

### COMPANY RESULTS

## Frencken Group (FRKN SP)

2023: Results Above Expectations; Semiconductor Segment Outperforms

**Frencken's 2023 earnings of S\$33m (-37% yoy) are 27% above our expectation. Semiconductor and analytical & life science were the best performers in 2H23, recording 30% and 11% hoh growth respectively, mainly driven by strong demand of key customers from Europe. Frencken expects stable revenue in 1H24 vs 2H23 and will continue to focus on its programmes for customers to ensure it is well-positioned for a recovery. Maintain BUY with a 5% higher target price of S\$1.74.**

### 2023 RESULTS

Year to 31 Dec (S\$m)	2023	2022	% chg (yoy)	2H23	% chg (hoh)
Revenue	742.9	786.1	(5.5)	391.8	11.6
Net Profit	32.5	51.9	(37.4)	20.4	68.6
Gross margin (%)	13.2	15.1	(1.9ppt)	14.0	1.7ppt
Net margin (%)	4.4	6.6	(2.2ppt)	5.2	1.8ppt

Source: Frencken, UOB Kay Hian

### RESULTS

- 2023 earnings of S\$33m (-37% yoy) are above expectations.** Frencken Group (Frencken) reported earnings that are 27% above our expectation. 4Q23 earnings of S\$13m (-12% yoy) saw a strong qoq recovery of 86%, as Frencken continues its sequential recovery trend since 2Q23. We expected only S\$7m earnings for 4Q23 and S\$26m earnings for 2023.
- 2H23 revenue recorded yoy decline of 1% but increased 12% hoh.** Frencken's 2H23 revenue grew 12% hoh mainly driven by growth of its semiconductor (+30% hoh), analytical & life science (+11% hoh) and medical segments (+4% hoh). On the other hand, the industrial automation (-29% hoh) and automobile (-2% hoh) segments declined. In the semiconductor space, sales to a key customer in Europe was higher yoy in 2023. Sales in the medical and analytical & life science segments also grew due to higher sales in Europe.
- Stable outlook for 1H24 vs 2H23 and Frencken continues to focus on programmes for existing and new customers.** Frencken expects to post stable revenue in 2H23 vs 1H23. Its outlooks for its various segments for 2H23 vs 1H23 are as follows: a) semiconductor: higher revenue, b) medical: increasing revenue, c) analytical & life sciences: stable revenue, d) industrial automation: decreasing revenue, and e) automobile: stable revenue. By leveraging on Frencken's expanded capacity and strategic manufacturing sites in Europe, Asia and the US, Frencken will continue to focus on its programmes for existing and new customers to ensure it is well-positioned for a recovery in the global economy and technology sector.

### KEY FINANCIALS

Year to 31 Dec (S\$m)	2022	2023	2024F	2025F	2026F
Net turnover	786	743	807	850	895
EBITDA	82	65	79	84	89
Operating profit	54	35	48	51	55
Net profit (rep./act.)	52	32	44	48	51
Net profit (adj.)	52	32	44	48	51
EPS (S\$ cents)	12.1	7.6	10.3	11.2	11.9
PE (x)	12.5	20.0	14.8	13.6	12.8
P/B (x)	1.7	1.6	1.5	1.4	1.3
EV/EBITDA (x)	6.9	8.6	7.1	6.7	6.3
Dividend yield (%)	2.4	1.5	2.0	2.2	2.3
Net margin (%)	6.6	4.4	5.4	5.6	5.7
Net debt/(cash) to equity (%)	(14.8)	(12.6)	(20.6)	(25.5)	(30.7)
Interest cover (x)	22.8	13.6	15.1	15.3	15.4
ROE (%)	13.5	8.2	10.4	10.5	10.4
Consensus net profit	-	-	43	51	71
UOBKH/Consensus (x)	-	-	1.01	0.95	0.72

Source: Frencken, Bloomberg, UOB Kay Hian

## BUY

(Maintained)

Share Price	S\$ 1.52
Target Price	S\$ 1.74
Upside	+14.5%
(Previous TP)	S\$ 1.65

### 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):	649.1
Market cap (US\$m):	482.0
3-mth avg daily t'over (US\$m):	4.2

