

Frontken Corp. Bhd (FRCB MK)

A record high 2Q21

Maintain BUY

2Q21 core net profit was in-line, with 1H21 core earnings at 45%/46% of our/street's FY21 estimates. Our FY21-23E earnings forecasts are intact. Maintain BUY with an unchanged TP of MYR3.90, pegged to 47x FY22E PER at about +2SD - mainly attributed to earnings growth prospects from their semiconductor segment (i.e. in Taiwan).

Semiconductor led the way

2Q21 core earnings were MYR26.3m (+28% YoY, 18% QoQ), totalling to 1H21 core net profit of MYR48.7m (+32% YoY). Results were in-line, as we are expecting Frontken's earnings to remain seasonally stronger in 2H. The semiconductor segment continued to drive Group's 2Q21 earnings, which was primarily attributed to a significant increase in volume/orders from their key customer in Taiwan (i.e. on advanced nodes chips). Meanwhile, job orders from the engineering segment (O&G) have also increased YoY in 2Q21, albeit limited, due to the soft O&G sector and the pandemic (i.e. pandemic-related regulations in Malaysia). 2Q21 revenue split for Semiconductor:Engineering segments was 85%:15%.

Estimates unchanged

Our FY21-23E net profit estimates are intact, where growth is largely driven by Frontken's semiconductor segment, namely in Taiwan. We also believe Frontken's earnings are supported by the global semiconductor industry's upcycle which entails strong demand for advanced chips.

Outlook unchanged

Mid to long-term growth prospects would come from Frontken's expansion plans in Taiwan, where Frontken has completed the purchase of their new facility in early-Jul 21, and operations are estimated to commence in mid-2022. We have yet to factor in significant earnings contributions from the upcoming plant in our FY22-23E forecasts, pending further operations visibility and updates. Meanwhile, Frontken is backed by a favourable net cash position of MYR312m or 20sen/share (end-2Q21).

FYE Dec (MYR m)	FY19A	FY20A	FY21E	FY22E	FY23E
Revenue	340	368	514	578	610
EBITDA	114	122	177	211	237
Core net profit	69	81	108	130	149
Core EPS (sen)	4.4	5.1	6.9	8.3	9.5
Core EPS growth (%)	27.2	17.3	33.8	20.1	14.4
Net DPS (sen)	1.7	2.7	3.4	4.1	4.7
Core P/E (x)	34.8	46.0	47.8	39.8	34.8
P/BV (x)	6.4	8.5	10.6	9.4	9.2
Net dividend yield (%)	1.1	1.1	1.0	1.3	1.4
ROAE (%)	19.7	20.1	23.4	25.0	26.7
ROAA (%)	14.2	14.3	16.9	18.5	19.9
EV/EBITDA (x)	19.5	28.2	28.1	23.6	21.2
Net gearing (%) (incl perps)	net cash	net cash	net cash	net cash	net cash
Consensus net profit	-	-	108	131	149
MKE vs. Consensus (%)	-	-	0.8	(0.4)	0.0

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BUY

Share Price	MYR 3.29
12m Price Target	MYR 3.90 (+20%)
Previous Price Target	MYR 3.90

Company Description

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

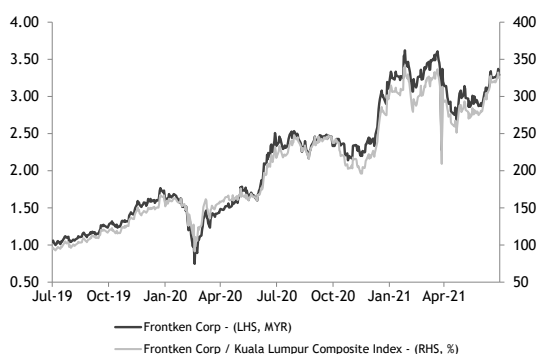
Statistics

52w high/low (MYR)	3.62/2.14
3m avg turnover (USDm)	4.4
Free float (%)	58.4
Issued shares (m)	1,575
Market capitalisation	MYR5.2B
	USD1.2B

Major shareholders:

