Singapore Initiating Coverage

9 May 2019

Industrials | Machinery

Frencken Group (FRKN SP)

Buy

Riding The Industrial Automation Boom

Target Price (Return)	SGD0.82 (+33%)
Price:	SGD0.615
Market Cap:	USD191m
Avg Daily Turnover (SGD/USD)	1.7m/1.2m

- **Initiate coverage with BUY and DCF-derived TP of SGD0.82, 33% upside plus 4.5% FY19F yield (implied FY19F P/E of 9x).** Frencken provides global integrated technology solutions to world-class MNCs across five different business segments. For FY19F, we expect industrial automation to be the main growth driver, with orders from a key customer setting up a new factory. We project a 27% boost in FY19F PATMI. At 6.8x FY19F P/E vs peers' 9.9x, we believe this gem is undervalued.
- **Industrial automation to lead growth in FY19.** Sales at the industrial automation segment, which are typically lumpy in nature, increased significantly by 548.4% YoY in 4Q18 and 153.5% in FY18, boosted by increased orders for storage drive production equipment from a key customer that is setting up a new factory. Management expects to post robust YoY growth in 1Q19 due to the same reason – we expect these growth factors to continue to drive sales in 2Q19 and 3Q19, which should be very positive for the company.

  Management is also bullish on the outlook of its analytical and medical units, and expects YoY growth at these segments in 1Q19. We are projecting YoY growth in FY19F at these two units as well, driven by new customers and new projects.
- **Dividends likely to increase.** With a 30% payout ratio and our projection of continued YoY growth in earnings, we believe dividends will increase despite an unchanged dividend payout ratio. We expect FY19 dividend yield to increase to around 4.5%.
- **Attractively valued, with surge in growth for FY19F**. We believe Frencken's technology, which has been making rapid advancements in recent years, will provide more solutions to its customers and support future projects in terms of margins and profitability. As the stock is trading at just 6.8x FY19 P/E, well below its peers' 9.9x for FY19F with a 4.5% dividend yield for FY19F, we believe Frencken is undervalued and will likely continue to rerate upwards as earnings growth continues to pick up in the subsequent quarters.
- Key risks include an economic slowdown, and customers delaying orders.

Analysts

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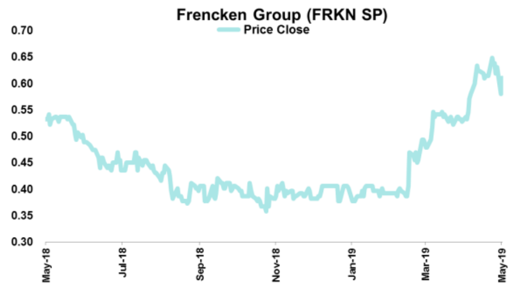
Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	46.4	10.8	51.9	46.4	11.8
Relative	39.4	11.8	49.3	40.3	19.1

52-wk Price low/high (SGD) 0.37 - 0.68



Source: Bloomberg

Forecasts and Valuations	Dec-17	Dec-18	Dec-19F	Dec-20F	Dec-21F
Total turnover (SGDm)	515.1	625.8	677.8	694.3	702.8
Recurring net profit (SGDm)	23.0	33.9	38.2	39.5	40.3
Recurring net profit growth (%)	44.5	47.7	12.7	3.3	2.1
Recurring P/E (x)	11.3	7.6	6.8	6.6	6.4
P/BV (x)	1.0	1.0	0.9	0.8	0.7
P/CF (x)	6.2	7.4	3.8	3.6	3.5
Dividend Yield (%)	3.9	3.5	4.5	4.6	4.7
EV/EBITDA (x)	4.5	4.4	3.7	3.4	3.1
ROE (%)	9.3	12.8	13.1	12.4	11.6
Net debt to equity (%)	Net Cash	0.7	Net Cash	Net Cash	Net Cash
Interest coverage (x)	25.0	16.2	20.0	20.6	20.9

Source: Company data, RHB

Financial Exhibits

Financial model updated on: 2018-05-29.

Asia
Singapore
Industrials
Machinery

Major shareholders (%)

Thong Low Heang	6.3
Micro Compact SB	6.2
Precico Singapore	6.2

Valuation basis

Our DCF assumptions:
i. WACC of 7%;
ii. Terminal Growth of 0%

Key drivers

Our FY19 forecasts are most sensitive to changes in:
i. Demand for customers' products;
ii. Net interest margin;
iii. FX gains/losses.

Key risks

Downside risks include:
i. Worsening trade war affecting consumer sentiment;
ii. Economic slowdown;
iii. Weaker demand for customer's products;
iv. FX fluctuation risk.

Company Profile

Frencken Group is a global integrated technology solutions company that serves world-class multinational companies in the automotive, healthcare, industrial, life sciences and semiconductor industries.

Financial summary	**Dec-17**	**Dec-18**	**Dec-19F**	**Dec-20F**	**Dec-21F**
Recurring EPS (SGD)	0.05	0.08	0.09	0.09	0.10
EPS (SGD)	0.08	0.07	0.09	0.09	0.10
DPS (SGD)	0.02	0.02	0.03	0.03	0.03
BVPS (SGD)	0.59	0.63	0.69	0.76	0.83
Weighted avg adjusted shares (m)	416	422	422	422	422

Valuation metrics	**Dec-17**	**Dec-18**	**Dec-19F**	**Dec-20F**	**Dec-21F**
Recurring P/E (x)	11.2	7.7	6.8	6.6	6.4
P/E (x)	7.7	8.6	6.8	6.6	6.4
P/B (x)	1.0	1.0	0.9	0.8	0.7
FCF Yield (%)	3.7	0.3	8.2	9.5	8.7
Dividend Yield (%)	3.9	3.5	4.5	4.6	4.7
EV/EBITDA (x)	4.5	4.4	3.7	3.4	3.1
EV/EBIT (x)	6.3	6.4	5.0	4.6	4.3

Income statement (SGDm)	**Dec-17**	**Dec-18**	**Dec-19F**	**Dec-20F**	**Dec-21F**
Total turnover	515	626	678	694	703
Gross profit	84	102	110	113	114
EBITDA	57	60	68	72	75
Depreciation and amortisation	(16)	(16)	(18)	(20)	(22)
Operating profit	30	45	51	52	53
Net interest	(0)	(1)	(1)	(1)	(0)
Income from associates & JVs	0	0	0	0	0
Exceptional income - net	(10)	4	0	0	0
Pre-tax profit	40	40	50	51	53
Taxation	(7)	(10)	(11)	(12)	(12)
Minority interests	0	0	0	0	0
Recurring net profit (adj)	23	34	38	40	40

Cash flow (SGDm)	**Dec-17**	**Dec-18**	**Dec-19F**	**Dec-20F**	**Dec-21F**
Change in working capital	(5)	(27)	0	0	0
Net cash from operating activities	35	25	56	60	62
Capex	(25)	(24)	(35)	(35)	(40)
Cash flow from investing activities	14	(23)	(35)	(35)	(40)
Dividends paid	(5)	(10)	(12)	(12)	(12)
Cash flow from financing activities	7	(2)	(12)	(12)	(12)
Cash at beginning of period	(10)	45	45	55	67
Net change in cash	56	0	10	13	10
Ending balance cash	45	45	55	67	78

