

COMPANY UPDATE

Frencken Group (FRKN SP)

Not Expecting Any Surprises In 4Q21

We do not anticipate any surprises in Frencken's upcoming 4Q21 results. Our net profit estimate of S\$14m (+33.2% yoy, -5.4% qoq) is derived from a revenue of S\$175m, which implies a 7.6% yoy growth and an 11% qoq slowdown due to seasonality. Leading indicator worldwide chip sales continue to be robust, supporting our thesis that the semiconductor segment will drive positive operating leverage in 2021-23. Maintain BUY with a reduced target price of S\$2.06.

WHAT'S NEW

- **Not expecting anomalies in upcoming 4Q21.** We do not anticipate any surprises in the upcoming 4Q21 results for Frencken Group (Frencken), which are expected to be released in the last week of February. Our net profit estimate of S\$14m (+33.2% yoy, -5.4% qoq) is derived from revenue of S\$175m, which implies a 7.6% yoy growth and an 11% qoq slowdown due to seasonality effects. For 9M21, Frencken reported earnings of S\$46.1m (+43.7% yoy), taking net profit to 77% of our full-year estimate. The strong performance was led primarily by the semiconductor segment, which helped drive positive operating leverage.
- **Worldwide chip sales continue to be robust.** As at 11M21, global chip sales have grown 25.3% yoy to US\$501.8b, and were on track to meet the estimate of US\$553b (+25.6% yoy) in 2021, according to World Semiconductor Trade Statistics (WSTS). The semiconductor market overall was not negatively impacted by the COVID-19 pandemic in 2021, with robust customer demand due to secular growth drivers including 5G, Internet of Things (IoT) and artificial intelligence. For 2022, WSTS is projecting a growth rate of 8.8% to US\$601b for the global semiconductor market.
- **Semiconductor segment to remain the key growth driver in 2021 and 2022.** Specific to Frencken, we expect the relatively more profitable semiconductor segment to contribute 39% and 40% of revenue for 2021 and 2022, an increase from 30% in 2020 (9M21: 37.2%). This should help lift overall gross profit margin from 17.0% in 2020 to our estimate of 17.4% in 2021 (9M21: 17.3%) and 2022, driving net profit growth by 41% and 11.7% in 2021 and 2022 respectively due to positive operating leverage. Further, our channel checks suggest indicative demand from Frencken's clients still points towards continued growth going into 2022, suggesting that pricing environment for the components manufactured by Frencken will remain healthy.

KEY FINANCIALS

Year to 31 Dec (S\$m)	2019	2020	2021F	2022F	2023F
Net turnover	659.2	620.6	746.7	808.9	947.8
EBITDA	80.0	80.1	99.7	108.6	126.7
Operating profit	59.4	58.9	77.4	85.1	102.0
Net profit (rep./act.)	42.4	42.6	60.1	67.1	80.8
Net profit (adj.)	42.4	42.6	60.1	67.1	80.8
EPS (S\$ cents)	10.0	10.0	14.1	15.7	18.9
PE (x)	17.2	17.2	12.2	10.9	9.1
P/B (x)	2.5	2.2	1.9	1.7	1.5
EV/EBITDA (x)	7.0	7.0	5.6	5.1	4.4
Dividend yield (%)	1.7	1.7	2.5	2.7	3.3
Net margin (%)	6.4	6.9	8.0	8.3	8.5
Net debt/(cash) to equity (%)	(23.4)	(32.1)	(33.6)	(41.6)	(44.1)
Interest cover (x)	61.9	95.6	98.9	99.4	99.0
ROE (%)	15.1	13.5	16.8	16.5	17.5
Consensus net profit	-	-	60.7	70.0	77.8
UOBKH/Consensus (x)	-	-	0.99	0.96	1.04

Source: Frencken, Bloomberg, UOB Kay Hian

BUY

(Maintained)

Share Price	S\$1.67
Target Price	S\$2.06
Upside	+23.4%
(Previous TP)	S\$2.62

COMPANY DESCRIPTION

Frencken is a global integrated technology solutions company. The group provides ODM and OEM services for the automotive, healthcare, industrial, analytical & life sciences and semiconductor industries.