Dazzle Clean Ltd.	20.3%
OOI KENG THYE /FRONTKEN/	15.1%
Public Mutual Bhd.	3.5%

Price Performance



	-1M	-3M	-12M
Absolute (%)	13	3	34
Relative to index (%)	16	9	43

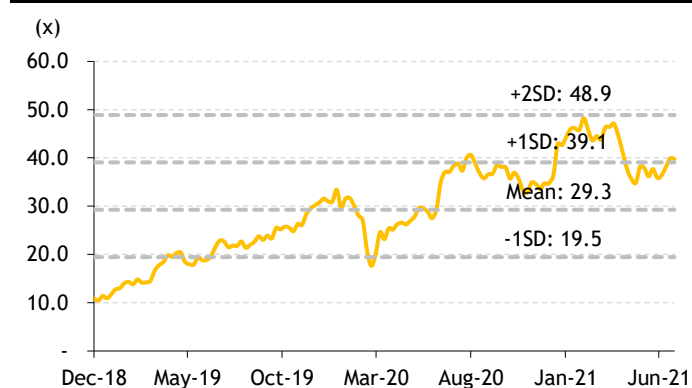
Source: FactSet

Fig 1: Results summary

FYE Dec (MYR'm)	Quarterly			Cumulative				
	2Q21	2Q20	%YoY	1Q21	%QoQ	1H FY21	1H FY20	%YoY
Revenue	108.6	87.6	24.0	103.5	4.9	212.1	172.5	23.0
EBITDA	38.2	30.7	24.6	37.4	2.3	75.6	57.4	31.6
Depreciation	(4.4)	(4.6)	(3.3)	(4.4)	0.6	(8.9)	(9.3)	(4.9)
Other income	0.7	1.7	(60.4)	2.0	(66.2)	2.7	4.1	(33.7)
EBIT	34.5	27.8	24.0	35.0	(1.4)	69.4	52.2	33.1
Finance income	0.2	0.3	(28.5)	0.2	(9.4)	0.4	0.8	(45.7)
Finance costs	(0.1)	(0.2)	(19.1)	(0.2)	(5.9)	(0.3)	(0.4)	(17.3)
Pretax profit	34.5	27.9	23.7	35.1	(1.5)	69.6	52.6	32.2
Tax expense	(7.5)	(6.1)	23.8	(10.1)	(25.7)	(17.7)	(12.6)	40.7
Minority interest	(2.3)	(1.5)	50.6	(2.0)	13.2	(2.3)	(1.5)	50.6
Net profit	24.7	20.3	21.7	22.9	8.0	47.7	37.3	27.6
Net profit ex-EI	26.3	20.5	28.4	22.4	17.7	48.7	37.0	31.6
Basic EPS (sen)	1.6	1.9	(19.1)	2.2	(28.3)	3.8	3.6	5.6
Margin (%)	2Q21	2Q20	+/- ppt	1Q21	+/- ppt	1H FY21	1H FY20	+/- ppt
EBIT	31.7	31.7	0.0	33.8	(2.1)	32.7	30.3	2.5
Pretax profit	31.8	31.9	(0.1)	33.9	(2.1)	32.8	30.5	2.3
Net profit ex-EI	24.2	23.4	0.8	21.6	2.6	22.9	21.4	1.5
Segmental revenue (MYR'm)	2Q21	2Q20	%YoY	1Q21	%QoQ	1H FY21	1H FY20	%YoY
Taiwan	74.6	58.9	26.8	70.2	6.3	144.8	111.1	30.4
Singapore	15.5	14.4	7.5	14.5	7.1	30.0	30.0	0.0
Malaysia	14.7	10.9	34.8	14.9	(1.6)	7.4	7.0	4.7
Philippines	3.6	3.2	12.9	3.7	(2.2)	29.6	23.9	23.7
Indonesia	0.2	0.2	(28.3)	0.2	(21.9)	0.4	0.5	(23.7)
Segmental EBIT (MYR'm)	2Q21	2Q20	%YoY	1Q21	%QoQ	1H FY21	1H FY20	%YoY
Taiwan	28.3	20.1	40.8	27.5	2.9	55.8	37.3	49.5
Singapore	4.1	5.5	(25.5)	4.2	(2.8)	8.3	10.9	(23.7)
Malaysia	1.6	1.1	38.5	2.9	(44.8)	4.5	3.3	36.5
Philippines	0.6	0.4	68.9	0.6	(1.6)	1.3	0.9	47.0
Indonesia	(0.1)	0.7	NM	(0.2)	(54.5)	(0.3)	(0.1)	184.4
Segmental EBIT margin (%)	2Q21	2Q20	+/- ppt	1Q21	+/- ppt	1H FY21	1H FY20	+/- ppt
Taiwan	37.9	34.1	3.7	39.2	(1.3)	38.5	33.6	4.9
Singapore	26.3	38.0	(11.6)	29.0	(2.7)	27.6	36.2	(8.6)
Malaysia	43.5	35.5	8.0	77.1	(33.6)	15.1	13.6	1.4
Philippines	4.3	3.4	0.9	4.3	0.0	4.3	3.6	0.7
Indonesia	(61.8)	327.9	(389.6)	(106.0)	44.2	(86.6)	(23.2)	(63.4)

