

# Singapore Company Update

# Frencken Group Limited

Bloomberg: FRKN SP | Reuters: FREN.SI

Refer to important disclosures at the end of this report

DBS Group Research . Equity

25 Feb 2022

## BUY

Last Traded Price (24 Feb 2022): S\$1.60 (STI : 3,276.06)  
Price Target 12-mth: S\$2.09 (31% upside) (Prev S\$2.65)

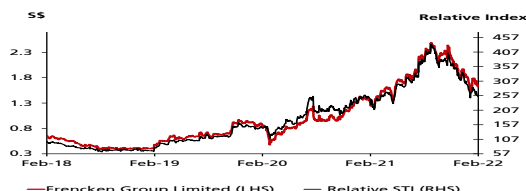
### Analyst

Lee Keng LING +65 6682 3703 leekeng@db.com

### What's New

- FY21 results below due to weaker margins
- Semiconductor division was the key contributor; Automotive affected by supply chain bottlenecks
- All divisions to register at least stable revenue in 1H22 vs 2H21; higher revenue from Semiconductor, Industrial Automotive and Automotive
- Maintain BUY with lower TP of S\$2.09 on 8% to 10% cut in earnings, and lower valuation pegged to peers

### Price Relative



### Forecasts and Valuation

FY Dec (\$m)	2020A	2021A	2022F	2023F
Revenue	621	767	853	919
EBITDA	80.6	95.2	107	119
Pre-tax Profit	51.9	70.5	79.4	89.6
Net Profit	42.6	58.7	66.2	74.7
Net Pft (Pre Ex.)	48.8	58.7	66.2	74.7
Net Pft Gth (Pre-ex) (%)	4.9	20.4	12.7	13.0
EPS (S cts)	10.0	13.8	15.5	17.5
EPS Pre Ex. (S cts)	11.5	13.8	15.5	17.5
EPS Gth Pre Ex (%)	5	20	13	13
Diluted EPS (S cts)	10.0	13.8	15.5	17.5
Net DPS (S cts)	3.00	3.00	4.65	5.25
BV Per Share (S cts)	78.7	88.1	98.9	111
PE (X)	15.9	11.6	10.3	9.1
PE Pre Ex. (X)	13.9	11.6	10.3	9.1
P/Cash Flow (X)	8.5	16.9	6.3	7.7
EV/EBITDA (X)	7.1	6.2	4.9	4.0
Net Div Yield (%)	1.9	1.9	2.9	3.3
P/Book Value (X)	2.0	1.8	1.6	1.4
Net Debt/Equity (X)	CASH	CASH	CASH	CASH
ROAE (%)	12.7	15.6	15.7	15.7
Earnings Rev (%):			(10)	(8)
Consensus EPS (S cts):			16.6	18.2
Other Broker Recs:		B: 5	S: 0	H: 0

Source of all data on this page: Company, DBS Bank, Bloomberg Finance L.P.

## Improving outlook for 1H22

### Investment Thesis:

A strong set of results despite supply chain disruptions, though margins a tad weaker than expected. Margins in FY21 were weaker, mainly due to supply chain disruptions affecting all segments, especially Automotive division. Despite this, the group was still able to register 38% higher net profit.

### Semiconductor to remain key contributor; Automotive improving.

The Semiconductor division remains the star performer, delivering the strongest growth in revenue for FY21 at 55.6% y-o-y, accounting for 38% of group revenue, up from 30% in FY20. Going forward, we continue to expect strong performance from this segment, riding on the robust growth of the semiconductor industry. With the supply chain bottlenecks likely to ease in 2022, we expect better performance for the Automotive division.

### Valuation:

Maintain BUY with lower TP of S\$2.09. We cut earnings by 10%/8%, mainly on lower margin assumption of 17% for FY22F and 17.5% for FY23F, from 18% previously. Target price is also reduced to S\$2.09 (previously S\$2.65) pegged to a lower peers' average of 13.5x (from 15.5x) on FY22F earnings, due to the de-rating of tech stocks globally.

