

HLIB Research

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BUY (Maintain)

Target Price: RM3.88

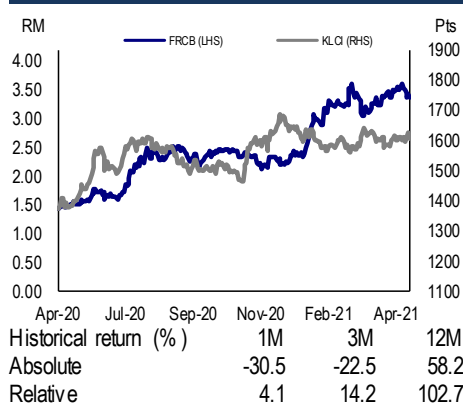
Previously: RM3.88

Current Price: RM3.37

Capital upside	15.1%
Dividend yield	0.9%
Expected total return	16.0%

Sector coverage: Technology

Company description: Frontken is a leading surface engineering service provider in semiconductor and O&G markets.

Share price

Stock information

Bloomberg ticker	FRCB MK
Bursa code	0128
Issued shares (m)	1,048
Market capitalisation (RM m)	5,315
3-mth average volume ('000)	4,768
SC Shariah compliant	Yes
F4GBM Index member	N/A
ESG rating	★

Major shareholders

Dazzle Clean	20.4%
Ooi Keng Thye	15.1%
Kenanga Unit Trust	3.5%

Earnings summary

FYE (Dec)	FY20	FY21i	FY22i
PATMI – core (RM m)	82.7	100.8	122.5
EPS – core (sen)	5.2	6.4	7.8
P/E (x)	64.4	52.8	43.5

Frontken Corporation

1Q21 results in line

1Q21 core net profit of RM22m (-8% QoQ, +36% YoY) matched expectations. Despite seasonal weakness, top line remarkably gained QoQ and would have lifted bottom line to new height if surtax was excluded. Newly acquired building will more than double AGTC's current size to support strong semiconductor demand. In view of the strong oil price, Frontken is cautiously optimistic that its O&G division will perform better than FY20. Reiterate BUY with unchanged TP of RM3.88, pegged to 50x of FY22 EPS. We like its unique exposure to leading-edge semiconductor frontend supply chain.

Within expectations. 1Q21 core net profit of RM22m (-8% QoQ, +36% YoY) was in line, accounting for 22% and 21% of HLIB and consensus full year forecasts, respectively. 1Q21 one-off adjustments include forex gain (-RM673k), PPE disposal gain (-RM21k) and allowance for impairment losses on receivables (+RM26k),

Dividend. None (1Q20: none).

QoQ. Despite the seasonal weakness, turnover inched up 3% mainly due to better performances from Taiwan (+8%) and Indonesia (+134%), more than sufficient to offset the declines in Singapore (-3%), Malaysia (-9%) and Philippines (-16%). While EBITDA margin gained 2.7ppt, core net profit fell by 8% to RM22m. This was solely due to the provision for surtax on undistributed earnings by AGTC. Core earnings would have been 9% higher if the surtax was excluded.

YoY. Revenue saw a solid growth of 22% driven by Taiwan (+34%) and Malaysia (+14%) which fully offset the contractions in Singapore (-7%), Philippines (-2%) and Indonesia (-20%). Volume in the semiconductor business picked up significantly due to higher demand and strong orders from one of its customers' advanced nodes chips which benefited AGTC. At the same time, it also experienced higher orders from various contracts from provision of manpower supply and also mechanical rotating equipment services that Malaysia unit has with the Petronas Group of Companies. In turn, core earnings rose at a quicker pace of 36% thanks to margin improvement resulting from continual efforts to elevate efficiency across the Group.

Semiconductor. Generated 85% (1Q20: 83%) of group revenue in 1Q21. Frontken is seeing advancement and deployment of new innovative technologies following global 5G rollout and wide AI adoption to benefit its business. AGTC has signed the SPA to purchase an industrial building located in the Southern Taiwan Science Park at the price of RM53.3m. This will more than double AGTC's physical operating and production space to support the growth and demand from customers.

O&G. Accounted for the remaining 15% of group turnover in 1Q21. It remains vigilant in 2021 in view of the strong Brent crude oil price recovery. Frontken is cautiously optimistic to perform better than FY20 and ready to embrace new opportunities for profitable growth in an evolving market landscape.

Forecast. Unchanged.

