

FRONTKEN (NOT RATED)

April 28, 2015

Share Price: RM0.265

Earnings Momentum to Sustain into FY15

Highlights	<ul style="list-style-type: none"> ▪ Background. Frontken is a leading engineering service provider for a wide range of industries, including the oil and gas, petrochemical, power generation, semiconductor and electronics manufacturing sectors in the Asia region. ▪ The company also owns a 57.9% stake in Ares Green Technology Corp (listed in Greta Securities Market, Taiwan), whose customers include TSMC and AUO to name a few. ▪ Earnings to strengthen further in FY15. Management is optimistic that the strong financial performance in FY14 (net profit of RM18.8m vs. net loss of RM2.3m in FY13) will strengthen further into FY15, underpinned by several positive factors including: <ol style="list-style-type: none"> 1. The sustained bullish semiconductor sector outlook, which will have a positive spillover effect on Frontken; 2. Contribution from its subsidiary TTES Frontken Integrated Services, which Frontken acquired in May 2014; and 3. Improving performance from its operation in Indonesia after securing the licence from Special Task Force for Upstream Oil & Gas Business Activities in 2014 (SKK Migas). ▪ Frontken's FY14 net cash has improved significantly to RM28.8mm (or 2.9 sen/share) from RM4.7m (or 0.5 sen/share) a year ago.
Catalysts	<ul style="list-style-type: none"> ▪ Margin expansion from strengthening of US\$ and sustained run-up in the semiconductor sector; and ▪ Turnaround at the loss making operations, in particularly, its new facilities in Malaysia and Indonesia
Risks	<ul style="list-style-type: none"> ▪ Slower-than-expected demand growth in the semiconductor sector; ▪ Fluctuating foreign currency movement (in particularly the US\$); and ▪ Slower-than-expected turnaround.
Forecasts	<ul style="list-style-type: none"> ▪ -
Valuation	<ul style="list-style-type: none"> ▪ At current share price of 26.5 sen/share, Frontken is trading at FY14 P/E of 14.3. Netting off its net cash (2.9 sen/share), the stock is trading at FY14 P/E of 12.7x.

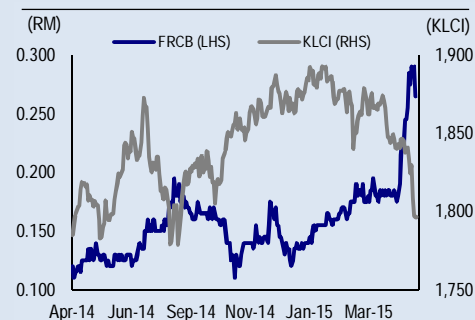
Research

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03-2168 1168

KLCI 1,859.58

Share Price



Information

Bloomberg Ticker	FRCB MK
Bursa Code	0128
Issued Shares (m)	1,048
Market cap (RM m)	278
3-mth avg. volume ('000)	33,950
SC Shariah-compliant	

Price Performance	1M	3M	12M
Absolute %	43.2	65.6	112.0
Relative %	39.7	60.6	112.2

Major Shareholders (%)