Balance sheet (SGDm)	**Dec-17**	**Dec-18**	**Dec-19F**	**Dec-20F**	**Dec-21F**
Total cash and equivalents	68	67	77	90	100
Tangible fixed assets	96	99	118	134	154
Intangible assets	27	21	20	19	18
Total investments	4	3	3	3	3
Total other assets	226	273	283	286	288
Total assets	420	464	500	532	562
Short-term debt	62	67	67	67	67
Total long-term debt	2	1	1	1	1
Other payables, accruals and provisions	107	128	137	140	142
Total liabilities	171	196	206	209	211
Shareholders' equity	247	265	292	320	348
Minority interests	2	3	3	3	3
Total equity	250	268	294	322	351
Net debt	(5)	2	(8)	(21)	(31)
Total liabilities & equity	420	464	500	532	562

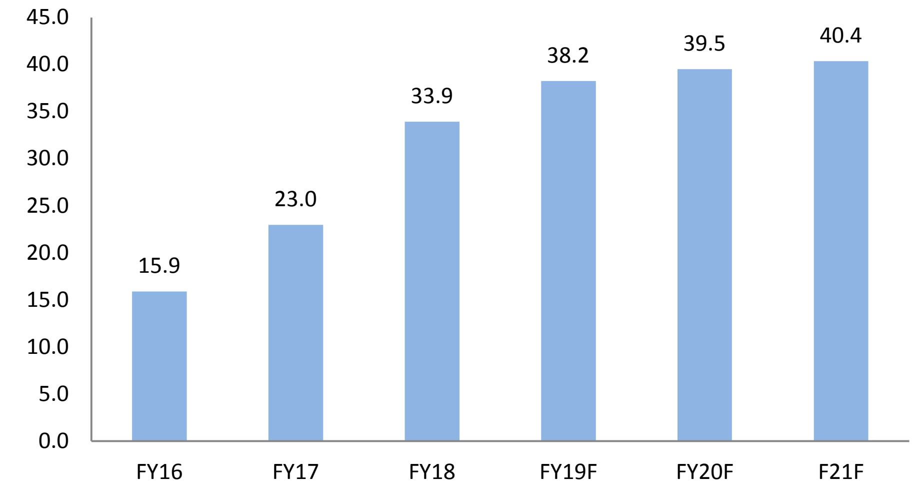
Key metrics	**Dec-17**	**Dec-18**	**Dec-19F**	**Dec-20F**	**Dec-21F**
Revenue growth (%)	10.4	21.5	8.3	2.4	1.2
Recurrent EPS growth (%)	40.8	46.3	12.9	3.3	2.1
Gross margin (%)	16.3	16.3	16.3	16.3	16.3
Operating EBITDA margin (%)	11.0	4.2	10.1	10.3	10.6
Net profit margin (%)	4.5	5.4	5.7	5.8	5.8
Dividend payout ratio (%)	43.5	26.6	30.2	30.3	30.3
Capex/sales (%)	4.9	3.9	5.2	5.0	5.7
Interest cover (x)	25.0	16.2	20.0	20.6	20.9

Source: Company data, RHB

Investment Merits

Undervalued at 6.8x FY19F P/E, a steep discount to peers' average of 9.9x P/E. We believe Frencken's technology, which has been making rapid advancements in recent years, will provide more solutions to its customers and support future projects in terms of margins and profitability. The stock is trading at just 6.8x FY19 P/E, well below its peer average of' 9.9x for FY19F, plus a 4.5% FY19F dividend yield. As such, we believe Frencken is undervalued at current levels and will likely continue to rerate upwards, as earnings growth continues to pick up in subsequent quarters.

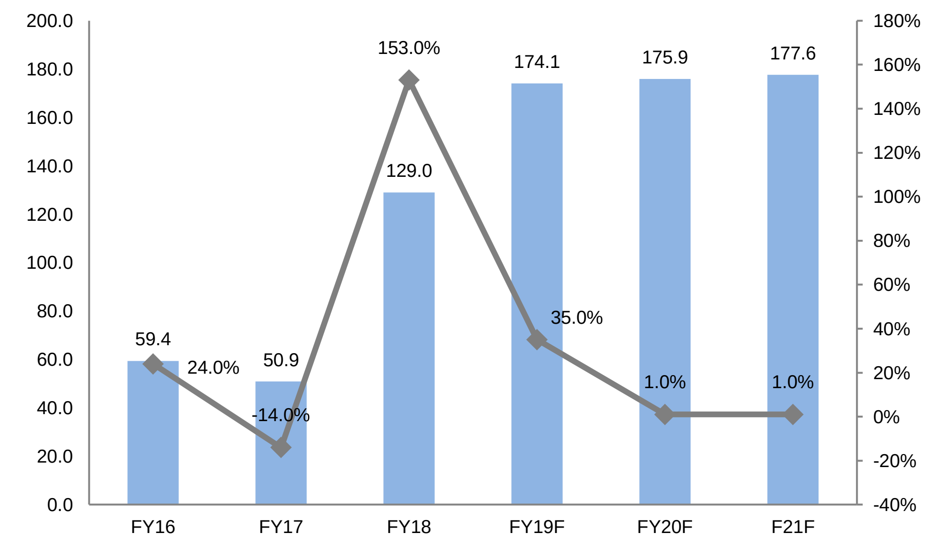
Figure 1: Recurring PATMI FY16-21F (SGDm)



Source: Company data, RHB

Industrial automation to lead growth in FY19. Sales at the industrial automation segment, which are typically lumpy in nature, surged by 548.4% YoY in 4Q18 and 153.5% in FY18, boosted by increased orders for storage drive production equipment from a key customer that is setting up a new factory. Management expects to post robust YoY growth in 1Q19 due to the same reason. We expect these strong growth factors to carry on in 2Q19 and 3Q19. The surge in revenue will likely help to bump up Frencken's overall net margins and, with operating leverage, this should lead to increased profitability. We are projecting a 35% YoY growth in revenue for this segment.

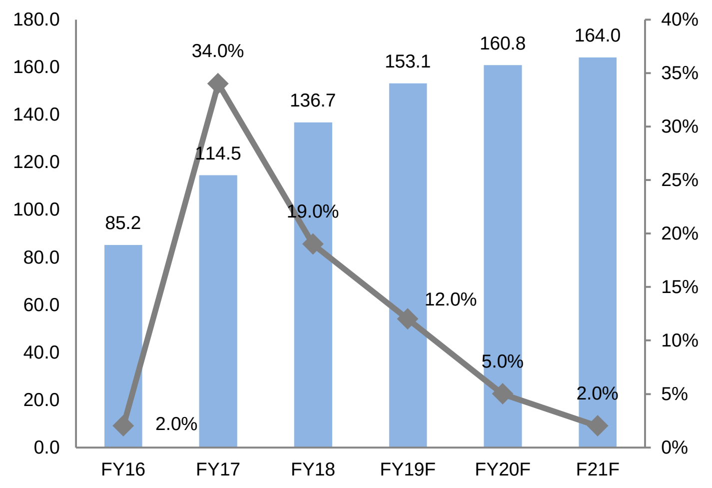
Figure 2: Industrial automation revenue (SGDm) and YoY growth (%) FY16-21F



Source: Company data, RHB

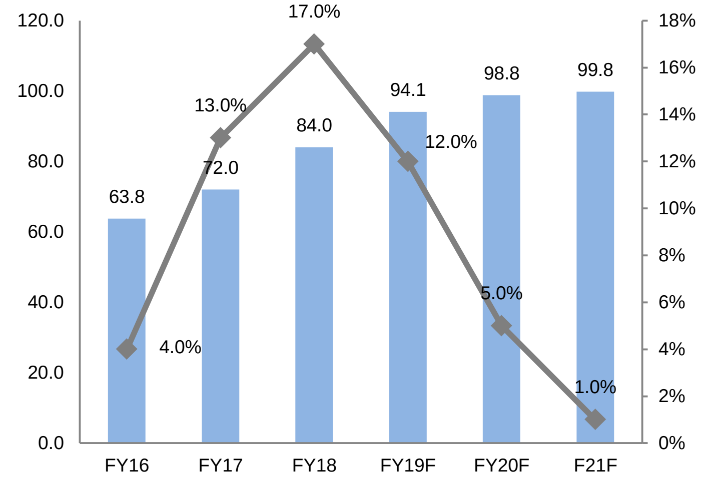
Two other pillars of growth – analytical and medical segments. Management is also bullish on the outlook for its analytical and medical segment, and expects YoY growth for both in 1Q19. We are projecting 12% YoY growth for FY19 for both businesses, which have been growing steadily over the last few years.

