

**Jayden Tan**

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<b>Recommendation:</b>	<b>BUY</b>
<b>Current Price:</b>	<b>RM 3.83</b>
<b>Previous Target Price:</b>	<b>RM 4.33</b>
<b>Target Price:</b>	↔ <b>RM 4.33</b>
<b>Upside/Downside:</b>	<b>13.1%</b>

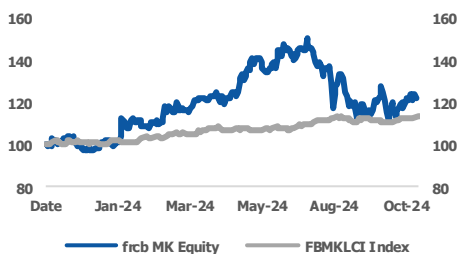
**Stock information**

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)	1,582.1
Market Cap (RM' m)	6,059.6
52-Week Price Range (RM)	3.06-4.78
Beta (x)	0.9
Free float (%)	79.8
3M Average Volume (m)	4.1
3M Average Value (RM' m)	15.4

**Top 3 Shareholders**

	(%)
DAZZLE CLEAN LTD	16.1
Employees Provident Fund Board	10.9
AIA Bhd	3.8

**Share Price Performance**



	1M	3M	12M
Absolute (%)	4.4	-11.1	20.4
Relative (%)	6.5	-11.3	7.3

## Frontken Corporation Berhad

### Positioning stronger growth into FY25F

#### Summary

- **Frontken's 9MFY24 core net profit at RM98.7m came below our expectations, accounting to only 64% of our full-year forecast of RM153m and 66% of consensus expectations of RM151m.**
- **We hold a positive outlook on earnings growth for Frontken, supported by anticipation of volume and margin expansion with strong orders from customers and the ramping up of production in Plant 2.**
- **Upgraded to BUY recommendation with unchanged target price of RM4.33 by pegging PE multiple of 35x to FY25F EPS of 12.5 sen as recent share price weakness offers a decent entry level in anticipation of better FY25.**










#### Results Review

- **Results review.** 3QFY24 core net profit reached a record high, rising 32.1% yoy and 6% qoq to RM35.3m, primarily driven by sustained higher sales from semiconductor customers in Taiwan. Revenue for the quarter also hit a record, increasing 8.1% yoy and 7% qoq.
- **Below expectations.** Frontken's 9MFY24 core net profit at RM98.7m accounts for 64% of our full-year forecast of RM153m and 66% of consensus estimate of RM151m. This weaker-than-expected performance is mainly attributed to a slower-than-anticipated recovery in the O&G segment and foreign exchange impact, which weighed onto PATAMI by c.RM3.3m.
- **Operations Highlights.** Taiwan semiconductor business remained strong, with its largest customer experiencing increased production driven by rising AI demand and improvements in smartphone chip performance. However, operating margin in Taiwan declined slightly by c.1% qoq, primarily due to increased labour and electricity costs. The O&G segment showed qoq improvement but was lower yoy, impacted by disruption at the Kulim plant and delays in customer budget approvals. Notably, the Kulim plant resumed full operational capacity at the end of October.
- **Industry Highlights.** Global semiconductor sales in August 2024 rose by 20.6% yoy and 3.5% mom, driven by sustained demand for AI-related chips alongside a recovery in memory and logic chip segments.
- **Outlook.** Entering the final quarter of FY24, we anticipate growth to be driven by the ongoing ramp-up of volumes from Plant 2. Looking ahead to FY25, stronger growth is expected from Taiwan as volume production for the latest node chips is set to begin in 2Q25. Additionally, capacity expansion by the largest customer in advanced packaging could translate into more advanced tools projects. Margins may improve next year due to higher Plant 2 utilisation and planned customer price adjustments to offset elevated utility costs in FY25.
- **Valuation.** We revised our FY24 earnings forecast downward by 9.3% to RM139.2m following weaker-than-expected results that came in below expectations. This adjustment reflects a moderated sales outlook for the O&G segment, slightly compressed margins for the Taiwan subsidiary due to higher electricity costs, and an increased forex impact. However, we are keeping our FY25

and FY26 forecasts unchanged. Given the recent share price decline amid broad market weakness, we are upgrading our recommendation to **BUY** from HOLD, with an unchanged target price of RM4.34. We believe current share price weakness may present an opportunity to accumulate Frontken's shares in anticipation of improved market sentiment and stronger FY25 results.

