

COMPANY RESULTS

Frencken Group (FRKN SP)

3Q23: Results In Line; Sequential Recovery Trend Continues

Frencken's 3Q23 earnings of S\$7m (-30% yoy/+3% qoq) were in line with expectations, with 9M23 earnings accounting for 74% of our full-year estimate. 3Q23 revenue grew 3% qoq but fell 6% yoy as all segments saw revenue declines, except for medical (+20% yoy) and analytical & life sciences (+22% yoy). Frencken expects stable revenue in 2H23 vs 1H23 and will continue focusing on its programmes for customers to ensure it is well-positioned to recover. Maintain BUY. Target: S\$1.23.

3Q23 RESULTS

Year to 31 Dec (S\$m)	3Q23	3Q22	% chg (yoy)	2Q23	% chg (qoq)
Revenue	184.4	195.3	(5.6)	178.5	3.3
Net Profit	7.1	11.0	(35.5)	6.9	2.9
Gross margin (%)	12.4	13.7	(1.3ppt)	12.4	-
Net margin (%)	3.9	5.6	(1.7ppt)	3.9	-

Source: Frencken, UOB Kay Hian

RESULTS

- 3Q23 earnings of S\$7m (-30% yoy/+3% qoq) are in line with expectations.** Frencken Group (Frencken) reported earnings that are in line with our forecast, with 9M23 earnings of S\$19m (-48% yoy) accounting for 74% of our full-year estimate. 3Q23 earnings saw a qoq recovery of around 3%, as Frencken continues its sequential recovery trend since 2Q23.
- Revenue declined across four segments, while that for medical and analytical & life sciences rose.** Frencken's 3Q23 revenue grew 3% qoq but the drop of 6% yoy was led by declines in the industrial automation (-64% yoy), semiconductor (-11% yoy), consumer & industrial electronics (-4% yoy) and automobile (-6% yoy) segments. In the semiconductor space, sales to a key customer in Europe was higher yoy in 1H23. However, this was insufficient to compensate for the decline in sales in Asia. Sales in the medical (+20% yoy) segment grew due to higher sales to a significant European customer, while sales of the analytical & life science segment rose 22% yoy.
- Stable outlook for 2H23 indicates that earnings have already bottomed in 1H23 and it 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: higher revenue, c) analytical & life sciences: increasing revenue, d) industrial automation: decreasing revenue, and e) automobile: stable revenue. On the other hand, 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)	2021	2022	2023F	2024F	2025F
Net turnover	767	786	733	792	828
EBITDA	87	82	54	75	80
Operating profit	64	54	24	44	48
Net profit (rep./act.)	59	52	26	42	46
Net profit (adj.)	59	52	26	42	46
EPS (S\$ cents)	13.8	12.1	6.0	9.7	10.7
PE (x)	7.9	8.9	18.0	11.1	10.1
P/B (x)	1.2	1.2	1.1	1.1	1.0
EV/EBITDA (x)	4.3	4.5	6.8	4.9	4.6
Dividend yield (%)	3.8	3.4	1.7	2.7	3.0
Net margin (%)	7.7	6.6	3.5	5.2	5.5
Net debt/(cash) to equity (%)	(25.4)	(14.8)	(23.5)	(28.2)	(33.5)
Interest cover (x)	62.2	22.8	16.2	20.7	21.2
ROE (%)	16.5	13.5	6.5	9.9	10.1
Consensus net profit	-	-	25	40	49
UOBKH/Consensus (x)	-	-	1.02	1.03	0.93

Source: Frencken, Bloomberg, UOB Kay Hian

BUY

(Maintained)

Share Price	S\$1.08
Target Price	S\$1.23
Upside	+13.5%

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):	461.2
Market cap (US\$m):	343.8
3-mth avg daily t'over (US\$m):	3.0

Price Performance (%)

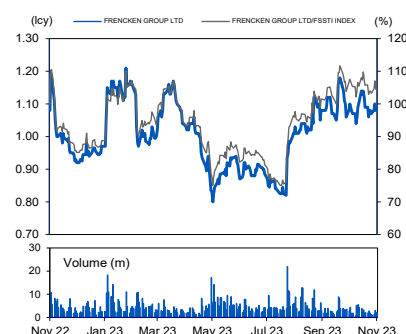
52-week high/low S\$ 1.21/S\$ 0.800

1mth	3mth	6mth	1yr	YTD
1.9	6.9	29.3	2.9	14.3

Major Shareholders

	%
Dato' Gooi Soon Chai	23.5
FY23 NAV/Share (S\$)	0.94
FY23 Net Cash/Share (S\$)	0.22

PRICE CHART



Source: Bloomberg

ANALYST(S)

John Cheong
 +65 6590 6623
 johncheong@uobkayhian.com

STOCK IMPACT

- **Long-term growth supported by diversified segments and new programmes.** Frencen 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, Frencen 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 Frencen is well-positioned to capitalise on a recovery in the global economy and technology sector. Frencen 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 maintain our financial forecasts.

