

COMPANY RESULTS

Frencken Group (FRKN SP)

3Q22: Impacted By Cost Pressures, Weaker Currency And Inventory Write-down

3Q22 earnings of S\$11m (-26% yoy/-17% qoq) was below expectations, 9M22 formed 66% of our full-year estimate. 3Q22 revenue fell 1% yoy, with semiconductor (+16% yoy), life science (+8% yoy) and medical (+3% yoy) recording growth while industrial automation (-35% yoy) and automotive (-7% yoy) declined. Frencken expects to pass on higher costs to customers in 4Q22 and expects stable hoh revenue in 2H22. We cut our 2022 and 2023 EPS by 16%. Downgrade to HOLD. Target price: S\$1.07.

9M22 RESULTS

Year to 31 Dec (S\$m)	3Q22	3Q21	% chg (yoy)	9M22	9M21	% chg (yoy)
Revenue	195.3	196.5	(0.6)	584.3	571.8	+2.2
Net Profit	11.0	14.8	(25.7)	37.1	46.1	(19.5)
Gross margin (%)	13.7	17.1	(3.4ppt)	15.0	17.3	(2.3ppt)
Net margin (%)	5.6	7.5	(1.9ppt)	6.4	8.1	(1.7ppt)

Source: Frencken, UOB Kay Hian

RESULTS

- Flattish revenue with mixed performance across different segments.** Frencken Group's (Frencken) 3Q22 earnings of S\$11m (-26% yoy/-17% qoq) was below expectations mainly due to weaker-than-expected revenue growth, depreciation of the euro against the Singapore dollar and inflationary cost pressures in Europe. Frencken also recognised a write-down of S\$2.4m due to inventory obsolescence. 3Q22 revenue of S\$195m (-0.6% yoy/+2.5% qoq) was led by growth from the semiconductor (+16% yoy), life science (+8% yoy) and medical (+3% yoy) sectors. Growth in the semiconductor space was lifted by higher orders for front-end semiconductor equipment from customers in Europe and Asia. However, sales in the industrial automation (-35% yoy) and automotive (-7% yoy) sectors were impacted by reduced customer demand and bottlenecks in the global supply chain.
- Cost pressures expected to ease in 2H22.** Gross profit margin eased to 13.7% in 3Q22 from 17.1% in 3Q21 as the inflationary cost pressures remain prevalent in Europe. Business costs in Europe continued climbing at a fast pace due to soaring energy expenses and increased manpower costs as a result of the labour crunch. Together with higher material costs, these inflationary pressures have affected the Europe operations.
- Positive on cost-sharing efforts; 2H22 to be stable hoh.** Frencken expects its cost-sharing efforts with customers in Europe to yield positive effect from 4Q22 and expects group revenue in 2H22 to be stable hoh. Breakdown of outlook by segments: a) semiconductor: stable, b) medical: increase, c) automotive: increase, d) analytical & life science: slightly lower, and e) industrial automation: decrease.

KEY FINANCIALS

Year to 31 Dec (S\$m)	2020	2021	2022F	2023F	2024F
Net turnover	621	767	781	831	889
EBITDA	80	95	84	96	102
Operating profit	59	72	60	71	76
Net profit (rep./act.)	43	59	47	57	61
Net profit (adj.)	43	59	47	57	61
EPS (S\$ cents)	10.0	13.8	11.1	13.3	14.2
PE (x)	10.5	7.6	9.5	7.9	7.4
P/B (x)	1.3	1.2	1.1	1.0	0.9
EV/EBITDA (x)	4.0	3.4	3.8	3.3	3.1
Dividend yield (%)	2.9	3.9	3.2	3.8	4.1
Net margin (%)	6.9	7.7	6.1	6.8	6.8
Net debt/(cash) to equity (%)	(32.1)	(25.4)	(32.8)	(37.2)	(41.4)
Interest cover (x)	95.6	67.6	58.7	63.2	62.8
ROE (%)	13.5	16.5	12.1	13.3	12.9
Consensus net profit	-	-	54	61	68
UOBKH/Consensus (x)	-	-	0.87	0.93	0.89

Source: Frencken, Bloomberg, UOB Kay Hian

HOLD

(Downgraded)

Share Price	S\$1.05
Target Price	S\$1.07
Upside	1.9%
(Previous TP)	S\$1.14)

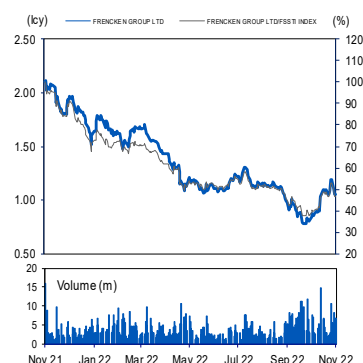
COMPANY DESCRIPTION

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):		448.4		
Market cap (US\$m):		326.8		
3-mth avg daily t'over (US\$m):		3.3		
Price Performance (%)				
52-week high/low		S\$ 2.15/S\$ 0.775		
1mth	3mth	6mth	1yr	YTD
31.3	(7.9)	(7.1)	(51.2)	(46.7)
Major Shareholders				%
Dato' Gooi Soon Chai				23.5
-				-
-				-
FY22 NAV/Share (S\$)				0.95
FY22 Net Cash/Share (S\$)				0.31

