

Company Result

4 November 2020

Frontken Corp Berhad

3QFY20: Dragged by O&G

BUY

Maintained

Share Price	RM 3.53
Target Price	RM 4.33

Company Description

Frontken Corporation Bhd. provides surface metamorphosis technology with thermal spray coating processes.

Stock Data

Bursa / Bloomberg code	0128 / FRCB MK
Board / Sector	Main / Technology
Syariah Compliant status	Yes
Issued shares (m)	1047.97
Par Value (RM)	N/A
Market cap. (RM'm)	3699.33
52-week price Range(RM)	0.99-3.95
Beta (against KLCI)	1.46
3-m Average Daily Volume	4.00
3-m Average Daily Value^	14.41

Share Performance

	1m	3m	12m
Absolute (%)	0.0	-2.5	82.9
Relative (%-pts)	2.7	6.4	99.4

Major Shareholders

	%
DAZZLE CLEAN LTD	20.41
OOI KENG THYE	15.14
AmanahRaya Trustees Bhd	3.48

Historical Chart



Source: Bloomberg

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Result

- **Frontken Corp reported a net profit of RM23.0mil for its 3QFY20 results.** The quarterly net profit surged 5% QoQ and 12% YoY. Meanwhile, the quarterly revenue stood at RM94.8m, which rose 8.0% QoQ and 9.0% YoY.
- **Broadly within forecasts.** 9MFY20 result accounts for 68%/69% of our/consensus full year forecasts. We deem the result within expectations as looking forward to higher efficiency after completion of new lines recently which will lead to better performance in its 4Q and hence meeting our/consensus full year net earnings estimates.

Comments

- **Moderate QoQ operational performance.** The higher revenue/profit contributions from Taiwan (+9%/+14%) largely neutralized by disappointing O&G revenue/profit from Singapore segment (+2%/-17%) which delivered a flattish revenue of RM94.8m (+8%) and EBITDA of RM32.4m (+6%). Notably, the Philippines segment contributed to the top and bottom line strongly by 30%/119% respectively. As a result, PBT jumped to RM30.3m (+9% QoQ).
- **Fair-to-middling YoY performance.** The stunning bottom line contribution from the Taiwan segment (+53%) was offset by Singapore and Malaysia segments (-39%/-20%). Nevertheless, the EBITDA increased mildly by 10% in tandem with rising positive revenue growth from Taiwan and the Philippines (+32%/+6% YoY). Meanwhile, the PBT bounced 16% on the back of robust profit contribution from the semiconductor segment (+39.1% YoY).
- **Leading the industry.** Advance cleaning methodology and technique have paid off for the Group in which Frontken is currently 12-18 months ahead of its peers. Hence, the Group has the privilege to pick up high margin jobs which bodes well for them to secure lucrative job orders from upstream players. We were told that the Group is receiving more job orders pertaining to 5nm chips from one of its clients which likely to command a higher margin compared with bigger nodes chips.
- **Streamlining unprofitable business.** We understand that the Group is planning to downsize the O&G segment after experiencing downturns since 2015. In our view, the move is positive as O&G business has not been profitable and viable over the years and even impacted its 9MFY20 bottom line severely amid remarkable performance from the semiconductor segment. Moving forward, we opine that crude oil prices are unlikely to return to pre-COVID-19 level anytime soon on the back of subdued demand pursuant to global lockdown.

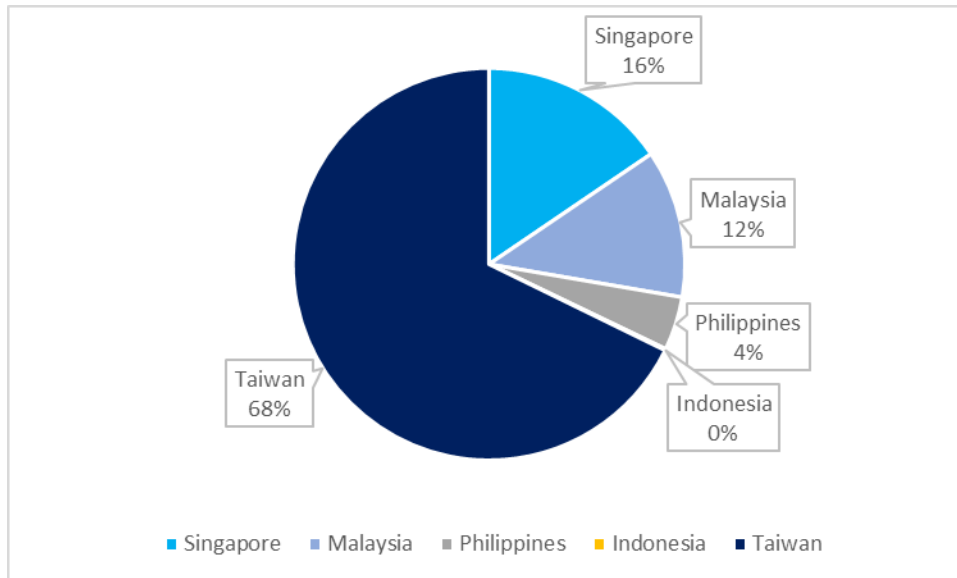
- **Expansion plan in the pipeline.** The Group has set up new production lines recently to improve its yield and take up more cleaning jobs. These new production lines are critical to improve the output efficiency and mitigate the space constraint issue, i.e. minimal error with larger space. Beyond that, the Group is exploring suitable lands to lift its capacity by >50% (est.) of its existing capacity in Taiwan. The plan has been resumed after dragging for few months because of COVID-19 pandemic. We think that the new facilities will come onboard in FY2022.

