

COMPANY UPDATE

**Frencken Group (FRKN SP)**

Expect 2024 To Be A Recovery Year; Maintain BUY With A 23% Higher Target Price

Frencken's semiconductor segment is expected to recover in 2024, backed by an improvement in semiconductor fab equipment spending and the recent increase in revenue guidance by its key customers. Frencken's earnings appear to have bottomed in 1H23, based on its latest guidance of a stable 2H23 vs 1H23, with only one out of five segments expected to show a revenue decline. We raise our target price by 23% to S\$1.23 after raising our 2024 earnings forecast. Maintain BUY.

WHAT'S NEW

- Largest semiconductor segment expected to recover in 2024.** Frencken Group's (Frencken) biggest segment, which contributed around 40% of 2022 earnings, is expected to perform better hoh from 2H23 onwards, based on Frencken's latest revenue guidance. Also, Frencken's two largest semiconductor customers have raised their revenue guidance in their latest results. ASML has raised its 2023 yoy revenue growth guidance from 25% to 30% in its 2Q23 results and expects 3Q23 revenue of €6.8b (+0% qoq/+17% yoy). ASML highlighted that the overall demand for its systems continues to be strong, resulting in record bookings in 3Q23 of around €8.9b. On the other hand, Applied Materials (AMAT) reported earnings that beat analyst estimates in Aug 23, and also guided for earnings in the coming quarter to be around 10% above analyst estimates. This was mainly due to improving demand from AI-related chips and rising orders from customers in China who are looking to increase purchases of equipment that are capable of older manufacturing processes.
- SEMI expects global fab equipment spending to recover in 2023.** In the 12 Sep 23 quarterly World Fab Forecast Report by Semiconductor Equipment and Materials International (SEMI), global fab equipment spending for front-end facilities in 2023 is expected to decline 15% yoy before rebounding 15% yoy in 2024. Next year's fab equipment spending recovery will be partly driven by the end of the semiconductor inventory correction in 2023 and strengthening demand for semiconductors in the high-performance computing (HPC) and memory segments. The trend suggests that the semiconductor industry is turning the corner and on a path back to growth.
- Stable outlook for 2H23 indicates that earnings have already bottomed in 1H23 and there is potential for more new business in Asia.** Frencken expects to post stable revenue in 2H23 vs 1H23. The company's outlooks for its various segments for 2H23 vs 1H23 are as follows: a) semiconductor: higher revenue, b) medical: stable revenue, c) analytical & life sciences: increasing revenue, d) industrial automation: decreasing revenue, and e) automobile: stable revenue. On the other hand, Frencken is seeing more new business opportunities in Asia than in Europe, especially in Malaysia.

KEY FINANCIALS

Year to 31 Dec (S\$m)	2021	2022	2023F	2024F	2025F
Net turnover	767	786	733	792	828
EBITDA	87	82	54	75	80
Operating profit	64	54	24	44	48
Net profit (rep./act.)	59	52	26	42	46
Net profit (adj.)	59	52	26	42	46
EPS (S\$ cents)	13.8	12.1	6.0	9.7	10.7
PE (x)	7.6	8.6	17.5	10.8	9.8
P/B (x)	1.2	1.1	1.1	1.0	1.0
EV/EBITDA (x)	4.1	4.4	6.6	4.8	4.5
Dividend yield (%)	3.9	3.5	1.7	2.8	3.1
Net margin (%)	7.7	6.6	3.5	5.2	5.5
Net debt/(cash) to equity (%)	(25.4)	(14.8)	(23.5)	(28.2)	(33.5)
Interest cover (x)	62.2	22.8	16.2	20.7	21.2
ROE (%)	16.5	13.5	6.5	9.9	10.1
Consensus net profit	-	-	25	39	49
UOBKH/Consensus (x)	-	-	1.02	1.06	0.94

Source: Frencken, Bloomberg, UOB Kay Hian

BUY

(Maintained)

Share Price	S\$1.05
Target Price	S\$1.23
Upside	+17.1%
(Previous TP)	S\$1.00

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):	448.4
Market cap (US\$m):	327.5
3-mth avg daily t'over (US\$m):	3.3

