

COMPANY RESULTS

Frencken Group (FRKN SP)

1H22: Impacted By Cost Pressures But Improvement Expected In 2H22

1H22 earnings of S\$26m (-17% yoy) were largely in line, forming 39% of our full-year estimate. 1H22 revenue grew 4% yoy: semiconductor (+9% yoy), life science (+7% yoy) and industrial automation (+7% yoy) recorded growth while medical (-7% yoy) and automotive (-17% yoy) declined. Frencken expects to pass on higher costs to customers in 2H22 and expects higher hoh revenue across all segments except for industrial automation. Maintain Buy and target price of S\$1.60.

1H22 RESULTS

Year to 31 Dec (S\$m)	1H22	1H21	% chg (yoy)
Revenue	389	375	+3.6
Gross profit	61	65	(7.0)
Gross margin (%)	15.6	17.4	(1.8ppt)
PATMI	26	31	(16.6)
Net margin (%)	6.7	8.3	(1.6ppt)

Source: Frencken, UOB Kay Hian

RESULTS

- Growth across most segments except medical and automotive.** Frencken Group's (Frencken) 1H22 revenue of S\$389m (+3.6% yoy) was led by growth from the semiconductor (+9% yoy), analytical & life sciences (+7% yoy) and industrial automation segments (+7% yoy). Growth in the semiconductor space was lifted by higher orders for front-end semiconductor equipment from customers in Europe and Asia, while the analytical & life sciences segment enjoyed higher sales to customers in Europe and Asia. However, sales in the medical (-7% yoy) and automotive segment (-17% yoy) were impacted by constrained customer demand as a result of continuing bottlenecks in the global supply chain.
- Cost pressures expected to ease in 2H22.** Gross profit margin eased to 15.6% in 1H22 from 17.4% in 1H21 due to a variation in sales mix and inflationary cost pressures. In addition, depreciation expenses also climbed in 1H22 as a result of Frencken's capital investments to upgrade and expand its global manufacturing facilities. Frencken has witnessed success in its efforts to mitigate the inflationary cost pressures through its operational initiatives and passing on some of the increased input costs to customers from 2H22. Supply chain challenges weighing down the global automotive industry are also anticipated to ease in 2H22.
- 2H22 to be sequentially better.** Frencken expects revenue in 2H22 to show a moderate increase hoh. On the outlook for 2H22 vs 1H22, growth is expected in the semiconductor, medical, analytical & life sciences and automotive segments, while the industrial automation segment is anticipated to register lower revenue.

KEY FINANCIALS

Year to 31 Dec (S\$m)	2020	2021	2022F	2023F	2024F
Net turnover	621	767	803	918	1,015
EBITDA	80	95	95	109	121
Operating profit	59	72	71	84	94
Net profit (rep./act.)	43	59	56	67	76
Net profit (adj.)	43	59	56	67	76
EPS (S\$ cents)	10.0	13.8	13.2	15.8	17.8
PE (x)	11.9	8.7	9.0	7.5	6.7
P/B (x)	1.5	1.4	1.2	1.1	1.0
EV/EBITDA (x)	4.6	3.9	3.9	3.4	3.1
Dividend yield (%)	2.5	3.5	3.3	4.0	4.5
Net margin (%)	6.9	7.7	7.0	7.3	7.5
Net debt/(cash) to equity (%)	(32.1)	(25.4)	(33.5)	(36.3)	(40.4)
Interest cover (x)	95.6	67.6	64.7	64.9	65.0
ROE (%)	13.5	16.5	14.3	15.3	15.4
Consensus net profit	-	-	56	65	76
UOBKH/Consensus (x)	-	-	1.00	1.04	1.00

Source: Frencken, Bloomberg, UOB Kay Hian

BUY

(Maintained)

Share Price	S\$1.19
Target Price	S\$1.60
Upside	+34.5%
(Previous TP)	S\$1.63

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):	508.2
Market cap (US\$m):	369.2
3-mth avg daily t'over (US\$m):	2.9

Price Performance (%)

52-week high/low		S\$ 2.49/S\$ 1.06		
1mth	3mth	6mth	1yr	YTD
8.2	(9.2)	(31.6)	(46.6)	(39.6)

Major Shareholders

Dato' Gooi Soon Chai	23.5
FY22 NAV/Share (S\$)	1.00
FY22 Net Cash/Share (S\$)	0.34

PRICE CHART



Source: Bloomberg

ANALYST(S)

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STOCK IMPACT

- **Frencken will continue to focus strengthening its market position in the high technology industry.** To meet the overall demand from customers, Frencken has been making significant capital investments since 2021 to increase production space, capacity and competencies, as well as to expand its skilled workforce. In 2H22, Frencken will continue working actively on the preparation of new sites and production facilities in Europe, Malaysia and Singapore to cater for future business growth. In the interim period, these investments will increase costs as Frencken sets up and qualifies the new facilities. Frencken will be positioned to pursue additional revenue drivers for 2023 and beyond.

