

21 November 2024

Technology | Software & Services

## Frencken Group (FRKN SP)

**Buy** (Maintained)

### Semiconductor Sector Recovery Still In Play; BUY

- **Maintain BUY and SGD1.71 TP, 38% upside with c.3% FY25F yield.** We remain upbeat on Frencken Group, as its 3Q24 results are in line with expectations. FRKN is a beneficiary of the anticipated semiconductor sector's recovery in 2025, driven by the latter's 14% YoY revenue growth this year, according to consulting firm Gartner. Also, SEMI expects the 300mm fabrication (fab) equipment market to expand by 24% YoY (USD132m) next year, driven by the demand for AI chips and regionalisation of fab plants. FRKN is trading at -0.5SD from its historical mean P/E.
- **3Q24 results are in line.** 3Q24 revenue grew 8% YoY to SGD199m while PATMI expanded by 20% YoY to SGD9m. Revenue growth was driven by the mechatronics division, whose turnover rose by 11% YoY to SGD177m. This was offset by the 13% YoY decline in its integrated manufacturing services (IMS) division's revenue to SGD21m. The mechatronics division's semiconductor segment continued to perform well (+238% YoY, SGD92m) with steady sales to its key customer in Europe and a continued recovery in Asia. Meanwhile, revenue of its industrial automation and analytical & life science units grew by 4% and 32% YoY to SGD45m and SGD9m. Industrial automation enjoyed its key customer's increase in capex expenditure, while the analytical & life science segment was lifted by higher sales to a key customer in Europe. The medical segment's revenue dropped 4% YoY to SGD30m on slower customer orders in Europe. The IMS unit's automotive segment saw a 12% YoY revenue decline to SGD16m. Its consumer and industrial electronics segment's revenue also declined by 9% YoY to SGD5m. GPM was 14% (+1.6ppts from 3Q23 and sequentially lower by 0.7ppts from 2Q24 due to sales mix). PATMI was at SGD9m, with a net margin of 5%.
- **Outlook remains positive.** FRKN still expects its 2H24 revenue to improve on a HoH basis, ie a trend that is unchanged from the previous quarter. The semiconductor unit is expected to post higher revenue, while the medical, analytical & life science, and automotive units should record stable turnover. The turnover of its industrial automation business continues to recover, albeit somewhat unevenly in the various sub-segments. It continues to support its key customer in Europe, as well as customers that have moved production to Asia. In addition, FRKN is opening a larger facility in the US to support semiconductor customers in 1Q25. In the analytical & life sciences division, sales are supported by new product introductions (NPIS), and steady orders to a key customer in Europe. Both Gartner and SEMI have also forecasted firm growth in 2025 for revenue, and the 300mm fab equipment market in the semiconductor sector.
- **Key downside risks** to our forecasts and TP include a later-than-expected demand recovery. As FRKN's 3.0 ESG score is below our 3.1 country median, we apply a 2% discount to its intrinsic value to derive our TP.

Forecasts and Valuation	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
Total turnover (SGDm)	786	743	771	848	890
Recurring net profit (SGDm)	52	32	44	49	54
Recurring net profit growth (%)	(11.7)	(37.4)	34.3	13.3	9.9
Recurring P/E (x)	10.21	16.31	12.14	10.71	9.75
P/B (x)	1.4	1.3	1.2	1.1	1.0
P/CF (x)	13.44	10.88	6.25	8.92	6.88
Dividend Yield (%)	3.3	2.9	1.8	2.5	2.8
EV/EBITDA (x)	4.99	6.28	4.63	3.91	3.24
Return on average equity (%)	13.5	8.2	10.4	10.9	11.1
Net debt to equity (%)	net cash	net cash	net cash	net cash	net cash

Source: Company data, RHB

Target Price (Return): SGD1.71 (+38%)  
Price (Market Cap): SGD1.24 (USD395m)  
ESG score: 3.0 (out of 4)  
Avg Daily Turnover (SGD/USD) 3.96m/2.97m