### Where we differ:

We are optimistic that the positive impact on Frencken's Semiconductor segment and the recovery in the Automotive division can more than offset the weaker Industrial Automation division.

### Key Risks to Our View:

**Dependence on global market conditions.** Frencken has exposure to customers in the US, European Union (EU), and Asia, so a global economic slowdown could impact demand and earnings.

### At A Glance

Issued Capital (m shrs)	427
Mkt. Cap (S\$m/US\$m)	683 / 508
Major Shareholders (%)	
Micro Compact Sdn. Bhd	6.2
Precico Singapore Pte Ltd	6.1
Free Float (%)	87.7
3m Avg. Daily Val (US\$m)	5.2
GIC Industry : Industrials / Capital Goods	



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## WHAT'S NEW

### FY21 results below expectations due to weaker margins

#### Results Highlight

**FY21 results below expectations.** The Group's revenue increased 23.6% y-o-y to S\$767.1m, lifted by higher sales at both the Mechatronics and IMS Divisions. The Mechatronics division, which accounted for 86% of the total revenue, saw 26.6% y-o-y growth, on the back of double-digit sales growth in the semiconductor, medical and analytical segments. Revenue at IMS Division increased 6.8% to S\$107.8m led by higher sales in the automotive and consumer & industrial electronics segments. FY21 net profit gained 38% to S\$58.7m, 9% below our estimates.

DPS of 3 Scts was declared, similar to last year, with a dividend payout ratio of 22% vs 30% last year.

**Weaker gross margin.** Gross profit margin in 2H21 eased to 16.2% from 18.3% in 2H20 and 17.4% in 1H21, mainly due to softer sales in the automotive segment. Gross margin in 1H21 was 17.4%. The automotive industry was hit by worsening of the supply chain situation in 2H21. For the full year, gross margin eased slightly to 16.8% compared to 17.0% in FY20.

#### Revenue breakdown (by segment)

Revenue	2H21	2H20	y-o-y	% of total revenue	
	(\$m)	(\$m)	(%)	2H21	2H20
<b>Mechatronics Division</b>					
Semiconductor	149.1	98.4	51.4	38	30
Medical	51.9	41.1	26.5	13	13
Analytical	76.9	61.3	25.3	20	19
Industrial Automation	51.1	60.8	-15.9	13	19
Others	9.7	7.9	22.9	2	2
<b>Mechatronics Total</b>	<b>338.6</b>	<b>269.5</b>	<b>+25.7</b>	<b>86</b>	<b>82</b>
<b>IMS Division</b>					
Automotive	38.8	46.1	-15.9	10	14
Consumer & Industrial Electronics	10.2	8.4	21.2	3	3
Others	0.7	1.4	-49.0	0	0.4
Tooling	3.3	2.6	26.9	1	0.8
<b>IMS Total</b>	<b>53.0</b>	<b>58.5</b>	<b>-9.4</b>	<b>14</b>	<b>18</b>

Source: Company, DBS Bank

**Semiconductor remains the key contributor, riding on the industry's super cycle; Automotive affected by supply chain bottlenecks**

**Semiconductor** - The 55.6% y-o-y growth in revenue in FY21 was driven by higher orders for both front-end and back-end semiconductor equipment from customers in Europe and Asia. We expect the uptrend in overall semiconductor revenue, which started in 2H 2019, to be largely intact, with a slight dip in 2023 before resuming its growth trajectory. In the longer-term, the total semiconductor market is expected to grow at a CAGR of 8% from 2020-2025.

**Medical** - Sales in the medical segment increased 18.7% y-o-y in FY21 to S\$101.0m, attributable mainly to an increase in demand from customers in Europe and Asia.

**Analytical & life sciences** - Revenue in FY21 increased 27.2% to S\$147.4m due mainly to improving demand from customers in Europe.

**Industrial automation** - This segment's revenue softened 11.9% to S\$104.7m due to lower capital expenditure for hard disk production equipment of a key customer. Sales in this segment are typically lumpy in nature and dependent on the capital expenditure of the key customer.