Jorg Hohnloser Helm	27.8%
Lembaga Tabung Haji	4.9%

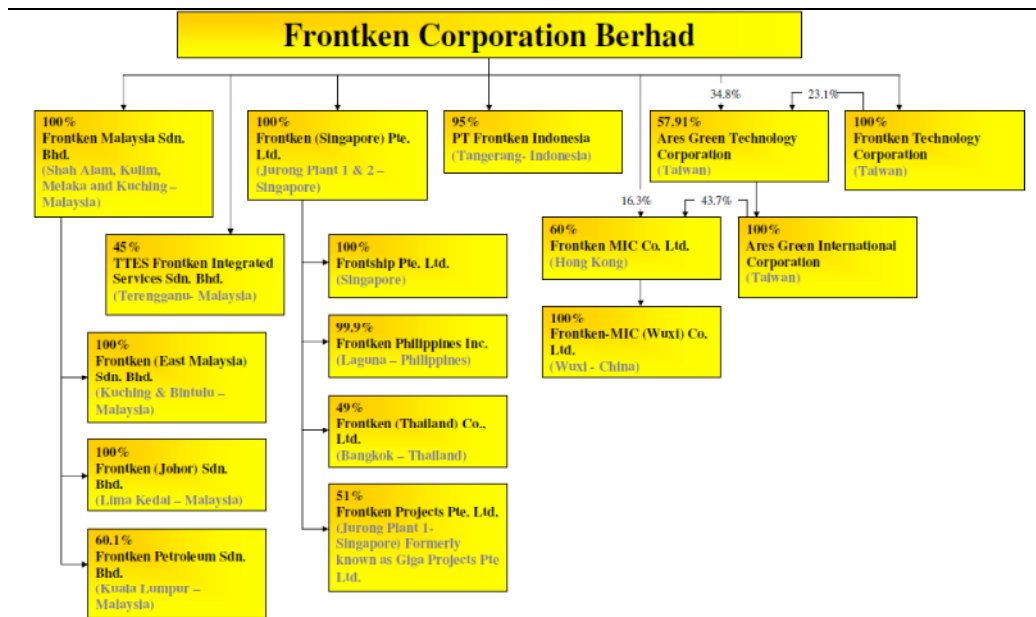
Summary Earnings Table

	FY11A	FY12A	FY13A	FY14A
Revenue	198.1	181.0	190.6	309.8
EBITDA	24.8	26.3	26.1	47.8
PBT	3.0	3.2	5.9	28.1
Net profit	2.5	3.8	-2.3	18.8
EPS (sen)	0.2	0.4	-0.2	1.9
P/E (x)	107.9	70.2	N/M	14.3
BVPS (RM)	0.2	0.2	0.2	0.2
P/B (x)	1.5	1.4	1.4	1.3
ROA (%)	0.7	1.2	N/M	5.3
ROE (%)	1.4	2.1	N/M	9.1

Company Background

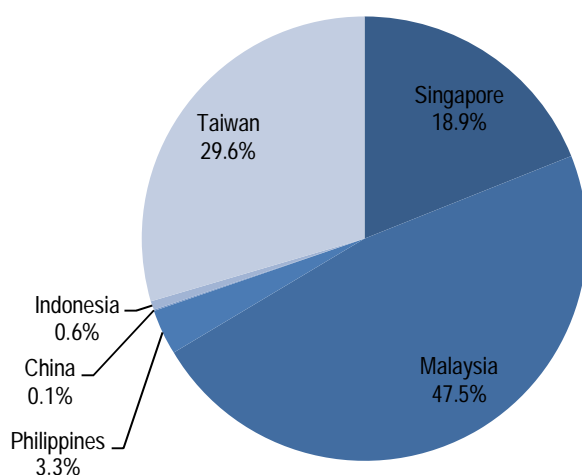
Founded in 1996 (and subsequently listed on the ACE Market of Bursa Malaysia in 2006), Frontken Corporation Bhd is a leading engineering service provider for a wide range of industries, including oil and gas, petrochemical, power generation, semiconductor and electronics manufacturing sectors in the Asia region. The company also owns a 57.9% stake in Ares Green Technology Corp (listed in Gretai Securities Market, Taiwan), whose customers include Taiwan Semiconductor Manufacturing Company (TSMC) and AU Optronics Corp (AUO).

