

Singapore

ADD (no change)

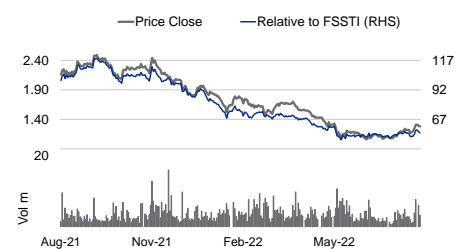
Consensus ratings*: Buy 4 Hold 1 Sell 0

Current price:	S\$1.28
Target price:	S\$1.75
Previous target:	S\$1.72
Up/downside:	36.7%
CGS-CIMB / Consensus:	12.9%
Reuters:	FREN.SI
Bloomberg:	FRKN.SP
Market cap:	US\$399.6m
	S\$546.6m
Average daily turnover:	US\$2.83m
	S\$3.92m
Current shares o/s:	427.0m
Free float:	75.6%

*Source: Bloomberg

Key changes in this note

➤ No changes.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	15.3	-5.2	-40.8
Relative (%)	9.8	-7.6	-44.6

Major shareholders	% held
Micro compact Sdn Bhd	6.2
Precico Singapore Pte Ltd	6.1

Analyst(s)



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Frencken Group Ltd

Expecting hoh revenue improvement

- 1H22 revenue (S\$389m) was in line at 97% of our S\$402m forecast and formed 46% of our/Bloomberg consensus full-year forecast.
- 1H22 net profit (S\$26.1m) was in line at 102% of our S\$25.7m forecast and formed 47%/46% of our/Bloomberg consensus full-year forecast.
- Our TP is raised slightly to S\$1.75 (previously S\$1.72).

1H22 results: in line with our expectation

1H22 revenue rose 3.6% yoy to S\$389m. The Mechatronics division revenue (87.3% of 1H22 revenue) grew 6.2% yoy while the Automotive division (12.5% of 1H22 revenue) saw a 11.5% yoy revenue decline. 1H22 revenue (S\$389m) was in line at 97% of our S\$402m forecast and formed 46% of our/Bloomberg consensus full-year forecast. 1H22 net profit fell 16.6% yoy to S\$26.1m. 1H22 net profit (S\$26.1m) was in line at 102% of our S\$25.7m forecast and formed 47%/46% of our/Bloomberg consensus full-year forecast. 1H22 gross profit margin fell 1.79% pts yoy and 0.58% pts hoh to 15.63% (1H21: 17.42%, 2H21: 16.21%). The decline in the gross profit margin was due to inflationary cost pressures and additional depreciation expenses as the group invested to upgrade its machineries and expanded capacity globally.

2H22F outlook: management expects hoh revenue growth

Management guided that 2H22F revenue is expected to post a moderate increase compared with 1H22. It expects the semiconductor, medical, analytical and life sciences and automotive segments to post hoh increases in revenue, but projects the industrial automation segment to see a hoh decrease in revenue. On the margin front, Frencken has managed to pass on some of the cost increase to customers. Some of these benefits may be offset by the group's ongoing investments in its facilities in Europe, Malaysia and Singapore to pursue additional revenue opportunities for FY23F and beyond.

Reiterate Add on growth potential

We reiterate our Add call (driven by its earnings growth potential) and our TP (based on FY23F EPS forecast) is raised slightly to S\$1.75 (previously S\$1.72) as the +1 s.d. P/E multiple over Jan 17 to Aug 22 has risen to 11.4x (previously, the +1 s.d. P/E multiple over Jan 17 to Jun 22 was 11.2x). Downside risks are potential production disruptions arising from Covid-19 infections in its workforce and further cost pressures from higher raw material costs. Potential re-rating catalysts are increased wallet share with customers and clinching new customers.

