

Company Result

Frontken Corp Berhad

1QFY21: A commendable start

28 April 2021

BUY

Maintained

Share Price	RM 3.37
Target Price	RM 3.86

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
FTSE4Good Index	Yes
ESG Rating	☆
Issued shares (m)	1572.41
Market cap. (RM'm)	5,299.03
52-week price Range(RM)	1.42-3.97
Beta (against KLCI)	1.21
3-m Average Daily Volume	7.2m
3-m Average Daily Value^	24.05m

Share Performance

	1m	3m	12m
Absolute (%)	4.2	-0.5	135.1
Relative (%-pts)	3.9	3.8	100.8

Major Shareholders

	%
DAZZLE CLEAN LTD	20.40
OOI KENG THYE	15.14
AmanahRaya Trustees Bhd	3.48
Estimated Free Float	57.87

Historical Chart



Source: Bloomberg

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Result

- **Frontken Corp posted a record quarter result of 1QFY21 with its revenue of RM103.5m (+21.9% YoY and +2.4% QoQ) mainly attributable to the significant growth of the semiconductor business.**
- **Meanwhile, the Group recorded a lower QoQ PAT of RM24.9m (-1.4% QoQ but +36.1% YoY) mainly due to the provision for surtax on undistributed earnings by Taiwan subsidiary and we understand that if excluding the surtax, the PAT for 1QFY21 will be 9% higher QoQ.**
- **Further enhancement on profit margin.** The Group recorded a better profit margin, 36% operating margin (+4ppts YoY and QoQ) and 34% PBT margin (+5ppts YoY and +3ppts QoQ) mainly due to higher revenue and sales volume.
- **Result broadly within expectations.** Overall, the Group's performance is deemed to be in line with expectations with the PBT accounts for 22% of our/consensus forecasts. We shall see the Group to have stronger performance in the subsequent quarters as first quarter of the year usually lower than the remaining quarters of the year.

Comments/Outlook

- **Expansion to cope with demand growth...** The Group proposed an acquisition of property in Kaohsiung, Taiwan via its subsidiary on 6 April 2021. The acquisition will enable its subsidiary double the capacity to support the rising demand from its key customer as capacity from existing facility is insufficient to support the ever-increasing demand from customers.
- **...in tandem with the significant growth of industry.** The proposed acquisition will allow the Group to position itself to cater and service the next few generations of cutting-edge chips with anticipated strong demand as the global semiconductor industry is set to continue its robust growth well into the next decade in relation to emerging technologies such as autonomous driving, artificial intelligence (AI), 5G, etc.
- **Optimistic outlook for O&G division.** Frontken has experienced higher order from various contracts for provision of manpower supply and also mechanical rotating equipment services with Petronas in O&G division. We optimistic that the O&G division will perform better than FY20 on the back of economic recovery and the higher crude oil price than last FY.
- **Interruption of operations in Singapore dragged the segmental performance.** The Group posted geographical

segmental profit under Singapore operation of RM4.2m in 1QFY21 (-22.2% YoY and -24.2% QoQ). The Singapore segment has been facing shortage of workforce because of the impact of CMCO from 5 March 2021 where the Malaysian employees were unable to commute to the Singapore office.

- **Cash Rich.** Frontken registered a net cash of RM310.5 million YTD, +6.5% growth from RM291.5 million in last quarter. The Group's strong cash flow position forms a solid foundation to its future expansion.