**Automotive** - FY21 revenue increased 6.6% y-o-y. 2H21 was weaker, down 15.9% y-o-y, due mainly to slower conditions in the global automotive industry that arose from supply chain bottlenecks. The group has secured its first automotive radar antenna program using its proprietary plastic metalization process. Frencken expects the automotive segment to benefit from more programs in the future, driven by the V2X (vehicle-to-everything) trend.

#### Outlook for 1H22:

All divisions are expected to register at least stable revenue in 1H22 vs 2H21. The Semiconductor, Industrial Automation and Automotive divisions are expected to record higher revenues in 1H22 vs 2H21; Medical and Analytical & Life Sciences are anticipated to record stable revenue.

## Frencken Group Limited

### 1H22 revenue vs 2H21

Higher	Stable
Semiconductor	Medical
Industrial Automation	Analytical & Life Sciences
Automotive	

Source: Company, DBS Bank

### Company Background

Frencken Group Limited (Frencken) provides end-to-end solutions across the entire customer value chain. It offers comprehensive original design, original equipment and diversified integrated manufacturing solutions for world-class multinational companies in the automotive, healthcare, industrial, life sciences, and semiconductor industries.

### Earnings & Recommendation

**Maintain BUY with lower TP of S\$2.09.** We have reduced FY22F/23F earnings by 10%/8%, mainly on lower margins assumption of 17% for FY22F and 17.5% for FY23F, from 18% previously. Target price is also cut to S\$2.09 (previously S\$2.65) pegged to a lower peers' average of 13.5x (from 15.5x previously) on FY22F earnings, due to the de-rating of tech stocks globally.

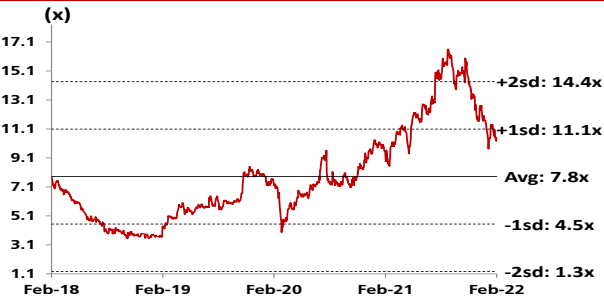
### Interim Income Statement (S\$m)

FY Dec	2H2020	1H2021	2H2021	% chg yoy	% chg hoh
Revenue	328	375	392	19.4	4.4
Cost of Goods Sold	(268)	(310)	(328)	22.4	5.9
<b>Gross Profit</b>	<b>60</b>	<b>65</b>	<b>64</b>	<b>5.9</b>	<b>(2.9)</b>
Other Oper. (Exp)/Inc	(31)	(26)	(31)	(2.0)	17.2
<b>Operating Profit</b>	<b>29</b>	<b>39</b>	<b>33</b>	<b>14.5</b>	<b>(16.3)</b>
Other Non Opg (Exp)/Inc	0	0	0	-	-
Associates & JV Inc	0	0	0	-	-
Net Interest (Exp)/Inc	(1)	(1)	(1)	(51.1)	(54.6)
Exceptional Gain/(Loss)	0	0	0	-	-
<b>Pre-tax Profit</b>	<b>28</b>	<b>39</b>	<b>32</b>	<b>13.8</b>	<b>(17.3)</b>
Tax	(4)	(7)	(4)	21.7	(36.1)
Minority Interest	(1)	0	0	-	-
<b>Net Profit</b>	<b>24</b>	<b>31</b>	<b>27</b>	<b>14.9</b>	<b>(12.6)</b>
Net profit bef Except.	24	31	27	14.9	(12.6)
EBITDA	40	50	45	14.0	(9.7)
<b>Margins (%)</b>					
Gross Margins	18.3	17.4	16.2		
Opg Profit Margins	8.7	10.4	8.4		
Net Profit Margins	7.3	8.3	7.0		