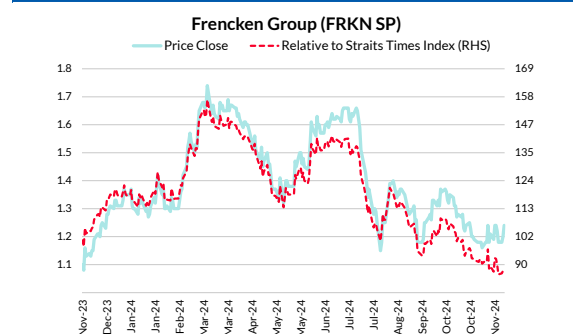
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#### Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(8.2)	0.0	(8.8)	(10.2)	14.8
Relative	(24.2)	(3.2)	(20.3)	(23.6)	(6.0)
52-wk Price low/high (SGD)				1.08	1.74



Source: Bloomberg

#### Overall ESG Score: 3.0 (out of 4)

##### E: GOOD

The company is working on expanding the market share of its proprietary and niche eco-physical vapour deposition or PVD technology, which is an environmentally-friendly surface coating process compared to conventional methods.

##### S: GOOD

Frencken has also taken steps to support local communities and help keep frontliners safe. When there was a severe shortage of masks in the early days of the COVID-19 pandemic, it worked to secure more than 30,000 masks which were donated to frontliners and hospitals in Malaysia, Europe and the US.

##### G: GOOD

In addition to a robust corporate governance structure, an internal controls system is in place to ensure proper and ethical conduct which includes policies on areas such as personal data protection, anti-corruption, anti-money laundering and counter terrorism financing, conflict of interest, business continuity, insider dealing, enterprise risk management, and outsourcing

#### Note:

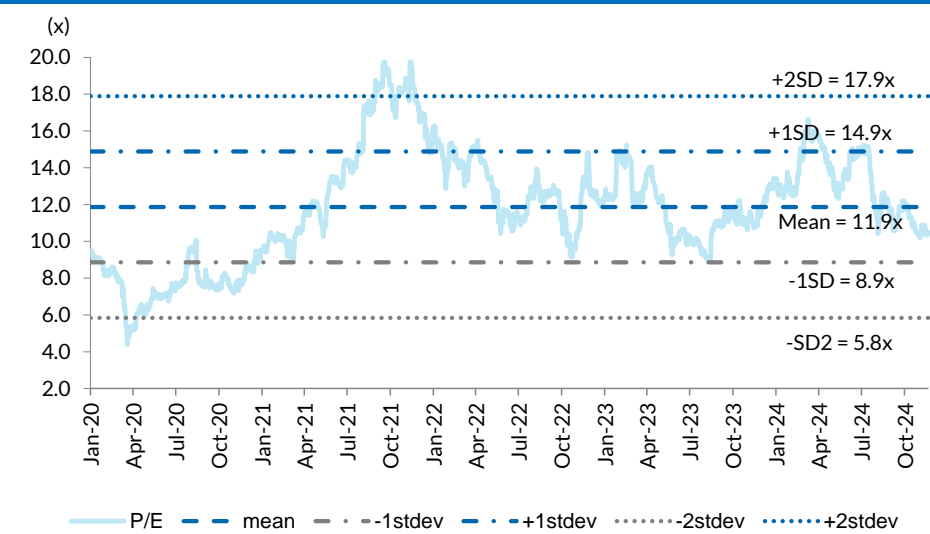
Small cap stocks are defined as companies with a market capitalization of less than USD0.5bn.