PRICE CHART



Source: Bloomberg

ANALYST(S)

John Cheong
+65 6590 6623
johncheong@uobkayhian.com

STOCK IMPACT

- The global business environment continues to face headwinds arising from geopolitical tensions, supply constraints, cost inflation and rising interest rates. In the face of heightened economic and market uncertainty, Frencken believes that its highly diverse exposure to multiple market segments and customers in the high technology industry will continue to provide resilience.

EARNINGS REVISION/RISK

- We reduce our 2022/23/24 earnings forecast by 16%/16%/20% after reducing our revenue estimate by 3%/9%/12% to reflect lower demand across all the sectors due to slower global economic growth. Also, we lower our gross margin assumption to 15.0%/15.8%/15.8%, down from 16.1%/16.1%/16.2%, to factor in supply chain disruptions and inflationary pressures due to rising raw materials, labour and energy prices.

VALUATION/RECOMMENDATION

- Downgrade to HOLD with a 9%-lower target price of S\$1.07**, pegged to 8x 2023F PE, based on -1SD of mean PE to reflect the more challenging growth environment. We note that Frencken has a diverse stream of revenue sources, which could help the company stand firm amid a volatile macro environment.

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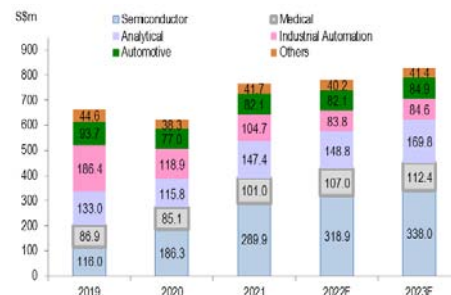
- Higher-than-expected factory utilisation rates.
- Better-than-expected cost management.

PEER COMPARISON

Company	Ticker	Trading Curr (TC)	Price @ 29 Nov 22 (TC)	Market Cap (USD)	----- PE ----- 2022F (x)	2023F (x)	----- PB ----- 2022F (x)	2023F (x)	----- EV/EBITDA ----- 2022F (x)	2023F (x)	Yield 2022F (%)	Net Gearing (%)
Frencken	FRKN SP	SGD	1.05	327	9.5	7.9	1.1	1.0	3.8	3.3	3.2	(18.0)
SGX-listed peers												
Venture	VMS SP	SGD	17.3	3,670	13.8	13.2	1.8	1.7	9.5	9.2	4.6	(25.1)
AEM	AEM SP	SGD	3.73	839	8.7	9.9	2.4	2.0	6.2	7.0	2.9	(17.6)
UMS	UMSH SP	SGD	1.25	610	8.2	7.7	2.4	2.0	7.2	6.1	4.0	(8.9)
Average					10.3	10.3	2.2	1.9	7.6	7.4	3.8	
Semiconductor (39% of Frencken's 2022F sales)												
Asml Hol	ASML NA	EUR	567.8	237,645	40.8	30.3	26.2	21.9	32.8	24.7	1.1	1.8
Intel Corp	INTC US	USD	28.725	118,548	14.7	16.0	1.2	1.2	6.8	6.1	5.0	11.2
Kulicke & Soffa	KLIC US	USD	45.66	2,603	6.3	20.2	2.2	n.a.	3.7	13.3	1.5	(61.4)
Benchmark Elec	BHE US	USD	27.99	985	13.4	12.2	1.0	0.9	8.3	7.2	2.4	15.3
Average					18.8	19.7	7.6	8.0	12.9	12.8	2.5	
Industrial automation (16% of 2022F sales)												
Seagate Tech	STX US	USD	52.31	10,800	7.0	26.9	100.7	n.a.	6.7	13.7	5.3	4,661.5
Western Digital	WDC US	USD	36.11	11,470	7.5	859.8	0.9	1.0	5.0	14.5	0.0	44.0
Average					7.2	443.3	50.8	1.0	5.8	14.1	2.6	
Analytical & Medical (31% of 2022F sales)												
Thermo Fisher	TMO US	USD	540.03	211,797	23.5	23.3	4.7	4.4	20.1	20.1	0.2	60.0
Oxford Instruments	OXIG LN	GBp	2150	1,493	22.2	21.2	383.9	341.3	n.a.	n.a.	0.9	(20.8)
Koninklijke Philips	PHIA NA	EUR	14.026	12,950	15.3	12.5	1.0	1.0	10.4	7.9	6.1	45.6
Siemens Healthineers	SHL GR	EUR	51.2	59,960	28.3	23.7	2.9	2.9	17.0	16.5	1.9	74.8
Average					22.3	20.2	98.1	87.4	15.8	14.8	2.3	
Automotive peers (15% of 2022F sales)												
Valeo	FR FP	EUR	17.505	4,408	18.6	9.2	1.1	1.0	3.7	3.3	2.2	80.2
Visteon	VC US	USD	143.15	4,029	26.1	19.2	7.2	5.8	12.7	10.0	0.0	17.1
Thyssenkrupp	TKA GR	EUR	5.212	3,369	2.9	8.8	0.2	0.2	0.1	0.2	2.9	(23.4)
Bosch	BOS IN	INR	16827	6,074	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	0.8	(30.1)
Denso	6902 JP	JPY	7562	43,111	15.0	12.0	1.3	1.2	7.5	6.4	2.4	3.7
Johnson Contr	JCI US	USD	65.84	45,213	29.9	18.7	2.8	2.5	19.1	13.0	2.1	47.1
Average					18.5	13.6	2.5	2.1	8.6	6.6	1.7	
Blended average (Based on 2022F sales composition)					18.6	68.6	41.4	32.1	12.4	12.6	2.3	