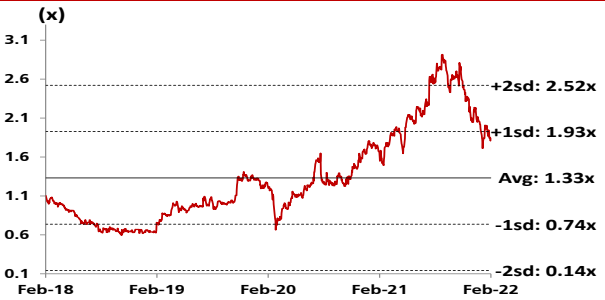
Source of all data: Company, DBS Bank

**Frencken Group Limited**

**Historical PE and PB band**



Source: Bloomberg Finance L.P., DBS Bank estimates



Source: Bloomberg Finance L.P., DBS Bank estimates

## Frencken Group Limited

### Key Assumptions

FY Dec	2019A	2020A	2021A	2022F	2023F
Gross Margin %	16.9	17.1	16.8	17.0	17.5
% of SGA	8.83	9.19	8.42	8.42	8.42

### Segmental Breakdown

FY Dec	2019A	2020A	2021A	2022F	2023F
<b>Revenues (\$\$m)</b>					
Mechatronics	540	520	659	735	793
IMS	120	101	108	119	126
<b>Total</b>	<b>659</b>	<b>621</b>	<b>767</b>	<b>853</b>	<b>919</b>

### Operating profit (EBIT)

Mechatronics	50.9	48.1	59.3	66.1	71.4
IMS	6.10	7.76	8.28	9.11	9.65
<b>Total</b>	<b>57.0</b>	<b>55.9</b>	<b>67.6</b>	<b>75.2</b>	<b>81.0</b>

### Operating profit (EBIT) Margins (%)

Mechatronics	9.4	9.2	9.0	9.0	9.0
IMS	5.1	7.7	7.7	7.7	7.7
<b>Total</b>	<b>8.6</b>	<b>9.0</b>	<b>8.8</b>	<b>8.8</b>	<b>8.8</b>

### Income Statement (\$\$m)

FY Dec	2019A	2020A	2021A	2022F	2023F
Revenue	659	621	767	853	919
Cost of Goods Sold	(548)	(515)	(638)	(708)	(758)
<b>Gross Profit</b>	<b>111</b>	<b>106</b>	<b>129</b>	<b>145</b>	<b>161</b>
Other Opng (Exp)/Inc	(58.2)	(57.1)	(64.6)	(71.8)	(77.4)
<b>Operating Profit</b>	<b>53.3</b>	<b>49.1</b>	<b>64.3</b>	<b>73.2</b>	<b>83.4</b>
Other Non Opng (Exp)/Inc	6.08	10.6	7.62	7.62	7.62
Associates & JV Inc	0.0	0.0	0.0	0.0	0.0
Net Interest (Exp)/Inc	(1.3)	(0.8)	(1.4)	(1.4)	(1.4)
Exceptional Gain/(Loss)	(4.2)	(6.2)	0.0	0.0	0.0
<b>Pre-tax Profit</b>	<b>53.9</b>	<b>51.9</b>	<b>70.5</b>	<b>79.4</b>	<b>89.6</b>
Tax	(11.3)	(8.8)	(11.4)	(12.8)	(14.5)
Minority Interest	(0.2)	(0.5)	(0.4)	(0.4)	(0.4)
Preference Dividend	0.0	0.0	0.0	0.0	0.0
<b>Net Profit</b>	<b>42.4</b>	<b>42.6</b>	<b>58.7</b>	<b>66.2</b>	<b>74.7</b>
Net Profit before Except.	46.5	48.8	58.7	66.2	74.7
EBITDA	80.5	80.6	95.2	107	119
<b>Growth</b>					
Revenue Gth (%)	5.3	(5.7)	23.4	11.2	7.7
EBITDA Gth (%)	31.0	0.1	18.2	12.4	11.4
Opg Profit Gth (%)	31.8	(7.8)	30.9	13.8	14.0
Net Profit Gth (Pre-ex) (%)	37.1	4.9	20.4	12.7	13.0
<b>Margins &amp; Ratio</b>					
Gross Margins (%)	16.9	17.1	16.8	17.0	17.5
Opg Profit Margin (%)	8.1	7.9	8.4	8.6	9.1
Net Profit Margin (%)	6.4	6.9	7.7	7.8	8.1
ROAE (%)	14.3	12.7	15.6	15.7	15.7
ROA (%)	8.4	7.6	8.5	9.1	9.5
ROCE (%)	12.3	11.4	11.6	11.9	12.3
Div Payout Ratio (%)	30.0	29.9	21.8	30.0	30.0
Net Interest Cover (x)	41.2	58.6	45.8	52.2	59.5

