Company Name **: Frontken Corporation Berhad**
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Frontken Expects Stronger Performance In 2H — Philip Capital

KUALA LUMPUR (May 3): Frontken Bhd expects a stronger performance in the second half of this year (2HFY2024) after its first quarter results came in within expectations, according to Philip Capital.

In a note on Friday, the research firm said in its result briefing call that Frontken's management guided that volume is expected to see a stronger pick-up in the second half of this year (2H2024) from its ongoing new tool qualification and the transition of 5nm to 3nm nodes from its key customer.

“Frontken’s new Plant 2 (P2) has seen better operational efficiency in 1Q2024 which partly contributed to the improving margins.

"P2 volume has increased by four-fold (albeit low base) since January 2024 with revenue contribution potentially doubling in the coming quarters on the back of higher activity level,” it added.

Philip Capital said Frontken’s first quarter of financial year 2024 (1QFY2024) results represented 17% of its own full-year estimates and 16% of street’s, after excluding RM3 million foreign exchange gain.

“We deemed results to be broadly within expectations as 1Q has been seasonally a weaker quarter,” it said, adding that 1QFY2024 core net profit was partly dragged by a higher effective tax rate (36% versus 26%) due to withholding tax impact from higher undistributed earnings from its Taiwan subsidiary.

Historically, it said, the first quarter made up some 21% of the full-year performance.

Meanwhile, the research firm noted that Frontken’s 1Q2024 revenue rose 23% year-on-year (y-o-y) on strong billings from Taiwan (up 22% y-o-y), Malaysia (up 29%), and Singapore (up 20%). Operating margin in 1Q2024 rose two percentage points (ppts), driven by Taiwan (up 5ppts), Singapore (up 7ppts), and Malaysia (up 4ppts).

Philip Capital made no changes to its forecast in anticipation of stronger 2H2024 performances, reiterating a 'buy' rating and target price of RM5.20, based on a target 43 times 2025 estimated earnings per share.

“We continue to like Frontken given its niche front-end semiconductor exposure, consistent margin growth, increasing customer market share, and strong earnings growth prospects (three-year CAGR [compound annual growth rate]: 26%),” it said.

The firm cited key downside risks such as customer concentration risk, labour shortages in operating countries, and weaker-than-expected volume demand.