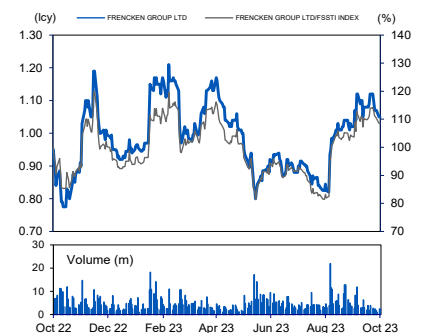
Price Performance (%)

52-week high/low	S\$ 1.23/S\$ 0.765
1mth	2.9
3mth	19.3
6mth	(7.1)
1yr	7.7
YTD	11.1

Major Shareholders

Dato' Gooi Soon Chai	23.5
FY23 NAV/Share (S\$)	0.94
FY23 Net Cash/Share (S\$)	0.22

PRICE CHART



Source: Bloomberg

ANALYST(S)

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### STOCK IMPACT

• **Long-term growth supported by diversified segments and new programmes.** Frencken has built long-term customer relationships with multinational companies that are leaders in their own fields. Backed by its diverse exposure to multiple market segments in the high technology industry and the strength of its balance sheet, Frencken is confident of weathering the current headwinds and will continue to focus on investments in programmes for existing and new customers. This will ensure that it is well-positioned to capitalise on a recovery in the global economy and technology sector. Frencken has continued strong new product introduction (NPI) and first article (FA) engagement with key customers under the oneMechatronics programme, which is a site-transferring programme that spans semiconductor, analytical/life sciences, medical and aerospace sectors and across operating sites.

### EARNINGS REVISION/RISK

• We raised our 2024/2025 earnings forecasts by 17%/8% after increasing our revenue estimates by 5% to account for improved revenue outlook by Frencken's key customers. We also raised our gross margin assumptions by 0.5%/0.1% to account for better operating leverage from higher revenue.

### VALUATION/RECOMMENDATION

• **Maintain BUY with a 23% higher target price of S\$1.23**, pegged to 12.6x 2024F PE, based on 1SD above mean PE. The +1 SD in our PE multiple peg is to capture Frencken's earnings cycle, which is approaching a trough, and improvement in earnings quality where the medical and analytical & life sciences segments could see more contributions. Also, we note that Frencken has a diverse stream of revenue sources, which could help the company remain resilient amid a volatile macro environment.

### SHARE PRICE CATALYST

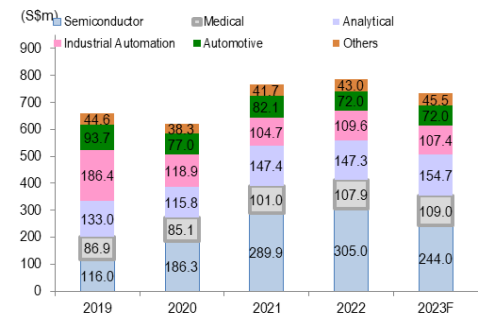
• Higher-than-expected factory utilisation rates and better cost management.