STOCK DATA

GICS sector	Information Technology
Bloomberg ticker:	FRKN SP
Shares issued (m):	427.0
Market cap (S\$m):	708.5
Market cap (US\$m):	521.9
3-mth avg daily t'over (US\$m):	6.2

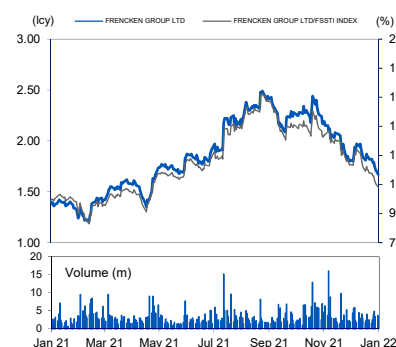
Price Performance (%)

52-week high/low	S\$ 2.49/S\$ 1.20			
1mth	3mth	6mth	1yr	YTD
(7.0)	(23.2)	(8.0)	23.7	(12.7)

Major Shareholders

Dato' Gooi Soon Chai	23.4
2022 NAV/Share (S\$)	1.01
2022 Net Cash/Share (S\$)	0.42

PRICE CHART



Source: Bloomberg

ANALYST(S)

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STOCK IMPACT

- **Near-term demand for semiconductor components to remain strong.** The ongoing chip shortage bodes well for Frencken's key semiconductor customers, who are mainly in the business of manufacturing equipment to make semiconductor chips. Current indications and outlook of these customers are still pointing towards a continuation of the uptrend, which is likely to be sustained into 2022.

EARNINGS REVISION/RISK

- No changes to our forecasts.

VALUATION/RECOMMENDATION

- **Maintain BUY with lowered target price of S\$2.06 (from S\$2.62).** We have reduced our valuation peg from 16.7x to 13.1x 2022F PE, from the initial 20% discount to key clients of Frencken to the stock's historical +1SD PE range. As reference, the new valuation peg translates to a 28% discount to Frencken's key clients. A more conservative stance is taken amid expectations of higher interest rates moving forward, impacting growth stocks generally. Despite that, we are still of the view that the current PE valuation of 10.7x for Frencken is attractive relative to peers due to its superior earnings growth profile, with EPS CAGR estimated at 24% over 2020-23.

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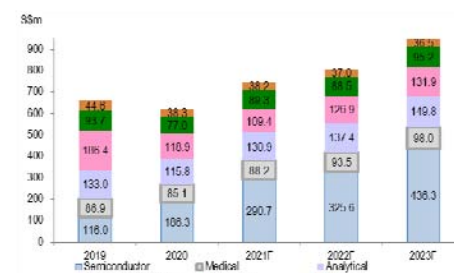
- Higher-than-expected factory utilisation rates.
- Better-than-expected cost management.

