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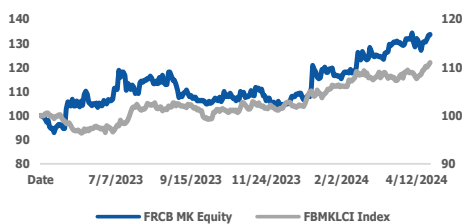
<b>Recommendation:</b>	<b>BUY</b>
<b>Current Price:</b>	<b>RM 3.89</b>
<b>Previous Target Price:</b>	<b>RM 4.20</b>
<b>Target Price:</b>	<b>RM 4.33</b>
<b>Upside/Downside:</b>	<b>11.3%</b>

**Stock information**

Board	MAIN
Sector	Semiconductors
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)	6,118.6
52-Week Price Range (RM)	4.02-2.76
Beta (x)	1.0
Free float (%)	69.7
3M Average Volume (m)	4.6
3M Average Value (RM' m)	17.0

<b>Top 3 Shareholders</b>	<b>(%)</b>
DAZZLE CLEAN LTD	16.8
Employees Provident Fund Board	9.4
AIA Bhd	3.8

**Share Price Performance**



	1M	3M	12M
Absolute (%)	1.3	12.4	30.1
Relative (%)	-1.5	7.9	17.4

## Frontken Corporation Berhad



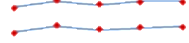






### Promising outset and expecting record earnings

#### Summary

- **Frontken's 3M24 net profit at RM30.1m came in line with our expectations.**
- **Looking ahead, we maintain a positive outlook on earnings growth, supported by expectations of volume and margin expansion alongside strong orders from customers and ramping up of production in Plant 2.**
- **We maintained BUY recommendation with higher target price of RM4.33 by pegging PE multiple of 34.0x to FY25F EPS of 12.7 sen.**

#### Results Review

- **Results review.** 1QFY24 net profit rose +30.1% yoy and +1.2% qoq respectively to RM30.1m. That said, this quarter experienced a dip in profit margin, primarily attributable to a withholding tax of RM3.4m. Excluding the aforementioned impact, net profit would have been 13% higher qoq, with a margin improvement of 1.2 ppts. Moreover, the Group achieved a record-high revenue in the quarter, rising by 23.3% yoy and 6.9% qoq, driven mainly by increased demand from semiconductor customers and the ramping up of Plant 2.
- **In line with expectations.** Frontken's 1Q24 profit represents 17% of our and the street's forecasted full-year profit of RM177.2m and RM 172.3m, respectively. The results align with expectations, considering Q1 typically a seasonally weaker period.
- **Operations Highlights.** Frontken's Q1 results outperformed prior quarter, despite seasonally slower earnings during the period, lifted by contribution from Plant 2. We gathered O&G sector exhibited resilience, holding a more optimistic outlook. While challenges persist in Singapore segment, we noticed improvement in performance from gradual demand recovery and pricing adjustment. Meanwhile, we were guided that FY24 CAPEX will range between RM8-10m.
- **Industry Highlights.** Global Semiconductor sales rose +16.3% yoy but fell -3.1% mom in February 2024. Industry's recovery faced multiple headwinds such as geological tensions and interest rates pressure. Still, we maintain a positive view on longer-term demand, driven by robust growth in AI and servers segment.
- **Outlook.** We are confident on the Group's strategic position in high-demand leading-edge nodes and the ongoing ramp-up of Plant 2 (volumes jumped 4x in April 2024 compared to earlier in the year). Additionally, we anticipate margin expansion, driven by an increased volume of high-value tools from customers. The resilient demand in the O&G segment and the ongoing recovery in Singapore will further support growth trajectory.
- **Valuation.** Kept our FY24F and FY25F earnings forecast and reiterate **BUY** with higher TP of RM4.33 following the revision of PER assigned from the rise historical mean average (from 33x to 34x).
- **Risk.** Slower than expected recover in consumer electronic demand. External headwinds including geopolitical tensions and global monetary policy uncertainty.

FYE Dec (RM m)	1QFY2 4	1QFY2 3	YoY (%)	4QFY2 3	QoQ (%)	3MFY2 3	3MFY2 4	YoY (%)	5 Quarters Trend	Comments
Revenue	140.5	114.0	23.3	131.5	6.9	114.0	140.5	23.3		Record revenue thanks to increased demand and ramping up
Operating income	49.8	37.8	31.5	46.6	6.8	37.8	49.8	31.5		
Pre-tax profit	50.3	35.1	43.1	42.2	19.2	35.1	50.3	43.1		Higher ETR due to a withholding tax of RM3.4m imposed on the dividend received from Taiwan subsidiary
Net profit	33.4	26.1	27.9	33.3	0.5	26.1	33.4	27.9		
Core net profit	30.1	23.6	27.4	29.7	1.2	23.6	30.1	27.4		
Core EPS (sen)	1.9	1.5	27.4	1.9	1.2	1.5	1.9	27.4		
Operating margin (%)	35.4	33.2		35.4		33.2	35.4			
PBT margin (%)	35.8	30.8		32.1		30.8	35.8			
Core PATMI margin (%)	21.4	20.7		22.6		20.7	21.4			