Figure 3: Analytical segment's revenue (SGDm) and YoY growth (%) FY16-21F



Source: Company data, RHB

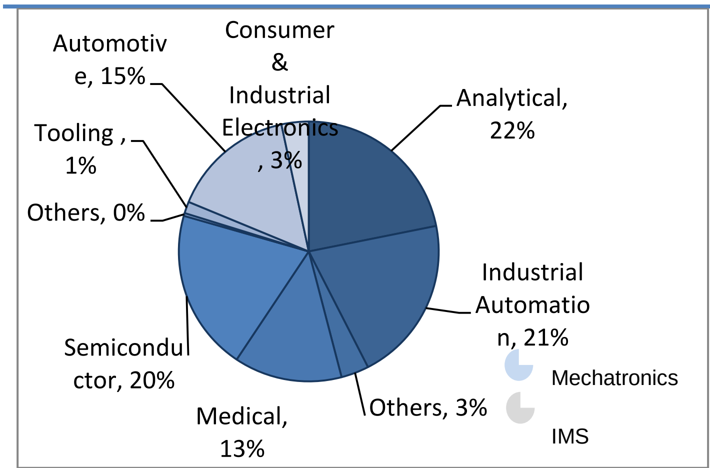
Figure 4: Medical segment's revenue (SGDm) and YoY growth (%) FY16-21F



Source: Company data, RHB

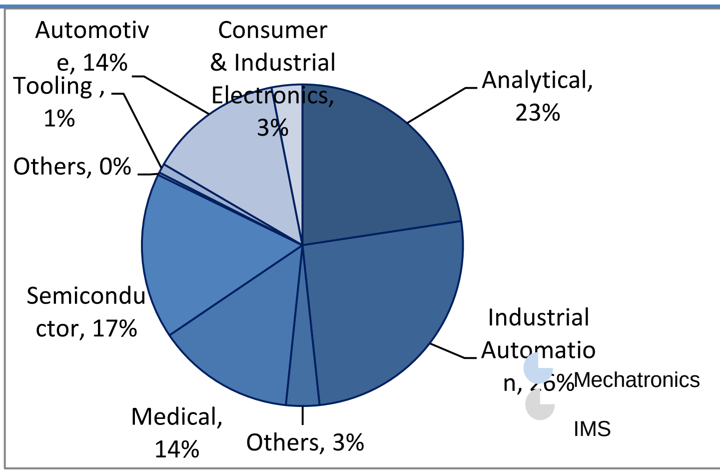
Well-diversified revenue streams. Frencken operates in a wide variety of different industries and business segments, with world-class MNCs globally as its customers. Their manufacturing sites are located close to customers – it has 16 locations across three regions – the US, Europe and Asia.

Figure 5: Segmental revenue – FY18



Source: Company data

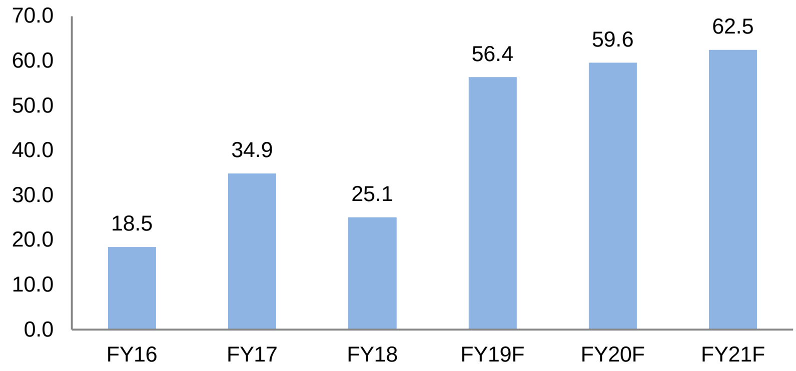
Figure 6: Segmental revenue – FY19F



Source: RHB

Exceptional positive operating cash flow. Frencken's business model enabled it to generate healthy cash flow of SGD18-35m from operating activities over the past couple of years, especially in a stable business environment. With the further surge in profitability, the company will likely generate more positive cash flow in FY19F, in our view.

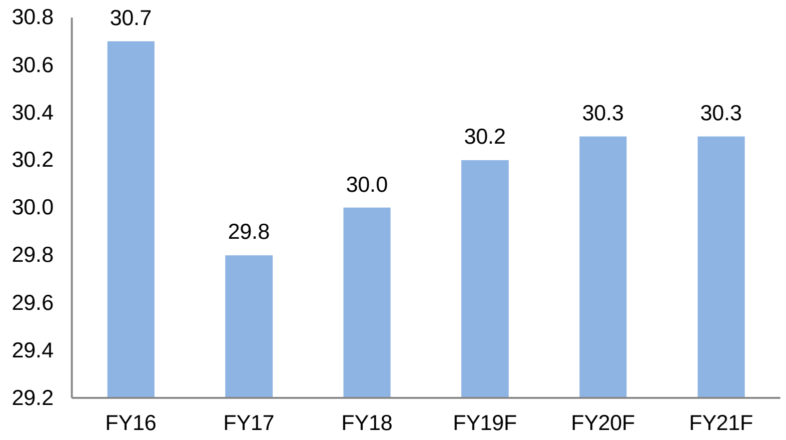
Figure 7: Net cash flow from operations FY16-21F (SGDm)



Source: Company data, RHB

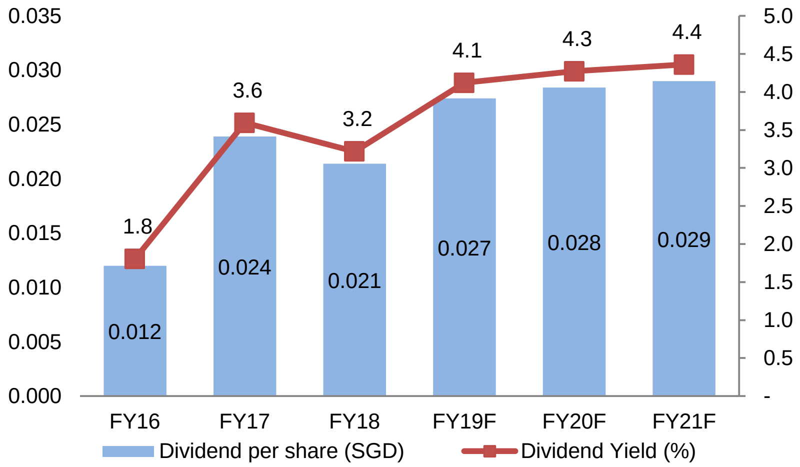
30% payout ratio will likely result in higher dividends. Frencken has typically paid about 30% of its profits as dividends to shareholders. With increased profitability, we think dividends will likely grow along with the same payout ratio. We expect an FY19F dividend yield of 4.5%. If there is no surge in capex, there is also a possibility that more dividends can be dished out due to the strong operating cash flow derived from operations.