PEER COMPARISON

Company	Bloomberg Ticker	Trading Curr	Price @ 24 Jan 22 (TC)	Market Cap (USD)	PE		PB		EV/EBITDA		Yield 2021F (%)	Net Gearing (%)
					2021F (x)	2022F (x)	2021F (x)	2022F (x)	2021F (x)	2022F (x)		
Frencken Group	FRKN SP EQUITY	S\$	-1.67	-521.9	11.9	10.7	1.9	1.7	5.8	-4.8	2.5	(32.1)
SGX-listed peers												
Venture Corp	VMS SP EQUITY	S\$	18.11	3,914	17.1	15.7	2.0	1.9	10.8	9.8	4.1	(35.1)
AEM Holdings	AEM SP EQUITY	S\$	5.00	1,151	18.1	12.5	4.0	3.2	11.8	7.9	1.0	(58.4)
UMS Holdings	UMSH SP EQUITY	S\$	1.30	645	13.5	11.6	3.1	2.7	10.2	8.7	2.6	(13.3)
Singapore average					16.2	13.3	3.0	2.6	10.9	8.8	2.6	
Semiconductor (40% of Frencken's 2022F sales)												
ASML Holding NV	ASML NA EQUITY	€	629.30	289,892	37.5	31.9	20.7	17.5	29.9	25.6	1.2	(34.7)
Intel Corp	INTC US EQUITY	US\$	52.04	211,647	9.8	14.2	2.3	2.1	6.6	7.1	2.7	9.7
Kulicke & Soffa Industries	KLIC US EQUITY	US\$	52.48	3,278	9.1	9.7	n.a.	n.a.	n.a.	n.a.	1.3	(63.6)
Benchmark Electronics Inc	BHE US EQUITY	US\$	24.88	876	19.5	17.2	n.a.	n.a.	n.a.	n.a.	2.7	(16.7)
					19.0	18.2	11.5	9.8	18.2	16.4	1.9	
Industrial automation (16% of 2022F sales)												
Seagate Technology Holdings	STX US EQUITY	US\$	95.52	21,266	10.8	10.2	26.3	14.2	9.1	8.8	2.9	631.4
Western Digital Corp	WDC US EQUITY	US\$	57.81	18,015	6.7	5.9	1.4	1.2	5.0	4.3	n.a.	52.2
					8.7	8.1	13.9	7.7	7.0	6.5	2.9	
Analytical & Medical (29% of 2022F sales)												
Thermo Fisher Scientific	TMO US EQUITY	US\$	580.33	228,678	24.4	27.0	7.9	6.8	20.6	22.0	0.2	35.4
Oxford Instruments	OXIG LN EQUITY	GBp	2,250.00	1,759	26.7	26.2	n.a.	n.a.	16.5	16.2	0.8	(33.8)
Koninklijke Philips NV	PHIA NA EQUITY	€	29.39	29,441	16.3	16.2	2.1	1.9	9.8	9.0	2.9	30.2
Siemens Healthineers	SHL GR EQUITY	€	60.58	77,443	28.0	24.8	4.0	3.7	18.8	16.5	1.4	80.3
					23.8	23.6	4.6	4.1	16.5	15.9	1.3	
Automotive peers (11% of 2022F sales)												
Valeo SA	FR FP EQUITY	€	25.68	7,060	39.2	11.9	1.8	1.7	4.4	3.5	1.2	79.8
Visteon Corp	VC US EQUITY	US\$	104.80	2,934	248.3	25.4	9.0	8.9	17.3	9.9	n.a.	6.1
Thyssenkrupp AG	TKA GR EQUITY	€	9.37	6,612	6.0	7.3	0.5	0.5	0.9	0.8	n.a.	(32.9)
Bosch Ltd	BOS IN EQUITY	Rs	16,470.75	6,531	40.1	29.3	4.6	4.1	n.a.	n.a.	0.7	(41.7)
Denso Corp	6902 JP EQUITY	Yen	8,763.00	60,665	20.2	15.0	1.7	1.5	8.9	7.2	1.8	(0.1)
Johnson Control International	JCI US EQUITY	US\$	72.72	51,095	22.1	18.4	2.7	2.6	14.5	12.7	1.9	41.5
					62.6	17.9	3.4	3.2	9.2	6.8	1.4	
Blended average (Based on 2022F sales composition)					26.4	18.2	8.4	6.7	14.5	13.2	1.8	

