

Singapore

**ADD** (no change)

Consensus ratings\*: Buy 3 Hold 2 Sell 0

Current price:	S\$1.10
Target price:	S\$1.37 ▲
Previous target:	S\$1.10
Up/downside:	24.5%
CGS-CIMB / Consensus:	28.0%
Reuters:	FREN.SI
Bloomberg:	FRKN SP
Market cap:	US\$342.8m
	S\$469.7m
Average daily turnover:	US\$3.35m
	S\$4.50m
Current shares o/s:	427.0m
Free float:	75.4%

\*Source: Bloomberg

**Key changes in this note**

- Rollover to FY25F.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	0	22.2	39.2
Relative (%)	3.2	26.4	35.4

**Major shareholders**

	% held
Micro compact Sdn Bhd	6.2
Precico Singapore Pte Ltd	6.1
Sinn Hin Company Sdn Bhd	4.9

**Analyst(s)**



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# Frencken Group Ltd

## FY24-25F outlook likely to improve

- We expect Frencken to issue its 3Q23 business update by after the market close on 27 Nov 2023.
- We estimate Frencken posting a S\$176.8m revenue (-9.5% yoy, -1.0% qoq) and S\$6.0m net profit (-45.1% yoy, -12.5% qoq) for 3Q23F.
- Our FY23-25F forecasts and P/E multiples are unchanged, but our TP is increased to S\$1.37 on rollover to FY25F.

### 3Q23F net profit likely declined yoy and qoq

Taking reference from 2022 when Frencken released its 3Q22 business update after market close on 28 Nov 2022, we expect the company to release its 3Q23F business update by 27 Nov 2023. In our view, 3Q23F revenue likely fell by 9.5% yoy to S\$176.8m, while net profit likely dropped by 45.1% yoy to S\$6.0m.

### Previously guided that 2H23F revenue could be similar to 1H23's

In its 1H23 results release (14 Aug 2023), Frencken remained cautious on its FY23F outlook, expecting revenue to be stable in 2H23F versus 1H23. For 2H23F, Frencken has provided the following guidance for its segmental revenue: a) semiconductor segment to see higher revenue hoh; b) medical segment to register stable revenue hoh; c) analytical & life sciences segment revenue to increase hoh; d) industrial automation segment revenue to decrease hoh; and e) automotive segment revenue to stay stable hoh.

### There are production outsourcing opportunities from Europe into Malaysia, in our view

Going into FY24-25F, we think Frencken's customers' inventories have been depleted and the company can expect more firm orders from these customers. In our view, compared to 1H23 when customers were not willing to accept components from Frencken due to their excess inventory situation, Frencken is now able to ship the components it is producing to customers. The Netherlands accounted for 27.2% of Frencken's FY22 revenue. In our view, given the higher production costs in Europe and the difficulty in hiring workers, Frencken could benefit from production outsourcing opportunities from Europe into Malaysia.

### Reiterate Add with higher S\$1.37 TP on rollover

We reiterate our Add call on Frencken as it seems to be seeing the early stages of recovery among its semicon customers, in our view, leading to a potential resumption in double-digit core EPS growth in FY24-25F. On rollover to FY25F, our TP is raised to S\$1.37 (previously S\$1.10) still based on an unchanged FY25F P/E of 12.2x (5-year [FY19-23F] average). Our FY23-25F forecasts are unchanged. Re-rating catalysts: a less severe slowdown in its semicon business segment, better cost controls, and greater concessions from customers on cost pass-throughs. Downside risks: further cost escalations affecting net profit negatively, and further weakening in demand for its semicon business segment.

**Financial Summary**

	Dec-21A	Dec-22A	Dec-23F	Dec-24F	Dec-25F
Revenue (S\$m)	767.1	786.1	707.1	755.0	806.6
Net Profit (S\$m)	58.73	51.87	24.15	38.44	47.78
Core EPS (S\$)	0.14	0.12	0.06	0.09	0.11
Core EPS Growth	20.4%	(11.7%)	(53.4%)	59.1%	24.3%
FD Core P/E (x)	7.93	8.98	19.29	12.12	9.75
Price To Sales (x)	0.61	0.59	0.66	0.62	0.58
DPS (S\$)	0.041	0.036	0.017	0.027	0.034
Dividend Yield	3.75%	3.31%	1.54%	2.45%	3.05%
EV/EBITDA (x)	4.26	5.00	5.89	4.07	3.14
P/FCFE (x)	30.95	NA	6.42	13.01	7.56
Net Gearing	(25.2%)	(14.7%)	(31.4%)	(36.2%)	(41.3%)
P/BV (x)	1.24	1.19	1.14	1.07	0.99
ROE	16.5%	13.5%	6.0%	9.1%	10.6%
% Change In Core EPS Estimates			0%	0%	0%
EPS/Consensus EPS (x)			0.98	0.95	0.98