## Financial Exhibits

<b>Asia</b>	<b>Financial summary (SGD)</b>	<b>Dec-22</b>	<b>Dec-23</b>	<b>Dec-24F</b>	<b>Dec-25F</b>	<b>Dec-26F</b>
Singapore	Recurring EPS	0.12	0.08	0.10	0.12	0.13
Technology	DPS	0.04	0.04	0.02	0.03	0.03
<b>Frencken Group</b>	BVPS	0.92	0.94	1.02	1.10	1.20
FRKN SP	Return on average equity (%)	13.5	8.2	10.4	10.9	11.1
Buy						
<b>Valuation basis</b>	<b>Valuation metrics</b>	<b>Dec-22</b>	<b>Dec-23</b>	<b>Dec-24F</b>	<b>Dec-25F</b>	<b>Dec-26F</b>
16x blended FY24-25F P/E	Recurring P/E (x)	10.21	16.31	12.14	10.71	9.75
	P/B (x)	1.4	1.3	1.2	1.1	1.0
<b>Key drivers</b>	FCF Yield (%)	(0.6)	4.1	12.2	7.4	10.8
Increase in demand for customers' products;	Dividend Yield (%)	3.3	2.9	1.8	2.5	2.8
	EV/EBITDA (x)	4.99	6.28	4.63	3.91	3.24
<b>Key risks</b>	EV/EBIT (x)	7.09	10.35	7.02	5.90	4.83
i. Worsening trade war affecting consumer sentiment;						
ii. Economic slowdown;	<b>Income statement (SGDm)</b>	<b>Dec-22</b>	<b>Dec-23</b>	<b>Dec-24F</b>	<b>Dec-25F</b>	<b>Dec-26F</b>
iii. Weaker demand for its customers' products;	Total turnover	786	743	771	848	890
iv. FX fluctuation risk.	Gross profit	119	98	115	129	138
	EBITDA	95	76	92	102	109
<b>Company Profile</b>	Depreciation and amortisation	(28)	(30)	(31)	(34)	(36)
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.	Operating profit	67	46	60	67	73
	Net interest	(4)	(5)	(5)	(4)	(4)
	Pre-tax profit	63	42	56	63	69
	Taxation	(11)	(10)	(13)	(14)	(16)
	Reported net profit	52	32	44	49	54
	Recurring net profit	52	32	44	49	54
	<b>Cash flow (SGDm)</b>	<b>Dec-22</b>	<b>Dec-23</b>	<b>Dec-24F</b>	<b>Dec-25F</b>	<b>Dec-26F</b>
	Change in working capital	(43)	(10)	11	(24)	(13)
	Cash flow from operations	39	49	85	59	77
	Capex	(43)	(27)	(20)	(20)	(20)
	Cash flow from investing activities	(41)	(27)	(19)	(18)	(18)
	Dividends paid	(18)	(16)	(10)	(13)	(15)
	Cash flow from financing activities	(19)	(53)	(10)	(13)	(15)
	Cash at beginning of period	193	167	143	198	224
	Net change in cash	(20)	(31)	56	28	44
	Ending balance cash	167	131	199	226	268
	<b>Balance sheet (SGDm)</b>	<b>Dec-22</b>	<b>Dec-23</b>	<b>Dec-24F</b>	<b>Dec-25F</b>	<b>Dec-26F</b>
	Total cash and equivalents	167	143	198	224	266
	Tangible fixed assets	128	130	119	105	89
	Total investments	3	3	3	3	3
	Total assets	725	735	750	796	840
	Short-term debt	108	92	92	92	92
	Total long-term debt	1	0	0	0	0
	Total liabilities	329	330	312	322	327
	Total equity	396	405	439	474	513
	Total liabilities & equity	725	735	750	796	840
	<b>Key metrics</b>	<b>Dec-22</b>	<b>Dec-23</b>	<b>Dec-24F</b>	<b>Dec-25F</b>	<b>Dec-26F</b>
	Revenue growth (%)	2.5	(5.5)	3.7	10.1	5.0
	Recurrent EPS growth (%)	(11.7)	(37.4)	34.3	13.3	9.9
	Gross margin (%)	15.1	13.2	14.9	15.2	15.5
	Operating EBITDA margin (%)	12.1	10.3	11.9	12.0	12.3
	Net profit margin (%)	6.6	4.4	5.7	5.8	6.1
	Dividend payout ratio (%)	34.0	47.9	22.3	26.5	27.3
	Capex/sales (%)	5.4	3.6	2.6	2.4	2.2
	Interest cover (x)	16.0	7.7	10.0	11.2	12.2

Source: Company data, RHB

Figure 1: FEH's historical forward P/E



Source: RHB, Bloomberg

## Emissions And ESG

### Trend analysis

FRKN has yet to report its Scope 1 and Scope 2 data at the moment, and is currently undergoing ESG performance Phase 1 (2022), which is to strengthen its current ESG practices.

