherwise stated

### Income statement

FYE Dec	FY20	FY21	FY22f	FY23f	FY24f
Revenue	368.3	450.2	494.0	648.2	708.7
COGS	(236.2)	(283.3)	(305.8)	(398.2)	(434.8)
EBITDA	132.1	167.0	188.2	250.1	274.0
D&A	(18.4)	(17.7)	(20.2)	(19.4)	(17.9)
EBIT	113.7	149.3	168.0	230.6	256.1
Net Interest Income	0.6	0.2	0.8	0.9	1.1
Associates	0.0	0.0	0.0	0.0	0.0
PBT	114.3	149.5	168.8	231.5	257.2
Tax	(25.9)	(35.3)	(39.8)	(54.6)	(60.7)
Net Profit	88.3	114.2	129.0	176.9	196.5
MI	(6.4)	(9.7)	(7.3)	(8.2)	(9.2)
PATAMI	82.0	104.5	121.7	168.7	187.3
Exceptionals	0.7	0.9	0.0	0.0	0.0
Adj PATAMI	82.7	105.5	121.7	168.7	187.3
Basic Shares (m)	1,580.0	1,580.0	1,580.0	1,580.0	1,580.0
Rep EPS (sen)	5.2	6.6	7.7	10.7	11.9
Adj EPS (sen)	5.2	6.7	7.7	10.7	11.9
Adj FD EPS (sen)	5.2	6.7	7.7	10.7	11.9

### Balance sheet

FYE Dec	FY20	FY21	FY22f	FY23f	FY24f
Cash	290.5	249.6	286.4	345.1	437.2
Receivables	103.1	115.6	135.3	177.6	194.2
Inventories	20.0	19.6	25.1	32.7	35.7
Investment	0.0	0.0	0.0	0.0	0.0
PPE	139.0	222.3	232.1	223.6	216.8
Intangibles	33.8	33.8	33.8	33.8	33.8
Other Assets	31.8	77.7	77.7	77.7	77.7
<b>Total Assets</b>	<b>618.1</b>	<b>718.5</b>	<b>790.3</b>	<b>890.5</b>	<b>995.3</b>
Payables	18.8	21.5	25.1	32.7	35.7
ST borrowings	0.0	0.0	0.0	0.0	0.0
LT borrowings	0.0	0.0	0.0	0.0	0.0
Other Liabilities	132.3	162.0	162.0	162.0	162.0
<b>Total liabilities</b>	<b>151.1</b>	<b>183.4</b>	<b>187.1</b>	<b>194.7</b>	<b>197.7</b>
Shareholders' Funds	440.0	500.9	561.7	646.1	739.7
MI	27.0	34.2	41.5	49.7	58.9
Total S/H Equity	467.0	535.1	603.2	695.8	798.7
<b>Ttl Liab&amp;S/H Funds</b>	<b>618.1</b>	<b>718.5</b>	<b>790.3</b>	<b>890.5</b>	<b>996.3</b>

### Cashflow Analysis

FYE Dec	FY20	FY21	FY22f	FY23f	FY24f
EBITDA	132.1	167.0	188.2	250.1	274.0
Tax Paid	(22.9)	(31.1)	(39.8)	(54.6)	(60.7)
WC Changes	11.1	3.0	(21.6)	(42.3)	(16.6)
Other	(0.6)	(0.1)	0.8	0.9	1.1
<b>CFO</b>	<b>119.7</b>	<b>138.8</b>	<b>127.6</b>	<b>154.1</b>	<b>197.8</b>
<b>FCF</b>	<b>112.0</b>	<b>55.9</b>	<b>97.6</b>	<b>143.1</b>	<b>185.8</b>
CAPEX (CF)	(7.7)	(82.8)	(30.0)	(11.0)	(12.0)
Acquisitions	(0.8)	(4.2)	0.0	0.0	0.0
Other	(3.4)	0.9	0.0	0.0	0.0
<b>CFI</b>	<b>(11.9)</b>	<b>(86.2)</b>	<b>(30.0)</b>	<b>(11.0)</b>	<b>(12.0)</b>
Dividend	(28.3)	(52.9)	(60.8)	(84.4)	(93.7)
Debt changes	(0.8)	0.0	0.0	0.0	0.0
Other	(4.8)	(8.2)	0.0	0.0	0.0
<b>CFF</b>	<b>(33.9)</b>	<b>(61.1)</b>	<b>(60.8)</b>	<b>(84.4)</b>	<b>(93.7)</b>
<b>Net Cashflow</b>	<b>73.9</b>	<b>(8.5)</b>	<b>36.7</b>	<b>58.7</b>	<b>92.1</b>