Financial Summary

	Dec-20A	Dec-21A	Dec-22F	Dec-23F	Dec-24F
Revenue (S\$m)	620.6	767.1	847.9	897.3	945.7
Net Profit (S\$m)	42.57	58.73	56.03	65.50	73.41
Core EPS (S\$)	0.12	0.14	0.13	0.15	0.17
Core EPS Growth	4.9%	20.4%	(4.6%)	16.9%	12.1%
FD Core P/E (x)	11.11	9.23	9.67	8.28	7.38
Price To Sales (x)	0.87	0.71	0.64	0.60	0.57
DPS (S\$)	0.030	0.041	0.039	0.046	0.052
Dividend Yield	2.34%	3.23%	3.08%	3.60%	4.03%
EV/EBITDA (x)	6.25	5.13	4.93	3.93	3.10
P/FCFE (x)	10.06	36.02	21.43	9.18	7.25
Net Gearing	(31.9%)	(25.2%)	(25.7%)	(31.7%)	(38.5%)
P/BV (x)	1.62	1.44	1.31	1.18	1.06
ROE	15.5%	16.5%	14.2%	14.9%	15.1%
% Change In Core EPS Estimates			0%	0%	0%
CGS-CIMB/Consensus EPS (x)			1.00	1.02	0.99

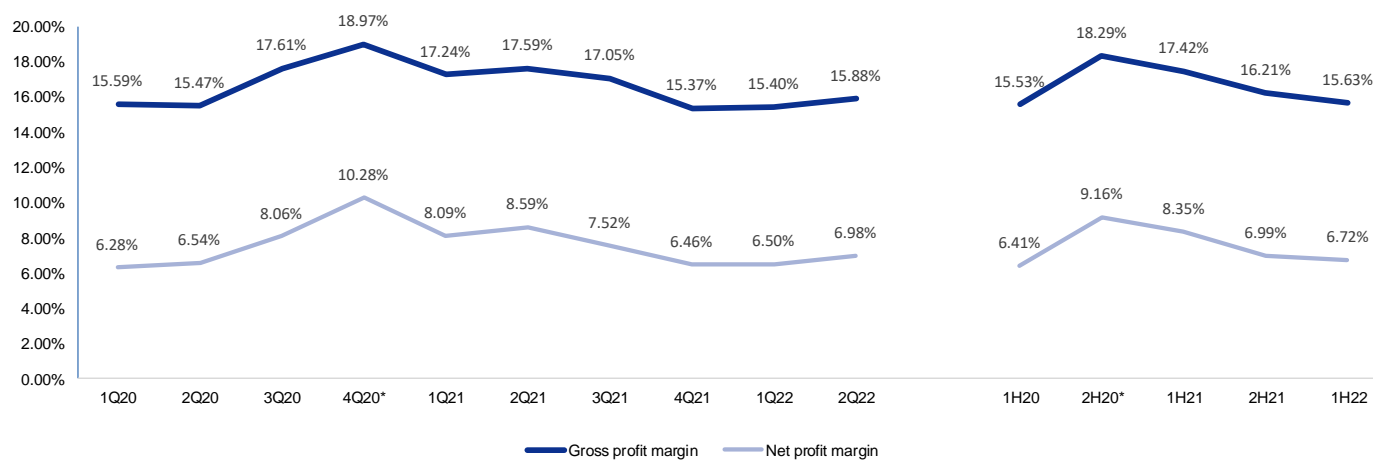
SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Figure 1: Results comparison

