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Recommendation:	BUY
Current Price:	RM 3.74
Previous Target Price:	RM 3.32
Target Price:	↑ RM 4.20
Upside/Downside:	12.3%

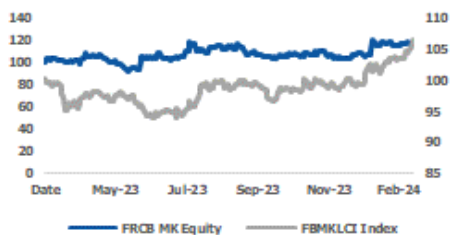
Stock information

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)	1,572.9
Market Cap (RM' m)	5,882.7
52-Week Price Range (RM)	3.82-2.76
Beta (x)	1.1
Free float (%)	57.7
3M Average Volume (m)	5.3
3M Average Value (RM' m)	17.5

Top 3 Shareholders

	(%)
DAZZLE CLEAN LTD	16.8
EPF BOARD	10.3
OOI KENG THYE	5.3

Share Price Performance



	1M	3M	12M
Absolute (%)	5.9	13.3	23.4
Relative (%)	2.2	6.8	16.9

Frontken Corporation Berhad

Looking forward to stronger FY24F










Summary

- **Frontken's FY23 net profit at RM112m is in line with our expectations.**
- **Looking ahead, we hold a positive outlook on earnings growth, supported by expectations of volume and margin expansion along with strong orders from customers and ramping up of Plant 2 production.**
- **We upgrade Frontken to BUY with higher target price of RM4.20 by pegging PE multiple of 33x to FY25F EPS of 12.7 sen.**

Results Review

- **Results review.** 4QFY23 net profit was flat at -0.5% yoy but rose +11.1% qoq to RM29.7m. Revenue was lower in term of qoq (-1.5%) and yoy (-2.8%) mainly dragged by slower than expected recovery from Singapore segment. Despite weaker revenue, the improved qoq bottomline was mainly lifted by higher interest income and reversal of impairment losses.
- **In line with our expectations, albeit slightly lower than the street's estimates.** For FY23, the cumulative net profit of RM112m represents 101% and 93% of our forecasted net profit of RM111m and the consensus forecast of RM120.5m, respectively.
- **Operations Highlights.** In 4QFY23, semiconductor segment revenue was at RM101.7m (-6% yoy, +1% qoq) contributing to 77% of total revenue. Engineering segment revenue reported RM29.8m (+11% yoy, -5% qoq) mainly due to slower than expected recover from Singapore segment. Geographically, Taiwan revenue was +1.5% yoy, -0.5% qoq; Malaysia was -14% yoy, -4.5% qoq; and Singapore was +7.9% yoy, -2.5% qoq.
- **Industry Highlights.** Global semiconductor sales increased on a monthly basis for the tenth consecutive month, indicating a steady recovery in demand. Upstream companies reported improved performance, with guidance suggesting better production volumes in near future. Growth is primarily driven by strong demand from the fields of artificial intelligence and data centers.
- **Outlook.** Plant 2 experienced increased activity due to new orders and higher volume for both high-value and low-value consumable tools. Currently, Plant 2 is operating at approximately 30% capacity of Plant 1, and we anticipate the former to achieved full production capacity by 2H4. With robust volume flows and a revised upward price for Singapore customers, we are optimistic over the strong growth prospects for the Group's performance in FY24.
- **Risk.** Slower than expected recover in consumer electronic demand. External headwinds including geopolitical tensions and global monetary policy uncertainty.
- **Valuation.** We are keeping our FY24F earnings forecast unchanged at RM177.2m and introducing FY25F forecast at RM201m with a 14% growth supported by the anticipation of ramp up in Plant 2 utilisation and stronger volume inflow from customers. We upgraded our recommendation to **BUY** from HOLD, with a higher target price of RM 4.20 as we rollover our valuation to FY25F earnings.

Figure 1: Results Comparison

FYE Dec (RM m)	4QFY23	4QFY22	YoY (%)	3QFY23	QoQ (%)	FY22	FY23	YoY (%)	5 Quarters Trend	Comments
Revenue	131.5	135.3	(2.8)	133.5	(1.5)	517.2	500.1	(3.3)		Slower than expected recover from Singapore segment
EBITDA	46.6	45.3	2.8	48.6	(4.1)	185.1	178.6	(3.5)		
Pre-tax profit	42.2	40.5	4.1	45.5	(7.3)	174.8	167.1	(4.4)		higher interest income and reversal of impairment losses.
Net profit	33.3	33.3	(0.1)	30.0	10.9	135.2	124.3	(8.0)		
Core net profit	29.7	29.8	(0.5)	26.7	11.1	123.3	112.0	(9.2)		
Core EPS (sen)	1.9	1.9	(0.5)	1.7	11.1	7.8	7.1	(9.2)		
EBITDA margin (%)	35.4	33.5		36.4		35.8	35.7			
PBT margin (%)	32.1	29.9		34.1		33.8	33.4			
Core PATMI margin (%)	22.6	22.1		20.0		23.8	22.4			