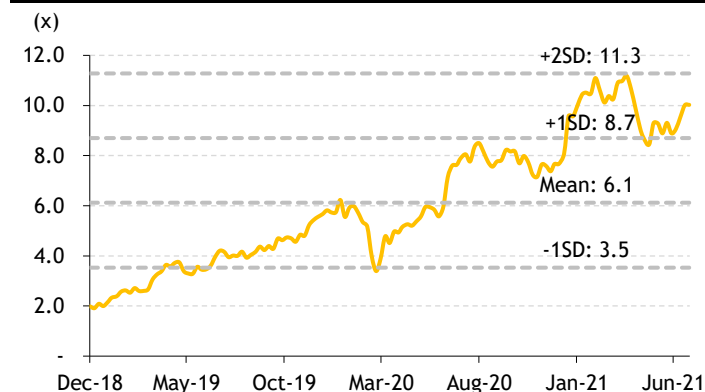
Source: Company data. Maybank Kim Eng

Fig 2: 1-year forward PER



Source: Factset, Company data, Maybank KE

Fig 3: 1-year forward PBV



Source: Factset, Company data, Maybank KE

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	FY19A	FY20A	FY21E	FY22E	FY23E
Key Metrics					
P/E (reported) (x)	22.0	36.8	47.8	39.8	34.8
Core P/E (x)	34.8	46.0	47.8	39.8	34.8
P/BV (x)	6.4	8.5	10.6	9.4	9.2
P/NTA (x)	7.0	9.2	11.4	10.0	9.8
Net dividend yield (%)	1.1	1.1	1.0	1.3	1.4
FCF yield (%)	5.4	3.3	0.3	2.0	2.8
EV/EBITDA (x)	19.5	28.2	28.1	23.6	21.2
EV/EBIT (x)	23.1	30.4	32.2	26.8	23.6

INCOME STATEMENT (MYR m)

Revenue	339.9	368.3	513.8	577.9	609.9
EBITDA	113.7	122.3	177.4	211.5	237.3
Depreciation	(17.8)	(18.4)	(22.7)	(25.6)	(24.5)
Amortisation	0.0	0.0	0.0	0.0	0.0
EBIT	95.9	113.7	154.7	185.9	212.8
Net interest income / (exp)	0.4	0.6	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	96.3	114.3	155.6	186.8	213.7
Income tax	(22.0)	(25.9)	(35.8)	(43.0)	(49.2)
Minorities	(5.1)	(6.4)	(11.4)	(13.7)	(15.6)
Discontinued operations	0.0	0.0	0.0	0.0	0.0
Reported net profit	69.2	82.0	108.4	130.2	148.9
Core net profit	69.1	81.0	108.4	130.2	148.9

BALANCE SHEET (MYR m)

Cash & Short Term Investments	225.4	312.2	226.5	233.6	203.3
Accounts receivable	93.7	110.7	139.6	156.1	164.4
Inventory	15.1	20.0	21.5	23.7	23.9
Reinsurance assets	0.0	0.0	0.0	0.0	0.0
Property, Plant & Equip (net)	125.7	121.7	224.1	276.6	309.1
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	22.0	19.8	19.5	19.1	19.1
Total assets	515.7	618.1	665.0	742.8	753.5
ST interest bearing debt	0.8	0.0	0.0	0.0	0.0
Accounts payable	84.0	118.0	124.7	130.6	130.9
Insurance contract liabilities	0.0	0.0	0.0	0.0	0.0
LT interest bearing debt	11.9	9.5	1.3	1.3	1.3
Other liabilities	20.0	24.0	18.0	18.0	18.0
Total Liabilities	117.0	151.1	144.1	150.0	150.3
Shareholders Equity	377.0	440.0	488.2	553.3	562.7
Minority Interest	21.8	27.0	32.7	39.6	40.5
Total shareholder equity	398.7	467.0	520.9	592.9	603.2
Total liabilities and equity	515.7	618.1	665.0	742.8	753.5

CASH FLOW (MYR m)

Pretax profit	96.3	114.3	155.6	186.8	213.7
Depreciation & amortisation	17.8	18.4	22.7	25.6	24.5
Adj net interest (income)/exp	(0.4)	(0.6)	(0.9)	(0.9)	(0.9)
Change in working capital	20.9	12.1	(23.8)	(12.8)	(8.2)
Cash taxes paid	(19.8)	(22.9)	(35.8)	(43.0)	(49.2)
Other operating cash flow	(0.1)	(0.6)	0.0	0.0	0.0
Cash flow from operations	135.8	131.8	117.8	155.7	180.0
Capex	(7.0)	(7.7)	(102.4)	(52.5)	(32.5)
Free cash flow	128.8	124.1	15.4	103.2	147.5
Dividends paid	(19.9)	(29.1)	(59.9)	(71.9)	(82.3)
Equity raised / (purchased)	0.0	0.0	0.0	0.0	0.0
Change in Debt	(13.0)	(5.7)	0.0	0.0	0.0
Other invest/financing cash flow	(5.8)	(4.8)	0.9	0.9	0.9
Effect of exch rate changes	1.7	6.2	0.0	0.0	2.0
Net cash flow	91.7	90.8	(43.6)	32.2	68.1

