

# Results Update

Thursday, 27<sup>th</sup> May 2010

For Internal Circulation Only

FBM KLCI : 1,248.94  
Sector : Technology  
Bloomberg : FRCB MK

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Target RM0.20  
Price (+66.7%)

RM0.12 Buy

## Frontken Corporation Berhad

Margin Expansion Boosted Earnings Growth

### Share Info

|                                |                             |
|--------------------------------|-----------------------------|
| Stock Code                     | FRONTKN                     |
| Listing                        | Main Board                  |
| Share Cap (m)                  | 1011.4                      |
| Market Cap (RMm)               | 121.4                       |
| Par Value                      | 0.10                        |
| 52-wk Hi/Lo (RM)               | 0.315/0.115                 |
| 12-mth Avg Daily Vol ('000 st) | 2941.0                      |
| Estimated Free Float (%)       | 60.8%                       |
| Beta                           | 0.52                        |
| Major Shareholders (%)         |                             |
|                                | Wong Hua Choon - 19.94%     |
|                                | QSSB - 9.24%                |
|                                | Lembaga Tabung Haji - 6.27% |

### Forecast Revision

|                          | FY10             | FY11 |
|--------------------------|------------------|------|
| Forecast Revision        | -                | -    |
| Revised Net profit (RMm) | 18.7             | 24.9 |
| Consensus                | NA               | NA   |
| TA/Consensus (%)         | NA               | NA   |
| Previous Rating          | Buy (Maintained) |      |
|                          | FY10             | FY11 |
| Net debt/equity (%)      | 12.3             | -9.0 |
| CFPS (sen)               | 0.8              | 2.0  |
| P/CFPS (x)               | 15.5             | 5.9  |
| ROE (%)                  | 10.1             | 11.4 |
| ROA (%)                  | 6.9              | 8.3  |
| NTA/Share (RM)           | 0.3              | 0.3  |
| Price/NTA (x)            | 0.5              | 0.4  |
| 5-year EPS CAGR          | 18.8             | 18.8 |

### Scorecard

|              | % of FY |        |
|--------------|---------|--------|
| vs TA        | 20%     | Within |
| vs Consensus | NA      | NA     |

### Share Performance (%)

| Price chg | Frontken | FBM KLCI |
|-----------|----------|----------|
| 1 mth     | -17.2    | -6.8     |
| 3 mth     | -20.0    | -1.7     |
| 6 mth     | -33.0    | -1.7     |
| 12 mth    | -57.3    | 18.8     |

### Review

- Frontken 1QFY10 results were within TA's expectations, accounting for about 20% of ours full year estimate. Note that 1Q typically the weakest quarter for Frontken and therefore, we expect higher earnings in the subsequent quarters.
- YoY basis, core net profit surged by more than 100% to RM3.6mn on the back of 10.8% increase in revenue. The commendable sales growth was driven by i) higher demand from the power generation, ii) recovery in semiconductor sector and iii) higher demand for maintenance works on critical parts and equipment from oil & gas industry. The improvement in bottomline was mainly due to higher margin arising from lower subcontracting costs and reduced losses at the associates.
- On a sequential basis, 1QFY10 core net profit surged by more than 100% despite a plunge in revenue. The decline in sales was mainly due to lower sales recorded in Malaysia. Nonetheless, the significant improvement in bottomline was attributable to, 1) lower operating expenses, 2) lower finance costs, and 3) lower losses incurred by associate company.
- Singapore and Malaysia contribute about 67.4% and 29.9% respectively to the group's total revenue. Singapore was also the key contributor RM4.278mn in operating profit. Malaysia and Philippines business registered operating profit of RM0.8mn and RM0.3mn respectively. Other operations cumulatively incurred operating losses of up to RM1.2mn.

### Impact

- No change in our earnings estimates as we expect the group's business will pick up during the second half of the year.

### Outlook

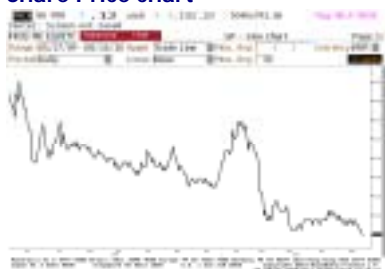
- Management is optimistic about the outlook with encouraging rebound in demand from power generation, semiconductor and oil & gas sectors.
- The recent uptrend in the semiconductor industry further reinforces our positive view on the sector. Frontken could turn out to be a key beneficiary, given its business in the semiconductor sector focuses in machineries/equipment, which are widely used in upstream processes such as wafer fabrication processes.
- The conversion of production facilities into a newer design in Ares Green Technology Corporation (AGTC) is almost complete. This will enable AGTC to restructure and create at least 15% of renewed usable facilities that meet latest market demand. With the recent up-cycle in the semiconductor industry, AGTC is expecting to have more upside and to perform well this year.
- Management believes that semiconductor sector has fully recovered in Singapore and Malaysia and expects its operation in both countries to achieve earnings growth this year. Key drivers to earnings would be new business development as well as further gain in market share.