Source: Bloomberg, UOB Kay Hian

2019-23 REVENUE BY SEGMENT



Source: Frencken, UOB Kay Hian

FRENCKEN'S FORWARD PE BAND



Source: Bloomberg, UOB Kay Hian

PROFIT & LOSS

Year to 31 Dec (\$m)	2021	2022F	2023F	2024F
Net turnover	767.1	780.9	831.1	888.5
EBITDA	94.9	83.8	96.0	102.0
Deprec. & amort.	23.0	24.1	25.3	26.5
EBIT	71.9	59.8	70.7	75.6
Associate contributions	0.0	0.0	0.0	0.0
Net interest income/(expense)	(1.4)	(1.4)	(1.5)	(1.6)
Pre-tax profit	70.5	58.3	69.2	73.9
Tax	(11.4)	(10.5)	(11.8)	(12.6)
Minorities	(0.4)	(0.4)	(0.5)	(0.5)
Net profit	58.7	47.4	56.9	60.8
Net profit (adj.)	58.7	47.4	56.9	60.8

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	23.4
Cash/ST investment	192.6	216.5	259.0	304.6
Other current assets	343.2	322.8	352.1	380.4
Total assets	688.1	690.2	759.4	829.4
ST debt	95.6	81.9	90.5	99.3
Other current liabilities	192.7	177.8	194.5	210.2
LT debt	1.6	1.6	1.6	1.6
Other LT liabilities	19.2	20.1	21.1	22.5
Shareholders' equity	376.2	405.9	448.6	492.3
Minority interest	2.9	2.9	2.9	2.9
Total liabilities & equity	688.1	690.1	759.1	828.8

CASH FLOW

Year to 31 Dec (\$m)	2021	2022F	2023F	2024F
Operating	40.4	78.3	71.0	76.6
Pre-tax profit	70.5	58.3	69.2	73.9
Tax	(16.2)	(10.4)	(11.2)	(12.0)
Deprec. & amort.	23.0	24.1	25.3	26.5
Working capital changes	(32.1)	6.3	(12.3)	(11.8)
Non-cash items	(4.8)	0.0	0.0	0.0
Investing	(15.8)	(21.7)	(21.6)	(21.5)
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	1.4	1.5
Financing	(9.2)	(33.8)	(8.2)	(11.0)
Dividend payments	(12.7)	(17.6)	(14.2)	(17.1)
Issue of shares	0.1	0.0	0.0	0.0
Loan repayment	29.9	(13.8)	8.6	8.8
Others/interest paid	(26.5)	(2.4)	(2.6)	(2.7)
Net cash inflow (outflow)	15.4	22.8	41.3	44.1
Beginning cash & cash equivalent	174.5	192.6	216.5	259.0
Changes due to forex impact	2.8	1.1	1.2	1.5
Ending cash & cash equivalent	192.6	216.5	259.0	304.6

KEY METRICS

Year to 31 Dec (%)	2021	2022F	2023F	2024F
Profitability				
EBITDA margin	12.4	10.7	11.6	11.5
Pre-tax margin	9.2	7.5	8.3	8.3
Net margin	7.7	6.1	6.8	6.8
ROA	9.4	6.9	7.8	7.7
ROE	16.5	12.1	13.3	12.9
Growth				
Turnover	23.6	1.8	6.4	6.9
EBITDA	18.5	(11.7)	14.5	6.3
Pre-tax profit	36.0	(17.3)	18.6	6.8
Net profit	38.0	(19.3)	20.1	6.9
Net profit (adj.)	38.0	(19.3)	20.1	6.9
EPS	37.8	(19.3)	20.1	6.9
Leverage				
Debt to total capital	20.4	17.0	16.9	16.9
Debt to equity	25.8	20.6	20.5	20.5
Net debt/(cash) to equity	(25.4)	(32.8)	(37.2)	(41.4)
Interest cover (x)	67.6	58.7	63.2	62.8

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