VALUATION/RECOMMENDATION

- **Maintain BUY and target price of S\$1.23**, pegged to 12.6x 2024F PE, based on 1SD above mean PE. The +1 SD in our PE multiple peg is to capture the Frencen's earnings cycle, which is approaching a trough, and an improvement in earnings quality where the medical and analytical & life sciences segments could see more contributions. Also, we note that Frencen has a diverse stream of revenue sources, which could help the company remain resilient amid a volatile macro environment.

SHARE PRICE CATALYST

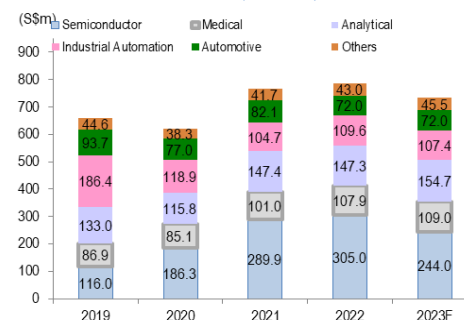
- Higher-than-expected factory utilisation rates and better cost management.

PEER COMPARISON

Company	Ticker	Trading Curr (TC)	Price @ 22 Nov 23 (TC)	Market Cap (USD)	2023F PE (x)	2024F PE (x)	2023F PB (x)	2024F PB (x)	2023F EV/EBITDA (%)	2024F EV/EBITDA (x)	ROE 2023F (%)	Yield 2023F (%)
Frencen	FRKN SP	SGD	1.08	344	18.0	11.1	1.1	1.1	8.9	6.4	6.5	1.7
SGX-listed peers												
Venture	VMS SP	SGD	13.05	2,826	14.1	13.5	1.3	1.3	8.5	8.2	9.4	5.7
AEM	AEM SP	SGD	3.49	804	78.5	14.2	2.2	2.0	28.4	10.3	2.8	0.3
UMS	UMSH SP	SGD	1.26	630	14.1	10.9	2.3	2.1	9.2	7.3	17.0	4.3
Average					35.6	12.9	1.9	1.8	15.3	8.6	9.7	3.5
Semiconductor (39% of Frencen's 2022 sales)												
Asml Hol	ASML NA	EUR	622.2	273,257	31.9	31.8	20.1	18.1	26.2	25.9	70.4	1.0
Intel Corp	INTC US	USD	43.64	183,986	45.9	23.3	1.8	1.8	18.3	12.6	2.7	1.6
Kulicke & Soffa	KLIC US	USD	49.64	2,816	49.1	24.3	2.4	n.a.	26.6	17.2	4.8	1.5
Benchmark Elec	BHE US	USD	25.33	904	12.5	11.8	0.8	0.8	7.5	7.0	6.9	2.6
Average					34.9	22.8	6.3	6.9	19.7	15.7	21.2	1.7
Industrial automation (16% of 2022 sales)												
Seagate Tech	STX US	USD	76.06	15,911	n.a.	293.7	n.a.	n.a.	108.2	28.0	n.a.	3.7
Western Digital	WDC US	USD	46.24	14,993	n.a.	n.a.	1.4	1.5	n.a.	251.5	(15.0)	0.0
Average					n.a.	293.7	1.4	1.5	108.2	139.8	(15.0)	1.8
Analytical & Medical (31% of 2022 sales)												
Thermo Fisher	TMO US	USD	482.39	186,382	22.4	21.9	4.0	3.7	19.9	19.8	18.4	0.3
Oxford Instruments	OXIG LN	Gbp	2140	1,551	20.2	19.0	0.0	0.0	n.a.	n.a.	17.1	0.9
Koninklijke Philips	PHIA NA	EUR	19,256	19,481	15.4	13.2	1.4	1.4	8.7	8.2	4.1	4.5
Siemens Healthineers	SHL GR	EUR	50.66	62,253	37.5	22.8	3.2	2.8	19.5	15.5	8.0	1.9
Average					23.9	19.2	2.1	2.0	16.0	14.5	11.9	1.9
Automotive peers (15% of 2022 sales)												
Valeo	FR FP	EUR	13.125	3,498	10.7	5.9	0.8	0.7	3.2	2.9	7.3	3.6
Visteon	VC US	USD	118.23	3,288	17.4	12.8	4.4	3.7	7.7	6.6	26.5	0.0
Thyssenkrupp	TKA GR	EUR	6.99	4,741	n.a.	9.7	n.a.	0.3	n.a.	1.1	n.a.	2.1
Bosch	BOS IN	INR	20851.4	7,380	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	1.3
Denso	6902 JP	JPY	2374.5	50,153	14.5	13.1	1.5	1.4	7.7	7.0	10.5	2.2
Johnson Contr	JCI US	USD	52.53	35,737	14.8	13.3	2.1	2.0	11.3	10.5	14.0	2.7
Average					14.3	10.9	2.2	1.6	7.5	5.6	14.6	2.0