Reiterate **BUY** with unchanged TP of **RM3.88**, pegged to 50x of FY22 EPS. We like Frontken for its multi-year growth ahead on the back of: (1) sustainable global semiconductor market outlook, (2) robust fab investment, (3) leading edge technology (7nm and below), and (4) strong balance sheet (net cash of RM323m or 20 sen per share) to supports its Taiwan expansion.

Financial Forecast

All items in (RM m) unless otherwise stated

Income statement

FYE Dec	FY19	FY20	FY21f	FY22f	FY23f
Revenue	339.9	368.3	417.0	494.3	550.2
COGS	(226.2)	(236.2)	(259.7)	(306.3)	(340.2)
EBITDA	113.7	132.1	157.3	188.0	210.1
D&A	(17.8)	(18.4)	(20.3)	(21.4)	(20.2)
EBIT	95.9	113.7	137.0	166.6	189.9
Net Interest Income	0.4	0.6	1.5	1.7	1.9
Associates	0.0	0.0	0.0	0.0	0.0
PBT	96.3	114.3	138.5	168.3	191.8
Tax	(22.0)	(25.9)	(30.5)	(37.0)	(42.2)
Net Profit	74.2	88.3	108.0	131.2	149.6
MI	(5.1)	(6.4)	(7.2)	(8.7)	(9.8)
PATAMI	69.2	82.0	100.8	122.5	139.7
Exceptionals	1.0	0.7	0.0	0.0	0.0
Adj PATAMI	70.1	82.7	100.8	122.5	139.7
Basic Shares (m)	1,580.0	1,580.0	1,580.0	1,580.0	1,580.0
Rep EPS (sen)	4.4	5.2	6.4	7.8	8.8
Adj EPS (sen)	4.4	5.2	6.4	7.8	8.8
Adj FD EPS (sen)	4.4	5.2	6.4	7.8	8.8

Balance sheet

FYE Dec	FY19	FY20	FY21f	FY22f	FY23f
Cash	197.2	290.5	328.4	368.7	442.3
Receivables	86.3	103.1	114.2	135.4	150.7
Inventories	15.1	20.0	21.3	25.2	28.0
Investment	0.0	0.0	0.0	0.0	0.0
PPE	145.5	139.0	148.7	157.3	148.1
Intangibles	33.8	33.8	33.8	33.8	33.8
Other Assets	37.9	31.8	31.8	31.8	31.8
Total Assets	515.7	618.1	678.3	752.1	834.6
Payables	84.0	18.8	21.3	25.2	28.0
ST borrowings	0.8	0.0	0.0	0.0	0.0
LT borrowings	0.0	0.0	0.0	0.0	0.0
Other Liabilities	32.1	132.3	132.3	132.3	132.3
Total liabilities	117.0	151.1	153.6	157.4	160.2
Shareholders' Funds	377.0	440.0	490.4	551.6	621.5
MI	21.8	27.0	34.3	43.0	52.9
Total S/H Equity	398.7	467.0	524.7	594.7	674.4
Ttl Liab&S/H Funds	515.7	618.1	678.3	752.1	834.6

Cashflow Analysis

FYE Dec	FY19	FY20	FY21f	FY22f	FY23f
EBITDA	113.7	132.1	157.3	188.0	210.1
Tax Paid	(19.8)	(22.9)	(30.5)	(37.0)	(42.2)
WC Changes	21.3	11.1	(10.0)	(21.2)	(15.3)
Other	(0.3)	(0.6)	1.5	1.7	1.9
CFO	114.9	119.7	118.3	131.5	154.4
FCF	107.9	112.0	88.3	101.5	143.4
CAPEX(CF)	(7.0)	(7.7)	(30.0)	(30.0)	(11.0)
Acquisitions	(2.6)	(0.8)	0.0	0.0	0.0
Other	(2.4)	(3.4)	0.0	0.0	0.0
CFI	(12.1)	(11.9)	(30.0)	(30.0)	(11.0)
Dividend	(18.9)	(28.3)	(50.4)	(61.2)	(69.9)
Debt changes	(10.7)	(0.8)	0.0	0.0	0.0
Other	(4.2)	(4.8)	0.0	0.0	0.0
CFF	(33.7)	(33.9)	(50.4)	(61.2)	(69.9)
Net Cashflow	69.1	73.9	38.0	40.3	73.6