Figure 8: Dividend payout ratios for FY16-2021F (%)



Source: Company data, RHB

Figure 9: Dividends (FY16-21F)



Source: Company data, RHB

Valuation

Initiating coverage with BUY and TP of SGD0.82

DCF-derived TP of SGD0.82 with WACC of 7%. We initiate coverage on Frencken with a DCF-derived TP of SGD0.82, and a Conviction BUY on the stock. Our assumptions are listed below:

i. Bloomberg WACC of 7%;

ii. Terminal growth rate of 0%.

Figure 10: Frencken's DCF valuation

	Total (SGDm)	FY19F	FY20F	FY21F	FY22F	FY23F	FY24F	Terminal Value
EBIT		50.7	52.3	53.1	53.6	54.2	54.7	
EBIT(1-T)		**39.3**	**40.5**	**41.2**	**41.6**	**42.0**	**42.5**	
Less: Capex		(35.0)	(35.0)	(40.0)	(40.0)	(40.0)	(45.0)	
Add: Depreciation & Amortisation		17.6	19.5	21.6	23.8	26.0	28.3	
Less: Change in Non-cash WC		0.1	0.0	0.0	0.0	0.0	0.0	
FCFF		**22.1**	**25.1**	**22.8**	**25.4**	**28.0**	**25.8**	**353.7**
Present Value of FCFF		20.6	21.8	18.5	19.2	19.7	16.9	231.8
Total FCFF	**348.4**							
Add: Cash	67.1							
Less: Value of Debt	(68.7)							
Less: Minority Interest	(2.6)							
Target Equity Value	**344.2**							
No. of shares (basic)	422							
Intrinsic Share Price (SGD)	**0.82**							

Source: RHB

Figure 11: WACC assumptions

<u>Cost of Equity</u>		<u>Cost of Debt</u>	
Expected market return	8%	Pre-Tax Cost of Debt	2%
Risk free	2%	1 - Effective Tax Rate	77%
Beta	1	Weight	17%
Weight	83%		
WACC (Estimated)	7%		

Source: Company data, RHB

Peer Comparison

Frencken is currently trading at 6.8x FY19F P/E, ie at a discount against the peer average of 9.9x FY19F P/E. Other valuation metrics also indicate that the market is undervaluing Frencken vs its peers. Its P/BV and EV/EBITDA are at 1x and 2.9x, below the peer averages of 1.4x and 5.3x.

Our DCF-backed TP of SGD0.82 implies FY19F P/E of 9x.

At the current price level, Frencken offers a decent dividend yield of 4.5% - we think the dividend per share is likely to increase proportionately as earnings increase over time, even if the dividend payout ratio remains consistent at c. 30%.

Figure 12: Peer comparison

Company	Market Cap (USDm)	P/E (x)	Forward P/E (x)	P/B (x)	EV/EBITDA (x)	Dividend Yield (%)	ROE (%)	Net Debt (Cash) / Equity (%)
FRENCKEN GROUP	191.3	8.6	6.8	1.0	2.9	3.5	13.1	1.6
AEM HOLDINGS	208.9	8.9	10.0	3.2	3.7	1.8	45.5	-58.6
FU YU CORP	116.1	13.4	12.4	1.0	3.0	7.6	6.8	-83.9
GSS ENERGY	33.5	19.6	9.2	1.0	8.6	na.	10.7	-5.5
HI-P INTERNATIONAL	794.3	10.7	11.3	1.9	2.9	3.7	19.3	-117.5
JUBILEE INDUSTRIES	21.1	10.4	6.0	0.7	na.	na.	8.2	-4.4
MEMTECH INTERNATIONAL	104.9	11.0	8.8	0.8	3.0	2.9	7.0	-18.7
SUNNINGDALE TECH	184.8	8.7	11.0	0.7	5.2	6.1	4.9	21.0
VALUETRONICS	206.9	8.1	7.9	1.5	8.3	1.3	18.9	-671.1
VENTURE CORP	3538.5	14.0	12.4	2.0	7.5	3.0	16.1	-711.0
Average (excl. Frencken)		11.6	9.9	1.4	5.3	3.8	15.2	-183.3

Source: Company data, Bloomberg, RHB

Key Risks

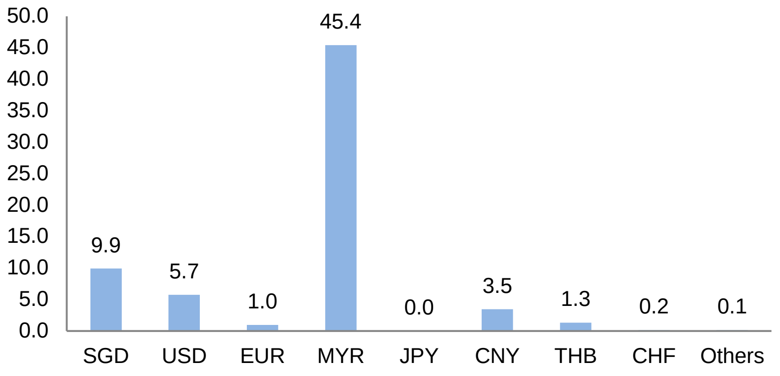
Exposed to customer's capex cycle. Frencken serves customers from various industries such as medical, electronics, analytical, semiconductor and general production equipment. These industries are cyclical in nature and subjected to industry upturns and downturns. During the cyclical downturn, customers may delay investment decisions for new capital equipment or cut their capex budgets. The financial performance of the company may be adversely affected, as a result.

Reliant on major customers. The company is dependent on a number of major customers. In FY17's revenue, approximately SGD64.9m was derived from a single customer in the mechatronics division. In the event Frencken loses its business with these customers, its financial performance will be adversely affected.

Foreign exchange fluctuation risk. The company has operations in four principal geographical regions excluding Singapore, namely, China, Malaysia, the Netherlands and the Czech Republic. Extreme volatility in the movement of foreign currencies, particularly in RMB, EUR, USD and MYR may impact the company's bottomline.

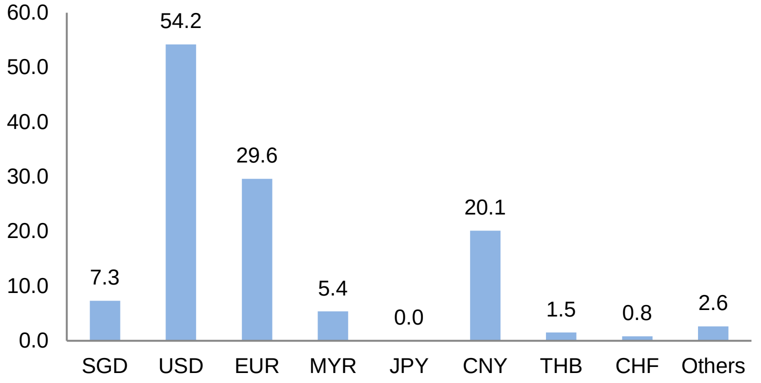
Frencken also transacts in JPY, RMB, THB and CHF. The largest revenue component comes from a customer based in the Netherlands, which accounted for 23.6% of its total revenue in FY17 and 23.4% in FY18. It manages its forex exposures primarily with natural hedges. If needed, it will enter into forward currency contracts to hedge uncovered positions.

