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Recommendation:	HOLD
Current Price:	RM 3.22
Previous Target Price:	RM 3.32
Target Price:	↔ RM 3.32
Upside/Downside:	3.1%

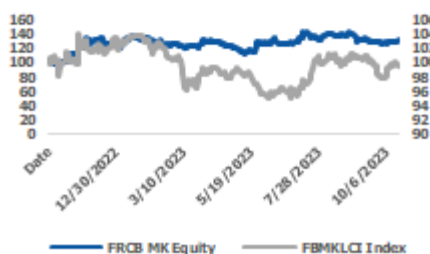
Stock information

Board	MAIN
Sector	Semiconductor
Bursa / Bloomberg Code	0128 / FRCB MK
Syariah Compliant	Yes
FTSE4Good Index	Yes
FTSE ESG Rating	★★★★★
Bloomberg ESG Rating	☆☆★★★
Shares issued (m)	1,571.0
Market Cap (RM' m)	5,058.5
52-Week Price Range (RM)	2.42-3.54
Beta (x)	1.1
Free float (%)	59.7
3M Average Volume (m)	2.6
3M Average Value (RM' m)	8.5

Top 3 Shareholders

	(%)
DAZZLE CLEAN LTD	16.8
OOI KENG THYE	11.8
AmanahRaya Trustees Bhd	4.5

Share Price Performance



	1M	3M	12M
Absolute (%)	0.9	-3.6	29.3
Relative (%)	1.5	-3.5	30.1

Frontken Corporation Berhad

Looking forward to recovery

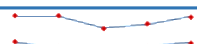
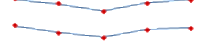

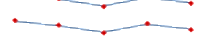





Summary

- **Frontken's 9MFY23 net profit at RM82.2m came below our expectations mainly dragged by lower-than-expected revenue and higher withholding tax.**
- **Looking ahead, we are cautiously optimistic on the recovery that is supported by improvement of industry prospects, margin normalisation and contribution from Plant 2.**
- **We maintain our HOLD recommendation with an unchanged target price of RM3.32 by pegging PE multiple of 30.1x to FY24F EPS of 11 sen.**

Results Review

- **Results review.** 3QFY23 net profit declined 23.0% YoY and -16.2% QoQ to RM26.7m, dragged down by lower revenue and higher withholding tax (rate: 12.5%) paid in relation to the dividend received from Taiwan subsidiary (due to higher dividend received). Revenue for the quarter dropped 0.8% YoY but grew 10.2% QoQ to RM133.5m.
- **Below expectations.** In 9M23, cumulative net profit at RM82.2m makes up to 62.4% and 58.1% of our and consensus forecasted net profit of RM131.8m and RM141.6m respectively. The variance was mainly due to higher-than-expected withholding tax and lower-than-expected revenue on the back of slower recovery in semiconductor demand than our expectation.
- **Operations Highlights.** In 3QFY23, the semiconductor segment revenue was at RM102.2m (-5% YoY, +8% QoQ) contributing to 77% of total revenue. The Engineering segment revenue reported RM31.3m (+16% YoY, +17% QoQ). Geographically, Taiwan revenue was -2.4% YoY, +9.9% QoQ; Malaysia was -2.9% YoY, +7.1% QoQ; and Singapore was +10.7% YoY, +16.4% QoQ.
- **Industry Highlights.** Global semiconductor sales ticked up on MoM basis for the sixth consecutive month, demonstrating a steady recovery of the demand. Customers of Frontken indicated better production volumes in near future, mainly driven by AI and EV technology.
- **Outlook.** The better QoQ performance sequentially is sign of recovery, despite persistent external headwinds. Frontken will revise their pricing in FY24 to existing customers, due to inflationary cost pressure. With TSMC (Taiwan customer) guided an expectation of rebound in sales in Q4, we are confident that Frontken would perform similarly, alongside with the price adjustment and contribution from Plant 2. All in, we cautiously optimistic with the recovery Group's bottomline.
- **Risk.** External headwinds including geopolitical tensions and global monetary policy uncertainty.
- **Valuation.** We cut our earnings forecast by 8.6%, for FY23F but kept our FY24F earnings forecast unchanged, to adjust for the deviation mentioned earlier. Re-iterate our **HOLD** recommendation with an unchanged target price of RM3.32 as reckon the current share price reflects a balanced risk and reward.