- According to management, Q-Cell is the main contributor for its Solar/Photovoltaic (PV) segment. The group is following up with customers to bring in more businesses. Management expects an encouraging growth in the PV industry, as key manufacturers in the world such as First Solar GmbH, Q-Cells AG and SunPower Corp have invested and set up presence in Malaysia. Frontken is currently a vendor for First Solar GmbH. Meanwhile, its discussion with SunPower has been delayed but qualification work is currently on-going.

#### Valuation

- Maintain BUY on Frontken with a target price of RM0.20. Potential re-rating catalysts include: (1) faster-than-expected economic recovery and improvement in end customer spending, (2) favourable industry demand and trends, and (3) strong pick-up in its parts manufacturing segment.

#### Share Price chart



Source : Bloomberg

#### Earnings Summary (RMmn)

| YE Dec 31       | FY07  | FY08  | FY09   | FY10F  | FY11F |
|-----------------|-------|-------|--------|--------|-------|
| Revenue         | 105.4 | 130.5 | 137.2  | 192.1  | 235.9 |
| Pretax profit   | 6.9   | 19.4  | 8.1    | 34.8   | 43.6  |
| Taxation        | -2.5  | -0.5  | -0.6   | -8.7   | -10.9 |
| Net profit      | 4.0   | 18.8  | 8.1    | 18.7   | 24.9  |
| Core Net Profit | 9.7   | 11.2  | 8.1    | 18.7   | 24.9  |
| Core EPS sen    | 0.96  | 1.11  | 0.80   | 1.85   | 2.46  |
| EPS growth      | -7.8% | 15.4% | -27.5% | 130.3% | 33.3% |
| PER x           | 12.5  | 10.8  | 15.0   | 6.5    | 4.9   |
| GDPS sen        | 0.0   | 0.0   | 0.0    | 0.0    | 1.0   |
| Div Yield       | na    | na    | na     | na     | na    |

#### 1Q10 Results Analysis (RMmn)

| YE 31 Dec                   | 4QFY09  | 1QFY10 | QOQ   | 1QFY09 | 1QFY10 | YOY    |
|-----------------------------|---------|--------|-------|--------|--------|--------|
| Turnover                    | 34.22   | 33.90  | -0.9% | 30.6   | 33.9   | 10.8%  |
| EBITDA                      | 3.05    | 8.11   | >100% | 4.1    | 8.1    | 99.1%  |
| Depreciation & Amortisation | (3.42)  | (3.56) | -4.2% | (3.2)  | (3.6)  | -12.3% |
| Net Int Inc/ (exp)          | (1.13)  | (0.88) | 22.2% | (0.9)  | (0.9)  | 2.6%   |
| EI                          | 0.00    | 0.00   | nm    | 0.0    | 0.0    | nm     |
| Associates                  | (0.26)  | (0.03) | 87.3% | (0.6)  | (0.0)  | 94.3%  |
| Pretax                      | (0.30)  | 4.06   | nm    | 1.2    | 4.1    | >100%  |
| Taxation                    | 0.53    | (0.51) | nm    | 0.1    | (0.5)  | nm     |
| MI                          | (0.16)  | (0.04) | 78.3% | (0.2)  | (0.0)  | 84.8%  |
| Net Profit                  | 0.40    | 3.58   | >100% | 1.5    | 3.6    | >100%  |
| Net Profit adj              | 0.40    | 3.58   | >100% | 1.5    | 3.6    | >100%  |
| EPS (sen)                   | 0.04    | 0.35   | >100% | 0.1    | 0.4    | >100%  |
| GDPS (sen)                  | 0.00    | 0.00   |       | 0.0    | 0.0    |        |
| EBITDA Margin               | 8.9%    | 23.9%  |       | 13.3%  | 23.9%  |        |
| Pretax Margin               | -0.9%   | 12.0%  |       | 3.9%   | 12.0%  |        |
| Net Margin                  | 1.2%    | 10.6%  |       | 4.9%   | 10.6%  |        |
| Tax Rate                    | -178.5% | -12.6% |       | 6.6%   | -12.6% |        |

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