Source: Company, DBS Bank

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### Interim Income Statement (\$m)

FY Dec	2H2019	1H2020	2H2020	1H2021	2H2021
Revenue	336	293	328	375	392
Cost of Goods Sold	(277)	(247)	(268)	(310)	(328)
<b>Gross Profit</b>	<b>58.3</b>	<b>45.4</b>	<b>60.0</b>	<b>65.4</b>	<b>63.5</b>
Other Oper. (Exp)/Inc	(29.2)	(21.4)	(31.4)	(26.2)	(30.7)
<b>Operating Profit</b>	<b>29.1</b>	<b>24.1</b>	<b>28.6</b>	<b>39.1</b>	<b>32.8</b>
Other Non Opg (Exp)/Inc	0.0	0.0	0.0	0.0	0.0
Associates & JV Inc	0.0	0.0	0.0	0.0	0.0
Net Interest (Exp)/Inc	(0.5)	(0.3)	(0.6)	(0.6)	(0.9)
Exceptional Gain/(Loss)	0.0	0.0	0.0	0.0	0.0
<b>Pre-tax Profit</b>	<b>28.6</b>	<b>23.8</b>	<b>28.1</b>	<b>38.6</b>	<b>31.9</b>
Tax	(5.8)	(5.2)	(3.7)	(7.0)	(4.4)
Minority Interest	(0.1)	0.10	(0.6)	(0.3)	(0.1)
<b>Net Profit</b>	<b>22.7</b>	<b>18.7</b>	<b>23.8</b>	<b>31.3</b>	<b>27.4</b>
Net profit bef Except.	22.7	18.7	23.8	31.3	27.4
EBITDA	39.6	24.1	39.6	50.0	45.2

### Growth

Revenue Gth (%)	3.8	(12.9)	12.2	14.4	4.4
EBITDA Gth (%)	7.8	(39.2)	64.5	26.3	(9.7)
Opg Profit Gth (%)	11.5	(17.2)	18.8	36.8	(16.3)
Net Profit Gth (%)	15.0	(17.3)	27.2	31.5	(12.6)

### Margins

Gross Margins (%)	17.4	15.5	18.3	17.4	16.2
Opg Profit Margins (%)	8.7	8.2	8.7	10.4	8.4
Net Profit Margins (%)	6.8	6.4	7.3	8.3	7.0