Figure 13: Currency exposure – cash and cash equivalents as at 31 Dec 2018



Source: Company data

Figure 14: Currency exposure – trade and other receivables as at 31 Dec 2018



Source: Company data

Highly competitive market. The company operates in a highly competitive market. Its competitors include much bigger players which have greater resources to keep up with technological changes and meet customers' demands. As such, competitors may offer better products and services at a lower cost. In the event Frencken is not able to successfully compete with its rivals, it may end up losing market share and hurting its profitability.

Industry Overview

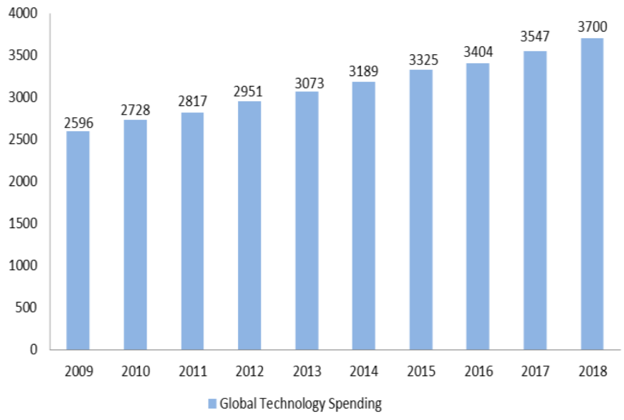
Global technology spending hit USD3.7trn in 2018. Huge emphasis on technologies has sent tech spending into an upward trajectory over the last ten years. It is expected that growth will continue and the key drivers for the growth are the accelerating evolvement in AI, cloud computing, IoT, big data and an increase in connected devices.

Global tech spending was up 4.3% in 2018 to USD3.7trn from USD3.5trn in 2017. According to Gartner, it is projected that spending will increase in 2019 to USD3.8trn (+3.2% YoY), with the highest growth coming from enterprise software growing at 8.5% YoY to USD431bn. The enterprise software segment is expected to grow by another 8.2% to USD466bn in 2020.

The key driver behind this segment's growth is the shift to "pay for use" services from ownership, such as moving to cloud services, away from server ownership as corporations look to modernise legacy core systems.

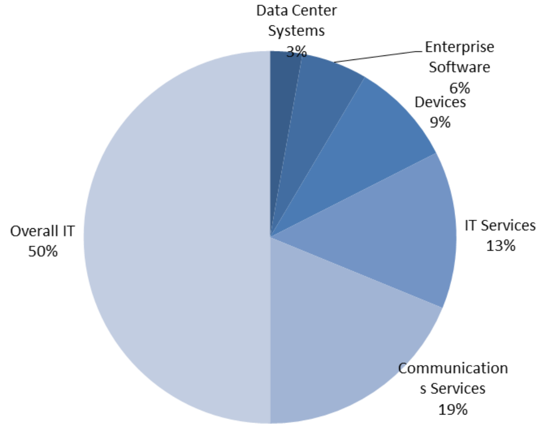
The outlook for the global technology industry remains positive despite uncertainty surrounding trade wars and Brexit, which may affect or delay technology spending.

Figure 15: Global technology spending (USDbn)



Source: Bloomberg

Figure 16: IT spending forecast – 2019 (%)



Source: https://www.gartner.com/en/newsroom/press-releases/2019-01-28-gartner-says-global-it-spending-to-reach--3-8-trillio

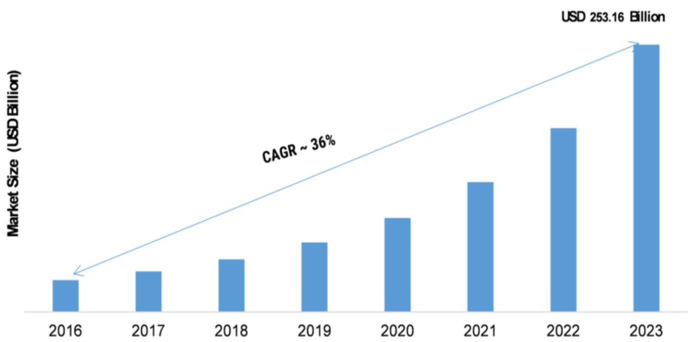
Global industrial automation. We are witnessing a shift to automation from manual assistance to reduce the burden of labour on humans. Manufacturers are investing heavily on automation to improve operational efficiency and production capacities. According to Transparency Market Research, the global industrial market is expected to grow at a CAGR of 6.6% to USD352.02bn by the end of 2024, from USD182.64bn in 2015.

Besides reducing reliance on human capital for cost savings and minimising human errors, the demand for automation is also driven by other advantages – such as higher flexibility in managing manufacturing schedules, enhancing the consistency of products, and also data collection. The global industrial automation market is segmented into a distributed control system (DCS), programmable logic control system (PLC), machine vision system, manufacturing execution system (MES), human machine interface (HMI), supervisory control and data acquisition (SCADA), product lifecycle management (PLM), plant asset management, computer numerical control (CNC) routers, electronic control units (ECU), and other types. The PLM segment commanded the biggest market share in 2015.

Transformation in the automotive industry. Digital transformation has revolutionised industries, and the automotive industry is no exception. Traditional automakers are facing continuous pressure, as the auto industry is experiencing a paradigm shift. Major trends that are transforming the traditional auto industry include shared mobility, connectivity services, autonomous cars, and electrified vehicles. These trends will redistribute the profit-sharing proportion among different players within the industry.

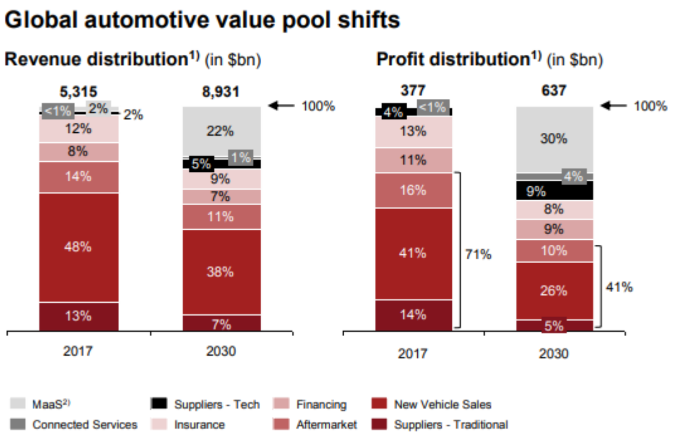
Consumer demand for vehicle ownership may drop as a result of the increasing trend towards Mobility-as-a-Service (MaaS) with the emergence of start-ups like Lyft, Uber and Grab. However, despite the rising trend of autonomous driving, EVs and MaaS and coupled with a growing population, we believe there may still be net growth in car sales going forward.

Figure 17: Mobility-as-a-Service (MaaS) forecasts until 2023



Source: https://www.marketresearchfuture.com/reports/mobility-as-a-service-market-3109

Figure 18: Industry profit share forecasts



Source: https://www.strategyand.pwc.com/media/file/Digital-Auto-Report-2018.pdf

Company Background

Frencken is a global integrated technology solutions company. It provides original design, original equipment and integrated manufacturing solutions to MNCs in the automotive, healthcare, industrials, life sciences and semiconductor industries. The company's customer base includes a large number of blue chip names like Continental AG, BMW AG, Intel, Seagate, Panasonic, Philips and Siemens.