EARNINGS REVISION/RISK

- We reduce our 2022/23/24 earnings forecast by 16%/17%/21% after reducing our revenue estimate by 5%/9%/13% to reflect lower demand across all the sectors due to slower global economic growth. Also, we lower our gross margin assumption to 16.1%/16.1%/16.2%, down from 17.4%/17.4%/17.4%, to factor in supply chain disruptions, inflationary pressures due to rising raw materials, labour, freight and energy prices as well as workforce disruptions in China.

VALUATION/RECOMMENDATION

- **Maintain BUY and target price of S\$1.60**, pegged to 10.4x 2022F PE, or Frencken's historical mean PE. We have rolled over our valuation base year to 2023 from 2022, hence our target price remains unchanged despite a reduction in our earnings estimate. We maintain the view that the 2023F PE valuation of 7.5x for Frencken is attractive due to its diverse stream of revenue sources, which would help the company stand out amid a volatile macro environment.

SHARE PRICE CATALYST

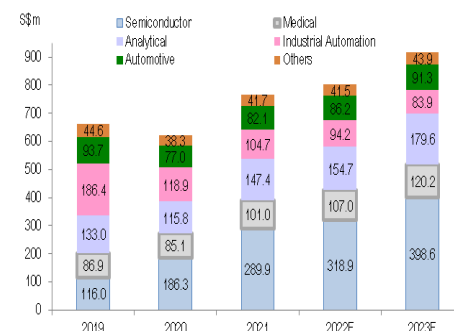
- Higher-than-expected factory utilisation rates.
- Better-than-expected cost management.

PEER COMPARISON

Company	Ticker	Trading Curr (TC)	Price @ 15 Aug 22 (TC)	Market Cap (USD)	PE 2022F (x)	PE 2023F (x)	PB 2022F (x)	PB 2023F (x)	EV/EBITDA 2022F (x)	EV/EBITDA 2023F (x)	Yield 2022F (%)	Net Gearing (%)
Frencken	FRKN SP	SGD	1.19	369	9.0	7.5	1.2	1.1	3.9	3.4	3.3	(18.0)
SGX-listed peers												
Venture	VMS SP	SGD	18.19	3,846	15.1	14.2	1.9	1.8	10.5	9.9	4.4	(25.1)
AEM	AEM SP	SGD	4.62	1,038	11.7	10.6	3.0	2.5	8.3	7.6	2.1	(17.6)
UMS	UMSH SP	SGD	1.24	601	10.4	9.8	2.5	2.2	7.4	6.6	4.0	(8.9)
Average					12.4	11.5	2.5	2.1	8.7	8.0	3.5	
Semiconductor (39% of Frencken's 2022F sales)												
Asml Hol	ASML NA	EUR	556.9	231,029	40.2	27.9	24.7	19.5	32.0	22.9	1.0	(0.2)
Intel Corp	INTC US	USD	36.11	148,268	15.8	14.2	1.4	1.4	6.9	6.1	4.0	2.4
Kulicke & Soffa	KLIC US	USD	50.1	2,909	6.9	12.6	n.a.	n.a.	4.4	9.1	n.a.	(58.3)
Benchmark Elec	BHE US	USD	27.54	968	13.8	12.3	n.a.	n.a.	n.a.	n.a.	n.a.	10.8
Average					19.2	16.7	13.1	10.4	14.4	12.7	2.5	
Industrial automation (16% of 2022F sales)												
Seagate Tech	STX US	USD	83.43	17,416	11.1	11.4	160.6	49.0	9.3	10.3	3.3	4,661.5
Western Digital	WDC US	USD	50.67	15,868	10.5	19.2	1.3	1.4	6.2	9.7	0.0	38.4
Average					10.8	15.3	81.0	25.2	7.7	10.0	1.7	
Analytical & Medical (31% of 2022F sales)												
Thermo Fisher	TMO US	USD	603.21	236,331	26.2	24.5	5.3	4.9	22.2	21.1	0.2	66.8
Oxford Instruments	OXIG LN	GBP	2195	1,529	24.1	22.6	378.4	343.0	n.a.	n.a.	0.9	(21.3)
Koninklijke Philips	PHIA NA	EUR	19.596	17,786	15.1	12.2	1.2	1.2	9.3	7.9	4.5	45.6
Siemens Healthineers	SHL GR	EUR	51.82	59,657	23.3	22.0	3.3	3.1	16.3	15.6	1.9	77.2
Average					22.2	20.3	97.1	88.0	16.0	14.9	1.9	
Automotive peers (15% of 2022F sales)												
Valeo	FR FP	EUR	21.02	5,204	23.4	9.7	1.4	1.2	4.1	3.5	2.0	80.2
Visteon	VC US	USD	130.9	3,681	26.0	16.6	7.7	6.4	12.5	8.9	0.0	25.1
Thyssenkrupp	TKA GR	EUR	5.79	3,679	3.0	5.6	0.3	0.3	0.7	1.0	2.9	(13.3)
Bosch	BOS IN	INR	17260.95	6,393	35.4	29.7	n.a.	n.a.	n.a.	n.a.	0.8	(25.7)
Denso	6902 JP	JPY	7817	46,214	14.6	12.0	1.3	1.2	7.4	6.4	2.3	3.3
Johnson Contr	JCI US	USD	58.05	39,985	19.4	16.3	2.3	2.2	13.5	12.0	2.2	54.1
Average					20.3	15.0	2.6	2.3	7.6	6.4	1.7	
Blended average (Based on 2022F sales composition)					19.4	17.5	46.8	36.2	13.1	12.1	2.1	