### Balance Sheet (\$m)

FY Dec	2019A	2020A	2021A	2022F	2023F
Net Fixed Assets	92.1	99.8	111	105	96.9
Invts in Associates & JVs	0.0	0.0	0.0	0.0	0.0
Other LT Assets	39.3	34.7	41.6	49.6	50.9
Cash & ST Invts	122	174	193	261	308
Inventory	141	143	203	155	166
Debtors	97.6	98.7	123	140	151
Other Current Assets	14.1	13.0	16.8	16.8	16.8
<b>Total Assets</b>	<b>506</b>	<b>564</b>	<b>688</b>	<b>728</b>	<b>790</b>
ST Debt	53.1	67.3	95.6	95.6	95.6
Creditor	87.8	80.1	122	107	114
Other Current Liab	49.5	64.2	70.8	79.1	80.8
LT Debt	0.17	0.0	1.58	1.58	1.58
Other LT Liabilities	17.5	15.8	19.2	19.2	19.2
Shareholder's Equity	295	334	376	422	475
Minority Interests	2.78	2.33	2.87	3.25	3.64
<b>Total Cap. &amp; Liab.</b>	<b>506</b>	<b>564</b>	<b>688</b>	<b>728</b>	<b>790</b>
Non-Cash Wkg. Capital	115	110	150	126	139
Net Cash/(Debt)	69.2	107	95.4	164	211
Debtors Turn (avg days)	54.1	58.0	58.7	60.0	60.0
Creditors Turn (avg days)	60.9	59.2	72.4	57.1	57.1
Inventory Turn (avg days)	97.5	105.9	120.6	83.1	83.1
Asset Turnover (x)	1.3	1.1	1.1	1.2	1.2
Current Ratio (x)	2.0	2.0	1.9	2.0	2.2
Quick Ratio (x)	1.2	1.3	1.1	1.4	1.6
Net Debt/Equity (X)	CASH	CASH	CASH	CASH	CASH
Net Debt/Equity ex MI (X)	CASH	CASH	CASH	CASH	CASH
Capex to Debt (%)	25.2	34.3	17.7	20.6	20.6

Source: Company, DBS Bank

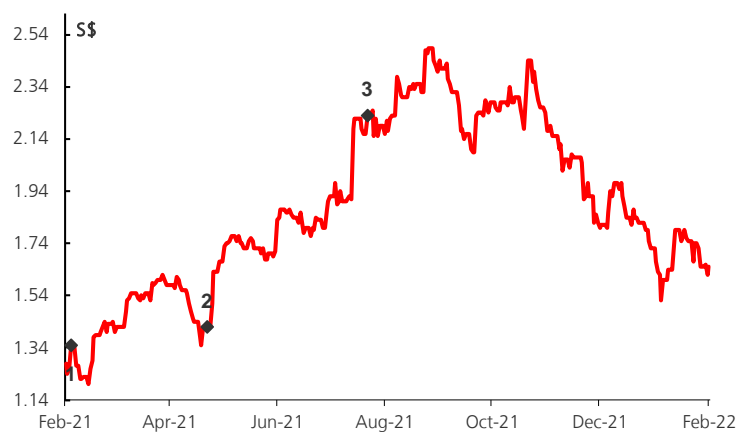
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### Cash Flow Statement (\$m)

FY Dec	2019A	2020A	2021A	2022F	2023F
Pre-Tax Profit	53.9	51.9	70.5	79.4	89.6
Dep. & Amort.	21.1	21.7	23.3	26.2	28.2
Tax Paid	(11.3)	(8.8)	(11.4)	(12.8)	(14.5)
Assoc. & JV Inc/(loss)	0.0	0.0	0.0	0.0	0.0
Chg in Wkg.Cap.	26.0	8.08	(36.9)	15.8	(14.2)
Other Operating CF	5.10	6.84	(5.2)	0.0	0.0
<b>Net Operating CF</b>	<b>94.9</b>	<b>79.6</b>	<b>40.4</b>	<b>109</b>	<b>89.1</b>
Capital Exp.(net)	(13.4)	(23.1)	(17.2)	(20.0)	(20.0)
Other Invs.(net)	0.0	0.0	0.0	0.0	0.0
Invs in Assoc. & JV	0.0	(1.5)	(13.0)	0.0	0.0
Div from Assoc & JV	0.0	0.0	0.0	0.0	0.0
Other Investing CF	1.66	1.82	1.42	0.0	0.0
<b>Net Investing CF</b>	<b>(11.7)</b>	<b>(22.8)</b>	<b>(28.8)</b>	<b>(20.0)</b>	<b>(20.0)</b>
Div Paid	(9.1)	(12.8)	(12.8)	(19.9)	(22.4)
Chg in Gross Debt	(10.6)	(3.0)	9.70	0.0	0.0
Capital Issues	0.0	0.0	0.0	0.0	0.0
Other Financing CF	0.56	0.77	(6.1)	0.0	0.0
<b>Net Financing CF</b>	<b>(19.1)</b>	<b>(15.0)</b>	<b>(9.2)</b>	<b>(19.9)</b>	<b>(22.4)</b>
Currency Adjustments	0.53	(0.4)	(0.8)	0.0	0.0
Chg in Cash	64.5	41.5	1.48	68.7	46.7
Opg CFPS (S cts)	16.2	16.9	18.1	21.7	24.2
Free CFPS (S cts)	19.2	13.3	5.42	20.7	16.2