Figure 1: Results Comparison

FYE Dec (RM m)	3QFY23	3QFY22	YoY (%)	2QFY23	QoQ (%)	9MFY22	9MFY23	YoY (%)	5 Quarters Trend	Comments
Revenue	133.5	134.6	(0.8)	121.2	10.2	381.9	368.7	(3.5)		Weaker demand from semiconductor customers
EBITDA	48.6	50.1	(3.1)	45.5	6.8	139.7	132.0	(5.5)		
Pre-tax profit	45.5	48.8	(6.9)	44.3	2.6	134.3	124.9	(7.0)		Higher withholding tax from Taiwan's dividend
Net profit	30.0	38.0	(21.2)	35.0	(14.3)	101.9	91.1	(10.6)		
Core net profit	26.7	34.7	(23.0)	31.9	(16.2)	93.4	82.2	(12.0)		
Core EPS (sen)	1.7	2.2	(23.0)	2.0	(16.2)	5.9	5.2	(12.0)		
EBITDA margin (%)	36.4	37.3		37.6		36.6	35.8			
PBT margin (%)	34.1	36.3		36.6		35.2	33.9			
Core PATMI margin (%)	20.0	25.8		26.3		24.5	22.3			

Source: Company, Apex Securities

Financial Highlights
Income Statement

FYE Dec (RM m)	FY20	FY21	FY22	FY23F	FY24F
Revenue	368.3	450.2	517.3	510.4	654.9
EBITDA	122.3	161.9	185.1	178.5	261.9
Depreciation & Amortisation	-18.4	-17.7	-17.6	-23.7	-26.1
EBIT	103.9	144.3	167.5	154.7	235.8
Net Finance Income/(Cost)	-0.7	-0.6	-0.8	-0.9	-0.9
Other Operating Income	11.0	5.8	8.1	3.4	5.0
Pre-tax Profit	114.3	149.5	174.8	157.3	239.9
Tax	-25.9	-35.3	-39.6	-37.7	-55.7
Profit After Tax	88.3	114.2	135.2	119.5	184.2
Minority Interest	6.4	9.7	11.9	6.6	10.1
Net Profit	82.0	104.5	123.3	112.9	174.1
Exceptionals	0.0	0.0	0.0	0.0	0.0
Core Net Profit	82.0	104.5	123.3	112.9	174.1

Key Ratios

FYE Dec (RM m)	FY20	FY21	FY22	FY23F	FY24F
EBITDA margin	33.2%	36.0%	35.8%	35.0%	40.0%
EBIT margin	28.2%	32.0%	32.4%	30.3%	36.0%
PBT margin	31.0%	33.2%	33.8%	30.8%	36.6%
PAT margin	24.0%	25.4%	26.1%	23.4%	28.1%
NP margin	22.3%	23.2%	23.8%	22.1%	26.6%
Core NP margin	22.3%	23.2%	23.8%	22.1%	26.6%
ROE	17.6%	19.5%	21.0%	17.2%	22.9%
ROA	46.7%	40.5%	41.1%	34.3%	49.2%
Net gearing	-64.2%	-58.9%	-58.3%	-57.9%	-60.4%