Source: Bloomberg, UOB Kay Hian

2019-23 REVENUE BY SEGMENT



Source: Frencken, UOB Kay Hian

HISTORICAL PE BAND



Source: Bloomberg, UOB Kay Hian

PROFIT & LOSS

Year to 31 Dec (\$m)	2021	2022F	2023F	2024F
Net turnover	767.1	802.6	917.6	1,014.7
EBITDA	94.9	95.0	108.8	120.6
Deprec. & amort.	23.0	24.1	25.3	26.5
EBIT	71.9	70.9	83.6	94.1
Associate contributions	0.0	0.0	0.0	0.0
Net interest income/(expense)	(1.4)	(1.5)	(1.7)	(1.9)
Pre-tax profit	70.5	69.5	81.9	92.3
Tax	(11.4)	(12.5)	(14.0)	(15.8)
Minorities	(0.4)	(0.4)	(0.6)	(0.6)
Net profit	58.7	56.5	67.4	75.9
Net profit (adj.)	58.7	56.5	67.4	75.9

BALANCE SHEET

Year to 31 Dec (\$m)	2021	2022F	2023F	2024F
Fixed assets	127.9	126.9	124.6	121.1
Other LT assets	24.4	24.1	23.7	23.3
Cash/ST investment	192.6	224.4	264.4	317.4
Other current assets	343.2	331.8	388.7	434.4
Total assets	688.1	707.1	801.5	896.2
ST debt	95.6	83.7	93.9	105.1
Other current liabilities	192.7	183.2	214.2	239.4
LT debt	1.6	1.6	1.6	1.6
Other LT liabilities	19.2	20.6	23.3	25.7
Shareholders' equity	376.2	415.0	465.5	521.2
Minority interest	2.9	2.9	2.9	2.9
Total liabilities & equity	688.1	707.0	801.3	895.8

CASH FLOW

Year to 31 Dec (\$m)	2021	2022F	2023F	2024F
Operating	40.4	84.4	69.9	84.8
Pre-tax profit	70.5	69.5	81.9	92.3
Tax	(16.2)	(11.5)	(12.9)	(14.6)
Deprec. & amort.	23.0	24.1	25.3	26.5
Working capital changes	(32.1)	2.4	(24.3)	(19.3)
Non-cash items	(4.8)	0.0	0.0	0.0
Investing	(15.8)	(21.7)	(21.5)	(21.3)
Capex (growth)	(17.5)	(23.0)	(23.0)	(23.0)
Proceeds from sale of assets	0.3	0.0	0.0	0.0
Others	1.4	1.3	1.5	1.7
Financing	(9.2)	(32.0)	(9.6)	(12.1)
Dividend payments	(12.7)	(17.6)	(16.9)	(20.2)
Issue of shares	0.1	0.0	0.0	0.0
Loan repayment	29.9	(11.9)	10.2	11.2
Others/interest paid	(26.5)	(2.5)	(2.8)	(3.1)
Net cash inflow (outflow)	15.4	30.7	38.8	51.4
Beginning cash & cash equivalent	174.5	192.6	224.4	264.4
Changes due to forex impact	2.8	1.1	1.2	1.5
Ending cash & cash equivalent	192.6	224.4	264.4	317.4

KEY METRICS

Year to 31 Dec (%)	2021	2022F	2023F	2024F
Profitability				
EBITDA margin	12.4	11.8	11.9	11.9
Pre-tax margin	9.2	8.7	8.9	9.1
Net margin	7.7	7.0	7.3	7.5
ROA	9.4	8.1	8.9	8.9
ROE	16.5	14.3	15.3	15.4
Growth				
Turnover	23.6	4.6	14.3	10.6
EBITDA	18.5	0.1	14.6	10.8
Pre-tax profit	36.0	(1.5)	17.9	12.6
Net profit	38.0	(3.8)	19.2	12.7
Net profit (adj.)	38.0	(3.8)	19.2	12.7
EPS	37.8	(3.8)	19.2	12.7
Leverage				
Debt to total capital	20.4	16.9	16.9	16.9
Debt to equity	25.8	20.5	20.5	20.5
Net debt/(cash) to equity	(25.4)	(33.5)	(36.3)	(40.4)
Interest cover (x)	67.6	64.7	64.9	65.0