- **Risk.** Slower than expected recover in consumer electronic demand. External headwinds including geopolitical tensions and global monetary policy uncertainty.

**Figure 1: Results Comparison**

FYE Dec (RM m)	3QFY24	3QFY23	YoY (%)	2QFY24	QoQ (%)	9MFY23	9MFY24	YoY (%)	5 Quarters Trend	Comments
Revenue	144.3	133.5	8.1	134.9	7.0	368.7	419.7	13.9		Record high performance from the sustained demand from semiconductor segment
Operating income	50.5	48.6	4.0	48.3	4.7	132.0	148.6	12.6		
Pre-tax profit	48.7	45.5	7.1	46.4	4.9	124.9	145.3	16.4		
Net profit	38.9	30.0	29.7	36.5	6.6	91.1	108.8	19.4		
Core net profit	35.3	26.7	32.1	33.3	6.0	82.2	98.7	20.0		
Core EPS (sen)	2.2	1.7	32.1	2.1	6.0	5.2	6.2	20.0		
Operating margin (%)	35.0	36.4		35.8		35.8	35.4			Margin affected by higher electricity costs
PBT margin (%)	33.7	34.1		34.4		33.9	34.6			
Core PATMI margin (%)	24.5	20.0		24.7		22.3	23.5			

Source: Company, Apex Securities

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

FYE Dec (RM m)	FY22	FY23	FY24F	FY25F	FY26F
<b>Revenue</b>	<b>517.3</b>	<b>500.1</b>	<b>592.5</b>	<b>800.9</b>	<b>838.4</b>
<b>EBITDA</b>	<b>185.1</b>	<b>178.6</b>	<b>207.4</b>	<b>296.3</b>	<b>310.2</b>
Depreciation & Amortisation	-17.6	-20.2	-19.6	-25.4	-27.2
<b>EBIT</b>	<b>167.5</b>	<b>158.3</b>	<b>187.8</b>	<b>271.0</b>	<b>283.1</b>
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
<b>Pre-tax Profit</b>	<b>174.8</b>	<b>167.1</b>	<b>191.9</b>	<b>275.0</b>	<b>287.1</b>
Tax	-39.6	-42.7	-44.5	-66.0	-68.9
<b>Profit After Tax</b>	<b>135.2</b>	<b>124.3</b>	<b>147.4</b>	<b>209.0</b>	<b>218.2</b>
Minority Interest	11.9	12.4	8.1	11.5	12.0
<b>Net Profit</b>	<b>123.3</b>	<b>112.0</b>	<b>139.2</b>	<b>197.5</b>	<b>206.2</b>
Exceptionals	0.0	0.0	0.0	0.0	0.0
<b>Core Net Profit</b>	<b>123.3</b>	<b>112.0</b>	<b>139.2</b>	<b>197.5</b>	<b>206.2</b>

**Key Ratios**

FYE Dec (RM m)	FY22	FY23	FY24F	FY25F	FY26F
P/E (x)	49.1	54.1	43.5	30.7	29.4
EBITDA margin	35.8%	35.7%	35.0%	37.0%	37.0%
EBIT margin	32.4%	31.7%	31.7%	33.8%	33.8%
PBT margin	33.8%	33.4%	32.4%	34.3%	34.2%
PAT margin	26.1%	24.9%	24.9%	26.1%	26.0%
NP margin	23.8%	22.4%	23.5%	24.7%	24.6%
Core NP margin	23.8%	22.4%	23.5%	24.7%	24.6%
ROE	21.0%	17.4%	19.3%	23.5%	21.4%
ROA	41.1%	39.8%	52.3%	58.7%	52.8%
Net gearing	Net Cash	Net Cash	Net Cash	Net Cash	Net Cash