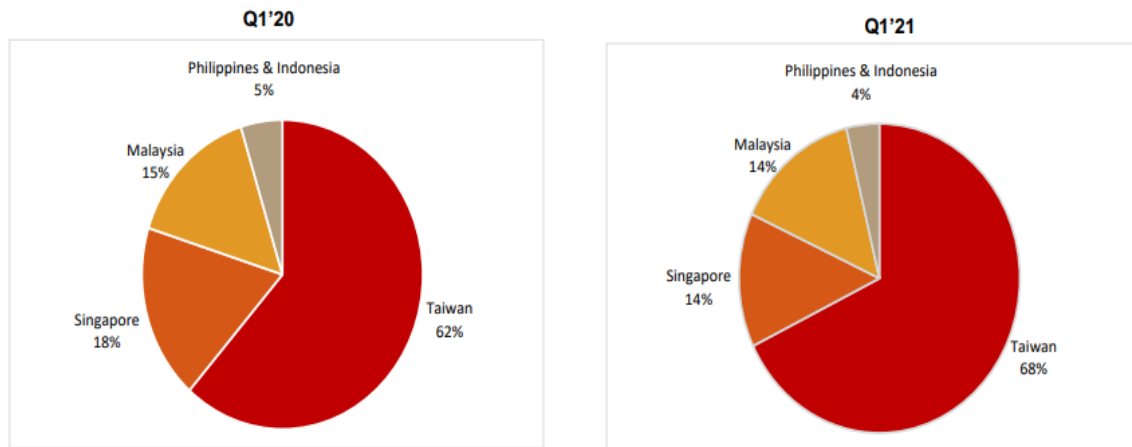
Earnings Outlook/Revision

- **We are keeping our earnings and revenue forecast for FY21 and FY22.**

Valuation & Recommendation

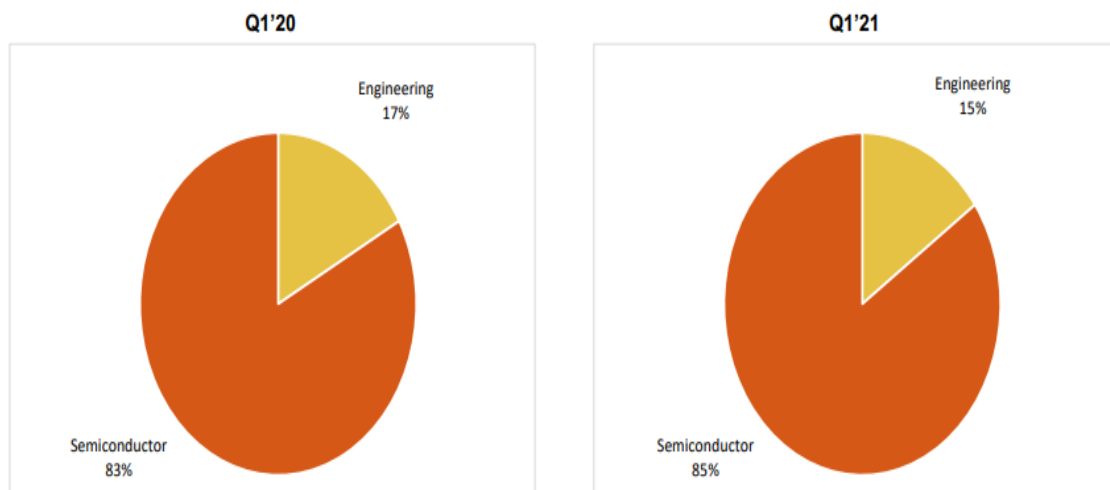
- **Maintain BUY with an unchanged target price of RM3.86 (adjusted after bonus issue).** Our target price is now pegged at PE multiple of 42x F22F which is in line with +1SD of 3-year mean PER. Our fair value of the stock renders 15% upside to the current share price.

