

Singapore Company Update

Frencken Group

Bloomberg: FRKN SP | Reuters: FREN.SI

Refer to important disclosures at the end of this report

DBS Group Research . Equity

28 Feb 2024

BUY

Last Traded Price (27 Feb 2024): S\$1.53 (STI: 3,157.32)
Price Target 12-mth: S\$1.90 (24% upside) (Prev S\$1.90)

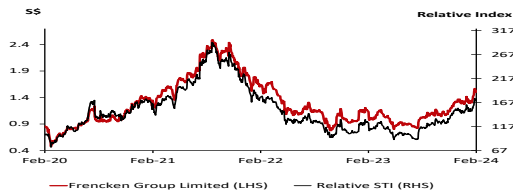
Analyst

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What's New

- FY23 results above expectations; Europe's robust sales partially cushioned weaker sales in Asia
- Quarterly net margin continued to see improvement; expected to hover around 5-6% range going forward
- Stable to positive guidance for most segments; semiconductor and medical segments to do well
- Earnings raised by 8-9% on higher margin assumptions; maintain BUY with high S\$1.90 TP

Price Relative



Forecasts and Valuation

FY Dec (S\$m)	2022A	2023A	2024F	2025F
Revenue	786	743	834	902
EBITDA	94.7	76.4	99.7	111
Pre-tax Profit	63.0	41.5	61.2	70.2
Net Profit	51.9	32.5	47.6	54.6
Net Pft (Pre Ex.)	51.9	32.5	47.6	54.6
Net Pft Gth (Pre-ex) (%)	(11.7)	(37.4)	46.6	14.6
EPS (S cts)	12.1	7.60	11.1	12.8
EPS Pre Ex. (S cts)	12.1	7.60	11.1	12.8
EPS Gth Pre Ex (%)	(12)	(37)	47	15
Diluted EPS (S cts)	12.1	7.60	11.1	12.8
Net DPS (S cts)	3.64	2.28	3.34	3.83
BV Per Share (S cts)	91.8	94.0	102	111
PE (X)	12.6	20.1	13.7	12.0
PE Pre Ex. (X)	12.6	20.1	13.7	12.0
P/Cash Flow (X)	17.3	13.3	5.2	8.8
EV/EBITDA (X)	6.3	7.9	5.2	4.3
Net Div Yield (%)	2.4	1.5	2.2	2.5
P/Book Value (X)	1.7	1.6	1.5	1.4
Net Debt/Equity (X)	CASH	CASH	CASH	CASH
ROAE (%)	13.2	8.1	11.0	11.5
Earnings Rev (%):			0	0
Consensus EPS (S cts):			19.3	N/A
Other Broker Recs:	B: 1	S: 0	H: 3	

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

Recovery intact

Investment Thesis:

Recovery path intact; expect stable 1H24 revenue vs 2H23. The stronger 2H23 results were mainly buoyed by continued demand and new programmes in Europe's semiconductor and analytical & life sciences segments. Coupled with its diverse exposure to multiple market segments and its sound financial position, the group is in a good position to continue riding on the recovery path going forward.

Well positioned to capitalize on the technology sector recovery, supported by sound balance sheet and diversified portfolio. We expect the semiconductor industry to register strong growth in 2024 and 2025 after a weak 2023. Semiconductor revenue dipped 10.9% y-o-y in 2023 after a flat 2022 and is expected to recover with a strong gain of 16.8% in 2024 and 15.5% in 2025, according to Gartner. Global semiconductor shipments in Nov '23 showed further improvement from Feb '23's low. SEMI expects the rebound in 2024 to continue through 2026, with wafer shipments setting new highs as silicon demand increases to support artificial intelligence (AI), high-performance computing (HPC), 5G, automotive, and industrial applications.

Stable to positive guidance for most segments. The group is guiding for higher revenue in the semiconductor and medical segments for 1H24 compared to 2H23. The industrial automation division, however, is still expected to be weak, as it is dependent on a key customer in the data storage space. Revenue for the automotive and analytical & life sciences divisions are expected to be stable.