FYE 31 Dec (S\$ m)	1H22	1H21	yoy % chg	2H21	hoh % chg	Prev Comments FY22F
Revenue	388.9	375.3	3.6	391.8	(0.7)	847.9 1H22 revenue in line at 97% of our S\$402m expectation. 1H22 revenue formed 46% of our and Bloomberg consensus full-year forecast.
Operating costs	(342.4)	(325.3)	5.3	(345.3)	(0.8)	(753.2)
EBITDA	46.6	50.0	(7.0)	46.5	0.1	94.8
EBITDA margin (%)	12.0	13.3	-1.4% pts	11.9	+0.1% pts	11.2 Margin erosion on higher cost environment.
Depn & amort.	(13.2)	(10.9)	21.0	(12.4)	6.3	(25.0) Higher on further investments in machinery.
EBIT	33.4	39.1	(14.7)	34.1	(2.1)	69.8
Interest income	0.2	0.5	(57.7)	0.5	(56.1)	1.0
Interest exp	(1.5)	(1.0)	39.8	(1.3)	10.0	(2.8)
Exceptionals	0.0	0.0	na	(1.3)	(100.0)	0.0
Pretax profit	32.1	38.6	(16.8)	31.9	0.6	68.0
Tax	(6.0)	(7.0)	(14.5)	(4.4)	33.9	(11.6)
Tax rate (%)	18.5	18.0	+0.5% pts	13.9	+4.6% pts	17.0
Minority interests	0.0	0.3	(90.7)	0.1	(66.7)	0.4
Net profit	26.1	31.3	(16.6)	27.4	(4.5)	56.0
Core net profit	26.1	31.3	(16.6)	28.7	(9.0)	56.0 1H22 net profit in line at 102% of our S\$25.7m expectation. 1H22 net profit formed 47% of our full-year forecast and 46% of Bloomberg consensus forecast.
EPS (cts)	6.12	7.34	(16.6)	6.41	(4.5)	13.1
Core EPS (cts)	6.12	7.34	(16.6)	6.73	(9.0)	13.1

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Figure 2: Historical GPM & NPM trend



SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

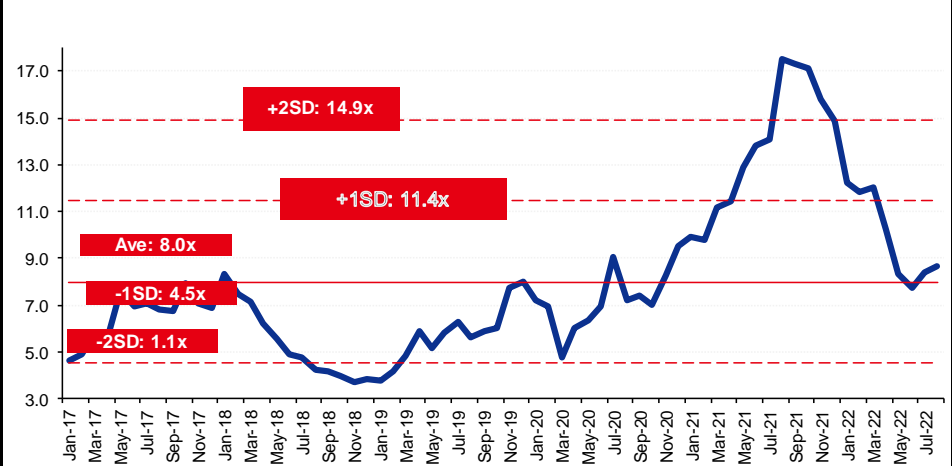
* in 4Q20, Frencken had an exceptional loss of S\$6.22m which we wrote back to have a better sense of operating performance

Figure 3: Frencken expects 2H22F revenue to show a moderate increase compared with 1H22

Revenue (\$\$ m)				
Segment	1H21	2H21	1H22	2H22F Guidance
Semiconductor	140.8	149.1	152.8	Anticipated to post higher revenue compared to 1H22
Medical	49.0	51.9	45.7	Anticipated to increase compared to 1H22
Analytical & life sciences	70.5	76.9	75.1	Anticipated to post moderately higher revenue compared to 1H22
Industrial automation	53.6	51.1	57.4	Anticipated to decrease versus 1H22
Automotive	43.4	38.8	36.1	Expected to record higher revenue

SOURCES: COMPANY REPORTS

Figure 4: Frencken Group Ltd's 12-mth forward rolling P/E (x)



SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Figure 5: Singapore peer comparison