### PEER COMPARISON

Company	Ticker	Trading Curr (TC)	Price @ 9 Oct 23 (TC)	Market Cap (USD)	PE		PB		EV/EBITDA		ROE	Yield
					2023F (x)	2024F (x)	2023F (x)	2024F (x)	2023F (%)	2024F (x)	2023F (%)	2023F (%)
Frencken	FRKN SP	SGD	1.05	328	17.5	10.8	1.1	1.0	6.6	4.8	6.5	1.7
<b>SGX-listed peers</b>												
Venture	VMS SP	SGD	12.34	2,621	12.8	12.3	1.2	1.2	7.5	7.2	9.8	6.1
AEM	AEM SP	SGD	3.37	760	n.a.	11.8	2.1	1.9	44.9	8.8	0.2	0.0
UMS	UMSH SP	SGD	1.29	632	14.4	11.2	2.4	2.1	9.4	7.5	17.0	4.2
<b>Average</b>					<b>13.6</b>	<b>11.8</b>	<b>1.9</b>	<b>1.7</b>	<b>20.6</b>	<b>7.8</b>	<b>9.0</b>	<b>3.4</b>
<b>Semiconductor (39% of Frencken's 2022 sales)</b>												
Asml Hol	ASML NA	EUR	559.7	237,934	28.8	26.1	19.2	16.5	23.5	21.1	73.1	1.2
Intel Corp	INTC US	USD	36.19	151,564	64.5	21.0	1.5	1.4	17.5	10.8	2.1	2.1
Kulicke & Soffa	KLIC US	USD	47.31	2,672	27.3	23.6	n.a.	n.a.	17.7	13.2	8.6	n.a.
Benchmark Elec	BHE US	USD	24.14	861	12.0	10.1	0.8	0.8	n.a.	n.a.	6.9	2.7
<b>Average</b>					<b>33.2</b>	<b>20.2</b>	<b>7.1</b>	<b>6.2</b>	<b>19.6</b>	<b>15.0</b>	<b>22.7</b>	<b>2.0</b>
<b>Industrial automation (16% of 2022 sales)</b>												
Seagate Tech	STX US	USD	66.05	13,698	n.a.	98.9	n.a.	n.a.	97.6	20.2	n.a.	4.2
Western Digital	WDC US	USD	46.4	15,040	n.a.	n.a.	1.4	1.5	n.a.	n.a.	(15.0)	0.0
<b>Average</b>					<b>n.a.</b>	<b>98.9</b>	<b>1.4</b>	<b>1.5</b>	<b>97.6</b>	<b>20.2</b>	<b>(15.0)</b>	<b>2.1</b>
<b>Analytical &amp; Medical (31% of 2022 sales)</b>												
Thermo Fisher	TMO US	USD	498.55	192,415	22.3	20.3	4.1	3.8	20.0	18.4	18.2	0.3
Oxford Instruments	OXIG LN	GBp	1980	1,395	18.0	17.4	0.0	0.0	n.a.	n.a.	17.2	1.0
Koninklijke Philips	PHIA NA	EUR	17.626	17,260	15.5	12.7	1.3	1.3	8.5	7.8	4.3	4.8
Siemens Healthineers	SHL GR	EUR	47.22	56,167	23.6	20.7	2.7	2.5	17.0	14.5	10.8	1.8
<b>Average</b>					<b>19.8</b>	<b>17.8</b>	<b>2.0</b>	<b>1.9</b>	<b>15.2</b>	<b>13.6</b>	<b>12.6</b>	<b>2.0</b>
<b>Automotive peers (15% of 2022 sales)</b>												
Valeo	FR FP	EUR	14.63	3,757	10.7	6.0	0.9	0.8	3.3	2.9	9.2	3.3
Visteon	VC US	USD	132.77	3,744	20.0	13.9	5.0	4.0	9.0	7.4	25.4	0.0
Thyssenkrupp	TKA GR	EUR	6.584	4,322	26.0	8.8	0.3	0.3	1.0	0.9	1.1	2.6
Bosch	BOS IN	INR	19215.75	6,808	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	1.4
Denso	6902 JP	JPY	2303.5	48,683	14.2	12.9	1.5	1.4	7.5	6.9	10.7	2.2
Johnson Contr	JCI US	USD	52.35	35,615	14.9	13.2	2.1	2.0	11.3	10.5	14.0	2.8
<b>Average</b>					<b>17.2</b>	<b>11.0</b>	<b>2.0</b>	<b>1.7</b>	<b>6.4</b>	<b>5.7</b>	<b>12.1</b>	<b>2.0</b>

Source: Bloomberg, UOB Kay Hian

### REVENUE BY SEGMENT (2019-23)



Source: Frencken, UOB Kay Hian

### HISTORICAL PE BAND



Source: Bloomberg, UOB Kay Hian

### PROFIT & LOSS

Year to 31 Dec (\$m)	2022	2023F	2024F	2025F
<b>Net turnover</b>	<b>786.1</b>	<b>732.5</b>	<b>791.7</b>	<b>828.3</b>
EBITDA	82.2	54.3	75.1	80.4
Deprec. & amort.	27.8	29.8	31.2	32.6
EBIT	54.3	24.5	43.9	47.8
Total other non-operating income	12.3	10.4	10.5	11.9
Associate contributions	0.0	0.0	0.0	0.0
Net interest income/(expense)	(3.6)	(3.4)	(3.6)	(3.8)
<b>Pre-tax profit</b>	<b>63.0</b>	<b>31.6</b>	<b>50.8</b>	<b>55.9</b>
Tax	(11.4)	(5.7)	(9.1)	(10.1)
Minorities	0.2	(0.2)	(0.1)	(0.1)
<b>Net profit</b>	<b>51.9</b>	<b>25.6</b>	<b>41.5</b>	<b>45.8</b>