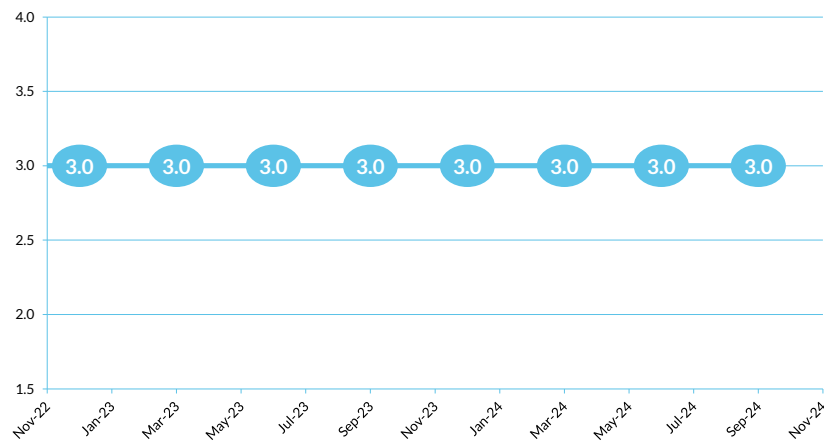
Emissions (tCO2e)	Dec-21	Dec-22	Dec-23
Scope 1	-	-	-
Scope 2	-	-	-
Scope 3	-	-	-
Total emissions	na	na	na

Source: Company data, RHB

## Latest ESG-Related Developments

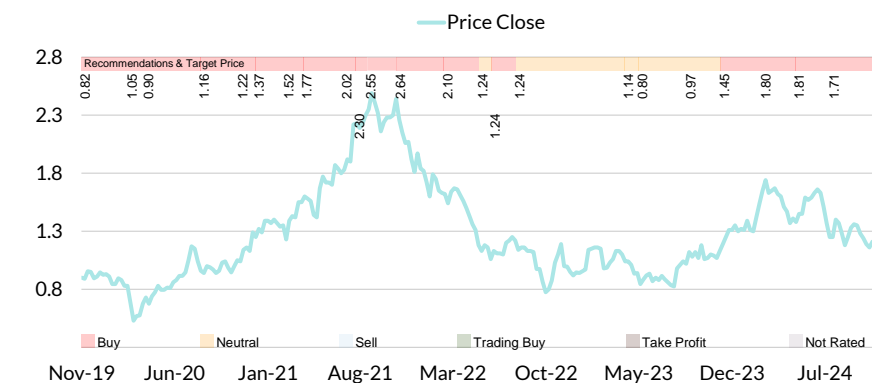
- FRKN is committed to disclosing Scope 1 and Scope 2 emissions in 2023, under Phase 2 of its sustainability reporting.

## ESG Rating History



Source: RHB

## Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2024-08-23	Buy	1.71	1.37
2024-05-16	Buy	1.81	1.40
2024-02-29	Buy	1.80	1.60
2023-11-26	Buy	1.45	1.13
2023-09-10	Neutral	0.97	1.02
2023-05-23	Neutral	0.80	0.83
2023-04-20	Neutral	1.14	1.04
2022-08-15	Neutral	1.24	1.19
2022-06-20	Buy	1.24	1.07
2022-05-22	Neutral	1.24	1.18
2022-03-03	Buy	2.10	1.62
2021-11-14	Buy	2.64	2.44
2021-10-25	Buy	2.55	2.26
2021-09-07	Buy	2.55	2.33
2021-08-12	Buy	2.30	2.16

Source: RHB, Bloomberg

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<b>Buy:</b>	Share price may exceed 10% over the next 12 months
<b>Trading Buy:</b>	Share price may exceed 15% over the next 3 months, however longer-term outlook remains uncertain
<b>Neutral:</b>	Share price may fall within the range of +/- 10% over the next 12 months
<b>Take Profit:</b>	Target price has been attained. Look to accumulate at lower levels
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<b>Not Rated:</b>	Stock is not within regular research coverage

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