Figure 1: Frontken's Group Structure



Company

Figure 2: Geographical Breakdown on Frontken's Revenue in FY14



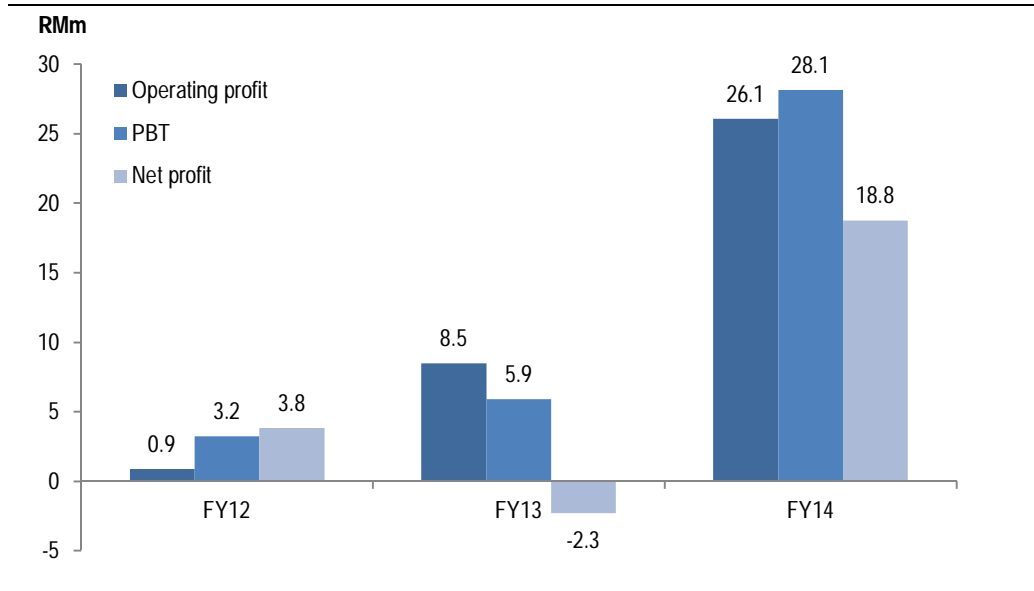
Bursa Malaysia

Highlights

Sharp earnings improvement in FY14

Frontken's financial performance turned around, with a net profit of RM18.8m in FY14 (from a net loss of RM2.3m in FY13) thanks to the upcycle in the semiconductor business, recognition of progressive revenue from the ATB project in Tanjung Bin, as well as the absence of associate losses (which was disposed in 2014).

Figure 3: Frontken's Historical Earnings Performance



Bursa Malaysia

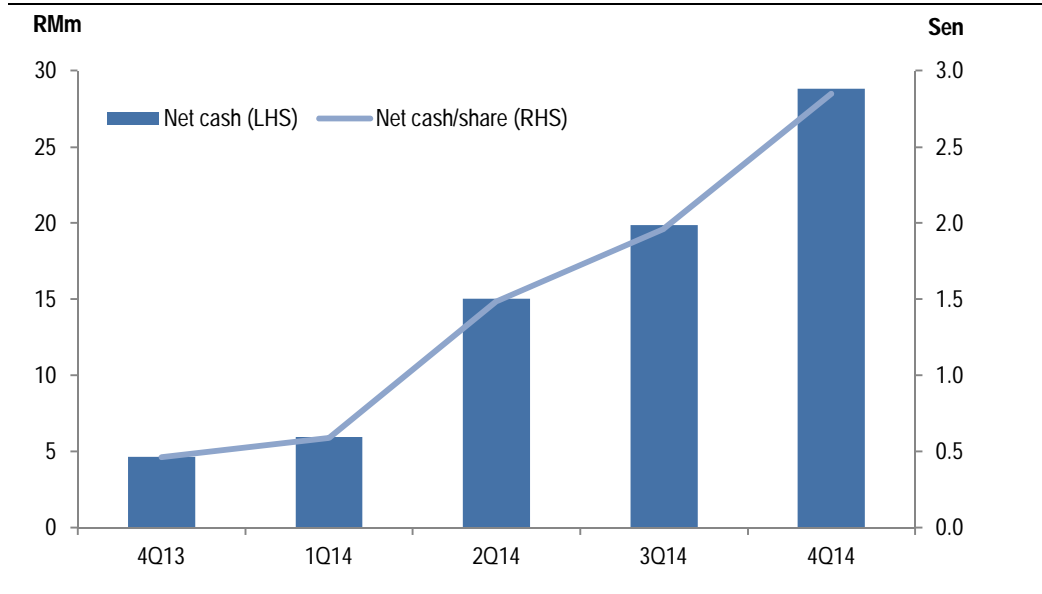
Management is optimistic that the strong financial performance will strengthen further into FY15, underpinned several positive factors including:

1. The sustained bullish semiconductor sector outlook, which will have a positive spillover effect on Frontken;
2. Contribution from its subsidiary TTES Frontken Integrated Services (an engineering service provider which also owns a licence to supply and provide services to Petronas group of companies), which Frontken acquired in May 2014;
3. Improving performance from its operation in Indonesia after securing the licence from Special Task Force for Upstream Oil & Gas Business Activities in 2014 (SKK Migas, an institution established by the Indonesia government to manage Indonesia's oil and gas natural resources). We note that operating loss from its Indonesian operation has reduced from RM1.6m (in FY13) to RM0.4m in FY14.