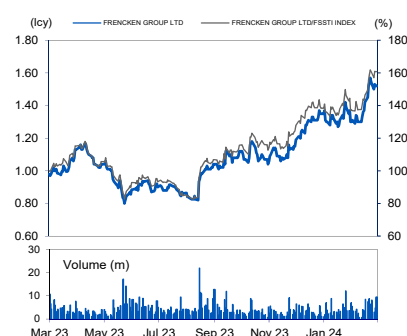
### Price Performance (%)

52-week high/low	S\$ 1.61/S\$ 0.785			
<b>1mth</b>	<b>3mth</b>	<b>6mth</b>	<b>1yr</b>	<b>YTD</b>
9.4	34.5	50.5	47.6	12.6

### Major Shareholders

Dato' Gooi Soon Chai	23.5
FY24 NAV/Share (S\$)	1.02
FY24 Net Cash/Share (S\$)	0.21

### 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 and first article engagement with key customers under the oneMechatronics programme, which is a site-transferring programme that spans the semiconductor, analytical/life sciences, medical and aerospace sectors and across operating sites.

### EARNINGS REVISION/RISK

- We raised our 2024/25 revenue by 2%/3% respectively and gross margin by 0.2ppt to 14.3%/14.4% to factor in the better-than-expected results and further recovery in the semiconductor segment as indicated by the strong order intake of Frencken's major customers. As a result, our 2024/25 earnings estimates increased 5%/5% respectively.

### VALUATION/RECOMMENDATION

- **Maintain BUY with a 5% higher target price of S\$1.74**, pegged to an unchanged 17.0x 2024F PE, based on 2SD above mean PE. The +2SD in our PE multiple peg is to capture: a) the recovery of semiconductor cycle, which is exhibiting multiple positive indications, and b) an improvement in earnings quality where the automobile segment could see more contributions from several new customers in the electric vehicle space.

### SHARE PRICE CATALYST

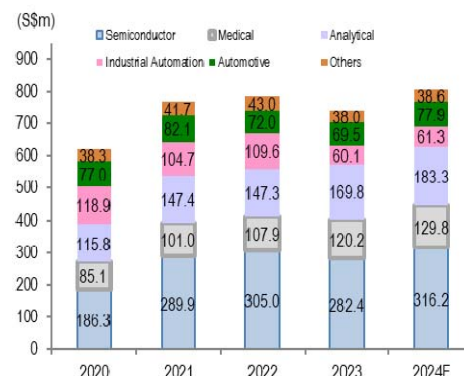
- Higher-than-expected factory utilisation rates and better cost management.

