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Recommendation: **HOLD**

Current Price: **RM 4.15**

Previous Target Price: **RM 4.33**

Target Price: ↔ **RM 4.33**

Upside/Downside: **4.3%**

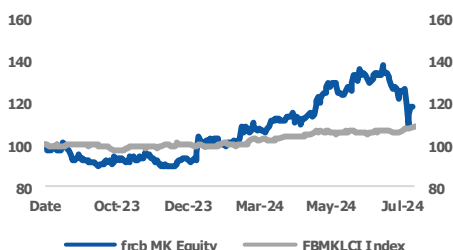
Stock information

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)	1,582.1
Market Cap (RM' m)	6,565.9
52-Week Price Range (RM)	3.06-4.78
Beta (x)	0.9
Free float (%)	68.8
3M Average Volume (m)	4.3
3M Average Value (RM' m)	18.5

Top 3 Shareholders (%)

DAZZLE CLEAN LTD	16.1
Employees Provident Fund Board	11.1
AIA Bhd	3.8

Share Price Performance



	1M	3M	12M
Absolute (%)	-9.6	-3.3	20.3
Relative (%)	-9.2	-3.7	8.7

Frontken Corporation Berhad

Impacted by O&G business










Summary

- **Frontken's 1HFY24 net profit at RM63.4m missed our expectations, primarily due to sluggish results in Oil & Gas (O&G) segment.**
- **Looking ahead, we hold a positive earnings growth outlook, supported by expectations of volume and margin expansion with stronger orders from customers and Plant 2 production ramp up.**
- **We downgraded our recommendation to HOLD with unchanged target price of RM4.33 by pegging PE multiple of 35.0x to FY25F EPS of 12.5 sen.**

Results Review

- **Results review.** 2QFY24 core net profit increased 4.4% yoy and 10.9% qoq to RM33.3m, driven by sustained higher sales from semiconductor customers in Taiwan. Revenue for the quarter grew 6% yoy. An interim dividend of 1.7 sen per share for the quarter was declared.
- **Results missed expectations.** 1HFY24 core net profit accounts to 36% of our full-year forecast of RM177m and 38% of the street's estimate of RM167m. The weaker-than-expected performance is primarily due to sluggish contribution from the Oil & Gas (O&G) segment.
- **Operations Highlights.** Taiwan semiconductor business remained solid, driven by increased AI demand. However, we observed a slight reduction in Taiwan's operating margin, which fell -2% qoq, due to increased labor costs associated with a larger workforce. The O&G business was impacted by lower sales, slumping 33% qoq, due to delays in budget approvals from customers and the partial disruption at the Kulim plant. Restoration process at the Kulim plant is ongoing and is expected to return to full operational capacity by mid-September 2024.
- **Industry Highlights.** Global semiconductor sales in 2Q24 increased 18.2% yoy and 6.5% qoq, primarily driven by strong demand for AI-related chips.
- **Outlook.** Moving into 2H24, we expect better performance, driven by seasonality and ramp-up of productivity from Plant 2. Frontken is well-positioned to benefit from the anticipated global recovery in the E&E sector in 2025 and sustained demand for AI chips. Additionally, key Taiwanese clients are expected to begin ramping up production of advanced 2nm chips in 2Q2025, which bodes well for Frontken's topline and margins following the more complexity in processes involved.
- **Valuation.** Revised our FY24F earnings forecasts downward by -13% to account for a lower margin in O&G segment as well the Taiwan subsidiary. We introduced FY26F core net profit at RM206.2m, with low single-digit growth as capacity utilisation nears peak following the stronger growth expected to record in FY25F. Consequently, we have downgraded our rating to **HOLD**, with an unchanged target price of RM4.33 by pegging PE multiple of 35.0x to FY25F EPS of 12.5 sen.
- **Risk.** Slower than expected recovery in consumer electronic demand. External headwinds including geopolitical tensions and global monetary policy uncertainty.

Figure 1: Results Comparison

FYE Dec (RM m)	2QFY24	2QFY23	YoY (%)	1QFY24	QoQ (%)	6MFY23	6MFY24	YoY (%)	5 Quarters Trend	Comments
Revenue	134.9	121.2	11.4	140.5	(4.0)	235.1	275.4	17.1		Lower qoq affected by O&G due to inability to bill the completed jobs from the fire accident at Kulum facility
Operating income	48.3	45.5	6.0	49.8	(3.0)	83.4	98.0	17.6		
Pre-tax profit	46.4	44.3	4.7	50.3	(7.7)	79.4	96.7	21.7		
Net profit	36.5	35.0	4.3	33.4	9.1	61.1	69.9	14.4		
Core net profit	33.3	31.9	4.4	30.1	10.9	55.5	63.4	14.2		
Core EPS (sen)	2.1	2.0	4.4	1.9	10.9	3.5	4.0	14.2		Lower qoq ETR due to a preceding quarter of withholding tax (RM3.4m)
Operating margin (%)	35.8	37.6		35.4		35.5	35.6			
PBT margin (%)	34.4	36.6		35.8		33.8	35.1			
Core PATMI margin (%)	24.7	26.3		21.4		23.6	23.0			