Company	Bloomberg Ticker	Recom.	Price (lcl curr)	Target Price (lcl curr)	Market Cap (US\$ m)	P/E (x)			3-year EPS CAGR (%)	P/BV (x)		Recurring ROE (%)	Dividend Yield (%)
						CY22F	CY23F	CY24F		CY22F	CY23F		
Frencken Group Ltd	FRKN SP	Add	1.28	1.75	400	9.7	8.3	7.4	7.1%	1.31	1.18	14.3%	3.1%
AEM Holdings Ltd	AEM SP	Add	4.41	6.85	996	11.5	10.1	9.7	11.9%	2.78	2.30	26.9%	2.2%
Aztech Global Ltd	AZTECH SP	Add	0.91	1.22	514	7.8	6.8	5.9	11.6%	2.08	1.80	29.0%	6.4%
Grand Venture Technology Ltd	GVTL SP	Add	0.70	0.85	174	15.3	10.7	9.3	6.3%	2.03	1.76	14.1%	1.3%
ISDN Holdings Ltd	ISDN SP	Add	0.52	0.70	165	8.6	7.4	6.8	7.7%	1.04	0.94	12.9%	2.9%
Nanofilm Technologies Int'l Ltd	NANO SP	Add	2.11	3.05	1,018	20.4	16.1	14.3	15.5%	2.89	2.54	15.1%	1.2%
UMS Holdings Ltd	UMSH SP	Add	1.20	1.63	585	11.0	10.7	10.0	13.3%	2.53	2.24	24.9%	4.2%
Vicplas International Ltd	VPS SP	Add	0.20	0.27	74	9.9	8.0	na	na	1.22	1.10	13.2%	2.5%
Venture Corporation	VMS SP	Add	18.13	23.32	3,857	14.6	13.6	12.8	8.8%	1.84	1.74	13.0%	4.1%
Simple average excluding FRKN						12.4	10.4	9.8	10.7%	2.05	1.80	18.6%	3.1%

SOURCES: CGS-CIMB RESEARCH ESTIMATES, COMPANY REPORTS, BLOOMBERG
 DATA AS AT 12 AUG 2022

Figure 6: Global peer comparison

Company	Bloomberg Ticker	Price	Target Price	Market Cap	P/E (x)	3-year EPS	P/BV (x)	Recurring ROE (%)	Dividend Yield (%)		
		Recom. (lcl curr)	(lcl curr)	(US\$ m)	CY22F	CY23F	CAGR (%)	CY22F	CY22F		
Singapore											
Frencken Group Ltd	FRKN SP	ADD	1.28	1.75	400	9.7	8.3	7.1%	1.31	14.3%	3.1%
Grand Venture Technology Ltd	GVTL SP	Add	0.70	0.85	174	15.3	10.7	11.5%	2.03	14.1%	1.3%
UMS Holdings Ltd	UMSH SP	Add	1.20	1.63	585	11.0	10.7	13.3%	2.53	24.9%	4.2%
SAM Engineering & Equipment	SEQB MK	Add	4.59	3.80	559	28.5	21.8	25.2%	3.33	12.5%	0.9%
UWC BHD	UWC MK	NR	4.06	NA	997	40.3	33.5	-3.7%	10.34	27.0%	0.5%
Unisem	UNI MK	Add	2.98	3.90	1,081	19.6	16.8	na	2.09	11.3%	2.3%
Benchmark Electronics Inc	BHE US	NR	27.20	NA	956	13.6	12.2	na	na	na	na
Celestica Inc	CLS US	NR	11.30	NA	1,395	6.7	6.1	33.4%	na	13.8%	0.0%
Flex Ltd	FLEX US	NR	18.64	NA	8,501	9.5	8.3	10.9%	2.02	23.4%	0.0%
Sanmina Corp	SANM US	NR	49.34	NA	2,852	9.9	9.8	-0.1%	na	16.6%	0.0%
Simple Average excluding GVT						15.7	14.0	3.6%	3.80	19.1%	1.2%

SOURCES: CGS-CIMB RESEARCH ESTIMATES, COMPANY REPORTS, BLOOMBERG
NOTE: FORECASTS FOR NOT RATED COMPANIES ARE BLOOMBERG CONSENSUS ESTIMATES
DATA AS AT 12 AUG 2022