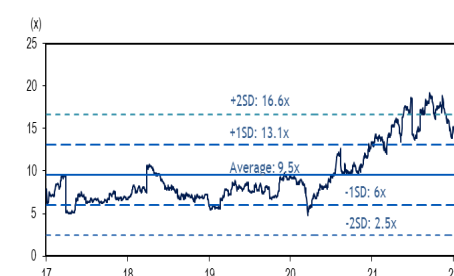
Source: Bloomberg, UOB Kay Hian

2019-23 REVENUE BY SEGMENT



Source: Frencken, UOB Kay Hian

HISTORICAL PE BAND



Source: Bloomberg, UOB Kay Hian

PROFIT & LOSS

Year to 31 Dec (\$m)	2020	2021F	2022F	2023F
Net turnover	620.6	746.7	808.9	947.8
EBITDA	80.1	99.7	108.6	126.7
Deprec. & amort.	21.1	22.4	23.5	24.7
EBIT	58.9	77.4	85.1	102.0
Associate contributions	0.0	0.0	0.0	0.0
Net interest income/(expense)	(0.8)	(1.0)	(1.1)	(1.3)
Pre-tax profit	51.9	76.4	84.0	100.7
Tax	(8.8)	(15.9)	(16.5)	(19.3)
Minorities	(0.5)	(0.4)	(0.4)	(0.6)
Net profit	42.6	60.1	67.1	80.8
Net profit (adj.)	42.6	60.1	67.1	80.8

BALANCE SHEET

Year to 31 Dec (\$m)	2020	2021F	2022F	2023F
Fixed assets	116.6	117.2	116.7	115.0
Other LT assets	18.0	17.3	16.6	15.8
Cash/ST investment	174.5	205.0	265.9	315.7
Other current assets	254.8	305.2	323.9	385.2
Total assets	563.8	644.7	723.2	831.7
ST debt	67.3	76.9	86.8	99.0
Other current liabilities	144.3	169.1	184.2	217.2
LT debt	0.0	0.0	0.0	0.0
Other LT liabilities	15.8	15.1	19.5	22.1
Shareholders' equity	334.0	381.3	430.4	491.1
Minority interest	2.3	2.3	2.3	2.3
Total liabilities & equity	563.8	644.7	723.2	831.7

CASH FLOW

Year to 31 Dec (\$m)	2020	2021F	2022F	2023F
Operating	67.1	56.2	91.9	80.4
Pre-tax profit	51.9	76.4	84.0	100.7
Tax	(5.9)	(7.0)	(15.5)	(15.4)
Deprec. & amort.	21.1	22.4	23.5	24.7
Working capital changes	0.0	(35.5)	(0.2)	(29.6)
Non-cash items	0.0	0.0	0.0	0.0
Investing	(15.3)	(20.2)	(20.3)	(19.8)
Capex (growth)	(23.7)	(23.0)	(23.0)	(23.0)
Proceeds from sale of assets	0.6	0.0	0.0	0.0
Others	7.9	2.8	2.7	3.2
Financing	(0.2)	(6.1)	(11.3)	(11.6)
Dividend payments	(12.7)	(12.7)	(18.0)	(20.1)
Issue of shares	0.8	0.0	0.0	0.0
Loan repayment	14.1	9.5	9.9	12.2
Others/interest paid	(2.4)	(2.9)	(3.1)	(3.7)
Net cash inflow (outflow)	51.7	29.9	60.3	49.0
Beginning cash & cash equivalent	122.4	174.5	205.0	265.9
Changes due to forex impact	0.4	0.6	0.6	0.7
Ending cash & cash equivalent	174.5	205.0	265.9	315.7

KEY METRICS

Year to 31 Dec (%)	2020	2021F	2022F	2023F
Profitability				
EBITDA margin	12.9	13.4	13.4	13.4
Pre-tax margin	8.4	10.2	10.4	10.6
Net margin	6.9	8.0	8.3	8.5
ROA	8.0	9.9	9.8	10.4
ROE	13.5	16.8	16.5	17.5
Growth				
Turnover	(5.8)	20.3	8.3	17.2
EBITDA	0.1	24.5	8.9	16.6
Pre-tax profit	(3.8)	47.2	10.0	19.9
Net profit	0.5	41.1	11.7	20.5
Net profit (adj.)	0.5	41.1	11.7	20.5
EPS	(0.0)	40.9	11.7	20.5
Leverage				
Debt to total capital	16.7	16.7	16.7	16.7
Debt to equity	20.2	20.2	20.2	20.2
Net debt/(cash) to equity	(32.1)	(33.6)	(41.6)	(44.1)
Interest cover (x)	95.6	98.9	99.4	99.0

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