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Figure 1: Global peers 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 (%)
						CY23F	CY24F		CY23F	CY23F	CY23F
<b>Singapore</b>											
Frencken Group Ltd	FRKN SP	ADD	1.11	1.37	346	19.5	12.2	-2.5%	1.15	6.1%	1.5%
Grand Venture Technology Ltd	GVTL SP	Add	0.52	0.62	128	26.2	11.4	11.1%	1.42	5.6%	0.8%
UMS Holdings Ltd	UMSH SP	Add	1.30	1.49	636	15.1	11.6	-5.1%	2.43	16.7%	4.5%
<b>Simple Average</b>						<b>20.3</b>	<b>11.8</b>	<b>1.1%</b>	<b>1.67</b>	<b>9.5%</b>	<b>2.3%</b>
<b>Overseas</b>											
Benchmark Electronics Inc	BHE US	NR	24.01	NA	856	12.0	10.0	na	0.80	6.9%	2.7%
Celestica Inc	CLS US	NR	26.19	NA	3,297	11.5	10.3	28.9%	na	na	na
Flex Ltd	FLEX US	NR	25.66	NA	11,460	14.7	9.6	15.6%	1.93	18.5%	na
Malaysian Pacific Industries	MPI MK	Reduce	27.00	23.65	1,131	42.5	26.0	na	2.74	6.7%	1.2%
SAM Engineering & Equipment	SEQB MK	Hold	4.37	4.95	499	28.5	22.6	11.3%	2.73	10.2%	0.5%
Sanmina Corp	SANM US	NR	51.99	NA	2,975	8.5	na	na	na	na	na
Unisem	UNI MK	Reduce	3.19	2.00	1,084	55.3	30.9	-6.1%	2.16	4.0%	2.5%
UWC BHD	UWC MK	NR	3.70	NA	848	74.1	34.8	21.3%	8.84	16.8%	0.6%
<b>Simple Average</b>						<b>30.9</b>	<b>20.6</b>	<b>14.2%</b>	<b>3.20</b>	<b>10.5%</b>	<b>1.5%</b>

DATA AS AT 19 OCT 2023

SOURCES: CGS-CIMB RESEARCH ESTIMATES, COMPANY REPORTS, BLOOMBERG

Note: Estimates for Not Rated (NR) companies are based on Bloomberg consensus

Figure 2: Frencken Group Ltd's 12-mth forward rolling P/E (x)