Maintain BUY with higher earnings and TP. We now assume slightly higher net margins of 5.7%/6.0% for FY24F/FY25F, up from 5.5%/5.9% previously, as we expect net margin to be on a recovery path after reaching a trough of 3% in 1Q23. Our TP is raised to S\$1.90 (previously: S\$1.60), pegged to a higher PE of 17x, near +1.5SD from its four-year average, up from 15.7x (+1SD) previously. Maintain BUY.

Key Risks

Dependence on global market conditions. Frencken has exposure to customers in the US, the EU, and Asia. A broad global economic slowdown could impact demand and earnings.

At A Glance

Issued Capital (m shrs)	427
Mkt. Cap (S\$m/US\$m)	653 / 486
Major Shareholders (%)	
Precico Singapore Pte Ltd	9.8
Free Float (%)	85.3
3m Avg. Daily Val (US\$m)	3.9
GIC Industry: Information Technology / Technology Hardware & Equipment	



Watchlist the stock on Insights Direct to receive prompt updates

Frencken Group

WHAT'S NEW

A stellar set of FY23 results, boosted by strong performance in Europe

FY23 results above expectations; Europe's robust sales partially cushioned weaker sales in Asia. 2H23 revenue eased 1.3% y-o-y but rose 11.6% h-o-h to S\$391.8m, mainly boosted by higher sales in the semiconductor and analytical & life sciences segments. Net profit saw a 20.7% decline but surged 69% h-o-h to S\$20.4m. For FY23, Frencken reported net profit of S\$32.5m (-37.4% y-o-y) following a 5.5% drop in revenue to S\$742.9m, above our expectations. Higher sales from the semiconductor, medical and analytical & life sciences segments of its Europe operations helped offset lower sales in the industrial automation and semiconductor businesses of its Asia operations. A 2.28 Scts DPS was declared for FY23 compared to 3.64 Scts for FY22 (30% payout ratio).

Key segmental breakdown of FY23 revenue

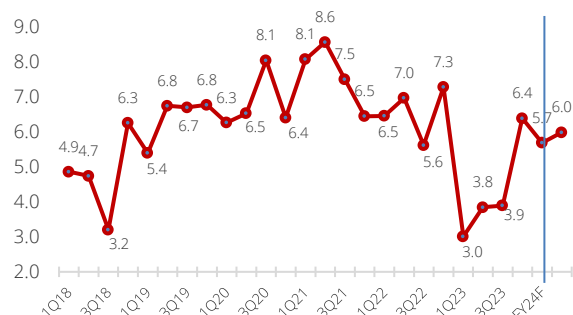
Segment	% contribution	S\$m	Y-o-Y (%)
Semiconductor	38.2	282.4	(7.4)
Medical	16.2	120.2	11.4
Analytical & life sciences	22.9	169.8	15.2
Industrial automation	8.1	60.1	(45.2)
Automotive	9.4	69.5	(3.4)
Consumer & industrial electronics	2.4	17.9	2.1
Others	2.7	23.0	-14
TOTAL	100	742.9	-5.9

Source: Company; DBS Bank Ltd

Quarterly net margin continued to see improvement.

Net margin in 4Q23 jumped to 6.4% (from 3.9% in 3Q23), a rebound from the low of 3.0% in 1Q23. For the full year, a net margin of 4.4% was still lower than FY22's 6.6%, due to lower revenue, inflationary cost pressures, and increased depreciation expenses from capital investments to upgrade and expand the group's global manufacturing facilities. Moving forward, we expect net margins to hover around the 5-6% range.

Quarterly net margin trend (%)



Source: DBS Bank Ltd; Company

Well positioned for recovery, supported by a sound balance sheet and diversified portfolio.