Valuations	FY25F
Core EPS (RM)	0.125
P/E multiple (x)	35
<b>Fair Value (RM)</b>	<b>4.34</b>

Source: Company, Apex Securities

**Balance Sheet**

FYE Dec (RM m)	FY22	FY23	FY24F	FY25F	FY26F
<b>Revenue</b>	<b>517.3</b>	<b>500.1</b>	<b>592.5</b>	<b>800.9</b>	<b>838.4</b>
Cash	317.4	402.0	443.5	539.7	617.7
Receivables	124.1	125.6	148.1	200.2	209.6
Inventories	21.3	22.6	27.3	38.4	40.2
Other current assets	42.9	30.8	35.3	45.2	49.4
<b>Total Current Assets</b>	<b>505.6</b>	<b>581.1</b>	<b>654.2</b>	<b>823.6</b>	<b>917.0</b>
Fixed Assets	229.3	216.1	195.9	253.5	271.6
Intangibles	33.7	33.7	33.7	33.7	33.7
Other non-current assets	37.2	31.2	36.5	49.3	84.9
<b>Total Non-current assets</b>	<b>300.1</b>	<b>281.0</b>	<b>266.1</b>	<b>336.5</b>	<b>390.2</b>
Short-term Debt	19.7	6.4	5.9	8.0	16.8
Payables	27.7	24.1	27.8	36.0	37.7
Other Current Liabilities	138.5	151.3	173.7	230.1	246.3
<b>Total Current Liabilities</b>	<b>185.9</b>	<b>181.8</b>	<b>207.4</b>	<b>274.1</b>	<b>300.8</b>
Long-term Debt	0.0	0.0	0.0	0.0	0.0
Other non-current liabilities	32.0	24.5	34.0	56.9	49.0
<b>Total Non-current Liabilities</b>	<b>32.0</b>	<b>24.5</b>	<b>34.0</b>	<b>56.9</b>	<b>49.0</b>
Shareholder's equity	548.5	604.4	681.0	799.6	923.3
Minority interest	39.5	40.0	40.6	41.0	41.0
<b>Equity</b>	<b>587.9</b>	<b>644.4</b>	<b>721.6</b>	<b>840.6</b>	<b>964.3</b>

**Cash Flow**

FYE Dec (RM m)	FY22	FY23	FY24F	FY25F	FY26F
<b>Pre-tax Profit</b>	<b>174.8</b>	<b>167.1</b>	<b>191.9</b>	<b>275.0</b>	<b>287.1</b>
Depreciation & amortisation	17.6	21.6	19.6	25.4	27.2
Changes in working capital	-16.3	11.2	-7.8	-14.7	3.5
Others	-32.8	-37.1	-40.6	-44.6	-48.9
<b>Operating cash flow</b>	<b>143.3</b>	<b>162.8</b>	<b>163.1</b>	<b>241.1</b>	<b>268.8</b>
Net capex	-52.6	-34.8	-39.7	32.2	-9.1
Others	-7.3	-6.3	-6.0	-6.5	-6.3
<b>Investing cash flow</b>	<b>-59.9</b>	<b>-41.1</b>	<b>-45.7</b>	<b>25.7</b>	<b>-15.4</b>
Dividends paid	-64.4	-56.0	-62.7	-79.0	-82.5
Others	13.8	34.1	-13.3	-89.0	-91.8
<b>Financing cash flow</b>	<b>-50.6</b>	<b>-21.8</b>	<b>-76.0</b>	<b>-168.0</b>	<b>-174.3</b>
<b>Net cash flow</b>	<b>33.5</b>	<b>99.9</b>	<b>41.4</b>	<b>98.8</b>	<b>79.2</b>
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	464.0	564.9
<b>Ending cash</b>	<b>327.4</b>	<b>420.3</b>	<b>464.0</b>	<b>564.9</b>	<b>646.2</b>
FD cannot classify as cash equivalent	15.1	18.3	20.5	25.2	28.5

**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

**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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