April 27, 2021

Maybank IB Research

Frontken Corp. Bhd (FRCB MK)

1Q21 earnings on track

BUY

Share Price	MYR 3.37
12m Price Target	MYR 3.90 (+17%)
Previous Price Target	*MYR 3.90*

Maintain BUY

1Q21 core net profit was within our expectations, at 21% of our and consensus' full-year estimates. We maintain our FY21-23E earnings and MYR3.90 TP, pegged to 47x FY22E PER at +2SD. Maintain BUY on favourable, near-term earnings growth prospects from its semiconductor segment and Taiwanese customers.

Higher orders from both segments

1Q21 core net profit was MYR22.4m (+36% YoY, -6% QoQ). This is in-line with our expectations as Frontken's earnings are seasonally stronger in 2H. The strong YoY earnings was largely attributed to higher demand and more orders from its key semiconductor customer in Taiwan, namely for equipment related to advanced nodes chips. Elsewhere, there was also some order pickup from Frontken's key O&G customer, PETRONAS, in Malaysia for provision of manpower supply and mechanical rotating equipment services. In 1Q21, the revenue split for Semiconductor:Engineering (i.e. O&G) segments was 85%:15%.

Forecasts intact

We are keeping our FY21-23E earnings forecasts, where our strong near-term growth assumptions are mainly supported by Frontken's Taiwanese operations (i.e. semiconductor). We believe the positive outlook goes in tandem with the current upcycle of the global semiconductor sector which entails strong demand for chips, particularly advanced nodes chips (i.e. 5nm and below).

Expansion plans on track

Positively, Frontken's expansion plans in Taiwan are on track, where the Group is targeting to purchase a factory (built-up: 118k sqft) for about MYR53m by Jul 21. Pertaining to the expansion, we are maintaining our assumptions at this juncture, pending further updates and operational visibility. The Group is backed by healthy net cash of 31sen/share (as at end-1Q21), supporting future expansion and M&A activities.

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 FDEPS (sen)	4.4	5.1	5.2	6.2	7.1
Core FDEPS growth(%)	27.2	17.3	0.3	20.1	14.4
Net DPS (sen)	2.5	4.0	2.6	3.1	3.5
Core FD P/E (x)	52.2	69.0	65.3	54.4	47.5
P/BV (x)	9.6	12.7	10.9	9.6	9.4
Net dividend yield (%)	1.1	1.1	0.8	0.9	1.1
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)	30.0	43.4	28.8	24.2	21.7
Net gearing (%) (incl perps)	net cash	net cash	net cash	net cash	net cash
Consensus net profit	-	-	108	130	144
MKE vs. Consensus (%)	-	-	0.0	(0.0)	3.2

Company Description

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

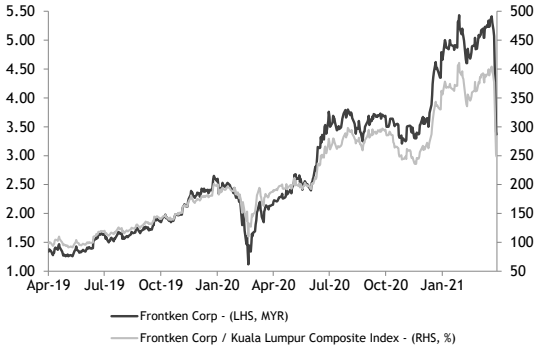
Statistics

52w high/low (MYR)	5.43/2.15
3m avg turnover (USDm)	5.7
Free float (%)	57.2
Issued shares (m)	1,053
Market capitalisation	MYR3.6B
	USD866M

Major shareholders:

Dazzle Clean Ltd.	21.5%
OOI KENG THYE /FRONTKEN/	15.1%
Public Mutual Bhd.	3.5%

Price Performance



	-1M	-3M	-12M
Absolute (%)	(31)	(30)	57
Relative to index (%)	(31)	(32)	32

Source: FactSet

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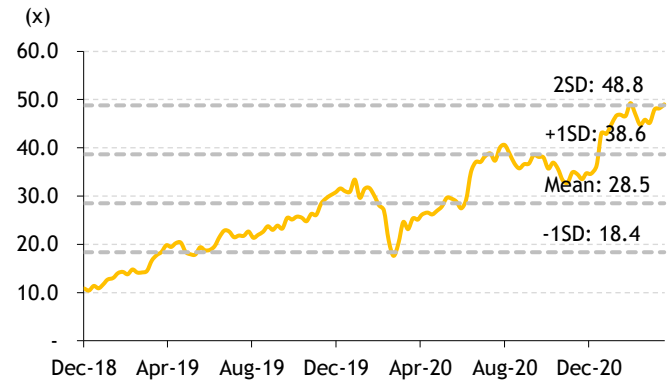
Fig 1: Results summary