The semiconductor segment is Frencken's biggest contributor, accounting for 38% of FY23 revenue. We expect the semiconductor industry to register strong growth in 2024 and 2025 following a weak 2023. Semiconductor revenue dipped 10.9% y-o-y in 2023 after a flat 2022 and is expected to recover with a strong gain of 16.8% in 2024 and 15.5% in 2025, according to Gartner. Global semiconductor shipments in Nov '23 showed further improvement from Feb '23's low. SEMI expects the rebound in 2024 to continue through 2026, with wafer shipments setting new highs as silicon demand increases to support AI, HPC, 5G, automotive, and industrial applications.

Stable to positive guidance for most segments. The group is guiding for higher revenue for the semiconductor and medical segments for 1H24 compared to 2H23. The industrial automation division, however, is still expected to be weak, as it is dependent on a key customer in the data storage space. Revenue for the automotive and analytical & life sciences divisions are expected to be stable.

Guidance for 1H24 revenue vs. 2H23

Segment	Current guidance
Semiconductor	Higher
Medical	Higher
Analytical & life sciences	Stable
Industrial automation	Lower
Automotive	Stable

Source: Company, DBS Bank Ltd

Earnings raised by 8% to 9% on higher margin assumptions, maintain BUY with high S\$1.90 TP. Given the improving outlook, coupled with a stable recovery in margins, we have raised FY24F/FY35F earnings by 8-9%. We now assume slightly higher net margins of 5.7%/6.0% for FY24F/FY25F, up from 5.5%/5.9% previously, as we expect net margin to be on a recovery path after reaching a trough of 3% in 1Q23. Our TP is raised to S\$1.90 (previously: S\$1.60), pegged to a higher PE of 17x, near +1.5SD from its four-year average, up from 15.7x (+1SD) previous. FY24F
/25F

Company Background

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

Frencken Group

Interim Income Statement (\$m)

FY Dec	2H2022	1H2023	2H2023	% chg y-o-y	% chg h-o-h
Revenue	397	351	392	(1.3)	11.6
Cost of Goods Sold	(339)	(308)	(337)	(0.6)	9.6
Gross Profit	58	43	55	(6.0)	26.3
Other Oper. (Exp)/Inc	(25)	(25)	(26)	6.2	4.8
Operating Profit	33	18	28	(15.1)	56.3
Other Non Opg (Exp)/Inc	0	0	0	-	-
Associates & JV Inc	0	0	0	-	-
Net Interest (Exp)/Inc	(2)	(2)	(3)	(6.0)	(9.3)
Exceptional Gain/(Loss)	0	0	0	-	-
Pre-tax Profit	31	16	26	(16.7)	63.2
Tax	(5)	(4)	(6)	3.4	44.2
Minority Interest	0	0	0	8.7	43.3
Net Profit	26	12	20	(20.7)	69.0
Net profit bef Except.	26	12	20	(20.7)	69.0
EBITDA	48	33	43	(9.8)	31.0
Margins (%)					
Gross Margins	14.6	12.3	14.0		
Opg Profit Margins	8.4	5.1	7.2		
Net Profit Margins	6.5	3.4	5.2		

Source of all data: Company, DBS Bank Ltd

Historical PE and PB band



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



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

Frencken Group

Key Assumptions

FY Dec	2021A	2022A	2023A	2024F	2025F
Gross Margin %	16.8	15.1	13.2	14.5	15.0
% of SGA	8.42	8.22	8.43	7.90	7.90

Segmental Breakdown

FY Dec	2021A	2022A	2023A	2024F	2025F
Revenues (\$\$m)					
Mechatronics	659	688	646	730	791
IMS	108	97.7	96.7	104	111
Total	767	786	743	834	902

Income Statement (\$\$m)

