

Jayden Tan  
 (603) 7890 8888 (ext 2069)  
[kdtan@apexsecurities.com.my](mailto:kdtan@apexsecurities.com.my)

<b>Recommendation:</b>	<b>BUY</b>
Current Price:	RM4.35
Previous Target Price:	RM4.42
Target Price:	↑ RM5.36
Capital Upside/Downside:	23.2%
Dividend Yield (%):	1.4%
<b>Total Upside/Downside</b>	<b>24.6%</b>

<b>Stock information</b>	
Board	MAIN
Sector	Semiconductor
Bursa / Bloomberg Code	0128 / FRCB MK
Syariah Compliant	Yes
ESG Rating	★★★
Shares issued (m)	1,584.8
Market Cap (RM' m)	6,894.0
52-Week Price Range (RM)	4.59-2.63
Beta (x)	0.9
Free float (%)	79.9
3M Average Volume (m)	3.6
3M Average Value (RM' m)	14.0

<b>Top 3 Shareholders</b>	<b>(%)</b>
Dazzle Clean Ltd	16.0
Employees Provident Fund Board	10.6
Aia Bhd	4.1

#### Share Price Performance



	1M	3M	12M
Absolute (%)	5.6	19.8	11.3
Relative (%)	6.4	19.7	13.8

#### Earnings summary

FYE (Dec)	FY24	FY25F	FY26F
Revenue (RM'm)	569.2	719.4	810.6
PATAMI (RM'm)	136.8	164.2	243.8
CNP (RM'm)	136.8	178.7	243.8
EPS - core (sen)	8.6	11.3	11.7
P/E(x)	50.3	38.5	28.2

## Frontken Corporation Berhad

### 2Q25 posts highest-ever quarterly topline and CNP

- **CNP of RM47.9m (+43.8% yoy, +54% qoq) after excluding a one-off forex impact brought 1HFY25 CNP to RM79m, in line with expectations, supported by robust AI/HPC demand in Taiwan and improved margins from operating leverage.**
- **FY25F/FY26F earnings raised by +0.6%/+22% to reflect an additional 0.9% stake in Taiwan ops and interest income from RM2.04b proceeds upon full warrant conversion.**
- **Maintain BUY with a higher TP of RM5.36 (from RM4.42), based on 46x FY26F EPS (from 35x), reflecting its 5-year mean PER and value-accretive balance sheet from warrant proceeds.**

**Results within expectations.** Frontken posted a 2QFY25 CNP of RM47.9m after excluding a RM14.44m forex impact (inclusive of tax) arising from the revaluation of USD holdings initially earmarked for a US company acquisition, which was called off at the last minute by the vendor. This brought 1HFY25 CNP to RM79m, making up 44% of our full-year forecast and 45% of consensus, broadly in line as we anticipate a stronger 2H performance.

**Dividend.** The board declared a dividend of 2.0 sen/share (2Q24: 1.7 sen).

**YoY.** CNP grew 43.8%, alongside a 16% increase in revenue to RM156.4m, marking the highest-ever quarterly topline and bottom line. This was mainly driven by Taiwan semiconductor operations (Core operating profit +54% yoy), supported by sustained robust demand in AI and HPC, as well as the addition of new lines across Plant 1 and Plant 2. Meanwhile, Malaysia rebounded significantly, with profit surging 612.5% yoy to RM4.9m from a subdued 2Q24 (RM0.7m).

**QoQ.** CNP rose 54%, supported by an 18% increase in revenue, with strong contributions from Taiwan (Core operating profit +42% qoq) and a 10ppt margin improvement, reflecting an enhanced product mix and improved operating leverage.

**Operational & strategic updates.** Management remains committed to pursuing M&A opportunities in the US following the aborted acquisition of a previous target, though near-term efforts will remain focused on Taiwan, supported by strong advanced-node demand from key customers. After acquiring a new parcel of land, Frontken plans to develop Plant 3, an 8-storey facility, with construction (based on our assumptions) expected to commence in FY26 and complete in FY27 to meet anticipated demand. This expansion is aligned with its key Taiwanese customer's capacity growth plans, while Frontken has initiated R&D efforts to support nodes beyond 2nm (including 1.6nm and future 1.4nm). Additionally, the Group increased its stake in its Taiwan subsidiary by 0.9% for RM14m, raising its shareholding to 93.4%. In Singapore, the plant has completed preliminary qualifications for a new customer and is in the final qualification stage, with full qualification expected by Sep 2025.