Earnings Outlook/Revision

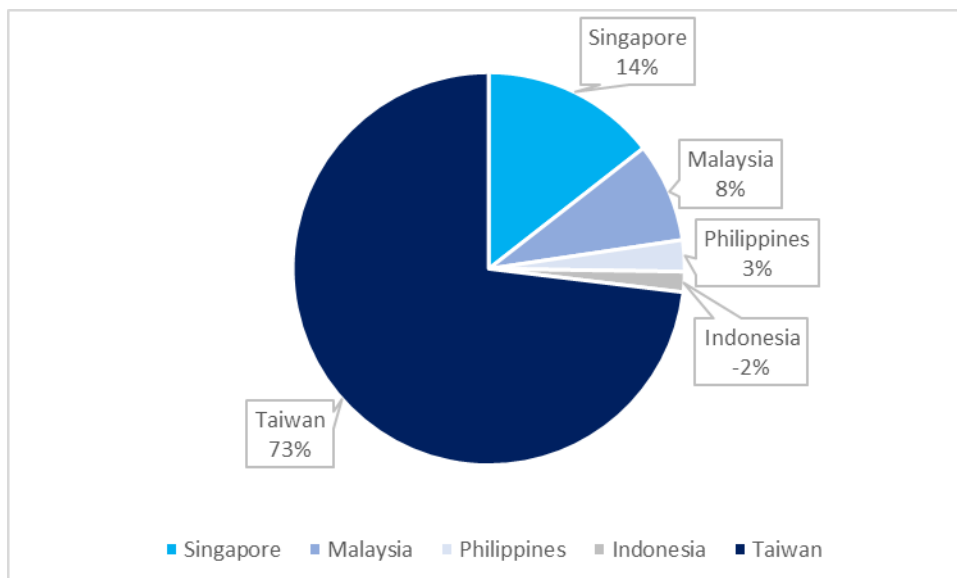
- **We maintain our FY20F & FY21F forecasts whilst introducing FY22F with net earnings RM135.4m (+21.7% YoY).**

Valuation & Recommendation

- **Maintain BUY with an unchanged target price of RM4.33.** Our target price is pegged at PE multiple of 41x F21F which is in line with +1SD of 5-year mean PER. Our fair value of the stock renders 23.0% upside to the current share price.

Revenue by geography 3QFY2020

Source: Company, JF Apex

Operating profit by geography 3QFY2020

Source: Company, JF Apex

Quarterly Figures

YEAR END DECEMBER	3Q20	3Q19	YoY	2Q20	QoQ	9M20	9M19	YoY
Revenue	94.8	87.0	9%	87.6	8%	267.3	251.0	6%
Operating expenses	(62.4)	(57.7)	8%	(56.9)	10%	(177.4)	(167.9)	6%
EBITDA	32.4	29.4	10%	30.7	6%	89.9	83.2	8%
Depreciation	(4.6)	(4.6)	N/A	(4.6)	N/A	(13.9)	(14.1)	N/A
Finance cost	(0.2)	(0.2)	N/A	(0.2)	N/A	(0.5)	(0.6)	N/A
Other operating income	2.7	1.5	80%	2.0	N/A	7.6	3.3	N/A
PBT	30.3	26.1	16%	27.9	9%	83.0	71.8	16%
Tax	(7.3)	(5.6)	N/A	(6.0)	N/A	(19.9)	(17.1)	N/A
PAT	23.0	20.5	12%	21.9	5%	63.1	54.7	15%
Minority interest	1.7	1.4	N/A	1.5	N/A	4.4	3.7	N/A
PATAMI	21.3	19.0	12%	20.4	5%	58.7	51.0	15%
Operating margin	34%	34%		35%		34%	33%	
PBT margin	32%	30%		32%		31%	29%	
Adjusted PATAMI margin	23%	22%		23%		22%	20%	
Tax rate	24%	22%		22%		24%	24%	
SEGMENT REVENUE								
Singapore	14.7	19.0	-23%	14.4	2%	44.7	52.1	-14%
Malaysia	11.6	15.3	-24%	10.9	6%	35.5	48.4	-27%
Philippines	4.2	3.9	6%	3.2	30%	11.2	12.3	-8%
Indonesia	0.1	0.1	-20%	0.2	-47%	0.6	0.6	-1%
Taiwan	64.2	48.7	32%	58.9	9%	175.3	137.6	27%
SEGMENT PROFIT								
Singapore	4.5	7.4	-39%	5.5	-17%	15.4	18.3	-16%
Malaysia	2.6	3.2	-20%	1.1	124%	5.8	11.3	-49%
Philippines	0.8	0.6	47%	0.4	119%	1.7	2.2	-24%
Indonesia	(0.5)	(0.1)	647%	0.7	-173%	(0.6)	(0.2)	-218%
Taiwan	22.9	15.0	53%	20.1	14%	60.2	40.3	49%