### CASH FLOW

Year to 31 Dec (\$m)	2022	2023F	2024F	2025F
<b>Operating</b>	<b>37.8</b>	<b>74.7</b>	<b>60.0</b>	<b>70.1</b>
Pre-tax profit	63.0	31.6	50.8	55.9
Tax	(8.9)	(9.4)	(6.9)	(9.2)
Deprec. & amort.	27.8	29.8	31.2	32.6
Working capital changes	(16.6)	22.8	(15.1)	(9.1)
Non-cash items	(27.5)	0.0	0.0	0.0
<b>Investing</b>	<b>(44.5)</b>	<b>(22.7)</b>	<b>(22.7)</b>	<b>(22.7)</b>
Capex (growth)	(42.6)	(23.0)	(23.0)	(23.0)
Proceeds from sale of assets	1.2	0.0	0.0	0.0
Others	(3.1)	0.3	0.3	0.3
<b>Financing</b>	<b>(30.4)</b>	<b>(45.9)</b>	<b>(5.1)</b>	<b>(10.1)</b>
Dividend payments	(17.6)	(15.5)	(7.7)	(12.5)
Issue of shares	0.0	0.0	0.0	0.0
Loan repayment	11.6	(26.5)	6.8	6.7
Others/interest paid	(24.4)	(3.9)	(4.2)	(4.4)
<b>Net cash inflow (outflow)</b>	<b>(37.1)</b>	<b>6.1</b>	<b>32.2</b>	<b>37.3</b>
<b>Beginning cash &amp; cash equivalent</b>	<b>192.6</b>	<b>167.0</b>	<b>177.0</b>	<b>212.5</b>
Changes due to forex impact	11.5	4.0	3.3	3.6
<b>Ending cash &amp; cash equivalent</b>	<b>167.0</b>	<b>177.0</b>	<b>212.5</b>	<b>253.4</b>

### BALANCE SHEET

Year to 31 Dec (\$m)	2022	2023F	2024F	2025F
<b>Fixed assets</b>	<b>166.5</b>	<b>159.7</b>	<b>151.5</b>	<b>142.0</b>
Other LT assets	26.3	26.6	26.9	27.2
Cash/ST investment	167.0	177.0	212.5	253.4
Other current assets	365.4	322.9	357.1	374.5
<b>Total assets</b>	<b>725.2</b>	<b>686.2</b>	<b>748.0</b>	<b>797.1</b>
ST debt	107.7	81.2	88.1	94.8
Other current liabilities	182.2	172.4	189.8	194.9
LT debt	1.1	1.1	1.1	1.1
Other LT liabilities	37.7	24.1	27.9	32.1
Shareholders' equity	391.9	402.9	436.7	470.0
Minority interest	4.5	4.5	4.5	4.5
<b>Total liabilities &amp; equity</b>	<b>725.2</b>	<b>686.2</b>	<b>748.2</b>	<b>797.4</b>

### KEY METRICS

Year to 31 Dec (%)	2022	2023F	2024F	2025F
<b>Profitability</b>				
EBITDA margin	10.5	7.4	9.5	9.7
Pre-tax margin	8.0	4.3	6.4	6.8
Net margin	6.6	3.5	5.2	5.5
ROA	7.3	3.6	5.8	5.9
ROE	13.5	6.5	9.9	10.1
<b>Growth</b>				
Turnover	2.5	(6.8)	8.1	4.6
EBITDA	(5.9)	(33.9)	38.3	7.0
Pre-tax profit	(10.6)	(49.9)	61.0	10.1
Net profit	(11.7)	(50.6)	62.0	10.3
Net profit (adj.)	(11.7)	(50.6)	62.0	10.3
EPS	(11.7)	(50.6)	62.0	10.3
<b>Leverage</b>				
Debt to total capital	21.5	16.8	16.8	16.8
Debt to equity	27.8	20.4	20.4	20.4
Net debt/(cash) to equity	(14.8)	(23.5)	(28.2)	(33.5)
Interest cover (x)	22.8	16.2	20.7	21.2