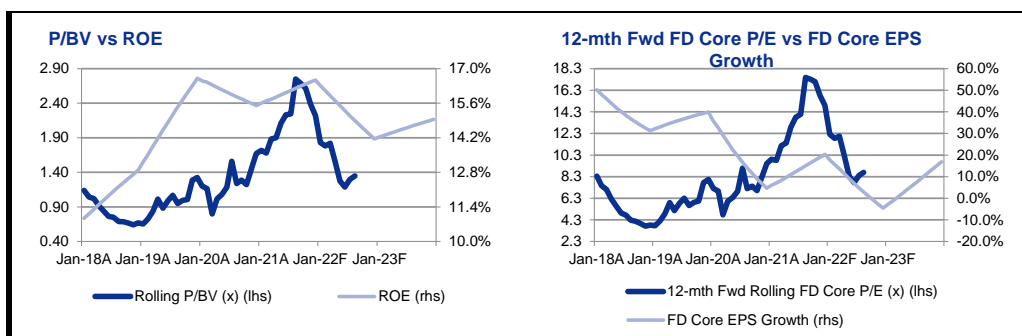
ESG in a nutshell

Frencken Group Limited (Frencken) provides original design, original equipment and diversified integrated manufacturing solutions for customers in the automotive, healthcare, industrial, analytical & life sciences and semiconductor industries. Frencken believes that a solid governance structure is essential for the long-term prosperity of an organisation. With the guidance of the Code of Corporate Governance (2018 Code) issued by the Monetary Authority of Singapore (MAS) in Aug 2018, Frencken said it ensures compliance and strives to uphold the highest standards of corporate governance.

<p>Keep your eye on</p> <p>Customer concentration risk.</p>	<p>Implications</p> <p>Frencken has one customer that accounted for 12.3% of its FY21 revenue. This is an improvement from FY20 where the same customer accounted for 17.6% of its revenue. Frencken's customer concentration risk is offset by its exposure to other business segments and efforts to recruit new customers.</p>
<p>ESG highlights</p> <p>The group aims to reduce its environmental footprint and keep itself updated on local environmental regulations and guidelines. The group aims to achieve a balance between its economic growth and contribution in sustaining the environment.</p>	<p>Implications</p> <p>Frencken's efforts to reduce its environmental impact include replacing legacy lighting with energy efficient LED lighting and the use of renewable energy. To reduce its carbon footprint and build greater business sustainability, solar energy panels have been installed at its factories in Chuzhou (China), Selangor (Malaysia) and Thailand, according to its FY21 Annual Report. Further progress in the usage of energy efficient lighting and renewable energy could lower operating costs.</p>
<p>Trends</p> <p>Frencken has established occupational safety and health (OSH) policies, as well as a safety and health committee, within its various entities. The committee comprises representatives from the executive and non-executive staff.</p>	<p>Implications</p> <p>Based on its FY21 Annual Report, it recorded zero cases (FY20: zero cases) of occupational diseases and zero work-related fatalities in FY21.</p>

SOURCES: CGS-CIMB RESEARCH, REFINITIV

BY THE NUMBERS



Profit & Loss

(\$m)	Dec-20A	Dec-21A	Dec-22F	Dec-23F	Dec-24F
Total Net Revenues	620.6	767.1	847.9	897.3	945.7
Gross Profit	127.1	152.2	157.2	172.0	186.2
Operating EBITDA	70.0	87.6	88.8	101.4	112.1
Depreciation And Amortisation	(21.7)	(23.3)	(25.0)	(26.2)	(27.4)
Operating EBIT	48.3	64.3	63.8	75.2	84.7
Financial Income/(Expense)	(0.8)	(1.4)	(1.8)	(1.8)	(1.8)
Pretax Income/(Loss) from Assoc.	0.0	0.0	0.0	0.0	0.0
Non-Operating Income/(Expense)	10.6	7.6	6.0	6.0	6.0
Profit Before Tax (pre-EI)	58.1	70.5	68.0	79.4	88.9
Exceptional Items	(6.2)	0.0	0.0	0.0	0.0
Pre-tax Profit	51.9	70.5	68.0	79.4	88.9
Taxation	(8.8)	(11.4)	(11.6)	(13.5)	(15.1)
Exceptional Income - post-tax					
Profit After Tax	43.0	59.1	56.4	65.9	73.8
Minority Interests	(0.5)	(0.4)	(0.4)	(0.4)	(0.4)
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
Net Profit	42.6	58.7	56.0	65.5	73.4
Recurring Net Profit	48.8	58.7	56.0	65.5	73.4
Fully Diluted Recurring Net Profit	48.8	58.7	56.0	65.5	73.4

