

18 May 2021

Technology | Software & Services

## Frencken Group (FRKN SP)

**Buy** (Maintained)

### Semiconductors Driving Growth; Still BUY

- **Still BUY this preferred sector pick, unchanged SGD1.77 TP offers 17% upside, with 2.5% FY21F yield.** Frencken reported solid 1Q21 results, with revenue and PATMI surging 19.9% and 54.7% YoY, driven mainly by its semiconductor and analytical segments. We remain confident that it will book sturdy FY21 numbers. Frencken remains a major proxy to the growth of the chip-making business in Singapore. There is also potential for earnings to spike – if its automotive and industrial automation divisions surprise on the upside, with new projects clinched.

- **Medical and semiconductor segments still recording strong growth.** Frencken continues to enjoy larger medical orders related to computerised tomography (CT) scans and other imaging-related equipment. Its clients have also reduced their number of go-to manufacturers, and are making larger orders for existing and new products from their respective pools of retained product suppliers. This should mean higher margins for Frencken, as it expects some of these such orders to ramp up in FY21. Management remains bullish on its semiconductor business as well, and all chip-related orders are likely to grow strongly YoY in FY21F. It is confident that the strong growth will likely continue across the various business segments in the semiconductor space. In 1Q21, semiconductor segment sales surged 58% YoY to SGD65.9m.

- **Automotive business to soften in 2H21F.** The global automotive chip shortage was due to a lack of orders placed forward, due to the downturn in the automotive sector in 2020, and chips being allocated to other sectors as a result. Management is optimistic that this situation will be easily resolved, and sales volumes will improve on stronger demand. Automotive sales jumped 14.8% YoY to SGD21.6m, but should soften in 2H21F.

- **One of our top sector picks.** Despite the delays in a product launch from one of Frencken's customers, we believe FY21 will be a strong year for the group, wherein the semiconductor and medical segments should drive profits upwards. Previously, its key customer in the industrial automation segment delayed a new product launch due to supply chain issues. Growth will depend on the end-customer which has just launched its new product, but has not really ramped up production yet. Management, while casually optimistic on this front, is cognisant that the outlook for this division will depend much on its customer's own clients, and the reception to this new product. All in all, we believe there is also room for a further share price re-rating, as Frencken's peers are trading at higher valuations. We remain confident on the company's long-term prospects and management team.

- **Key risks** include an economic slowdown and customers delaying orders.

Target Price (Return): SGD1.77 (17.2%)  
Price: SGD1.51  
Market Cap: USD482m  
Avg Daily Turnover (SGD/USD): 4.71m/3.53m

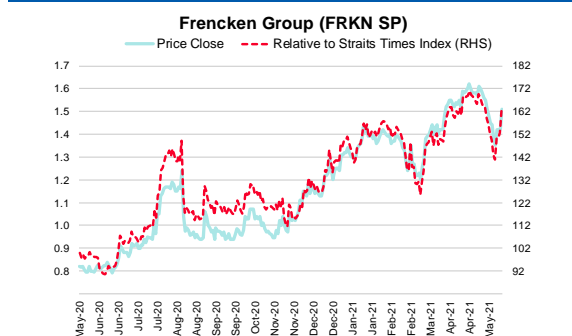
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#### Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	14.4	(5.6)	9.4	48.0	81.9
Relative	6.1	(1.8)	3.9	37.2	59.9
52-wk Price low/high (SGD)				0.79 – 1.62	



Source: Bloomberg

Forecasts and Valuation	Dec-19	Dec-20	Dec-21F	Dec-22F	Dec-23F
Total turnover (SGDm)	659	620	769	809	816
Recurring net profit (SGDm)	46	48	53	56	57
Recurring net profit growth (%)	38.4	4.5	10.7	5.5	1.4
Recurring P/E (x)	13.94	13.33	12.04	11.41	11.26
P/B (x)	2.2	1.9	1.7	1.6	1.4
P/CF (x)	6.43	7.41	15.18	8.59	8.41
Dividend Yield (%)	2.0	2.0	2.5	2.7	2.7
EV/EBITDA (x)	7.02	6.54	6.44	5.72	5.21
Return on average equity (%)	15.1	13.5	15.0	14.3	13.1
Net debt to equity (%)	net cash	net cash	net cash	net cash	net cash

Source: Company data, RHB

#### Note:

Small cap stocks are defined as companies with a market capitalization of less than USD1bn.