FYE Dec (MYR'm)	Quarterly				
	1Q21	1Q20	%YoY	4Q20	%QoQ
Revenue	103.5	84.9	*22.0*	101.0	*2.5*
EBITDA	**37.4**	**26.8**	***39.7***	**32.5**	***15.0***
Depreciation	(4.4)	(4.7)	*(6.5)*	(4.5)	*(2.6)*
Other income	2.0	2.3	*(14.2)*	3.2	*(38.0)*
EBIT	**35.0**	**24.4**	***43.5***	**31.2**	***12.0***
Finance income	0.2	0.5	*(55.4)*	0.2	*11.5*
Finance costs	(0.2)	(0.2)	*(15.5)*	(0.1)	*2.7*
Pretax profit	**35.1**	**24.7**	***41.8***	**31.3**	***12.1***
Tax expense	(10.1)	(6.5)	*56.6*	(6.0)	*68.3*
Minority interest	(2.0)	(1.2)	*61.1*	(2.0)	*1.7*
Net profit	**22.9**	**17.0**	***34.7***	**23.3**	***(1.6)***
Net profit ex-EI	**22.4**	**16.5**	***35.5***	**23.8**	***(6.2)***
Basic EPS (sen)	2.2	1.6	*35.2*	2.2	*(1.4)*
Margin (%)	**1Q21**	**1Q20**	**+/- ppt**	**4Q20**	**+/- ppt**
EBIT	*33.8*	*28.7*	*5.1*	*30.9*	*2.9*
Pretax profit	*33.9*	*29.1*	*4.7*	*31.0*	*2.9*
Net profit ex-EI	*21.6*	*19.4*	*2.2*	*23.6*	*(2.0)*
Segmental revenue (MYR'm)	**1Q21**	**1Q20**	**%YoY**	**4Q20**	**%QoQ**
Taiwan	70.2	52.2	*34.4*	65.2	*7.6*
Singapore	14.5	15.6	*(6.8)*	15.0	*(3.1)*
Malaysia	14.9	13.0	*14.4*	16.3	*(8.6)*
Philippines	3.7	3.8	*(2.3)*	4.5	*(16.9)*
Indonesia	0.2	0.3	*(19.6)*	0.1	*133.7*
Segmental EBIT (MYR'm)	**1Q21**	**1Q20**	***%YoY***	**4Q20**	**%QoQ**
Taiwan	27.5	17.2	*59.7*	22.9	*19.8*
Singapore	4.2	5.4	*(21.9)*	5.5	*(24.1)*
Malaysia	2.9	2.1	*35.4*	1.8	*57.3*
Philippines	0.6	0.5	*30.4*	0.9	*(28.2)*
Indonesia	(0.2)	(0.8)	*(74.2)*	0.0	*NM*
Segmental EBIT margin (%)	**1Q21**	**1Q20**	**+/- ppt**	**4Q20**	**+/- ppt**
Taiwan	39.2	33.0	*6.2*	35.2	*4.0*
Singapore	29.0	34.6	*(5.6)*	37.0	*(8.0)*
Malaysia	77.1	55.6	*21.5*	40.7	*36.3*
Philippines	4.3	3.7	*0.5*	5.4	*(1.2)*
Indonesia	(106.0)	(330.8)	*224.8*	31.4	*NM*

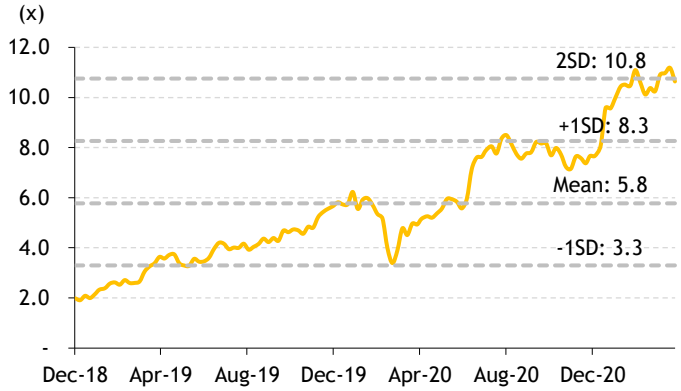
Source: Company data. Maybank Kim Eng

Fig 2: 1-year forward PER



Source: Bloomberg, Company data, Maybank KE

Fig 3: 1-year forward PBV



Source: Bloomberg, 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.

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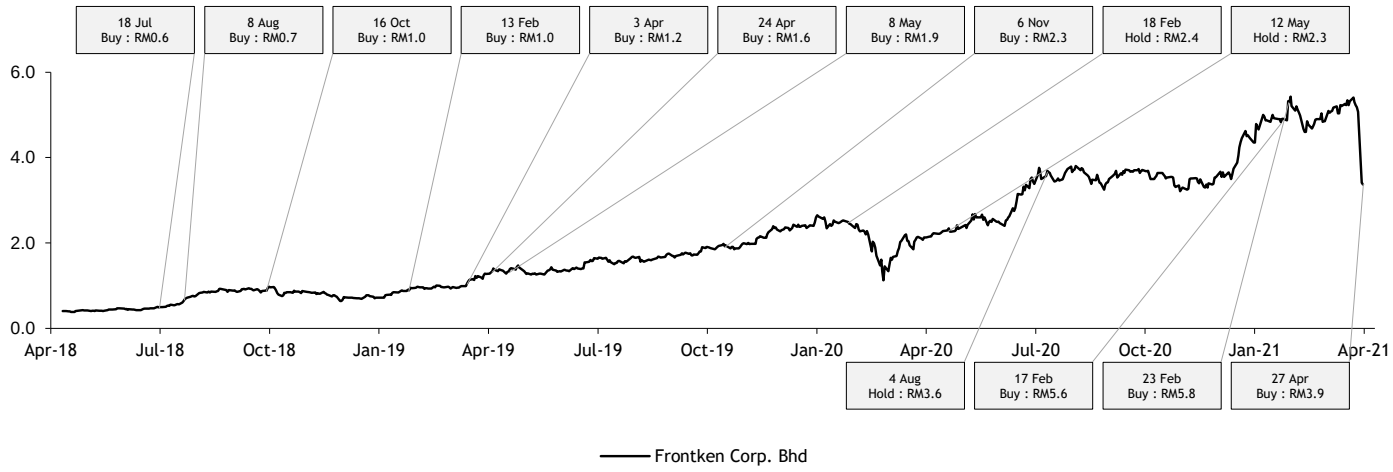

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