**Outlook.** We expect 2H performance to outpace 1H, supported by seasonal strength and new customer ramps in Taiwan and Singapore. Demand from Frontken's key Taiwanese customer remains strong, backed by its extensive expansion plans (11 fabs over the next several years) and robust AI/HPC-driven demand. Malaysia and Singapore operations are also set to improve further with new customer prospects.

**Earnings Revision.** We have revised our FY25F earnings slightly higher by 0.6% to reflect the additional 0.9% stake acquisition in the Taiwan subsidiary. Meanwhile, FY26F earnings have been raised by 22%, driven by a technical adjustment to incorporate interest income from the cash proceeds of the full conversion of 510 mil outstanding warrants (Frontken-WB) at RM4.00 each, which would raise approximately RM2.04 bil in equity, assuming a 3% p.a. return on these proceeds.

**Valuation.** Despite EPS dilution (from 12.6 sen/share to 11.7 sen/share) from the enlarged share base post-warrant conversion, we view the RM2.04 bil cash inflow as value-accretive, strengthening Frontken's balance sheet and enhancing its strategic flexibility for capacity expansion or accretive M&A. Reflecting these improved fundamentals and sustained earnings visibility, we revise our PER assumption to 46x FY26F (from 35x), aligning with its 5-year historical mean (from previously -1 standard deviation). This results in a higher TP of **RM5.36** (from RM4.42). We maintain our **BUY** call, underpinned by Frontken's robust net cash position, premium margins, and strong growth prospects in advanced-node servicing.

**Risk.** Forex fluctuations, particularly in Taiwan, could affect reported revenue. In addition, the lingering risk of Trump-era tariffs may undermine fab investment confidence.

# Results Note

Wednesday, 06 Aug, 2025

## Results Comparison

FYE Dec (RM m)	2QFY25	2QFY24	yoy (%)	1QFY25	qoq (%)	6MFY25	6MFY24	yoy (%)	Comments
Revenue	156.4	134.9	15.9	132.6	18.0	289.0	275.4	4.9	
EBITDA	49.6	48.3	2.8	48.6	2.2	98.2	98.0	0.2	
Pre-tax profit	47.6	46.4	2.6	48.7	(2.2)	96.3	96.7	(0.3)	
Net profit	33.5	33.3	0.5	31.1	7.8	64.6	63.4	18	
Core net profit	47.9	33.3	43.8	31.1	54.3	79.0	63.4	24.6	
Core EPS (sen)	3.0	2.1	43.8	2.0	54.3	5.0	4.0	24.6	
EBITDA margin (%)	31.7	35.8		36.6		34.0	35.6		
PBT margin (%)	30.4	34.4		36.7		33.3	35.1		
Core net profit margin (%)	30.6	24.7		23.4		27.3	23.0		

Source: Company, Apex Securities

## Segmental Breakdown

FYE Dec (RM m)	2QFY25	2QFY24	yoy (%)	1QFY25	qoq (%)	6MFY25	6MFY24	yoy (%)	Comments
<b>Revenue</b>									
Singapore	14.0	15.7	(10.3)	12.6	11.1	26.7	32.1	(16.9)	
Malaysia	214	18.4	16.3	17.3	23.4	38.7	47.5	(18.5)	
Philippines	4.5	4.5	0.4	4.4	3.2	8.9	8.9	(0.4)	
Indonesia	-	-	-	-	-	-	-	-	
Taiwan	116.5	96.4	20.8	98.2	18.6	214.7	186.9	14.9	
<b>Total</b>	<b>156.4</b>	<b>134.9</b>	<b>15.9</b>	<b>132.6</b>	<b>18.0</b>	<b>289.0</b>	<b>275.4</b>	<b>4.9</b>	
<b>Operating Profit</b>									
Singapore	2.3	2.7	(14.0)	10	137.4	3.3	5.7	(42.4)	
Malaysia	4.9	0.7	612.5	16	204.5	6.5	6.0	8.4	
Philippines	10	10	2.4	0.9	3.8	19	19	4.4	
Indonesia	(0.2)	(0.3)	(216)	(0.3)	(32.1)	(0.5)	(0.4)	36.8	
Taiwan	37.0	40.7	(9.2)	43.1	(14.3)	80.1	80.4	(0.4)	
<b>Total</b>	<b>45.0</b>	<b>44.8</b>	<b>0.4</b>	<b>46.4</b>	<b>(3.0)</b>	<b>91.4</b>	<b>93.7</b>	<b>(2.4)</b>	
<b>Operating margin (%)</b>									
Singapore	16.6%	17.3%		7.7%		12.4%	17.9%		
Malaysia	23.0%	3.7%		9.3%		16.9%	12.7%		
Philippines	21.9%	21.5%		21.8%		21.8%	20.8%		
Indonesia	N/A	N/A		N/A		N/A	N/A		
Taiwan	31.7%	42.2%		43.9%		37.3%	43.0%		
<b>Aggregate Total</b>	<b>28.8%</b>	<b>33.2%</b>		<b>35.0%</b>		<b>31.6%</b>	<b>34.0%</b>		