REVENUE BY COUNTRY Q1'20 vs Q1'21



Source: Company

REVENUE BY INDUSTRY Q1'20 vs Q1'21



Source: Company, JF Apex

Quarterly Figures

YEAR END DECEMBER	1Q21	1Q20	YoY	4Q20	QoQ
Revenue	103.5	84.9	21.9%	101.0	2.4%
Operating expenses	(66.1)	(58.1)	13.8%	(68.5)	-3.5%
EBITDA	37.4	26.8	39.6%	32.5	15.0%
Depreciation	(4.4)	(4.7)	6.4%	(4.5)	-2.9%
Finance cost	(0.2)	(0.2)	0.0%	(0.1)	-34.2%
Other operating income	2.2	2.9	-24.1%	3.5	36.2%
PBT	35.0	24.8	41.1%	31.3	11.9%
Tax	(10.1)	(6.5)	55.4%	(6.0)	67.5%
PAT	24.9	18.3	36.1%	25.3	-1.4%
Minority interest	2.0	1.2	4.4%	2.0	2.0%
PATAMI	22.9	17.1	33.9%	23.3	-1.7%
Operating margin	36%	32%	4 ppts	32%	4 ppts
PBT margin	34%	29%	5 ppts	31%	3 ppts
Adjusted PATAMI margin	22%	20%	2 ppts	23%	-1 ppts
Tax rate	29%	26%	3ppts	19%	10 ppts
SEGMENT REVENUE					
Singapore	14.5	15.6	-7.1%	15.0	-3.1%
Malaysia	14.9	13.0	14.6%	16.3	-8.6%
Philippines	3.7	3.8	-2.6%	4.5	-17.4%
Indonesia	0.2	0.3	-20.0%	0.9	-76.7%
Taiwan	70.2	52.2	34.5%	65.2	7.7%
SEGMENT PROFIT					
Singapore	4.2	5.4	-22.2%	5.5	-24.2%
Malaysia	2.9	2.1	38.1%	1.8	59.1%
Philippines	0.6	0.5	20.0%	0.9	-32.2%
Indonesia	(0.2)	(0.8)	-75.6%	0.0	-840.7%
Taiwan	27.5	17.2	59.9%	22.9	19.8%

Source: Company, JF Apex

Financial Summary

Year ending 31 December	FY16	FY17	FY18	FY19	FY20	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	368.3	490.8	578.6
Operating profit/EBIT	44.3	61.4	88.0	110.9	122.3	181.6	225.4
PBT	33.3	46.1	75.6	96.2	114.3	160.7	199.3
PAT	27.3	36.4	57.0	74.2	88.3	123.7	153.5
PATAMI	20.0	29.8	52.2	69.1	82.0	116.9	145.0
Growth (%)							
Revenue	-6.7%	13.2%	10.3%	3.9%	8.4%	33.3%	17.9%
Operating profit	80.8%	38.6%	43.3%	26.0%	10.3%	48.5%	24.1%
PBT	108.1%	38.4%	64.0%	27.2%	18.8%	40.7%	24.0%
PAT	187.4%	33.3%	56.6%	30.2%	19.0%	40.1%	24.0%
Net profit	4900.0%	49.0%	75.2%	32.4%	18.6%	42.7%	24.0%
Margin (%)							
Operating profit	16.9%	20.7%	26.9%	32.6%	33.2%	37.0%	39.0%
PBT	12.7%	15.5%	23.1%	28.3%	31.0%	32.7%	34.5%
PAT	10.4%	12.3%	17.4%	21.8%	24.0%	25.2%	26.5%
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%	18.6%	23.7%	25.5%
ROA	4.9%	6.9%	11.5%	13.4%	12.9%	17.3%	17.9%
EPS	1.9	2.8	5.0	6.6	7.8	7.4	9.2
BV/Share	0.28	0.29	0.33	0.38	0.46	0.32	0.37
P/B	12.0	11.6	10.3	8.9	7.3	10.4	9.0
P/E	178.0	119.4	68.2	51.5	43.4	45.7	36.8
Net gearing	Net Cash	Net Cash	Net Cash	Net Cash	Net Cash	Net Cash	Net Cash
Dividend yield	0.00%	0.15%	0.44%	0.74%	1.18%	1.10%	1.36%
Dividend payout	0.0%	17.8%	30.1%	37.9%	51.1%	50.0%	50.0%
DPS (sen)	0.00	0.50	1.49	2.49	4.00	3.70	4.59

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.

*capital gain + dividend yield

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.

ESG RECOMMENDATIONS

☆☆☆☆ : Top 25% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSA Russell
 ☆☆☆ : Top 26-50% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSA Russell
 ☆☆☆ : Top 51-75% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSA Russell
 ☆ : Bottom 25% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSA Russell

Source: Bursa Malaysia and FTSE Russell

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