The company's presence spans Asia, Europe and the US with 16 operating sites and a strong team of 3,500 employees. It was formerly known as ElectroTech Investments when it went public in May 2005. It is listed on the Main Board of Singapore Exchange.

The company made a series of acquisitions since its listing, such as ETLA Ltd in 2009, All Mepp in 2013 and US Motion Inc in 2012. It also acquired Juken Technology in the same year, after which Juken was delisted from the Singapore Stock Exchange. In 2013 and 2014, the company acquired Supertool Industries and NTZ International respectively.

Frencken's business comprises two core segments:

i. **Mechatronics division –** designs and manufactures high-precision and complex systems for OEM players in the industrial automation, semiconductor, healthcare and life-science sectors. The division's core capabilities lie in providing a "one-stop" solution for the design, development and manufacturing of precision-engineered systems with complete machines, complex electromechanical assemblies and high precision parts and components.

   The mechatronics division contributed 79.4% (or SGD496.8m) of total revenue (SGD625.8m) in FY18;

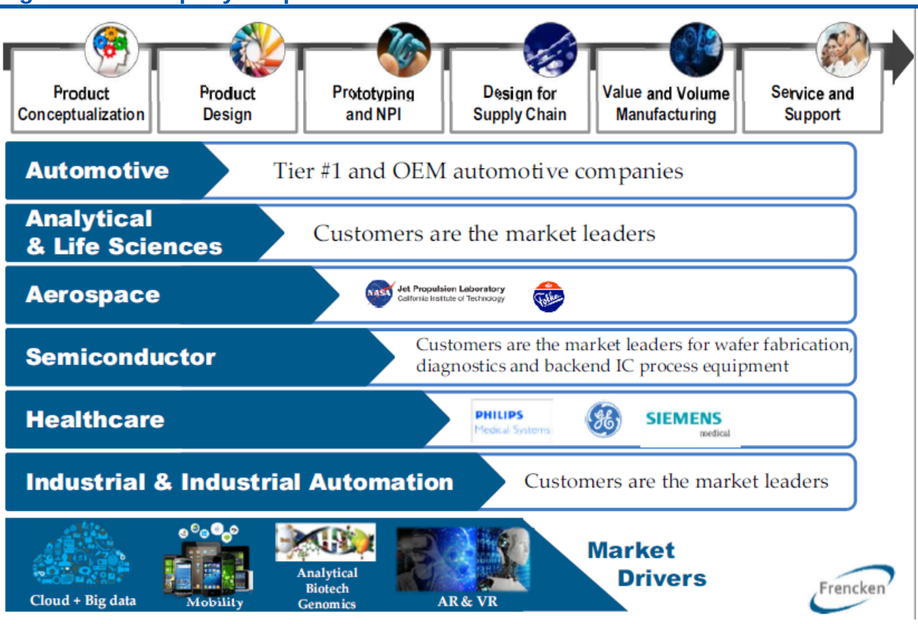
ii. **IMS division –** provides integrated contract design and manufacturing services to the automotive, office automation, consumer and industrial electronics segments. Formerly known as the EMS division, this division provides product design, tooling design and manufacture, product industrialisation, plastic injection moulded parts and components, PCBAs and final test and assembly of modules and box build products.

   The IMS division contributed 20.6% (or SGD128.7m) of total revenue (SGD625.8m) in FY18.