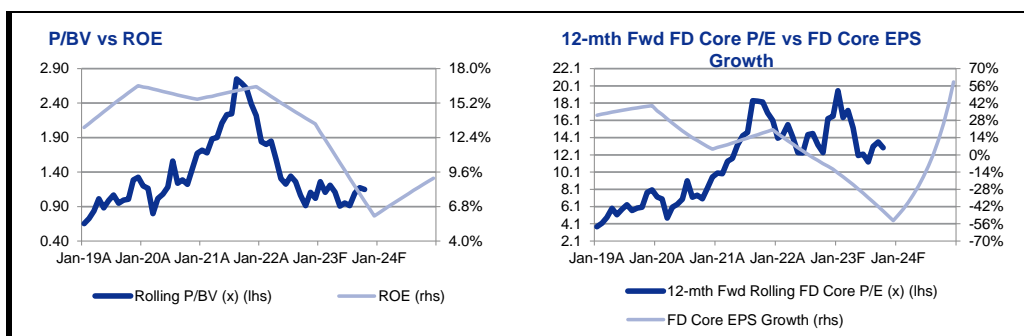
## ESG in a nutshell

Frencken Group 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><b>Keep your eye on</b></p> <p>Customer concentration risk.</p>	<p><b>Implications</b></p> <p>Frencken has three customers (FY21: two customers), which accounted for c.42.9% (FY21: c.29.5%) of its FY22 Mechatronics revenue. Frencken’s customer concentration risk is offset by its exposure to other business segments and efforts to recruit new customers.</p>
<p><b>ESG highlights</b></p> <p>According to its FY22 Annual Report, Frencken introduced the ESG (FSL) Dashboard to collate data from all operating sites, where extensive analysis is carried out to determine baseline targets.</p>	<p><b>Implications</b></p> <p>Since the launch of FSL, Frencken has met 69% of its ESG targets, according to its FY22 Annual Report. Frencken is working on improving the remaining 31%, broken down into E: 7%, S: 14%, and G:10%. Frencken expects a better ESG performance result in FY23F from data collated from FSL.</p>
<p><b>Trends</b></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 executive and non-executive staff.</p>	<p><b>Implications</b></p> <p>Frencken is still working on developing better training tools and methods for stronger OSH in the workplace to improve and drive towards zero injury rates, according to its FY22 Annual Report.</p>

SOURCES: CGS-CIMB RESEARCH

## BY THE NUMBERS



### Profit & Loss

(\$m)	Dec-21A	Dec-22A	Dec-23F	Dec-24F	Dec-25F
<b>Total Net Revenues</b>	<b>767.1</b>	<b>786.1</b>	<b>707.1</b>	<b>755.0</b>	<b>806.6</b>
<b>Gross Profit</b>	<b>152.2</b>	<b>147.1</b>	<b>117.8</b>	<b>137.3</b>	<b>150.5</b>
<b>Operating EBITDA</b>	<b>87.6</b>	<b>82.4</b>	<b>57.7</b>	<b>76.4</b>	<b>87.6</b>
Depreciation And Amortisation	(23.3)	(28.1)	(30.3)	(30.8)	(30.3)
<b>Operating EBIT</b>	<b>64.3</b>	<b>54.3</b>	<b>27.4</b>	<b>45.6</b>	<b>57.3</b>
Financial Income/(Expense)	(1.4)	(3.6)	(4.8)	(4.8)	(3.8)
Pretax Income/(Loss) from Assoc.	0.0	0.0	0.0	0.0	0.0
Non-Operating Income/(Expense)	7.6	12.3	6.0	6.0	6.0
<b>Profit Before Tax (pre-EI)</b>	<b>70.5</b>	<b>63.0</b>	<b>28.6</b>	<b>46.8</b>	<b>59.5</b>
Exceptional Items	0.0	0.0	0.0	0.0	0.0
<b>Pre-tax Profit</b>	<b>70.5</b>	<b>63.0</b>	<b>28.6</b>	<b>46.8</b>	<b>59.5</b>
Taxation	(11.4)	(11.4)	(4.9)	(8.0)	(11.3)
Exceptional Income - post-tax					
<b>Profit After Tax</b>	<b>59.1</b>	<b>51.6</b>	<b>23.8</b>	<b>38.8</b>	<b>48.2</b>
Minority Interests	(0.4)	0.2	0.4	(0.4)	(0.4)
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
<b>Net Profit</b>	<b>58.7</b>	<b>51.9</b>	<b>24.2</b>	<b>38.4</b>	<b>47.8</b>
Recurring Net Profit	58.7	51.9	24.2	38.4	47.8
<b>Fully Diluted Recurring Net Profit</b>	<b>58.7</b>	<b>51.9</b>	<b>24.2</b>	<b>38.4</b>	<b>47.8</b>