Source: Company, DBS Bank

### Target Price & Ratings History



S.No.	Date of Report	Closing Price	12-mth Target Price	Rating
1:	26 Feb 21	1.35	1.55	BUY
2:	14 May 21	1.42	1.98	BUY
3:	13 Aug 21	2.23	2.65	BUY

Note: Share price and Target price are adjusted for corporate actions.

Source: DBS Bank

Analyst: Lee Keng LING

DBS Bank recommendations are based on an Absolute Total Return\* Rating system, defined as follows:  
**STRONG BUY** (>20% total return over the next 3 months, with identifiable share price catalysts within this time frame)  
**BUY** (>15% total return over the next 12 months for small caps, >10% for large caps)  
**HOLD** (-10% to +15% total return over the next 12 months for small caps, -10% to +10% for large caps)  
**FULLY VALUED** (negative total return, i.e., > -10% over the next 12 months)  
**SELL** (negative total return of > -20% over the next 3 months, with identifiable share price catalysts within this time frame)

\*Share price appreciation + dividends

Completed Date: 25 Feb 2022 07:28:36 (SGT)

Dissemination Date: 25 Feb 2022 08:06:15 (SGT)

Sources for all charts and tables are DBS Bank unless otherwise specified.

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**DBS Regional Research Offices**
**HONG KONG**
**DBS (Hong Kong) Ltd**

Contact: Carol Wu  
13th Floor One Island East,  
18 Westlands Road,  
Quarry Bay, Hong Kong  
Tel: 852 3668 4181  
Fax: 852 2521 1812  
e-mail: dbsvhk@dbs.com

**MALAYSIA**
**AllianceDBS Research Sdn Bhd**

Contact: Wong Ming Tek  
19th Floor, Menara Multi-Purpose,  
Capital Square,  
8 Jalan Munshi Abdullah 50100  
Kuala Lumpur, Malaysia.  
Tel.: 603 2604 3333  
Fax: 603 2604 3921  
e-mail: general@alliancedbs.com  
Co. Regn No. 198401015984 (128540-U)

**SINGAPORE**
**DBS Bank Ltd**

Contact: Janice Chua  
12 Marina Boulevard,  
Marina Bay Financial Centre Tower 3  
Singapore 018982  
Tel: 65 6878 8888  
e-mail: groupresearch@dbs.com  
Company Regn. No. 196800306E

**INDONESIA**
**PT DBS Vickers Sekuritas (Indonesia)**

Contact: Maynard Priajaya Arif  
DBS Bank Tower  
Ciputra World 1, 32/F  
Jl. Prof. Dr. Satrio Kav. 3-5  
Jakarta 12940, Indonesia  
Tel: 62 21 3003 4900  
Fax: 6221 3003 4943  
e-mail: indonesiaesearch@dbs.com

**THAILAND**
**DBS Vickers Securities (Thailand) Co Ltd**

Contact: Chanpen Sirithanarattanakul  
989 Siam Piwat Tower Building,  
9th, 14th-15th Floor  
Rama 1 Road, Pathumwan,  
Bangkok Thailand 10330  
Tel. 66 2 857 7831  
Fax: 66 2 658 1269  
e-mail: research@th.dbs.com  
Company Regn. No 0105539127012  
Securities and Exchange Commission, Thailand