Source: Bloomberg, UOB Kay Hian

REVENUE BY SEGMENT (2019-23)



Source: Frencen, UOB Kay Hian

HISTORICAL PE BAND



Source: Bloomberg, UOB Kay Hian

PROFIT & LOSS

Year to 31 Dec (\$m)	2022	2023F	2024F	2025F
Net turnover	786.1	732.5	791.7	828.3
EBITDA	82.2	54.3	75.1	80.4
Deprec. & amort.	27.8	29.8	31.2	32.6
EBIT	54.3	24.5	43.9	47.8
Total other non-operating income	12.3	10.4	10.5	11.9
Associate contributions	0.0	0.0	0.0	0.0
Net interest income/(expense)	(3.6)	(3.4)	(3.6)	(3.8)
Pre-tax profit	63.0	31.6	50.8	55.9
Tax	(11.4)	(5.7)	(9.1)	(10.1)
Minorities	0.2	(0.2)	(0.1)	(0.1)
Net profit	51.9	25.6	41.5	45.8

CASH FLOW

Year to 31 Dec (\$m)	2022	2023F	2024F	2025F
Operating	37.8	74.7	60.0	70.1
Pre-tax profit	63.0	31.6	50.8	55.9
Tax	(8.9)	(9.4)	(6.9)	(9.2)
Deprec. & amort.	27.8	29.8	31.2	32.6
Working capital changes	(16.6)	22.8	(15.1)	(9.1)
Non-cash items	(27.5)	0.0	0.0	0.0
Investing	(44.5)	(22.7)	(22.7)	(22.7)
Capex (growth)	(42.6)	(23.0)	(23.0)	(23.0)
Proceeds from sale of assets	1.2	0.0	0.0	0.0
Others	(3.1)	0.3	0.3	0.3
Financing	(30.4)	(45.9)	(5.1)	(10.1)
Dividend payments	(17.6)	(15.5)	(7.7)	(12.5)
Issue of shares	0.0	0.0	0.0	0.0
Loan repayment	11.6	(26.5)	6.8	6.7
Others/interest paid	(24.4)	(3.9)	(4.2)	(4.4)
Net cash inflow (outflow)	(37.1)	6.1	32.2	37.3
Beginning cash & cash equivalent	192.6	167.0	177.0	212.5
Changes due to forex impact	11.5	4.0	3.3	3.6
Ending cash & cash equivalent	167.0	177.0	212.5	253.4

BALANCE SHEET

Year to 31 Dec (\$m)	2022	2023F	2024F	2025F
Fixed assets	166.5	159.7	151.5	142.0
Other LT assets	26.3	26.6	26.9	27.2
Cash/ST investment	167.0	177.0	212.5	253.4
Other current assets	365.4	322.9	357.1	374.5
Total assets	725.2	686.2	748.0	797.1
ST debt	107.7	81.2	88.1	94.8
Other current liabilities	182.2	172.4	189.8	194.9
LT debt	1.1	1.1	1.1	1.1
Other LT liabilities	37.7	24.1	27.9	32.1
Shareholders' equity	391.9	402.9	436.7	470.0
Minority interest	4.5	4.5	4.5	4.5
Total liabilities & equity	725.2	686.2	748.2	797.4

KEY METRICS

Year to 31 Dec (%)	2022	2023F	2024F	2025F
Profitability				
EBITDA margin	10.5	7.4	9.5	9.7
Pre-tax margin	8.0	4.3	6.4	6.8
Net margin	6.6	3.5	5.2	5.5
ROA	7.3	3.6	5.8	5.9
ROE	13.5	6.5	9.9	10.1
Growth				
Turnover	2.5	(6.8)	8.1	4.6
EBITDA	(5.9)	(33.9)	38.3	7.0
Pre-tax profit	(10.6)	(49.9)	61.0	10.1
Net profit	(11.7)	(50.6)	62.0	10.3
Net profit (adj.)	(11.7)	(50.6)	62.0	10.3
EPS	(11.7)	(50.6)	62.0	10.3
Leverage				
Debt to total capital	21.5	16.8	16.8	16.8
Debt to equity	27.8	20.4	20.4	20.4
Net debt/(cash) to equity	(14.8)	(23.5)	(28.2)	(33.5)
Interest cover (x)	22.8	16.2	20.7	21.2

Disclosures/Disclaimers

This report is prepared by UOB Kay Hian Private Limited ("UOBKH"), which is a holder of a capital markets services licence and an exempt financial adviser in Singapore.