### Quarterly financial summary

FYE Dec	1Q21	2Q21	3Q21	4Q21	1Q22
Revenue	103.5	108.6	116.6	121.5	119.1
COGS	(64.1)	(69.7)	(74.0)	(75.4)	(74.2)
EBITDA	39.4	38.9	42.6	46.0	45.0
D&A	(4.4)	(4.4)	(4.5)	(4.3)	(4.1)
EBIT	35.0	34.5	38.1	41.8	40.9
Net Interest Income	0.1	0.1	0.0	0.0	(0.0)
Associates	0.0	0.0	0.0	0.0	0.0
PBT	35.1	34.5	38.1	41.8	40.9
Tax	(10.1)	(7.5)	(8.1)	(9.4)	(12.1)
Net Profit	24.9	27.0	30.0	32.4	28.8
MI	(2.0)	(2.3)	(2.7)	(2.8)	(2.3)
PATAMI	22.9	24.7	27.3	29.6	26.5
Exceptionals	(0.7)	0.9	(0.8)	1.5	2.5
Adj PATAMI	22.2	25.7	26.5	31.0	29.0
Basic Shares (m)	1,580.0	1,580.0	1,580.0	1,580.0	1,580.0
Rep EPS (sen)	1.5	1.6	1.7	1.9	1.7
Adj EPS (sen)	1.4	1.6	1.7	2.0	1.8
Adj FD EPS (sen)	1.4	1.6	1.7	2.0	1.8

### Valuation Ratios

FYE Dec	FY20	FY21	FY22f	FY23f	FY24f
PER (x)	49.5	38.9	33.4	24.1	21.7
Core PER (x)	49.1	38.5	33.4	24.1	21.7
FD PER (x)	49.1	38.5	33.4	24.1	21.7
DPS (sen)	2.7	4.0	3.9	5.3	5.9
Net DY (%)	1.0	1.6	1.5	2.1	2.3
Book/share (sen)	27.8	31.7	35.6	40.9	46.8
P/Book (x)	9.2	8.1	7.2	6.3	5.5
FCF/share (sen)	7.1	3.5	6.2	9.1	11.8
FCF yield (%)	2.8	1.4	2.4	3.5	4.6
Mkt Cap	4,060.6	4,060.6	4,060.6	4,060.6	4,060.6
Net Cash(Debt)	290.5	249.6	286.4	345.1	437.2
EV	3,770.1	3,811.0	3,774.2	3,715.5	3,623.4
EV/EBITDA (x)	28.5	22.8	20.1	14.9	13.2
ROE (%)	18.8	21.1	21.7	26.1	25.3
Current Ratio (x)	22.0	17.9	17.8	17.0	18.7
Quick Ratio (x)	20.9	17.0	16.8	16.0	17.7
Interest Cover (x)	170.4	242.7	N/A	N/A	N/A

### Other Ratios

FYE Dec	FY20	FY21	FY22f	FY23f	FY24f
Sales Growth (%)		22.2	9.7	31.2	9.3
EBITDA Growth (%)		26.4	12.7	32.9	9.5
EBIT Growth (%)		31.3	12.6	37.3	11.0
PBT Growth (%)		30.9	12.9	37.2	11.1
Net Profit Growth (%)		29.3	12.9	37.2	11.1
EBITDA Margin (%)	35.9	37.1	38.1	38.6	38.7
EBIT Margin (%)	30.9	33.2	34.0	35.6	36.1
PBT Margin (%)	31.0	33.2	34.2	35.7	36.3
Net Profit Margin (%)	24.0	25.4	26.1	27.3	27.7
Net Debt/Equity (%)	Cash	Cash	Cash	Cash	Cash
CAPEX/Sales (%)	2.1	18.4	6.1	1.7	1.7

**Figure #1**      **Quarterly results comparison**

<b>FYE Dec (RM m)</b>	<b>1Q21</b>	<b>4Q21</b>	<b>1Q22</b>	<b>QoQ</b>	<b>YoY</b>
Revenue	103.5	121.5	119.1	(1.9)	15.1
EBITDA	39.4	46.0	45.0	(2.3)	14.2
EBITDA Margin	38.1	37.9	37.8		
EBIT	35.0	41.8	40.9	(2.1)	16.9
PBT	35.1	41.8	40.9	(2.2)	16.6
PAT	24.9	32.4	28.8	(11.0)	15.6
Reported PATMI	22.9	29.6	26.5	(10.3)	15.7
Core PATMI	22.2	31.0	29.0	(6.6)	30.3
Reported EPS (sen)	1.5	1.9	1.7	(10.3)	15.7
Core EPS (sen)	1.4	2.0	1.8	(6.6)	30.3

*Bursa, HLIB Research*

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<b>BUY</b>	Expected absolute return of +10% or more over the next 12 months.
<b>HOLD</b>	Expected absolute return of -10% to +10% over the next 12 months.
<b>SELL</b>	Expected absolute return of -10% or less over the next 12 months.
<b>UNDER REVIEW</b>	Rating on the stock is temporarily under review which may or may not result to a change from the previous rating.
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