Cash Flow

(\$m)	Dec-20A	Dec-21A	Dec-22F	Dec-23F	Dec-24F
EBITDA	70.01	87.61	88.75	101.36	112.09
Cash Flow from Inv. & Assoc.					
Change In Working Capital	8.08	(36.87)	(22.78)	(3.18)	1.94
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense	0.00	0.00	0.00	0.00	0.00
Other Operating Cashflow	8.40	4.60	4.10	4.50	4.50
Net Interest (Paid)/Received	(0.84)	(1.40)	(1.80)	(1.80)	(1.80)
Tax Paid	(6.01)	(13.53)	(13.98)	(12.83)	(12.95)
Cashflow From Operations	79.64	40.41	54.29	88.05	103.78
Capex	(23.66)	(17.48)	(30.00)	(30.00)	(30.00)
Disposals Of FAs/subsidiaries	0.00	0.00	0.00	0.00	0.00
Acq. Of Subsidiaries/investments	0.00	0.00	0.00	0.00	0.00
Other Investing Cashflow	0.91	(11.37)	1.00	1.00	1.00
Cash Flow From Investing	(22.76)	(28.85)	(29.00)	(29.00)	(29.00)
Debt Raised/(repaid)	(2.98)	3.48	0.00	0.00	0.00
Proceeds From Issue Of Shares	0.84	0.12	0.00	0.00	0.00
Shares Repurchased	0.00	0.00	0.00	0.00	0.00
Dividends Paid	(12.76)	(12.81)	(16.81)	(19.65)	(22.02)
Preferred Dividends					
Other Financing Cashflow	(0.07)	0.00	0.00	0.00	0.00
Cash Flow From Financing	(14.96)	(9.21)	(16.81)	(19.65)	(22.02)
Total Cash Generated	41.92	2.36	8.48	39.40	52.76
Free Cashflow To Equity	53.91	15.05	25.29	59.05	74.78
Free Cashflow To Firm	59.30	13.94	28.09	61.85	77.58

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

BY THE NUMBERS... cont'd

Balance Sheet

(S\$m)	Dec-20A	Dec-21A	Dec-22F	Dec-23F	Dec-24F
Total Cash And Equivalents	174.5	192.6	204.9	244.6	296.2
Total Debtors	111.4	140.1	156.2	164.3	172.2
Inventories	143.2	203.1	215.7	205.9	202.6
Total Other Current Assets	0.3	0.0	0.0	0.0	0.0
Total Current Assets	429.3	535.8	576.7	614.8	671.1
Fixed Assets	118.1	129.4	134.5	138.3	140.9
Total Investments	0.0	0.0	0.0	0.0	0.0
Intangible Assets	11.7	19.5	19.2	18.9	18.6
Total Other Non-Current Assets	4.7	3.5	3.5	3.5	3.5
Total Non-current Assets	134.5	152.4	157.1	160.7	163.0
Short-term Debt	67.3	95.6	95.6	95.6	95.6
Current Portion of Long-Term Debt					
Total Creditors	129.6	179.9	185.8	181.0	187.6
Other Current Liabilities	14.7	12.8	12.8	12.8	12.8
Total Current Liabilities	211.7	288.4	294.2	289.4	296.0
Total Long-term Debt	0.0	1.6	1.6	1.6	1.6
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities	15.8	19.2	19.2	19.2	19.2
Total Non-current Liabilities	15.8	20.7	20.7	20.7	20.7
Total Provisions	0.0	0.0	0.0	0.0	0.0
Total Liabilities	227.5	309.1	315.0	310.1	316.8
Shareholders' Equity	334.0	376.2	415.4	461.2	512.6
Minority Interests	2.3	2.9	3.4	3.8	4.2
Total Equity	336.3	379.0	418.8	465.0	516.8