This report is provided for information only and is not an offer or a solicitation to deal in securities or to enter into any legal relations, nor an advice or a recommendation with respect to such securities.

This report is prepared for general circulation. It does not have regard to the specific investment objectives, financial situation and the particular needs of any recipient hereof. Advice should be sought from a financial adviser regarding the suitability of the investment product, taking into account the specific investment objectives, financial situation or particular needs of any person in receipt of the recommendation, before the person makes a commitment to purchase the investment product.

This report is confidential. This report may not be published, circulated, reproduced or distributed in whole or in part by any recipient of this report to any other person without the prior written consent of UOBKH. This report is not directed to or intended for distribution to or use by any person or any entity who is a citizen or resident of or located in any locality, state, country or any other jurisdiction as UOBKH may determine in its absolute discretion, where the distribution, publication, availability or use of this report would be contrary to applicable law or would subject UOBKH and its connected persons (as defined in the Financial Advisers Act, Chapter 110 of Singapore) to any registration, licensing or other requirements within such jurisdiction.

The information or views in the report ("Information") has been obtained or derived from sources believed by UOBKH to be reliable. However, UOBKH makes no representation as to the accuracy or completeness of such sources or the Information and UOBKH accepts no liability whatsoever for any loss or damage arising from the use of or reliance on the Information. UOBKH and its connected persons may have issued other reports expressing views different from the Information and all views expressed in all reports of UOBKH and its connected persons are subject to change without notice. UOBKH reserves the right to act upon or use the Information at any time, including before its publication herein.

Except as otherwise indicated below, (1) UOBKH, its connected persons and its officers, employees and representatives may, to the extent permitted by law, transact with, perform or provide broking, underwriting, corporate finance-related or other services for or solicit business from, the subject corporation(s) referred to in this report; (2) UOBKH, its connected persons and its officers, employees and representatives may also, to the extent permitted by law, transact with, perform or provide broking or other services for or solicit business from, other persons in respect of dealings in the securities referred to in this report or other investments related thereto; (3) the officers, employees and representatives of UOBKH may also serve on the board of directors or in trustee positions with the subject corporation(s) referred to in this report. (All of the foregoing is hereafter referred to as the "Subject Business"); and (4) UOBKH may otherwise have an interest (including a proprietary interest) in the subject corporation(s) referred to in this report.

As of the date of this report, no analyst responsible for any of the content in this report has any proprietary position or material interest in the securities of the corporation(s) which are referred to in the content they respectively author or are otherwise responsible for.

IMPORTANT DISCLOSURES FOR U.S. PERSONS

This research report was prepared by UOBKH, a company authorized, as noted above, to engage in securities activities in Singapore. UOBKH is not a registered broker-dealer in the United States and, therefore, is not subject to U.S. rules regarding the preparation of research reports and the independence of research analysts. This research report is provided for distribution by UOBKH (whether directly or through its US registered broker dealer affiliate named below) to "major U.S. institutional investors" in reliance on the exemption from registration provided by Rule 15a-6 of the U.S. Securities Exchange Act of 1934, as amended (the "Exchange Act"). All US persons that receive this document by way of distribution from or which they regard as being from UOBKH by their acceptance thereof represent and agree that they are a major institutional investor and understand the risks involved in executing transactions in securities.

Any U.S. recipient of this research report wishing to effect any transaction to buy or sell securities or related financial instruments based on the information provided in this research report should do so only through UOB Kay Hian (U.S.) Inc ("UOBKHUS"), a registered broker-dealer in the United States. Under no circumstances should any recipient of this research report effect any transaction to buy or sell securities or related financial instruments through UOBKH.

UOBKHUS accepts responsibility for the contents of this research report, subject to the terms set out below, to the extent that it is delivered to and intended to be received by a U.S. person other than a major U.S. institutional investor.

The analyst whose name appears in this research report is not registered or qualified as a research analyst with the Financial Industry Regulatory Authority ("FINRA") and may not be an associated person of UOBKHUS and, therefore, may not be subject to applicable restrictions under FINRA Rules on communications with a subject company, public appearances and trading securities held by a research analyst account.