FYE 31 Dec	FY19A	FY20A	FY21E	FY22E	FY23E
Key Ratios					
Growth ratios (%)					
Revenue growth	3.9	8.4	39.5	12.5	5.5
EBITDA growth	22.9	7.6	45.0	19.2	12.2
EBIT growth	27.5	18.6	36.1	20.2	14.5
Pretax growth	27.3	18.7	36.2	20.1	14.4
Reported net profit growth	32.4	18.5	32.3	20.1	14.4
Core net profit growth	27.2	17.3	33.8	20.1	14.4
Profitability ratios (%)					
EBITDA margin	33.4	33.2	34.5	36.6	38.9
EBIT margin	28.2	30.9	30.1	32.2	34.9
Pretax profit margin	28.3	31.0	30.3	32.3	35.0
Payout ratio	37.9	51.1	50.0	50.0	50.0
DuPont analysis					
Net profit margin (%)	20.3	22.3	21.1	22.5	24.4
Revenue/Assets (x)	0.7	0.6	0.8	0.8	0.8
Assets/Equity (x)	1.4	1.4	1.4	1.3	1.3
ROAE (%)	19.7	20.1	23.4	25.0	26.7
ROAA (%)	14.2	14.3	16.9	18.5	19.9
Liquidity & Efficiency					
Cash conversion cycle	(18.6)	(22.9)	(32.9)	(22.0)	(20.6)
Days receivable outstanding	109.8	99.9	87.7	92.1	94.6
Days inventory outstanding	27.0	25.8	24.9	24.6	25.7
Days payables outstanding	155.4	148.5	145.5	138.8	140.9
Dividend cover (x)	2.6	2.0	2.0	2.0	2.0
Current ratio (x)	3.3	3.2	2.8	2.8	2.7
Leverage & Expense Analysis					
Asset/Liability (x)	4.4	4.1	4.6	5.0	5.0
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	0.1	0.0	0.0	0.0
Capex/revenue (%)	2.1	2.1	19.9	9.1	5.3
Net debt/ (net cash)	(212.6)	(302.7)	(225.1)	(232.2)	(201.9)

Source: Company; Maybank

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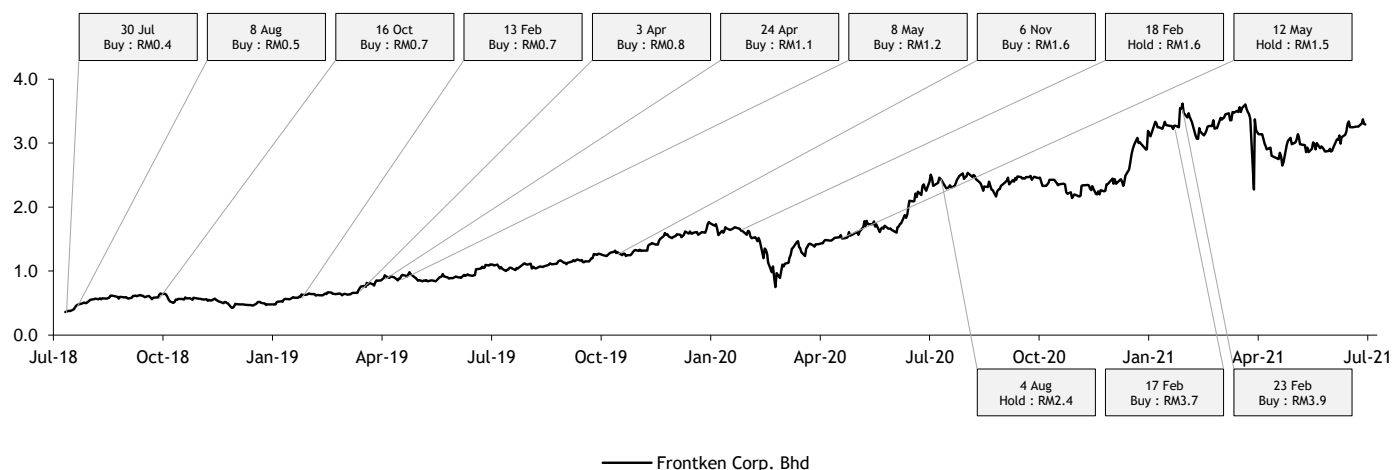
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