Source: Company, Apex Securities

Financial Highlights
Income Statement

FYE Dec (RM m)	FY22	FY23	FY24F	FY25F	FY26F
Revenue	517.3	500.1	654.3	800.9	838.4
EBITDA	185.1	178.6	229.0	296.3	310.2
Depreciation & Amortisation	-17.6	-20.2	-21.6	-25.7	-27.2
EBIT	167.5	158.3	207.4	270.7	283.0
Net Finance Income/ (Cost)	-0.8	-1.1	-0.9	-0.9	-0.9
Other Operating Income	8.1	9.8	5.0	5.0	5.0
Pre-tax Profit	174.8	167.1	211.4	274.7	287.0
Tax	-39.6	-42.7	-49.1	-65.9	-68.9
Profit After Tax	135.2	124.3	162.4	208.8	218.2
Minority Interest	11.9	12.4	8.9	11.5	12.0
Net Profit	123.3	112.0	153.5	197.3	206.2
Exceptionals	0.0	0.0	0.0	0.0	0.0
Core Net Profit	123.3	112.0	153.5	197.3	206.2

Key Ratios

FYE Dec (RM m)	FY22	FY23	FY24F	FY25F	FY26F
EBITDA margin	36%	36%	35%	37%	37%
EBIT margin	32%	32%	32%	34%	34%
PBT margin	34%	33%	32%	34%	34%
PAT margin	26%	25%	25%	26%	26%
NP margin	24%	22%	23%	25%	25%
Core NP margin	24%	22%	23%	25%	25%
ROE	21%	17%	21%	23%	21%
ROA	41%	40%	53%	58%	53%
Net gearing	Net Cash	Net Cash	Net Cash	Net Cash	Net Cash

Valuations

	FY25F
Core EPS (RM)	0.125
P/E multiple (x)	35
Fair Value (RM)	4.33

Source: Company, Apex Securities

Balance Sheet

FYE Dec (RM m)	FY22	FY23	FY24F	FY25F	FY26F
Cash	317.4	402.0	473.5	555.0	630.8
Receivables	124.1	125.6	163.6	200.2	209.6
Inventories	21.3	22.6	30.1	38.4	40.2
Other current assets	42.9	30.8	38.3	45.9	50.1
Total Current Assets	505.6	581.1	705.5	839.6	930.7
Fixed Assets	229.3	216.1	216.4	256.6	272.4
Intangibles	33.7	33.7	33.7	33.7	33.7
Other non-current assets	37.2	31.2	40.3	49.3	84.9
Total Non-current assets	300.1	281.0	290.4	339.6	391.0
Short-term Debt	19.7	6.4	6.5	8.0	16.8
Payables	27.7	24.1	30.8	36.0	37.7
Other Current Liabilities	138.5	151.3	191.8	230.1	246.3
Total Current Liabilities	185.9	181.8	229.1	274.1	300.8
Long-term Debt	0.0	0.0	0.0	0.0	0.0
Other non-current liabilities	32.0	24.5	37.3	56.9	49.0
Total Non-current Liabilities	32.0	24.5	37.3	56.9	49.0
Shareholder's equity	548.5	604.4	688.8	807.2	930.9
Minority interest	39.5	40.0	40.6	41.0	41.0
Equity	587.9	644.4	729.4	848.2	971.9

Cash Flow

FYE Dec (RM m)	FY22	FY23	FY24F	FY25F	FY26F
Pre-tax Profit	174.8	167.1	211.4	274.7	287.0
Depreciation & amortisation	17.6	21.6	21.6	25.7	27.2
Changes in working capital	-16.3	11.2	-9.9	-12.6	3.5
Others	-32.8	-37.1	-40.6	-44.6	-48.9
Operating cash flow	143.3	162.8	182.5	243.2	268.8
Net capex	-52.6	-34.8	-21.4	14.6	-11.4
Others	-7.3	-6.3	-6.0	-6.5	-6.3
Investing cash flow	-59.9	-41.1	-27.3	8.1	-17.7
Dividends paid	-64.4	-56.0	-69.1	-78.9	-82.5
Others	13.8	34.1	-13.3	-89.0	-91.8
Financing cash flow	-50.6	-21.8	-82.4	-167.9	-174.3
Net cash flow	33.5	99.9	72.8	83.4	76.8
Forex	-8.5	-7.0	2.3	2.1	2.1
Others	0.0	0.0	0.0	0.0	0.0
Beginning cash	302.4	327.4	420.3	495.4	580.9
Ending cash	327.4	420.3	495.4	580.9	659.9
Fixed deposit cannot classify as cash equivalent	15.1	18.3	21.9	25.9	29.1

APEX SECURITIES BERHAD – CONTACT LIST

APEX SECURITIES BHD	DEALING TEAM	RESEARCH TEAM
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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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