Analyst Certification/Regulation AC

Each research analyst of UOBKH who produced this report hereby certifies that (1) the views expressed in this report accurately reflect his/her personal views about all of the subject corporation(s) and securities in this report; (2) the report was produced independently by him/her; (3) he/she does not carry out, whether for himself/herself or on behalf of UOBKH or any other person, any of the Subject Business involving any of the subject corporation(s) or securities referred to in this report; and (4) he/she has not received and will not receive any compensation that is directly or indirectly related or linked to the recommendations or views expressed in this report or to any sales, trading, dealing or corporate finance advisory services or transaction in respect of the securities in this report. However, the compensation received by each such research analyst is based upon various factors, including UOBKH's total revenues, a portion of which are generated from UOBKH's business of dealing in securities.

Reports are distributed in the respective countries by the respective entities and are subject to the additional restrictions listed in the following table.

General	This report is not intended for distribution, publication to or use by any person or entity who is a citizen or resident of or located in any country or jurisdiction where the distribution, publication or use of this report would be contrary to applicable law or regulation.
Hong Kong	This report is distributed in Hong Kong by UOB Kay Hian (Hong Kong) Limited ("UOBKHHK"), which is regulated by the Securities and Futures Commission of Hong Kong. Neither the analyst(s) preparing this report nor his associate, has trading and financial interest and relevant relationship specified under Para. 16.4 of Code of Conduct in the listed corporation covered in this report. UOBKHHK does not have financial interests and business relationship specified under Para. 16.5 of Code of Conduct with the listed corporation covered in this report. Where the report is distributed in Hong Kong and contains research analyses or reports from a foreign research house, please note: (i) recipients of the analyses or reports are to contact UOBKHHK (and not the relevant foreign research house) in Hong Kong in respect of any matters arising from, or in connection with, the analysis or report; and (ii) to the extent that the analyses or reports are delivered to and intended to be received by any person in Hong Kong who is not a professional investor, or institutional investor, UOBKHHK accepts legal responsibility for the contents of the analyses or reports only to the extent required by law.
Indonesia	This report is distributed in Indonesia by PT UOB Kay Hian Sekuritas, which is regulated by Financial Services Authority of Indonesia ("OJK"). Where the report is distributed in Indonesia and contains research analyses or reports from a foreign research house, please note recipients of the analyses or reports are to contact PT UOBKH (and not the relevant foreign research house) in Indonesia in respect of any matters arising from, or in connection with, the analysis or report.
Malaysia	Where the report is distributed in Malaysia and contains research analyses or reports from a foreign research house, the recipients of the analyses or reports are to contact UOBKHM (and not the relevant foreign research house) in Malaysia, at +603-21471988, in respect of any matters arising from, or in connection with, the analysis or report as UOBKHM is the registered person under CMSA to distribute any research analyses in Malaysia.
Singapore	This report is distributed in Singapore by UOB Kay Hian Private Limited ("UOBKH"), which is a holder of a capital markets services licence and an exempt financial adviser regulated by the Monetary Authority of Singapore. Where the report is distributed in Singapore and contains research analyses or reports from a foreign research house, please note: (i) recipients of the analyses or reports are to contact UOBKH (and not the relevant foreign research house) in Singapore in respect of any matters arising from, or in connection with, the analysis or report; and (ii) to the extent that the analyses or reports are delivered to and intended to be received by any person in Singapore who is not an accredited investor, expert investor or institutional investor, UOBKH accepts legal responsibility for the contents of the analyses or reports only to the extent required by law.
Thailand	This report is distributed in Thailand by UOB Kay Hian Securities (Thailand) Public Company Limited, which is regulated by the Securities and Exchange Commission of Thailand.
United Kingdom	This report is being distributed in the UK by UOB Kay Hian (U.K.) Limited, which is an authorised person in the meaning of the Financial Services and Markets Act and is regulated by The Financial Conduct Authority. Research distributed in the UK is intended only for institutional clients.
United States of America ('U.S.')	This report cannot be distributed into the U.S. or to any U.S. person or entity except in compliance with applicable U.S. laws and regulations. It is being distributed in the U.S. by UOB Kay Hian (US) Inc, which accepts responsibility for its contents. Any U.S. person or entity receiving this report and wishing to effect transactions in any securities referred to in the report should contact UOB Kay Hian (US) Inc. directly.

Copyright 2023, UOB Kay Hian Pte Ltd. All rights reserved.

<http://research.uobkayhian.com>

RCB Regn. No. 197000447W