FY Dec	2021A	2022A	2023A	2024F	2025F
Revenue	767	786	743	834	902
Cost of Goods Sold	(638)	(667)	(645)	(713)	(767)
Gross Profit	129	119	98.0	121	135
Other Opng (Exp)/Inc	(64.6)	(64.6)	(62.6)	(65.9)	(71.3)
Operating Profit	64.3	54.3	35.4	55.1	64.1
Other Non Opg (Exp)/Inc	7.62	12.3	10.9	10.9	10.9
Associates & JV Inc	0.0	0.0	0.0	0.0	0.0
Net Interest (Exp)/Inc	(1.4)	(3.6)	(4.8)	(4.8)	(4.8)
Exceptional Gain/(Loss)	0.0	0.0	0.0	0.0	0.0
Pre-tax Profit	70.5	63.0	41.5	61.2	70.2
Tax	(11.4)	(11.4)	(9.6)	(14.1)	(16.1)
Minority Interest	(0.4)	0.24	0.49	0.49	0.49
Preference Dividend	0.0	0.0	0.0	0.0	0.0
Net Profit	58.7	51.9	32.5	47.6	54.6
Net Profit before Except.	58.7	51.9	32.5	47.6	54.6
EBITDA	95.2	94.7	76.4	99.7	111
Growth					
Revenue Gth (%)	23.4	2.5	(5.5)	12.3	8.2
EBITDA Gth (%)	18.2	(0.5)	(19.3)	30.4	11.8
Opg Profit Gth (%)	30.9	(15.5)	(34.9)	55.5	16.4
Net Profit Gth (Pre-ex) (%)	20.4	(11.7)	(37.4)	46.6	14.6
Margins & Ratio					
Gross Margins (%)	16.8	15.1	13.2	14.5	15.0
Opg Profit Margin (%)	8.4	6.9	4.8	6.6	7.1
Net Profit Margin (%)	7.7	6.6	4.4	5.7	6.0
ROAE (%)	15.6	13.2	8.1	11.0	11.5
ROA (%)	8.5	7.2	4.4	6.3	6.8
ROCE (%)	11.6	8.9	5.1	7.4	8.1
Div Payout Ratio (%)	30.0	30.0	30.0	30.0	30.0
Net Interest Cover (x)	45.8	15.1	7.4	11.5	13.3

Source: Company, DBS Bank Ltd

Frencken Group

Interim Income Statement (\$\$m)

FY Dec	2H2021	1H2022	2H2022	1H2023	2H2023
Revenue	392	389	397	351	392
Cost of Goods Sold	(328)	(328)	(339)	(308)	(337)
Gross Profit	63.5	60.8	58.2	43.3	54.7
Other Oper. (Exp)/Inc	(30.7)	(27.5)	(24.9)	(25.2)	(26.4)
Operating Profit	32.8	33.4	33.3	18.1	28.3
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	(0.9)	(1.2)	(2.4)	(2.3)	(2.5)
Exceptional Gain/(Loss)	0.0	0.0	0.0	0.0	0.0
Pre-tax Profit	31.9	32.1	30.9	15.8	25.8
Tax	(4.4)	(6.0)	(5.5)	(3.9)	(5.6)
Minority Interest	(0.1)	0.0	0.27	0.20	0.29
Net Profit	27.4	26.1	25.7	12.1	20.4
Net profit bef Except.	27.4	26.1	25.7	12.1	20.4
EBITDA	45.2	46.7	48.0	33.1	43.3

Growth

Revenue Gth (%)	4.4	(0.7)	2.1	(11.6)	11.6
EBITDA Gth (%)	(9.7)	3.3	2.9	(31.1)	31.0
Opg Profit Gth (%)	(16.3)	1.8	(0.2)	(45.7)	56.3
Net Profit Gth (%)	(12.6)	(4.5)	(1.6)	(53.1)	69.0

Margins

Gross Margins (%)	16.2	15.6	14.6	12.3	14.0
Opg Profit Margins (%)	8.4	8.6	8.4	5.1	7.2
Net Profit Margins (%)	7.0	6.7	6.5	3.4	5.2

Balance Sheet (\$\$m)