Source: Company, Apex Securities

## Financial Highlights

## Income Statement

FYE Dec (RM m)	FY22	FY23	FY24	FY25F	FY26F
Revenue	517.2	500.1	569.2	719.4	810.6
EBITDA	185.1	178.6	201.1	266.2	299.9
Depreciation & Amortisation	-17.6	-20.2	-20.7	-22.8	-26.0
EBIT	167.5	158.3	180.4	243.4	274.0
Net Finance Income/ (Cost)	-0.8	-1.1	-0.8	-0.9	53.4
Other Operating Income	8.1	9.8	18.8	5.0	5.0
Pre-tax Profit	174.8	167.1	198.4	247.5	332.4
Tax	-39.6	-42.7	-47.3	-59.4	-79.8
Profit After Tax	135.2	124.3	151.1	188.1	252.6
Minority Interest	11.9	12.4	14.3	9.4	8.8
Net Profit	123.3	112.0	136.8	164.2	243.8
Exceptionals	0.0	0.0	0.0	14.4	0.0
Core Net Profit	123.3	112.0	136.8	178.7	243.8

## Key Ratios

FYE Dec	FY22	FY23	FY24	FY25F	FY26F
EPS (sen)	7.8	7.1	8.6	113	117
P/E (x)	55.8	61.5	50.3	38.5	28.2
P/B (x)	11.7	10.0	8.9	8.3	2.3
EV/EBITDA (x)	39.1	41.2	37.1	28.0	32.0
DPS (sen)	4.2	2.2	3.7	4.5	6.2
Dividend Yield (%)	10%	0.5%	0.9%	10%	14%
EBITDA margin (%)	35.8%	35.7%	35.3%	37.0%	37.0%
EBIT margin (%)	32.4%	31.7%	31.7%	33.8%	33.8%
PBT margin (%)	33.8%	33.4%	34.9%	34.4%	41.0%
PAT margin (%)	26.1%	24.9%	26.5%	26.1%	31.2%
NP margin (%)	23.8%	22.4%	24.0%	22.8%	30.1%
CNP margin (%)	23.8%	22.4%	24.0%	24.8%	30.1%
ROE (%)	21.0%	16.3%	17.7%	21.6%	8.1%
ROA (%)	16.3%	12.6%	13.8%	17.8%	7.6%
Gearing (%)	3.4%	0.0%	0.0%	0.0%	0.0%
Net gearing (%)	Net Cash	Net Cash	Net Cash	Net Cash	Net Cash

## Valuations

Valuations	FY26F
Core EPS (RM)	0.117
P/E multiple (x)	46.0
Fair Value (RM)	5.36
ESG premium/discount	0.0%
Implied Fair Value (RM)	5.36