**Financial Highlights**
**Income Statement**

FYE Dec (RM m)	FY21	FY22	FY23	FY24F	FY25F
<b>Revenue</b>	<b>450.2</b>	<b>517.3</b>	<b>500.1</b>	<b>654.3</b>	<b>816.6</b>
<b>EBITDA</b>	<b>161.9</b>	<b>185.1</b>	<b>178.6</b>	<b>261.7</b>	<b>302.1</b>
Depreciation & Amortisation	-17.7	-17.6	-20.2	-21.6	-26.2
<b>EBIT</b>	<b>144.3</b>	<b>167.5</b>	<b>158.3</b>	<b>240.1</b>	<b>276.0</b>
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
<b>Pre-tax Profit</b>	<b>149.5</b>	<b>174.8</b>	<b>167.1</b>	<b>244.1</b>	<b>280.0</b>
Tax	-35.3	-39.6	-42.7	-56.6	-67.2
<b>Profit After Tax</b>	<b>114.2</b>	<b>135.2</b>	<b>124.3</b>	<b>187.5</b>	<b>212.8</b>
Minority Interest	9.7	11.9	12.4	10.3	11.7
<b>Net Profit</b>	<b>104.5</b>	<b>123.3</b>	<b>112.0</b>	<b>177.2</b>	<b>201.1</b>
Exceptionals	0.0	0.0	0.0	0.0	0.0
<b>Core Net Profit</b>	<b>104.5</b>	<b>123.3</b>	<b>112.0</b>	<b>177.2</b>	<b>201.1</b>

**Key Ratios**

FYE Dec (RM m)	FY21	FY22	FY23	FY24F	FY25F
EBITDA margin	36%	36%	36%	40%	37%
EBIT margin	32%	32%	32%	37%	34%
PBT margin	33%	34%	33%	37%	34%
PAT margin	25%	26%	25%	29%	26%
NP margin	23%	24%	22%	27%	25%
Core NP margin	23%	24%	22%	27%	25%
ROE	20%	21%	17%	24%	23%
ROA	4%	4%	40%	6%	58%
Net gearing	-47%	-51%	-61%	-66%	-67%

Valuations	FY25F
Core EPS (RM)	0.127
P/E multiple (x)	34.0
<b>Fair Value (RM)</b>	<b>4.33</b>

Source: Company, Apex Securities

**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
<b>Total Current Assets</b>	<b>460.7</b>	<b>505.6</b>	<b>581.1</b>	<b>727.5</b>	<b>874.8</b>
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
<b>Total Non-current assets</b>	<b>257.9</b>	<b>300.1</b>	<b>281.0</b>	<b>290.4</b>	<b>345.6</b>
Short-term Debt	0.0	19.7	6.4	6.5	8.2
Payables	215	27.7	24.1	30.8	36.7
Other Current Liabilities	139.8	138.5	151.3	191.8	234.6
<b>Total Current Liabilities</b>	<b>161.3</b>	<b>185.9</b>	<b>181.8</b>	<b>229.1</b>	<b>279.5</b>
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
<b>Total Non-current Liabilities</b>	<b>22.3</b>	<b>32.0</b>	<b>24.5</b>	<b>34.9</b>	<b>44.6</b>
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
<b>Equity</b>	<b>535.1</b>	<b>587.9</b>	<b>644.4</b>	<b>742.5</b>	<b>863.6</b>

**Cash Flow**

FYE Dec (RM m)	FY21	FY22	FY23	FY24F	FY25F
<b>Pre-tax Profit</b>	<b>149.5</b>	<b>174.8</b>	<b>167.1</b>	<b>244.1</b>	<b>280.0</b>
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
<b>Operating cash flow</b>	<b>139.0</b>	<b>143.3</b>	<b>162.8</b>	<b>215.3</b>	<b>248.3</b>
Net capex	-82.8	-52.6	-34.8	-21.4	19.1
Others	-4.2	-7.3	-6.3	-6.0	-6.5
<b>Investing cash flow</b>	<b>-87.1</b>	<b>-59.9</b>	<b>-41.1</b>	<b>-27.3</b>	<b>12.6</b>
Dividends paid	-52.9	-64.4	-56.0	-79.7	-80.5
Others	-8.2	13.8	34.1	-13.3	-89.0
<b>Financing cash flow</b>	<b>-61.1</b>	<b>-50.6</b>	<b>-21.8</b>	<b>-93.1</b>	<b>-169.4</b>
<b>Net cash flow</b>	<b>-8.5</b>	<b>33.5</b>	<b>99.9</b>	<b>94.9</b>	<b>91.5</b>
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
<b>Ending cash</b>	<b>302.4</b>	<b>327.4</b>	<b>420.3</b>	<b>517.5</b>	<b>611.1</b>
Fixed deposit cannot classify as cash equivalent	13.0	15.1	18.3	22.9	27.2

**APEX SECURITIES BERHAD – CONTACT LIST**

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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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