FY Dec	2021A	2022A	2023A	2024F	2025F
Net Fixed Assets	111	128	130	116	100
Invt in Associates & JVs	0.0	0.0	0.0	0.0	0.0
Other LT Assets	41.6	65.3	77.0	84.7	86.5
Cash & ST Invt	193	167	143	233	271
Inventory	203	229	203	176	189
Debtors	123	123	171	137	148
Other Current Assets	16.8	13.4	11.3	11.3	11.3
Total Assets	688	725	735	759	807
ST Debt	95.6	108	91.6	91.6	91.6
Creditor	122	108	125	107	116
Other Current Liab	70.8	73.9	65.9	73.9	76.0
LT Debt	1.58	1.09	0.48	0.48	0.48
Other LT Liabilities	19.2	37.7	47.3	47.3	47.3
Shareholder's Equity	376	392	401	435	473
Minority Interests	2.87	4.53	4.03	3.54	3.05
Total Cap. & Liab.	688	725	735	759	807
Non-Cash Wkg. Capital	150	183	195	143	157
Net Cash/(Debt)	95.4	58.2	50.6	141	179
Debtors Turn (avg days)	58.7	57.2	84.1	60.0	60.0
Creditors Turn (avg days)	72.4	61.9	74.1	57.7	57.7
Inventory Turn (avg days)	120.6	130.7	120.8	94.5	94.5
Asset Turnover (x)	1.1	1.1	1.0	1.1	1.1
Current Ratio (x)	1.9	1.8	1.9	2.0	2.2
Quick Ratio (x)	1.1	1.0	1.1	1.4	1.5
Net Debt/Equity (X)	CASH	CASH	CASH	CASH	CASH
Net Debt/Equity ex MI (X)	CASH	CASH	CASH	CASH	CASH
Capex to Debt (%)	17.7	38.1	28.6	21.7	21.7

Source: Company, DBS Bank Ltd

Frencken Group

Cash Flow Statement (S\$m)

FY Dec	2021A	2022A	2023A	2024F	2025F
Pre-Tax Profit	70.5	63.0	41.5	61.2	70.2
Dep. & Amort.	23.3	28.1	30.1	33.7	36.4
Tax Paid	(11.4)	(11.4)	(9.6)	(14.1)	(16.1)
Assoc. & JV Inc/(loss)	0.0	0.0	0.0	0.0	0.0
Chg in Wkg.Cap.	(36.9)	(44.1)	(8.7)	44.3	(16.4)
Other Operating CF	(5.2)	2.20	(4.4)	0.0	0.0
Net Operating CF	40.4	37.8	49.0	125	74.1
Capital Exp.(net)	(17.2)	(41.4)	(26.3)	(20.0)	(20.0)
Other Invs.(net)	0.0	0.0	0.0	0.0	0.0
Invs in Assoc. & JV	(13.0)	(3.6)	0.0	0.0	0.0
Div from Assoc & JV	0.0	0.0	0.0	0.0	0.0
Other Investing CF	1.42	0.58	(1.0)	0.0	0.0
Net Investing CF	(28.8)	(44.5)	(27.3)	(20.0)	(20.0)
Div Paid	(12.8)	(17.6)	(15.5)	(14.3)	(16.4)
Chg in Gross Debt	9.70	(3.4)	(10.9)	0.0	0.0
Capital Issues	0.0	0.0	0.0	0.0	0.0
Other Financing CF	(6.1)	(9.4)	(9.4)	0.0	0.0
Net Financing CF	(9.2)	(30.4)	(35.9)	(14.3)	(16.4)
Currency Adjustments	(0.8)	(5.3)	(4.9)	0.0	0.0
Chg in Cash	1.48	(42.3)	(19.1)	90.8	37.7
Opg CFPS (S cts)	18.1	19.2	13.5	18.9	21.2
Free CFPS (S cts)	5.42	(0.8)	5.30	24.6	12.7

Source: Company, DBS Bank Ltd

Target Price & Ratings 12-mth History



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

S.No.	Date of Report	Closing Price	12-mth Target Price	Rating
1:	28 Feb 23	1.03	1.09	HOLD
2:	23 May 23	0.83	0.78	HOLD
3:	23 Nov 23	1.16	1.33	BUY
4:	02 Jan 23	1.35	1.60	BUY

Source: DBS Bank Ltd

Analyst: Lee Keng LING

DBS Bank Ltd 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: 28 Feb 2024 08:25:42 (SGT)

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