### PEER COMPARISON

Company	Ticker	Trading Curr	Price @ 28 Feb 24 (TC)	Market Cap (USD)	PE		PB		EV/EBITDA		ROE 2024F (%)	Yield 2024F (%)
					2023 (x)	2024F (x)	2023 (x)	2024F (x)	2023 (%)	2024F (x)		
Frencken	FRKN SP	SGD	1.52	482	20.0	14.8	1.6	1.5	10.3	8.5	10.4	2.0
<b>SGX-listed peers</b>												
Venture	VMS SP	SGD	14	3,018	15.1	14.6	1.4	1.4	9.2	8.9	9.8	5.4
AEM	AEM SP	SGD	2.65	608	n.a.	13.0	1.7	1.6	54.3	9.2	12.5	1.9
UMS	UMSH SP	SGD	1.51	797	16.9	13.9	2.8	2.4	11.8	9.3	18.9	3.7
<b>Average</b>					<b>16.0</b>	<b>13.8</b>	<b>2.0</b>	<b>1.8</b>	<b>25.1</b>	<b>9.1</b>	<b>13.7</b>	<b>3.7</b>
<b>Semiconductor (39% of Frencken's 2022 sales)</b>												
Asml Hol	ASML NA	EUR	872.6	376,781	42.3	45.9	21.2	22.8	32.8	36.8	50.9	0.8
Intel Corp	INTC US	USD	42.73	180,662	106.8	32.2	1.7	1.7	20.6	13.3	4.4	1.2
Kulicke & Soffa	KLIC US	USD	48.85	2,752	48.4	27.7	2.3	n.a.	26.5	21.8	8.1	n.a.
Benchmark Elec	BHE US	USD	30.32	1,085	16.8	16.1	1.0	1.0	7.3	8.3	6.0	2.2
<b>Average</b>					<b>53.6</b>	<b>30.5</b>	<b>6.6</b>	<b>8.5</b>	<b>21.8</b>	<b>20.0</b>	<b>17.3</b>	<b>1.4</b>
<b>Industrial automation (16% of 2022 sales)</b>												
Seagate Tech	STX US	USD	90.7	19,003	n.a.	126.9	n.a.	n.a.	124.4	26.6	(1.4)	3.1
Western Digital	WDC US	USD	57.48	18,730	n.a.	n.a.	1.7	1.8	n.a.	43.7	(6.0)	0.0
<b>Average</b>					<b>n.a.</b>	<b>126.9</b>	<b>1.7</b>	<b>1.8</b>	<b>124.4</b>	<b>35.2</b>	<b>(3.7)</b>	<b>1.5</b>
<b>Analytical &amp; Medical (31% of 2022 sales)</b>												
Thermo Fisher	TMO US	USD	566.17	215,888	36.5	26.3	4.7	4.4	23.0	22.8	16.8	0.2
Oxford Instruments	OXIG LN	GBP	2175	1,591	20.5	19.4	0.0	0.0	n.a.	n.a.	15.8	1.0
Koninklijke Philips	PHIA NA	EUR	18.8	18,558	n.a.	13.7	1.4	1.4	20.0	7.8	8.5	4.6
Siemens Healthineers	SHL GR	EUR	55.48	67,626	41.1	25.0	3.4	3.2	20.9	16.7	12.6	1.9
<b>Average</b>					<b>32.7</b>	<b>21.1</b>	<b>2.4</b>	<b>2.3</b>	<b>21.3</b>	<b>15.8</b>	<b>13.4</b>	<b>1.9</b>
<b>Automotive peers (15% of 2022 sales)</b>												
Valeo	FR FP	EUR	10.81	2,858	9.6	6.7	0.7	0.6	3.1	2.8	9.0	5.4
Visteon	VC US	USD	115.16	3,166	6.7	13.5	3.1	2.9	7.5	6.4	20.7	0.0
Thyssenkrupp	TKA GR	EUR	4.615	3,105	n.a.	13.0	0.2	0.2	n.a.	0.3	2.7	3.5
Bosch	BOS IN	INR	28500.9	10,135	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	1.1
Denso	6902 JP	JPY	2758.5	57,669	19.3	14.8	1.7	1.6	10.0	8.1	11.3	2.1
Johnson Contr	JCI US	USD	59.42	40,493	22.0	16.5	2.4	2.3	17.5	11.9	14.0	2.4
<b>Average</b>					<b>14.4</b>	<b>12.9</b>	<b>1.6</b>	<b>1.5</b>	<b>9.5</b>	<b>5.9</b>	<b>11.5</b>	<b>2.4</b>

Source: Bloomberg, UOB Kay Hian

### REVENUE BY SEGMENT (2020-24)



Source: Frencken, UOB Kay Hian

### HISTORICAL PE BAND



Source: Bloomberg, UOB Kay Hian

### PROFIT & LOSS

Year to 31 Dec (\$m)	2023	2024F	2025F	2026F
<b>Net turnover</b>	<b>742.9</b>	<b>807.2</b>	<b>849.7</b>	<b>894.6</b>
EBITDA	65.2	79.0	83.9	88.8
Deprec. & amort.	29.8	31.3	32.8	34.3
EBIT	35.4	47.6	51.1	54.5
Total other non-operating income	10.9	10.8	12.4	12.7
Associate contributions	0.0	0.0	0.0	0.0
Net interest income/(expense)	(4.8)	(5.2)	(5.5)	(5.8)
<b>Pre-tax profit</b>	<b>41.5</b>	<b>53.2</b>	<b>58.0</b>	<b>61.5</b>
Tax	(9.6)	(9.6)	(10.4)	(11.1)
Minorities	0.5	0.1	0.3	0.4
<b>Net profit</b>	<b>32.5</b>	<b>43.8</b>	<b>47.9</b>	<b>50.8</b>