Strong balance sheet, with net cash of 2.9 sen

Earnings apart, Frontken's FY14 net cash has improved significantly to RM28.8mm (or 2.9 sen/share) from RM4.7m (or 0.5 sen/share) a year ago. Apart from utilising the cash to upgrade its existing facilities in Taiwan (in order to keep abreast of the continuous development in the semiconductor sector's production process), management also highlighted the possibility of utilising its cash for earnings accretive acquisitions in the near future.

Figure 4: Frontken's Quarterly Net Cash Position



Valuation

At current share price of 26.5 sen/share, Frontken is trading at FY14 P/E of 14.3x. Netting off its net cash (2.9 sen/share), the stock is trading at FY14 P/E of 12.7x.

Income Statement

FY Dec (RMm)	FY11A	FY12A	FY13A	FY14A
Revenue	198.1	181.0	190.6	309.8
EBITDA	24.8	26.3	26.1	47.8
PBT	3.0	3.2	5.9	28.1
Taxation	0.5	0.9	-5.4	-5.0
Minority interests	-1.0	-0.4	-2.8	-4.4
Net profit	2.5	3.8	-2.3	18.8
Issued shares (m)	1,011.4	1,011.4	1,011.4	1,011.4
EPS (sen)	0.2	0.4	-0.2	1.9

Valuation Ratios

FY Dec (RMm)	FY11A	FY12A	FY13A	FY14A
P/E (x)	107.9	70.2	-115.5	14.3
BVPS (sen)	17.7	18.3	18.4	20.4
P/B (x)	1.5	1.4	1.4	1.3
EBITDA margin	12.5	14.5	13.7	15.4
PBT margin	1.5	1.8	3.1	9.1
Net profit margin	1.3	2.1	-1.2	6.1
ROA	0.7	1.2	N/M	5.3
ROE	1.4	2.1	-1.2	9.1

Balance Sheet

FY Dec (RMm)	FY11A	FY12A	FY13A	FY14A
Non-current assets	214.2	183.6	171.8	172.1
Current assets	119.4	130.6	130.4	184.3
Total assets	333.6	314.2	302.2	356.4
Current liabilities	70.8	69.1	58.4	88.7
Non-current liabilities	55.6	32.1	29.5	28.0
Shareholders' funds	179.3	184.9	186.3	206.8
Minority interests	27.9	28.1	27.9	32.9
Liab. & equity	333.6	314.2	302.2	356.4

Cash Flows

FY Dec (RMm)	FY11A	FY12A	FY13A	FY14A
Cash flow from operations	24.6	16.0	36.7	40.8
Cash flow from investing activities	-18.4	17.5	-8.0	-10.6
Cash flow from financing activities	-14.8	-16.9	-34.1	-4.4
Cash at end	24.7	41.5	37.1	63.9
Operating cash flow/share (sen)	2.4	1.6	3.6	4.0
Free cash flow/share (sen)	0.6	3.3	2.8	3.0

Quarterly Financial Summary

FY Dec (RMm)	1Q14	2Q14	3Q14	4Q14
Revenue	48.2	73.0	83.6	105.1
PBT	6.0	3.4	8.8	9.9
Taxation	-0.7	-0.8	-1.8	-1.7
Minority interests	-0.7	-0.9	-1.8	-1.0
Net profit	4.6	1.8	5.3	7.2
EPS (sen)	0.5	0.2	0.5	0.7

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Equity rating definitions

BUY	Positive recommendation of stock under coverage. Expected absolute return of more than +10% over 12-months, with low risk of sustained downside.
TRADING BUY	Positive recommendation of stock not under coverage. Expected absolute return of more than +10% over 6-months. Situational or arbitrage trading opportunity.
HOLD	Neutral recommendation of stock under coverage. Expected absolute return between -10% and +10% over 12-months, with low risk of sustained downside.
TRADING SELL	Negative recommendation of stock not under coverage. Expected absolute return of less than -10% over 6-months. Situational or arbitrage trading opportunity.
SELL	Negative recommendation of stock under coverage. High risk of negative absolute return of more than -10% over 12-months.
NOT RATED	No research coverage, and report is intended purely for informational purposes.

Industry rating definitions

OVERWEIGHT	The sector, based on weighted market capitalization, is expected to have absolute return of more than +5% over 12-months.
NEUTRAL	The sector, based on weighted market capitalization, is expected to have absolute return between -5% and +5% over 12-months.
UNDERWEIGHT	The sector, based on weighted market capitalization, is expected to have absolute return of less than -5% over 12-months.