Source: Company, Apex Securities

## Balance Sheet

FYE Dec (RM m)	FY22	FY23	FY24	FY25F	FY26F
Cash	342.5	419.7	518.6	521.3	2677.6
Receivables	124.1	119.0	140.6	143.9	162.1
Inventories	213	22.3	212	216	24.3
Other current assets	17.8	16.9	14.6	10.4	13.4
Total Current Assets	505.6	577.9	695.0	697.2	2877.4
Fixed Assets	229.3	236.2	226.6	227.8	259.7
Intangibles	33.7	33.7	33.7	33.7	33.7
Other non-current assets	37.2	37.7	33.2	44.3	49.9
Total Non-current assets	300.1	307.7	293.6	305.7	343.3
Short-term Debt	19.7	0.1	0.0	0.1	0.1
Payables	27.7	23.0	27.3	32.4	36.5
Other Current Liabilities	138.5	143.4	160.5	110.1	124.4
Total Current Liabilities	185.9	166.4	187.8	142.6	161.0
Long-term Debt	0.0	0.1	0.0	0.0	0.0
Other non-current liabilities	32.0	31.2	27.8	38.4	43.8
Total Non-current Liabilities	32.0	31.2	27.8	38.4	43.8
Shareholder's equity	548.5	641.2	720.6	786.9	2973.1
Minority interest	39.5	46.7	52.3	40.0	40.0
Equity	587.9	687.9	772.9	826.9	3013.1

## Cash Flow

FYE Dec (RM m)	FY22	FY23	FY24	FY25F	FY26F
Pre-tax Profit	174.8	167.1	198.4	247.5	332.4
Depreciation & amortisation	17.6	20.2	20.7	22.8	26.0
Changes in working capital	-29.8	8.2	0.4	-45.0	10.5
Others	-19.7	-51.0	-52.9	-85.4	-2.4
Operating cash flow	142.9	144.5	166.6	139.9	366.5
Net capex	-52.6	-15.1	-24.8	9.0	6.0
Others	-6.1	6.4	12.0	-0.6	1.7
Investing cash flow	-58.7	-8.7	-12.8	8.5	7.6
Dividends paid	-64.4	-40.8	-61.5	-71.5	-97.5
Others	13.8	-31.5	41.5	-40.9	197.6
Financing cash flow	-50.6	-72.4	-20.0	-112.4	1879.3
Net cash flow	33.5	63.5	133.9	35.9	2253.3
Forex	-8.5	13.4	-30.7	2.1	2.1
Others	0.0	0.0	0.0	-24.3	-123.5
Beginning cash	302.4	327.4	404.3	507.6	545.6
Ending cash	327.4	404.3	507.6	521.3	2677.6
Cash pledge with fixed deposits	15.06	15.32	110.4	0.00	0.00
Cash and cash equivalents	342.51	419.66	518.59	521.29	2677.56

**ESG Matrix Framework:****Environment**

Parameters	Rating	Comments
Climate	★★★	Frontken implemented GHG emissions monitoring and control systems; committed to sustainability efforts.
Waste & Effluent	★★★	Maintains proper waste disposal procedures including scheduled waste handling as per regulations.
Energy	★★★	Upgraded chiller systems and other high energy-consuming equipment for improved efficiency.
Water	★★★	Tracks water usage, with some recycling efforts noted; however, limited reporting on reduction targets.
Compliance	★★★	Compliant with ISO 14001:2015 for Environmental Management System across Malaysian operations.

**Social**

Diversity	★★★	Workforce includes 66% male and 34% female; continues efforts to promote diversity.
Human Rights	★★★	Zero-tolerance policy for discrimination; Code of Conduct enforces fair and ethical practices.
Occupational Safety and Health	★★★	Achieved zero fatalities and reported incidents; regular safety drills and audits conducted.
Labour Practices	★★★	Compliant with labour laws; compensation and benefits aligned with local regulations.

**Governance**

CSR Strategy	★★★	CSR initiatives focused on education and community aid; donations to schools and NGOs.
Management	★★★	Board consists of experienced professionals; 43% Independent Directors, 1/7 female director.
Stakeholders	★★★	4x analyst briefings per annum, 1x AGM per annum

Overall ESG Scoring: ★★★

**Recommendation Framework:****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.**ESG Rating Framework:**

★★★★★ : Appraised with 3% premium to fundamental fair value

★★★★ : Appraised with 1% premium to fundamental fair value

★★★ : Appraised with 0% premium/discount to fundamental fair value

★★ : Appraised with -1% discount to fundamental fair value

★ : Appraised with -5% discount to fundamental fair value

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(a) nil.