### CASH FLOW

Year to 31 Dec (\$m)	2023	2024F	2025F	2026F
<b>Operating</b>	<b>49.0</b>	<b>71.2</b>	<b>68.2</b>	<b>75.0</b>
Pre-tax profit	41.5	53.2	58.0	61.5
Tax	(10.0)	(9.5)	(9.5)	(10.4)
Deprec. & amort.	29.8	31.3	32.8	34.3
Working capital changes	(0.1)	(3.9)	(13.2)	(10.4)
Non-cash items	(12.2)	0.0	0.0	0.0
<b>Investing</b>	<b>(27.3)</b>	<b>(22.2)</b>	<b>(24.0)</b>	<b>(23.9)</b>
Capex (growth)	(26.8)	(25.0)	(25.0)	(25.0)
Proceeds from sale of assets	0.5	0.0	0.0	0.0
Others	(1.0)	2.8	1.0	1.1
<b>Financing</b>	<b>(35.8)</b>	<b>(19.8)</b>	<b>(13.0)</b>	<b>(14.3)</b>
Dividend payments	(15.5)	(9.7)	(13.1)	(14.4)
Issue of shares	0.0	0.0	0.0	0.0
Loan repayment	(16.8)	(3.5)	7.0	7.3
Others/interest paid	(3.5)	(6.5)	(6.9)	(7.2)
<b>Net cash inflow (outflow)</b>	<b>(14.1)</b>	<b>29.2</b>	<b>31.2</b>	<b>36.8</b>
<b>Beginning cash &amp; cash equivalent</b>	<b>167.0</b>	<b>142.6</b>	<b>178.6</b>	<b>215.6</b>
Changes due to forex impact	(10.2)	6.8	5.8	6.1
<b>Ending cash &amp; cash equivalent</b>	<b>142.6</b>	<b>178.6</b>	<b>215.6</b>	<b>258.6</b>

### BALANCE SHEET

Year to 31 Dec (\$m)	2023	2024F	2025F	2026F
<b>Fixed assets</b>	<b>179.1</b>	<b>172.8</b>	<b>165.0</b>	<b>155.7</b>
Other LT assets	27.7	28.1	28.4	28.8
Cash/ST investment	142.6	178.6	215.6	258.6
Other current assets	385.8	384.6	413.0	441.2
<b>Total assets</b>	<b>735.3</b>	<b>764.1</b>	<b>822.0</b>	<b>884.2</b>
ST debt	91.6	88.1	95.1	102.4
Other current liabilities	190.7	198.0	206.4	221.2
LT debt	0.5	0.5	0.5	0.5
Other LT liabilities	47.3	36.8	44.5	48.2
Shareholders' equity	401.2	436.7	471.5	507.9
Minority interest	4.0	4.0	4.0	4.0
<b>Total liabilities &amp; equity</b>	<b>735.3</b>	<b>764.1</b>	<b>822.0</b>	<b>884.2</b>

### KEY METRICS

Year to 31 Dec (%)	2023	2024F	2025F	2026F
<b>Profitability</b>				
EBITDA margin	8.8	9.8	9.9	9.9
Pre-tax margin	5.6	6.6	6.8	6.9
Net margin	4.4	5.4	5.6	5.7
ROA	4.4	5.8	6.0	6.0
ROE	8.2	10.4	10.5	10.4
<b>Growth</b>				
Turnover	(5.5)	8.7	5.3	5.3
EBITDA	(20.7)	21.1	6.3	5.9
Pre-tax profit	(34.1)	28.2	8.9	6.0
Net profit	(37.4)	34.8	9.3	6.1
Net profit (adj.)	(37.4)	34.8	9.3	6.1
EPS	(37.4)	34.8	9.3	6.1
<b>Leverage</b>				
Debt to total capital	18.5	16.7	16.7	16.7
Debt to equity	22.9	20.3	20.3	20.3
Net debt/(cash) to equity	(12.6)	(20.6)	(25.5)	(30.7)
Interest cover (x)	13.6	15.1	15.3	15.4

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