Source: Company, Apex Securities

Financial Highlights
Income Statement

FYE Dec (RM m)	FY21	FY22	FY23	FY24F	FY25F
Revenue	450.2	517.3	500.1	654.3	816.6
EBITDA	161.9	185.1	178.6	261.7	302.1
Depreciation & Amortisation	-17.7	-17.6	-20.2	-216	-26.2
EBIT	144.3	167.5	158.3	240.1	276.0
Net Finance Income/ (Cost)	-0.6	-0.8	-1.1	-0.9	-0.9
Other Operating Income	5.8	8.1	9.8	5.0	5.0
Pre-tax Profit	149.5	174.8	167.1	244.1	280.0
Tax	-35.3	-39.6	-42.7	-56.6	-67.2
Profit After Tax	114.2	135.2	124.3	187.5	212.8
Minority Interest	9.7	11.9	12.4	10.3	11.7
Net Profit	104.5	123.3	112.0	177.2	201.1
Exceptionals	0.0	0.0	0.0	0.0	0.0
Core Net Profit	104.5	123.3	112.0	177.2	201.1

Balance Sheet

FYE Dec (RM m)	FY21	FY22	FY23	FY24F	FY25F
Cash	249.6	317.4	402.0	494.6	583.8
Receivables	115.6	124.1	125.6	163.6	204.1
Inventories	19.6	21.3	22.6	30.1	39.2
Other current assets	75.9	42.9	30.8	39.2	47.6
Total Current Assets	460.7	505.6	581.1	727.5	874.8
Fixed Assets	197.8	229.3	216.1	216.4	261.6
Intangibles	33.7	33.7	33.7	33.7	33.7
Other non-current assets	26.4	37.2	31.2	40.3	50.3
Total Non-current assets	257.9	300.1	281.0	290.4	345.6
Short-term Debt	0.0	19.7	6.4	6.5	8.2
Payables	21.5	27.7	24.1	30.8	36.7
Other Current Liabilities	139.8	138.5	151.3	191.8	234.6
Total Current Liabilities	161.3	185.9	181.8	229.1	279.5
Long-term Debt	0.0	0.0	0.0	0.0	0.0
Other non-current liabilities	22.3	32.0	24.5	34.9	44.6
Total Non-current Liabilities	22.3	32.0	24.5	34.9	44.6
Shareholder's equity	500.9	548.5	604.4	701.9	822.6
Minority interest	34.2	39.5	40.0	40.6	41.0
Equity	535.1	587.9	644.4	742.5	863.6

Key Ratios

FYE Dec (RM m)	FY21	FY22	FY23	FY24F	FY25F
EBITDA margin	36.0%	35.8%	35.7%	40.0%	37.0%
EBIT margin	32.0%	32.4%	31.7%	36.7%	33.8%
PBT margin	33.2%	33.8%	33.4%	37.3%	34.3%
PAT margin	25.4%	26.1%	24.9%	28.7%	26.1%
NP margin	23.2%	23.8%	22.4%	27.1%	24.6%
Core NP margin	23.2%	23.8%	22.4%	27.1%	24.6%
ROE	19.5%	21.0%	17.4%	23.9%	23.3%
ROA	40.5%	41.1%	39.8%	61.0%	58.2%
Net gearing	-46.7%	-50.6%	-61.4%	-65.7%	-66.7%

Cash Flow

FYE Dec (RM m)	FY21	FY22	FY23	FY24F	FY25F
Pre-tax Profit	149.5	174.8	167.1	244.1	280.0
Depreciation & amortisation	17.7	17.6	21.6	21.6	26.2
Changes in working capital	2.6	-16.3	11.2	-9.9	-13.3
Others	-30.8	-32.8	-37.1	-40.6	-44.6
Operating cash flow	139.0	143.3	162.8	215.3	248.3
Net capex	-82.8	-52.6	-34.8	-21.4	19.1
Others	-4.2	-7.3	-6.3	-6.0	-6.5
Investing cash flow	-87.1	-59.9	-41.1	-27.3	12.6
Dividends paid	-52.9	-64.4	-56.0	-79.7	-80.5
Others	-8.2	13.8	34.1	-13.3	-89.0
Financing cash flow	-61.1	-50.6	-21.8	-93.1	-169.4
Net cash flow	-8.5	33.5	99.9	94.9	91.5
Forex	11.1	-8.5	-7.0	2.3	2.1
Others	0.0	0.0	0.0	0.0	0.0
Beginning cash	299.8	302.4	327.4	420.3	517.5
Ending cash	302.4	327.4	420.3	517.5	611.1
Fixed deposit cannot classify as cash equivalent	13.0	15.1	18.3	22.9	27.2

Valuations

	FY25F
Core EPS (RM)	0.127
P/E multiple (x)	33.0
Fair Value (RM)	4.20

Source: Company, Apex Securities

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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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