Company Name **: Frontken Corporation Berhad**
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Frontken's growth to be supported by AI adoption

PETALING JAYA: Frontken Corp Bhd's long-term prospects remain intact as it builds momentum for expansion across key semiconductor markets, despite a soft start to its financial year.

The group specialises in providing surface treatment, and mechanical and chemical engineering services.

Analysts expect the group's multi-year growth to be underpinned by industry recovery, accelerating adoption of artificial intelligence (AI) and sustained spending on advanced chipmaking nodes.

While Phillip Capital Research has trimmed its earnings forecasts for Frontken for 2025 to 2027 by between 3% and 9% after a weaker-than-expected first quarter (1Q), it maintained its positive stance on the stock.

"We continue to project 14% year-on-year (y-o-y) earnings growth this year on stronger customer loading," the research house said.

Phillip Capital Research maintained its "buy" call on Frontken, but lowered its 12-month target price for the counter to RM4.50 from RM4.68, after reducing its earnings forecasts for the company and applying a reduced target price-earnings multiple of 40 times.

"While valuations remain elevated, the recent share price pullback has brought the stock close to minus one standard deviation to its five-year historical mean," Phillip Capital Research said, noting downside risks such as prolonged semiconductor industry recovery and customer concentration.

Similarly, Hong Leong Investment Bank Research (HLIB Research) reiterated its "buy" recommendation, although it lowered its target price to RM4 from RM4.07.

"We remain positive on Frontken and expect multi-year growth ahead driven by recovery in the global semiconductor market anchored by accelerating AI adoption; robust fab investments; continued progress in leading-edge technology nodes; and strong balance sheet (net cash of RM527mil or 33 sen per share) to support expansion plans in Taiwan, Singapore and the United States," the research house said.

Frontken's 1Q25 performance reflected seasonal weakness and subdued oil and gas activity.

Phillip Capital Research said: "Despite being a seasonally weak quarter where 1Q typically contributed 20% to 21% of full-year earnings in 2022 to 2024, we deem the results to have missed expectations due to softer-than-expected activity."

HLIB Research also flagged the shortfall, saying, "The lower results were mainly due to the weaker-than-expected contribution from its oil and gas segment."

Nonetheless, Frontken's semiconductor segment remained resilient, contributing 85% of group revenue, with its subsidiary Ares Green Tech Corp (AGTC) in Taiwan continuing to deliver solid growth.

"AGTC remained a bright spot for Frontken, registering 9% y-o-y growth in sales and operating profit, respectively, despite headwinds from the weaker Taiwanese dollar," HLIB Research noted.

Frontken posted a net profit of RM31.07mil for 1Q25, up from RM30.05mil in 1Q24, despite a revenue dip to RM132.56mil from RM140.52mil.