### Cash Flow

(\$m)	Dec-21A	Dec-22A	Dec-23F	Dec-24F	Dec-25F
<b>EBITDA</b>	<b>87.61</b>	<b>82.44</b>	<b>57.75</b>	<b>76.42</b>	<b>87.61</b>
Cash Flow from Inv. & Assoc.					
Change In Working Capital	(36.87)	(44.10)	54.57	1.44	2.09
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense	0.00	13.00	2.20	0.00	0.00
Other Operating Cashflow	4.60	4.10	4.50	4.50	4.50
Net Interest (Paid)/Received	(1.40)	(3.60)	(4.80)	(4.80)	(3.80)
Tax Paid	(13.53)	(13.98)	(12.83)	(12.95)	0.00
<b>Cashflow From Operations</b>	<b>40.41</b>	<b>37.87</b>	<b>101.39</b>	<b>64.61</b>	<b>90.40</b>
Capex	(17.48)	(42.60)	(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	(11.37)	(44.48)	1.20	1.20	1.20
<b>Cash Flow From Investing</b>	<b>(28.85)</b>	<b>(87.08)</b>	<b>(28.80)</b>	<b>(28.80)</b>	<b>(28.80)</b>
Debt Raised/(repaid)	3.48	(12.78)	0.00	0.00	0.00
Proceeds From Issue Of Shares	0.12	0.00	0.00	0.00	0.00
Shares Repurchased	0.00	0.00	0.00	0.00	0.00
Dividends Paid	(12.81)	(17.64)	(7.25)	(11.53)	(14.34)
Preferred Dividends					
Other Financing Cashflow	0.00	(0.01)	0.00	0.00	0.00
<b>Cash Flow From Financing</b>	<b>(9.21)</b>	<b>(30.43)</b>	<b>(7.25)</b>	<b>(11.53)</b>	<b>(14.34)</b>
Total Cash Generated	2.36	(79.63)	65.34	24.28	47.27
<b>Free Cashflow To Equity</b>	<b>15.05</b>	<b>(61.99)</b>	<b>72.59</b>	<b>35.81</b>	<b>61.60</b>
<b>Free Cashflow To Firm</b>	<b>13.94</b>	<b>(45.03)</b>	<b>78.59</b>	<b>41.81</b>	<b>66.60</b>

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

## BY THE NUMBERS... cont'd

### Balance Sheet

(S\$m)	Dec-21A	Dec-22A	Dec-23F	Dec-24F	Dec-25F
Total Cash And Equivalents	192.6	167.0	238.4	268.3	304.8
Total Debtors	140.1	136.6	129.6	137.5	132.7
Inventories	203.1	228.8	169.8	167.0	176.8
Total Other Current Assets	0.0	0.0	0.0	0.0	0.0
<b>Total Current Assets</b>	<b>535.8</b>	<b>532.4</b>	<b>537.8</b>	<b>572.8</b>	<b>614.3</b>
Fixed Assets	129.4	167.9	167.5	166.7	166.4
Total Investments	0.0	0.0	0.0	0.0	0.0
Intangible Assets	19.5	21.5	21.2	20.9	20.6
Total Other Non-Current Assets	3.5	3.4	3.4	3.4	3.4
<b>Total Non-current Assets</b>	<b>152.4</b>	<b>192.8</b>	<b>192.2</b>	<b>191.1</b>	<b>190.5</b>
Short-term Debt	95.6	107.7	107.7	107.7	107.7
Current Portion of Long-Term Debt					
Total Creditors	179.9	166.6	155.2	161.7	168.8
Other Current Liabilities	12.8	15.6	15.6	15.6	15.6
<b>Total Current Liabilities</b>	<b>288.4</b>	<b>289.9</b>	<b>278.5</b>	<b>285.1</b>	<b>292.1</b>
Total Long-term Debt	1.6	1.1	1.1	1.1	1.1
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities	19.2	37.7	37.5	37.5	37.5
<b>Total Non-current Liabilities</b>	<b>20.7</b>	<b>38.8</b>	<b>38.6</b>	<b>38.6</b>	<b>38.6</b>
Total Provisions	0.0	0.0	0.0	0.0	0.0
<b>Total Liabilities</b>	<b>309.1</b>	<b>328.8</b>	<b>317.0</b>	<b>323.6</b>	<b>330.7</b>
Shareholders' Equity	376.2	391.9	408.8	435.7	469.2
Minority Interests	2.9	4.5	4.1	4.5	4.9
<b>Total Equity</b>	<b>379.0</b>	<b>396.4</b>	<b>412.9</b>	<b>440.2</b>	<b>474.1</b>

