



Frontken Corporation Berhad

Results Good but Still Below Expectations

TP: RM 0.19 (+8.6%)

Last Traded: RM 0.175

Hold

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Review

- Frontken reported stronger 9MFY10 results. Despite that, results were sharply below our expectations since YTD net profit of RM10.3mn accounted for only 55% of our full year estimates.
- Stripping out the one-time goodwill impairment charge of RM0.9mn, core net profit for 9MFY10 surged by 33.5% to RM10.3mn on the back of a 1.5% increase in revenue. The higher revenue recorded was mainly due to better demand for the group's services in Singapore and the Philippines.
- The improvement in bottomline was mainly due to higher margin arising from lower subcontracting costs and profit arising from associates.
- Singapore and Malaysia contributed to some 59% and 34% of the group's total revenue in 9MFY10. Singapore was also the key contributor amounting to RM9.7mn in operating profit. Nonetheless, contributions from Singapore had declined quite substantially in 3QFY10. Meanwhile, Malaysia, Philippines and China businesses registered operating profits of RM2.9mn and RM1.8mn respectively. Other operations cumulatively incurred operating losses of up to RM2.2mn.

Impact

- Due to the weaker-than-expected 3QFY10 result, we downgrade our earnings forecasts by 25% and 23% for FY10 and FY11 respectively.

Outlook

- According to management, Frontken Philippines is emerging as a significant contributor to the group's revenue and bottom line. This is mainly due to its success in Offshore, Water Industry, and the latest, the Geothermal Industry. As such, a large expansion has been taking place in Frontken Philippines. The group is able to fully undertake and apply its completely integrated surface metamorphosis and engineering solutions to main and auxiliary equipments in the entire geothermal plants.
- Frontken has already passed all technical and QA qualifications from SunPower, a company that designs, manufactures and markets high-performance solar electric power technologies. Management guided that SunPower will tentatively become a major client for Frontken in the future.
- Management is optimistic about the outlook with encouraging rebound in demand from power generation, semiconductor and oil & gas sectors.

Share Information

Bloomberg Code	FRCB MK
Stock Code	0128
Listing	Main Market
Share Cap (mn)	1011.4
Market Cap (RMmn)	177.0
Par Value	0.1
52-wk Hi/Lo (RM)	0.247/0.115
12-mth Avg Daily Vol ('000 shrs)	1817
Estimated Free Float (%)	68.7
Beta	0.62

Major Shareholders (%)

Hua Choon Wong	- 21.22
Lembaga Tabung Haji	- 6.27

Forecast Revision

	FY10	FY11
Forecast Revision (%)	-	-
Net profit (RMmn)	14.0	19.1
Consensus	nm	nm
TA's / Consensus (%)	nm	nm
Previous Rating	Buy (Downgraded)	

Financial Indicators

	FY10	FY11
Net debt/equity (%)	13.1	(4.9)
CFPS (sen)	0.8	0.6
P/CFPS (x)	22.5	27.0
ROE (%)	8.1	9.9
ROA (%)	5.6	7.2
NTA/Share (RM)	0.2	0.3
Price/ NTA (x)	0.7	0.7
5-year EPS CAGR	12.1	12.7

Scorecard

	% of FY	
vs TA	55	Below
vs Consensus	NA	NA

Share Performance (%)

Price Change	FRONT	FBM KLCI
1 mth	2.9	(0.2)
3 mth	9.4	5.8
6 mth	40.0	16.8
12 mth	2.9	16.9

(12-Mth) Share Price relative to the FBM KLCI



Source: Bloomberg

- According to European Photovoltaic Industry Association (EPIA), the World Annual Photovoltaic (PV) market could reach up to 30 GW in 2014. Frontken aims to develop opportunities in the Solar/Photovoltaic sector into a new revenue stream in the medium to long term. Management did not rule out the possibility that this sector will become a significant contributor to the group's revenue in 2-3 years time.

Valuation

- We are rolling over our valuation to FY11 EPS. However, we are revising down our target price to RM0.19 on the back of the earnings adjustment, pegging on CY11 PER of 10x. Downgrade Frontken to Hold. 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.

Earnings Summary (RMmn)

YE 31 Dec	FY07	FY08	FY09	FY10F	FY11F
Revenue	105.4	130.5	137.2	149.1	178.7
Pretax profit	6.9	19.4	8.1	16.2	22.1
Taxation	(2.5)	(0.5)	(0.6)	(2.4)	(3.3)
Net profit	4.0	18.8	8.1	14.0	19.1
Core Net Profit	9.7	11.2	8.1	14.0	19.1
Core EPS (sen)	1.0	1.1	0.8	1.4	1.9
EPS growth (%)	(7.8)	15.4	(27.5)	72.9	36.3
PER (x)	18.2	15.8	21.8	12.6	9.3
GDPS (sen)	0.0	0.0	0.0	0.1	0.1
Div Yield (%)	na	na	na	0.6	0.6

3Q10 Results Analysis (RMmn)

FYE 31 Dec	3QFY09	2QFY10	3QFY10	YOY %	QOQ %	9MFY09	9MFY10	YOY %
Turnover	35.7	37.4	33.3	(6.6)	(10.8)	103.0	104.6	1.5
EBITDA	10.1	9.5	6.7	(33.8)	(29.9)	20.8	24.3	16.8
Depreciation & Amortisation	(3.4)	(3.6)	(3.6)	(4.4)	(1.1)	(10.1)	(10.8)	(6.3)
Net Int Inc/ (exp)	(0.9)	(0.9)	(0.8)	14.8	11.8	(2.8)	(2.5)	9.4
EI	0.0	0.9	0.0	nm	nm	0.0	0.9	nm
Associates	(0.3)	0.1	0.6	nm	> -100	(1.0)	0.6	nm
Pretax	5.7	4.8	2.0	(64.8)	(58.4)	8.4	10.8	29.0
Taxation	(0.8)	(0.9)	(0.0)	94.8	95.7	(1.1)	(1.5)	(36.9)
MI	(0.1)	0.1	(0.0)	47.3	nm	(0.4)	(0.0)	94.0
Net Profit	5.0	3.8	2.0	(59.8)	(47.6)	7.7	9.4	21.5
Core Net Profit	5.0	4.7	2.0	(59.8)	(57.9)	7.7	10.3	33.5
Core EPS (sen)	0.5	0.5	0.2	(59.8)	(57.9)	0.8	1.0	33.5
EBITDA Margin	28.2	25.5	20.0			20.2	23.2	
Pretax Margin	15.9	12.8	6.0			8.2	10.4	
Net Margin	13.9	12.7	6.0			7.5	9.9	
Tax Rate	(13.6)	(19.6)	(2.0)			(12.9)	(13.7)	

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