Figure 19: Frencken's integrated outsourcing services

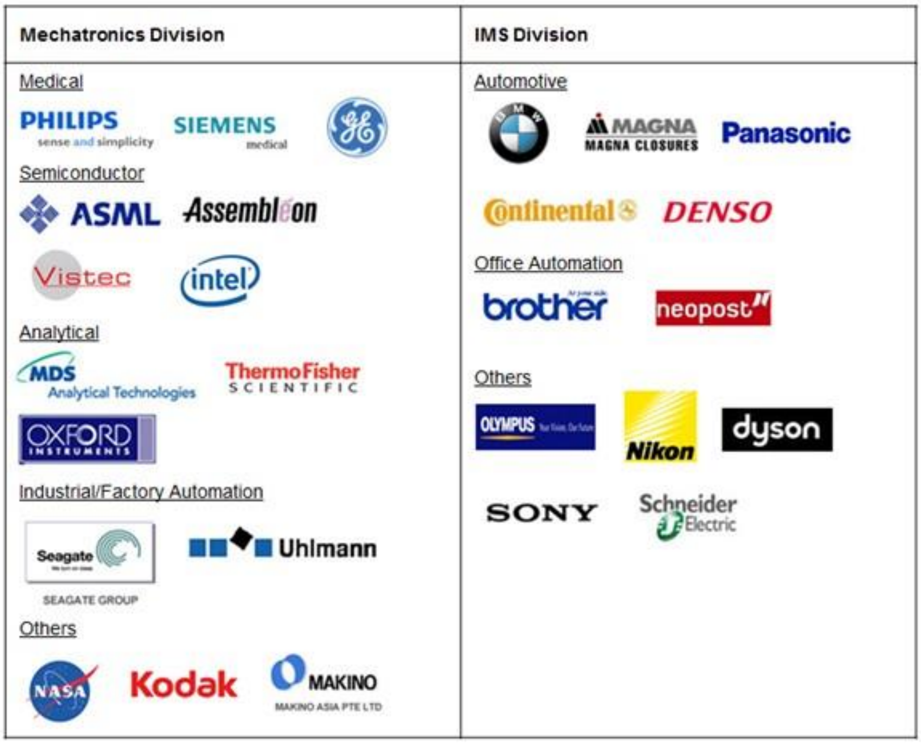
Source: Company data

Figure 20: Company snapshot



Source: Company data

Figure 21: Frencken's customers



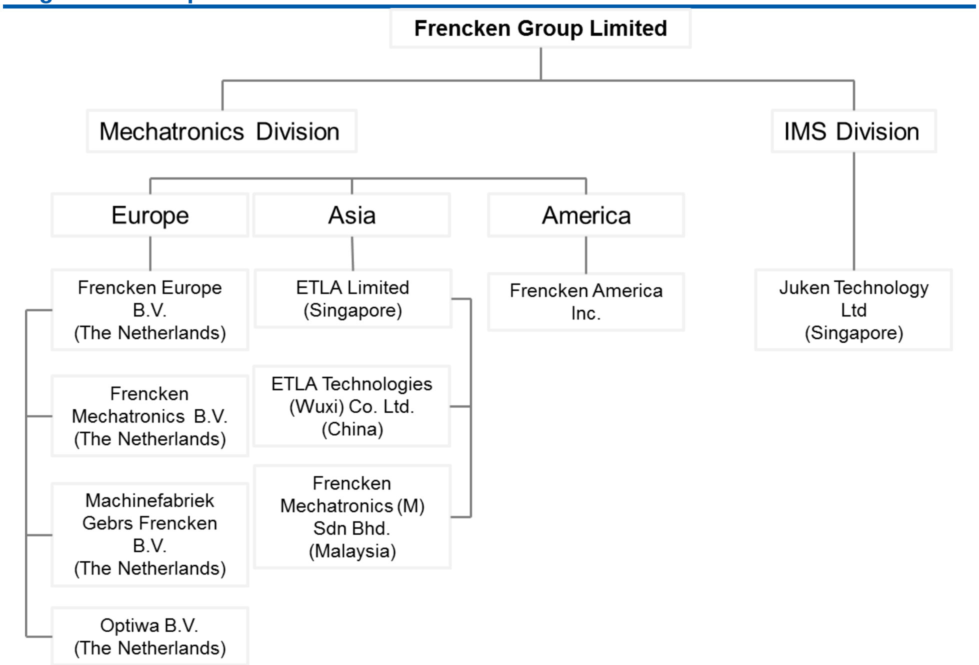
Source: Company data,

Figure 22: Management team

Name	Position	Profile
Dato' Gooi Soon Chai	Chairman, Non-Independent Non-Executive Director	Dato' Gooi Soon Chai was appointed as Director on 10 Feb 2015 and as the Chairman on 10 Aug 2016. He is also a member of the remuneration and nominating committees. Dato' Gooi is a board member of the Malaysian Investment Development Authority. He holds a Bachelor of Science degree with first class honours in engineering from University of London, and a Master of Science degree in computing science from Imperial College of Science and Technology, London.
Dennis Au	President and Executive Director	Dennis Au was appointed as President on 5 May 2015, and as Executive Director on 28 Apr 2016. Mr Au is responsible for charting the company's strategic direction and goals as well as overseeing its global operations and driving the company's performance. Mr Au holds a Bachelor of Engineering (electronic, electrical and systems) from the National University of Malaysia.
David Chin Yean Choon	Chief Financial Officer	David Chin is the CFO. Mr Chin is responsible for financial reporting, treasury and cash flow management, risk management evaluation, corporate finance, audit and tax compliance, systems. Mr Chin is a Chartered Accountant by profession, a fellow of the Institute of Chartered Accountants in England and Wales as well as a Chartered Accountant of the Malaysian Institute of Accountants.
Wang Liang Horng	Vice President, Operations	Wang Liang Horng joined in 2015 as Vice President of Operations. Mr Wang is responsible for providing operational leadership for programmes and overseeing the implementation of strategic initiatives at both the business divisions. Mr Wang holds a MBA in Marketing and Finance from Oklahoma City University, USA and a honours degree in Electronics and Electrical Engineering from Nanyang Technological University of Singapore.

Source: Company data

Figure 23: Corporate structure



Source: Company data

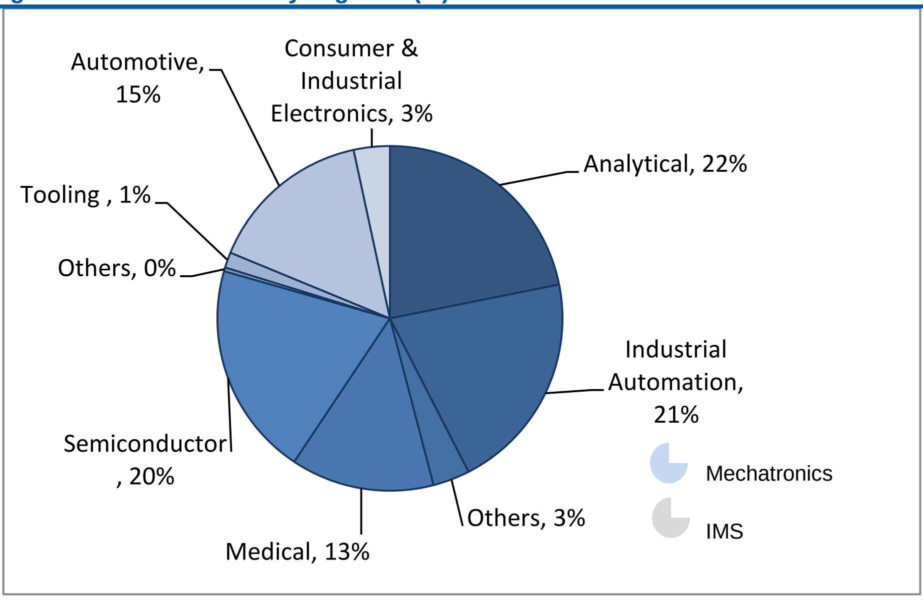
Business Analysis

The company recorded SGD625.8m in sales for FY18, up 21.5% YoY, mainly lifted by an increase in revenue from the mechatronics division. 79.4% (or SGD496.8m) of total revenue was generated by the mechatronics division, with the analytical sector (22% of total revenue) being the biggest contributor, followed closely by industrial automation (21%) and semiconductor (20%).

On a YoY basis, the mechatronics division grew 33.1% to SGD496.8m in FY18 primarily due to increasing orders for storage drive production equipment from a key customer in the industrial automation segment. Revenue from industrial automation grew 153.5% to SGD129m in FY18.

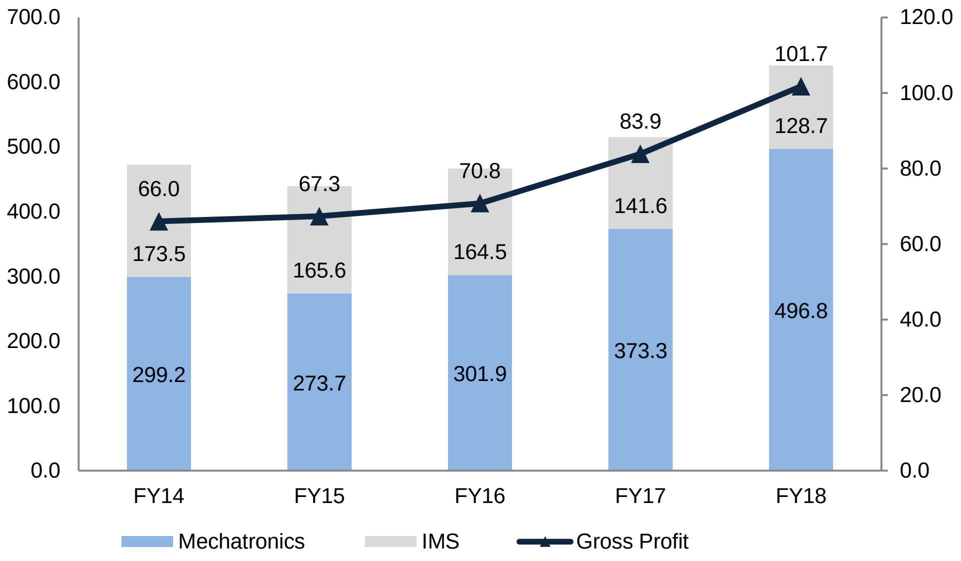
Frencken divested Precico Electronics on 31 Mar 2017. As a result, revenue from the IMS division decreased by 13.9% and 9.1% in FY17 and FY18.