Key Ratios

	Dec-20A	Dec-21A	Dec-22F	Dec-23F	Dec-24F
Revenue Growth	(5.8%)	23.6%	10.5%	5.8%	5.4%
Operating EBITDA Growth	(5.9%)	25.1%	1.3%	14.2%	10.6%
Operating EBITDA Margin	11.3%	11.4%	10.5%	11.3%	11.9%
Net Cash Per Share (S\$)	0.25	0.23	0.25	0.35	0.47
BVPS (S\$)	0.79	0.89	0.98	1.09	1.21
Gross Interest Cover	20.05	27.15	22.78	26.86	30.26
Effective Tax Rate	17.0%	16.2%	17.0%	17.0%	17.0%
Net Dividend Payout Ratio	26.2%	30.0%	30.0%	30.0%	30.0%
Accounts Receivables Days	57.89	52.81	56.54	58.35	58.63
Inventory Days	105.3	102.8	110.6	106.1	98.4
Accounts Payables Days	62.26	59.95	65.97	63.08	60.84
ROIC (%)	19.6%	26.2%	21.1%	22.8%	25.1%
ROCE (%)	13.2%	14.8%	13.1%	14.1%	14.6%
Return On Average Assets	9.37%	9.67%	8.19%	8.97%	9.40%

Key Drivers

	Dec-20A	Dec-21A	Dec-22F	Dec-23F	Dec-24F
Industrial automation revenue (S\$m)	104.7	109.9	118.4	127.5	137.3
Semiconductor revenue (S\$m)	289.9	344.0	361.4	387.4	415.3

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

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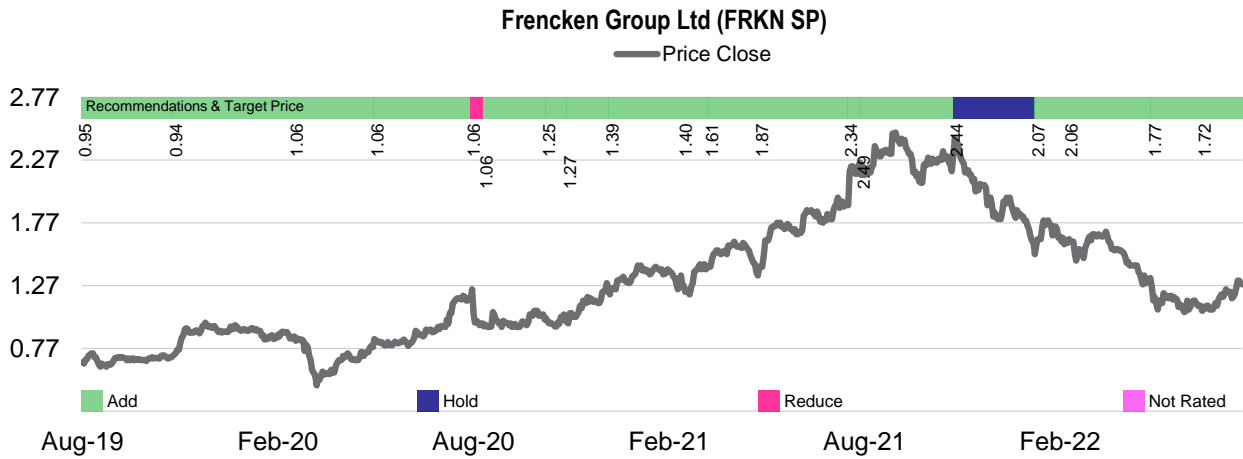
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	Rating Distribution (%)	Investment Banking clients (%)
Add	68.4%	0.8%
Hold	24.6%	0.0%
Reduce	7.0%	0.2%

Spitzer Chart for stock being researched (2 year data)



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Add The stock's total return is expected to exceed 10% over the next 12 months.

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