Valuations

	FY24F
Core EPS (RM)	0.110
P/E multiple (x)	30.1
Fair Value (RM)	3.32

Source: Company, Apex Securities

Balance Sheet

FYE Dec (RM m)	FY20	FY21	FY22	FY23F	FY24F
Cash	312.2	315.4	342.5	381.1	459.0
Receivables	103.1	115.6	124.1	126.6	129.1
Inventories	20.0	19.6	21.3	23.4	25.8
Other current assets	7.6	10.1	17.8	50.4	72.3
Total Current Assets	442.9	460.7	505.6	581.5	686.1
Fixed Assets	121.7	197.8	229.3	255.5	278.0
Intangibles	33.8	33.8	33.8	33.8	33.8
Other non-current assets	19.9	26.4	37.2	39.8	41.8
Total Non-current assets	175.4	257.9	300.2	329.0	353.5
Short-term Debt	2.8	0.0	0.0	0.0	0.0
Payables	18.8	21.5	27.7	30.4	33.5
Other Current Liabilities	116.8	139.8	158.2	174.1	191.5
Total Current Liabilities	138.4	161.3	185.9	204.5	224.9
Long-term Debt	9.5	0.0	0.0	0.0	0.0
Other non-current liabilities	3.3	22.3	32.0	48.0	54.7
Total Non-current Liabilities	12.8	22.3	32.0	48.0	54.7
Shareholder's equity	440.0	500.9	548.5	603.8	682.2
Minority interest	27.0	34.2	39.5	44.2	52.1
Equity	467.0	535.1	587.9	658.0	760.0

Cash Flow

FYE Dec (RM m)	FY20	FY21	FY22	FY23F	FY24F
Pre-tax Profit	114.3	149.5	174.8	157.3	239.9
Depreciation & amortisation	18.4	17.7	17.6	23.7	26.1
Changes in working capital	11.1	3.0	-12.1	-16.7	-28.0
Others	-24.0	-31.4	-37.4	-38.2	-41.4
Operating cash flow	119.7	138.8	142.9	126.1	196.6
Net capex	-9.5	-87.1	-60.2	-26.2	-22.5
Others	-2.4	0.9	1.6	1.5	1.8
Investing cash flow	-11.9	-86.2	-58.6	-24.7	-20.7
Dividends paid	-28.3	-52.9	-64.4	-57.6	-95.8
Others	-5.7	-8.2	13.8	8.0	-9.9
Financing cash flow	-33.9	-61.1	-50.6	-49.6	-105.7
Net cash flow	73.9	-8.5	33.6	51.8	70.3
Forex	6.2	11.1	-8.5	-10.6	7.6
Others	0.0	0.0	0.0	0.0	0.0
Beginning cash	219.7	312.2	314.7	339.9	381.1
Ending cash	312.2	314.7	339.9	381.1	459.0

APEX SECURITIES BERHAD – CONTACT LIST

APEX SECURITIES BHD	DEALING TEAM	RESEARCH TEAM
<p>Head Office: 6th Floor, Menara Apex, Off Jalan Semenyih, Bukit Mewah 43000 Kajang, Selangor Darul Ehsan, Malaysia</p> <p>General Line: (603) 8736 1118</p>	<p>Head Office: Kong Ming Ming (ext 2002) Shirley Chang (ext 2026) Norisam Bojo (ext 2027) Ahmad Mujib (ext 2028)</p>	<p>Mutiara Damansara Office: Kenneth Leong (ext 2093) Lee Cherng Wee (ext 2067) Steven Chong (ext 2068) Jayden Tan (ext 2069)</p>
<p>Mutiara Damansara Office: 5th Floor Menara UAC, 12, Jalan PJU 7/5, Mutiara Damansara, 47800 Petaling Jaya, Selangor Darul Ehsan, Malaysia</p> <p>General Line: (603) 7890 8899</p>	<p>Institutional Dealing Team: Siti Nur Nadhirah (ext 2032)</p> <p>PJ Office: General Line: (603) 7620 1118 Azfar Bin Abdul Aziz (Ext 822)</p>	

RESEARCH RECOMMENDATION FRAMEWORK

STOCK RECOMMENDATIONS

BUY: Total returns* are expected to exceed 10% within the next 12 months.
HOLD: Total returns* are expected to be within +10% to – 10% within the next 12 months.
SELL: Total returns* are expected to be below -10% within the next 12 months.
TRADING BUY: Total returns* are expected to exceed 10% within the next 3 months.
TRADING SELL: Total returns* are expected to be below -10% within the next 3 months.
 *Capital gain + dividend yield

SECTOR RECOMMENDATIONS

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

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