Figure 24: FY18 revenue by segment (%)



Source: Company data, Bloomberg

Figure 25: Segmental revenue and gross profit FY14-FY18



Source: Company data, Bloomberg

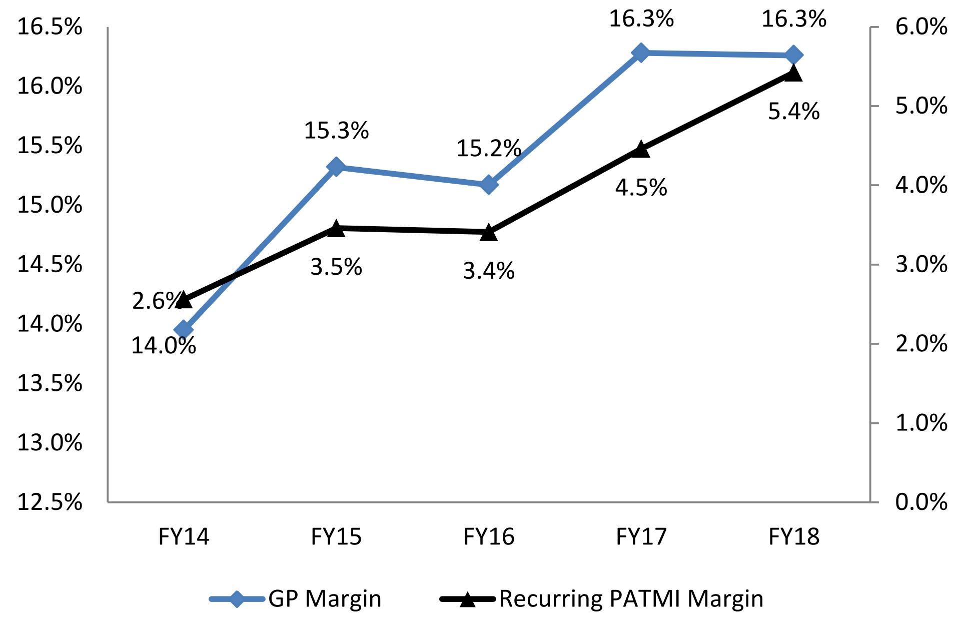
Gross profit grew 54.2% to SGD101.7m in FY18 from SGD66m in FY14 in tandem with higher sales achieved YoY. GPM for the company improved and remained stable at

16.3% during FY17-18 as compared to 14% in FY14 mainly due to higher capacity utilisation.

Excluding one-off items, PATMI grew by 44.5% and 47.7% during FY17-18 to SGD23m and SGD33.9m respectively. This was mainly driven by higher profit contributions by the mechatronics segment.

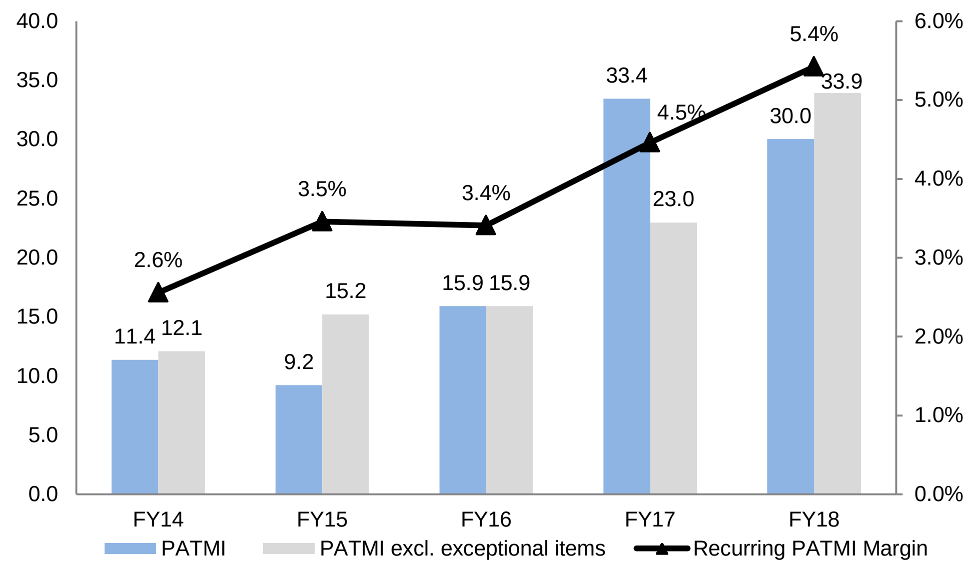
The exceptional loss in FY18 of SGD3.9m was due to impairment losses for goodwill relating to NTZ Nederland B.V and in FY17, the company recognised an exceptional gain of SGD10.5m in relation to the disposal of its subsidiaries.

Figure 26: FY14-18 gross and PATMI margins (%)



Source: Company data, Bloomberg

Figure 27: FY14-18 PATMI FY14-18 (SGDm)



Source: Company data, Bloomberg

The company has been consistent in its dividend payout ratio, which has been at 30-40% over the past five financial years.

Due to the strong set of results in FY17, the board declared a special dividend of SGD0.0073. Together with the ordinary dividend, DPS was up 99% to SGD0.0239, representing a payout ratio of 29.8%. Maintaining the dividend payout ratio of 30%, the DPS declared for FY18 was SGD0.0214, a 10.5% drop as compared to the previous year.

Figure 28: FY14-18 dividends

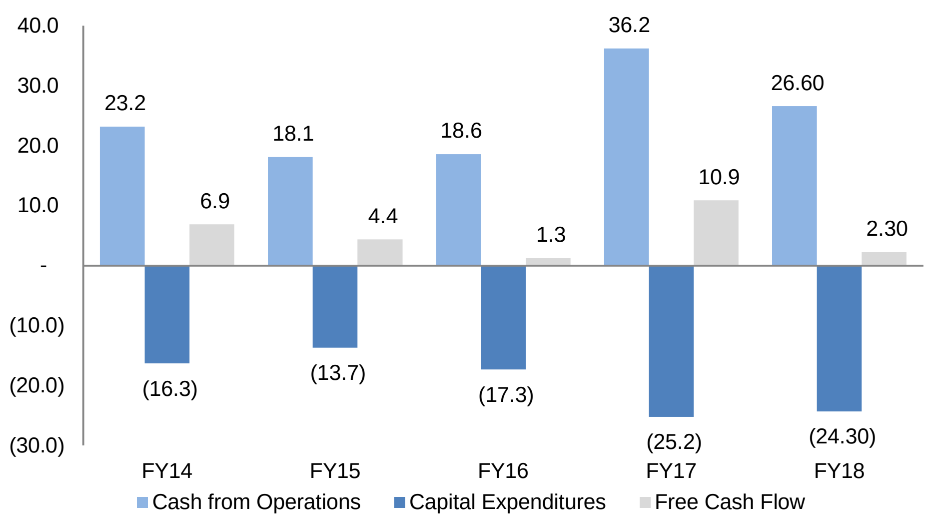
	FY14	FY15	FY16	FY17	FY18
Dividend per share (SGD)	0.0100	0.0075	0.0120	0.0239	0.0214
Dividend Growth (%)	-28.6	-25.0	60.0	99.2	-10.5
Dividend Payout Ratio (%)	35.6	32.9	30.7	29.8	30.0

Source: Company data

Frencken incurred capex of SGD25.2m and SGD24.3m in FY17 and FY18. It expanded its facility in Malaysia as well as purchased new robotic machines and more advanced machining equipment. To increase productivity and achieve operational efficiency for its manufacturing processes, Frencken continues to invest in equipment to increase the level of automation.

Due to the receipt of proceeds from the disposal of subsidiaries, cash and cash equivalents as at 31 Dec 17 increased to SGD68.2m from SGD18.5m as at 31 Dec 2016. At the end of FY17, the company was in a net cash position of SGD4.5m as compared to net debt of SGD40.3 in the previous FY. It had a minimal net debt of SGD1.6m at the end of FY18.

Figure 29: FY14-18 Free cash flow (SGDm)



Source: Company data, Bloomberg

Figure 30: FY14-18 Cash and borrowings (SGDm)

	FY14	FY15	FY16	FY17	FY18
Total Borrowings	-55.4	-51.9	-58.7	-63.6	-68.7
Cash Balances	18.8	14.7	18.5	68.2	67.1
(Net Debt)/Net Cash	-36.6	-37.2	-40.3	4.5	-1.6
(Net debts)/Net cash to equity (%)	-17.7	-18.3	-18.9	1.8	-0.6

Source: Company data, Bloomberg

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