Source: Company, JF Apex

Financial Summary

Year ending 31 December	FY16	FY17	FY18	FY19	FY20F	FY21F	FY22F
	RM'm	RM'm	RM'm	RM'm	RM'm	RM'm	RM'm
Revenue	261.9	296.6	327.2	339.9	387.8	467.7	539.7
Operating profit/EBIT	44.3	61.4	88.0	110.9	135.7	173.1	210.3
PBT	33.3	46.1	75.6	96.2	119.4	152.9	186.1
PAT	27.3	36.4	57.0	74.2	91.9	117.7	143.3
PATAMI	20.0	29.8	52.2	69.1	86.4	111.3	135.4
Growth (%)							
Revenue	-6.7%	13.2%	10.3%	3.9%	14.1%	20.6%	15.4%
Operating profit	80.8%	38.6%	43.3%	26.0%	22.4%	27.5%	21.5%
PBT	108.1%	38.4%	64.0%	27.2%	24.1%	28.1%	21.7%
PAT	187.4%	33.3%	56.6%	30.2%	23.9%	28.1%	21.7%
Net profit	4900.0%	49.0%	75.2%	32.4%	25.0%	28.8%	21.7%
Margin (%)							
Operating profit	16.9%	20.7%	26.9%	32.6%	35.0%	37.0%	39.0%
PBT	12.7%	15.5%	23.1%	28.3%	30.8%	32.7%	34.5%
PAT	10.4%	12.3%	17.4%	21.8%	23.7%	25.2%	26.6%
Net profit	7.6%	10.0%	16.0%	20.3%	22.3%	23.8%	25.1%
ROE	6.8%	9.8%	15.1%	17.3%	19.1%	21.2%	22.1%
ROA	4.9%	6.9%	11.5%	13.4%	14.9%	16.4%	16.5%
EPS	1.9	2.8	5.0	6.6	8.2	10.6	12.9
BV/Share	0.28	0.29	0.33	0.38	0.43	0.50	0.58
P/B	12.6	12.1	10.8	9.3	8.2	7.1	6.0
P/E	185.9	124.7	71.2	53.8	43.0	33.4	27.4
Net gearing	Net Cash	Net Cash	Net Cash	Net Cash	Net Cash	Net Cash	Net Cash
Dividend yield	0.00%	0.14%	0.42%	0.70%	0.81%	1.05%	1.28%
Dividend payout	0.0%	17.8%	30.1%	37.9%	35.0%	35.0%	35.0%
DPS (sen)	0.00	0.50	1.49	2.49	2.87	3.70	4.50

Source: Company, JF Apex

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JF APEX SECURITIES - RESEARCH RECOMMENDATION FRAMEWORK
STOCK RECOMMENDATIONS

- BUY** : The stock's total returns* are expected to exceed 10% within the next 12 months.
- HOLD** : The stock's total returns* are expected to be within +10% to – 10% within the next 12 months.
- SELL** : The stock's total returns* are expected to be below -10% within the next 12 months.
- TRADING BUY** : The stock's total returns* are expected to exceed 10% within the next 3 months.
- TRADING SELL** : The stock's total returns* are expected to be below -10% within the next 3 months.

SECTOR RECOMMENDATIONS

- OVERWEIGHT** : The industry as defined by the analyst is expected to exceed 10% within the next 12 months.
- MARKETWEIGHT** : The industry as defined by the analyst is expected to be within +10% to – 10% within the next 12 months.
- UNDERWEIGHT** : The industry as defined by the analyst, is expected to be below -10% within the next 12 months.

*capital gain + dividend yield

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