### Key Ratios

	Dec-21A	Dec-22A	Dec-23F	Dec-24F	Dec-25F
Revenue Growth	23.6%	2.5%	(10.0%)	6.8%	6.8%
Operating EBITDA Growth	25.1%	(5.9%)	(30.0%)	32.3%	14.6%
Operating EBITDA Margin	11.4%	10.5%	8.2%	10.1%	10.9%
Net Cash Per Share (S\$)	0.23	0.14	0.31	0.38	0.46
BVPS (S\$)	0.89	0.93	0.97	1.03	1.11
Gross Interest Cover	27.15	13.01	4.57	7.60	11.46
Effective Tax Rate	16.2%	18.1%	17.0%	17.0%	19.0%
Net Dividend Payout Ratio	30.0%	30.0%	30.0%	30.0%	30.0%
Accounts Receivables Days	52.81	57.23	61.80	58.26	55.08
Inventory Days	102.8	123.3	123.4	99.8	95.6
Accounts Payables Days	59.95	65.74	63.54	59.34	59.50
ROIC (%)	26.2%	17.9%	7.3%	14.2%	18.0%
ROCE (%)	14.8%	11.2%	5.6%	8.7%	10.3%
Return On Average Assets	9.67%	7.82%	3.92%	5.84%	6.63%

### Key Drivers

	Dec-21A	Dec-22A	Dec-23F	Dec-24F	Dec-25F
Industrial automation revenue (S\$m)	109.6	54.8	56.2	57.6	-
Semiconductor revenue (S\$m)	305.0	277.5	305.3	335.8	-

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

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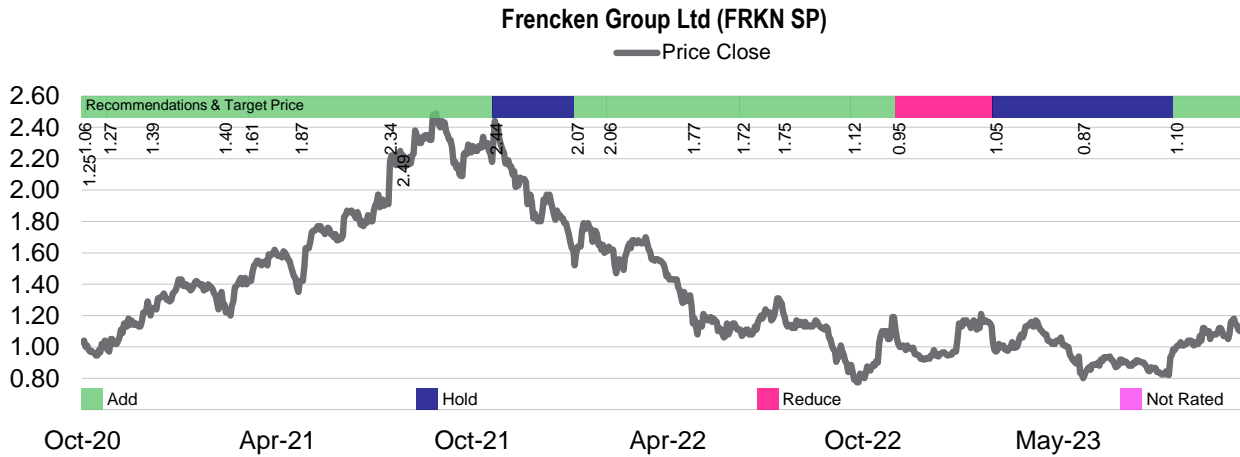
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Distribution of stock ratings and investment banking clients for quarter ended on 30 September 2023		
634 companies under coverage for quarter ended on 30 September 2023		
	Rating Distribution (%)	Investment Banking clients (%)
Add	66.7%	0.9%
Hold	23.7%	0.0%
Reduce	9.6%	0.2%

**Spitzer Chart for stock being researched ( 2 year data )**



<b>Recommendation Framework</b>	
<b>Stock Ratings</b>	Definition:
Add	The stock's total return is expected to exceed 10% over the next 12 months.
Hold	The stock's total return is expected to be between 0% and positive 10% over the next 12 months.
Reduce	The stock's total return is expected to fall below 0% or more over the next 12 months.
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Neutral	A Neutral rating means stocks in the sector have, on a market cap-weighted basis, a neutral absolute recommendation.
Underweight	An Underweight rating means stocks in the sector have, on a market cap-weighted basis, a negative absolute recommendation.
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Underweight	An Underweight rating means investors should be positioned with a below-market weight in this country relative to benchmark.