Quarterly financial summary

FYE Dec	1Q20	2Q20	3Q20	4Q20	1Q21
Revenue	84.9	87.6	94.8	101.0	103.5
COGS	(55.8)	(55.2)	(60.0)	(65.3)	(64.1)
EBITDA	29.1	32.4	34.8	35.8	39.4
D&A	(4.7)	(4.6)	(4.6)	(4.5)	(4.4)
EBIT	24.4	27.8	30.3	31.2	35.0
Net Interest Income	0.3	0.1	0.1	0.1	0.1
Associates	0.0	0.0	0.0	0.0	0.0
PBT	24.7	27.9	30.3	31.3	35.1
Tax	(6.5)	(6.1)	(7.3)	(6.0)	(10.1)
Net Profit	18.2	21.8	23.0	25.3	24.9
MI	(1.2)	(1.5)	(1.7)	(2.0)	(2.0)
PATAMI	17.0	20.3	21.3	23.3	22.9
Exceptionals	(0.7)	0.0	0.5	1.0	(0.7)
Adj PATAMI	16.3	20.3	21.8	24.2	22.2
Basic Shares (m)	1,580.0	1,580.0	1,580.0	1,580.0	1,580.0
Rep EPS (sen)	1.1	1.3	1.4	1.5	1.5
Adj EPS (sen)	1.0	1.3	1.4	1.5	1.4
Adj FD EPS (sen)	1.0	1.3	1.4	1.5	1.4

Valuation Ratios

FYE Dec	FY19	FY20	FY21f	FY22f	FY23f
PER (x)	77.0	65.0	52.8	43.5	38.1
Core PER (x)	75.9	64.4	52.8	43.5	38.1
FD PER (x)	75.9	64.4	52.8	43.5	38.1
DPS (sen)	2.5	4.0	3.2	3.9	4.4
Net DY (%)	0.7	1.2	0.9	1.2	1.3
Book/share (sen)	23.9	27.8	31.0	34.9	39.3
P/Book (x)	14.1	12.1	10.9	9.7	8.6
FCF/share (sen)	6.8	7.1	5.6	6.4	9.1
FCF yield (%)	2.0	2.1	1.7	1.9	2.7
Mkt Cap	5,324.6	5,324.6	5,324.6	5,324.6	5,324.6
Net Cash/Debt	196.3	290.5	328.4	368.7	442.3
EV	5,128.3	5,034.1	4,996.2	4,955.9	4,882.3
EV/EBITDA (x)	45.1	38.1	31.8	26.4	23.2
ROE (%)	18.6	18.8	20.6	22.2	22.5
Current Ratio (x)	3.5	22.0	21.7	21.0	22.2
Quick Ratio (x)	3.3	20.9	20.7	20.0	21.2
Interest Cover (x)	126.8	170.4	N/A	N/A	N/A

Other Ratios

FYE Dec	FY19	FY20	FY21f	FY22f	FY23f
Sales Growth (%)		8.4	13.2	18.5	11.3
EBITDA Growth (%)		16.2	19.1	19.5	11.7
EBIT Growth (%)		18.6	20.5	21.6	14.0
PBT Growth (%)		18.7	21.2	21.5	14.0
Net Profit Growth (%)		19.0	22.3	21.5	14.0
EBITDA Margin (%)	33.4	35.9	37.7	38.0	38.2
EBIT Margin (%)	28.2	30.9	32.9	33.7	34.5
PBT Margin (%)	28.3	31.0	33.2	34.0	34.9
Net Profit Margin (%)	21.8	24.0	25.9	26.6	27.2
Net Debt/Equity (%)	Cash	Cash	Cash	Cash	Cash
CAPEX/Sales (%)	2.1	2.1	7.2	6.1	2.0

Figure #1 **Quarterly results comparison**

FYE Dec (RM m)	1Q20	4Q20	1Q21	QoQ	YoY
Revenue	84.9	101.0	103.5	2.5	22.0
EBITDA	29.1	35.8	39.4	10.2	35.3
EBITDA Margin	34.3	35.4	38.1		
EBIT	24.4	31.2	35.0	12.0	43.5
PBT	24.7	31.3	35.1	12.1	41.8
PAT	18.2	25.3	24.9	(1.4)	36.5
Reported PATMI	17.0	23.3	22.9	(1.6)	34.7
Core PATMI	16.3	24.2	22.2	(8.2)	36.2
Reported EPS (sen)	1.1	1.5	1.5	(1.6)	34.7
Core EPS (sen)	1.0	1.5	1.4	(8.2)	36.2

Bursa, HLIB Research

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BUY	Expected absolute return of +10% or more over the next 12 months.
HOLD	Expected absolute return of -10% to +10% over the next 12 months.
SELL	Expected absolute return of -10% or less over the next 12 months.
UNDER REVIEW	Rating on the stock is temporarily under review which may or may not result to a change from the previous rating.
NOT RATED	Stock is not or no longer within regular coverage.

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