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## Financial Exhibits

<b>Asia</b>	<b>Financial summary (SGD)</b>	<b>Dec-19</b>	<b>Dec-20</b>	<b>Dec-21F</b>	<b>Dec-22F</b>	<b>Dec-23F</b>
Singapore	Recurring EPS	0.11	0.11	0.13	0.13	0.13
Technology	DPS	0.03	0.03	0.04	0.04	0.04
<b>Frencken Group</b>	BVPS	0.70	0.79	0.88	0.97	1.07
FRKN SP	Return on average equity (%)	15.1	13.5	15.0	14.3	13.1
Buy						
	<b>Valuation metrics</b>	<b>Dec-19</b>	<b>Dec-20</b>	<b>Dec-21F</b>	<b>Dec-22F</b>	<b>Dec-23F</b>
<b>Valuation basis</b>	Recurring P/E (x)	13.94	13.33	12.04	11.41	11.26
14x FY21F P/E	P/B (x)	2.2	1.9	1.7	1.6	1.4
	FCF Yield (%)	13.2	9.8	3.4	8.5	8.7
<b>Key drivers</b>	Dividend Yield (%)	2.0	2.0	2.5	2.7	2.7
Increase in demand for customers' products	EV/EBITDA (x)	7.02	6.54	6.44	5.72	5.21
	EV/EBIT (x)	9.52	8.94	8.16	7.21	6.59
<b>Key risks</b>	<b>Income statement (SGDm)</b>	<b>Dec-19</b>	<b>Dec-20</b>	<b>Dec-21F</b>	<b>Dec-22F</b>	<b>Dec-23F</b>
i. Worsening US-China trade war affecting consumer sentiment;	Total turnover	659	620	769	809	816
ii. Economic slowdown;	Gross profit	111	105	127	137	138
iii. Weaker demand for customer's products;	EBITDA	80	81	81	85	86
iv. FX fluctuation risk.	Depreciation and amortisation	(21)	(22)	(17)	(18)	(18)
	Operating profit	59	59	64	67	68
	Net interest	(1)	(1)	(1)	(1)	(0)
	Pre-tax profit	54	52	63	67	68
	Taxation	(11)	(9)	(10)	(10)	(10)
	Reported net profit	42	43	53	56	57
	Recurring net profit	46	48	53	56	57
<b>Company Profile</b>	<b>Cash flow (SGDm)</b>	<b>Dec-19</b>	<b>Dec-20</b>	<b>Dec-21F</b>	<b>Dec-22F</b>	<b>Dec-23F</b>
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.	Change in working capital	26	8	(29)	(1)	0
	Cash flow from operations	99	86	42	74	76
	Capex	(15)	(24)	(20)	(20)	(20)
	Cash flow from investing activities	(12)	(23)	(20)	(20)	(20)
	Dividends paid	(9)	(13)	(16)	(17)	(17)
	Cash flow from financing activities	(19)	(15)	(16)	(17)	(17)
	Cash at beginning of period	67	122	174	180	216
	Net change in cash	68	48	6	37	39
	Ending balance cash	122	171	181	218	255
	<b>Balance sheet (SGDm)</b>	<b>Dec-19</b>	<b>Dec-20</b>	<b>Dec-21F</b>	<b>Dec-22F</b>	<b>Dec-23F</b>
	Total cash and equivalents	122	174	180	216	254
	Tangible fixed assets	92	100	103	106	109
	Total investments	5	5	5	5	5
	Total assets	506	564	615	662	703
	Short-term debt	53	67	67	67	67
	Total long-term debt	0	0	0	0	0
	Total liabilities	208	228	242	249	250
	Total equity	298	336	374	413	453
	Total liabilities & equity	506	564	615	662	703
	<b>Key metrics</b>	<b>Dec-19</b>	<b>Dec-20</b>	<b>Dec-21F</b>	<b>Dec-22F</b>	<b>Dec-23F</b>
	Revenue growth (%)	5.3	(5.9)	24.0	5.2	0.9
	Recurrent EPS growth (%)	37.9	4.5	10.7	5.5	1.4
	Gross margin (%)	16.9	17.0	16.5	16.9	16.9
	Operating EBITDA margin (%)	12.2	13.0	10.5	10.5	10.5
	Net profit margin (%)	6.4	6.9	6.9	6.9	6.9
	Capex/sales (%)	2.3	3.8	2.6	2.5	2.5
	Interest cover (x)	20.4	24.4	26.5	27.9	28.2

Source: Company data, RHB

## Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2021-04-13	Buy	1.77	1.59
2021-03-02	Buy	1.52	1.27
2020-12-23	Buy	1.37	1.24
2020-11-16	Buy	1.22	1.05
2020-08-19	Buy	1.16	0.98
2020-04-14	Buy	0.90	0.71
2020-03-08	Buy	1.05	0.83
2019-05-09	Buy	0.82	0.62

Source: RHB, Bloomberg

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Analyst	Company
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