

## COMPANY RESULTS

### Frencken Group (FRKN SP)

1Q23: Earnings Below Expectation Due To Weaker Margin, Outlook Remains Cautious

Frencken's 1Q23 earnings of S\$5.2m (-60% yoy) was below expectation, meeting only 11% of our full-year estimate mainly due to gross margin compression caused by continuing inflationary cost pressure and higher depreciation. Revenue for three segments declined, while that for medical and analytical & life sciences rose. Frencken expects the business environment to remain challenging in 2023. We cut our 2023 earnings by 44%. Maintain HOLD with a 28% lower target price of S\$0.78.

#### 1Q23 RESULTS

Year to 31 Dec (\$m)	1Q23	1Q22	% chg (yoy)	4Q22	% chg (qoq)
Revenue	172.5	198.4	(13.0)	201.8	(14.5)
Net Profit	5.2	12.8	(59.5)	14.8	(64.8)
Gross margin (%)	12.3	15.4	(3.1ppt)	15.5	(3.2ppt)
Net margin (%)	3.0	6.5	(3.5ppt)	7.3	(4.3ppt)

Source: Frencken, UOB Kay Hian

#### RESULTS

- 1Q23 earnings of S\$5.2m (-12% yoy) missed our estimate on gross margin pressure.** Frencken Group (Frencken) reported weaker-than-expected gross margin in 1Q23, falling 3.1ppt yoy to 12.3%. The gross margin weakness was due to lower revenue, continuing inflationary cost pressures and higher depreciation expenses from capital investments to upgrade and expand the global manufacturing facilities. On the other hand, 1Q23 revenue of S\$173m (-13% yoy) was in line, at 24% of our full-year estimate.
- Revenue declined across three segments, while that for medical and analytical & life sciences rose.** Frencken's 1Q23 revenue decline of 13% yoy was led by declines in the semiconductor (-24% yoy), industrial automation (-40% yoy) and automotive (-7% yoy) segments. In the semiconductor space, sales to a key customer in Europe was higher yoy in 1Q23. But, this was insufficient to compensate for the decline in sales in Asia. Sales in the medical (+31% yoy) segment grew due to higher sales to a significant European customer, while sales of the analytical & life science segment grew 3% yoy.
- Cautious outlook for 2023.** Frencken expects the business environment to remain challenging in 2023 amid ongoing economic uncertainties and the cyclical downturn in the semiconductor industry. Backed by its diverse exposure to multiple market segments, Frencken is confident of weathering the current headwinds. Frencken's outlook for its various segments for 1H23 vs 2H22 is as follows: a) semiconductor: softer revenue, b) medical: stable revenue, c) analytical & life sciences: increasing revenue, d) industrial automation: decreasing revenue, and e) automotive: stable revenue.

#### KEY FINANCIALS

Year to 31 Dec (\$m)	2021	2022	2023F	2024F	2025F
Net turnover	767	786	733	757	792
EBITDA	87	82	54	68	77
Operating profit	64	54	24	37	44
Net profit (rep./act.)	59	52	26	35	43
Net profit (adj.)	59	52	26	35	43
EPS (S\$ cents)	13.8	12.1	6.0	8.3	10.0
PE (x)	6.1	6.9	13.9	10.1	8.4
P/B (x)	0.9	0.9	0.9	0.8	0.8
EV/EBITDA (x)	3.1	3.2	4.9	3.9	3.5
Dividend yield (%)	4.9	4.4	2.2	3.0	3.6
Net margin (%)	7.7	6.6	3.5	4.7	5.4
Net debt/(cash) to equity (%)	(25.4)	(14.8)	(23.5)	(28.7)	(34.0)
Interest cover (x)	62.2	22.8	16.2	19.6	21.2
ROE (%)	16.5	13.5	6.5	8.5	9.5
Consensus net profit	-	-	48	53	56
UOBKH/Consensus (x)	-	-	0.54	0.67	0.77

Source: Frencken, Bloomberg, UOB Kay Hian

## HOLD

(Maintained)

Share Price	S\$0.84
Target Price	S\$0.78
Upside	-6.5%
(Previous TP)	S\$1.08)

#### 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 (\$m):	356.6
Market cap (US\$m):	265.1
3-mth avg daily t'over (US\$m):	2.8

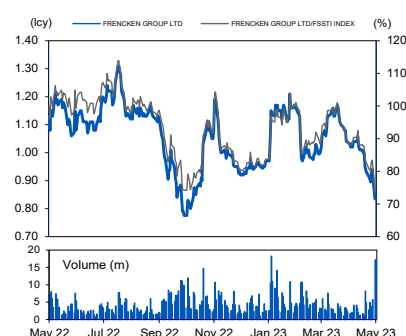
#### Price Performance (%)

52-week high/low		S\$ 1.31/S\$ 0.775		
1mth	3mth	6mth	1yr	YTD
(19.7)	(28.0)	(20.5)	(29.2)	(11.6)

#### Major Shareholders

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

#### PRICE CHART



Source: Bloomberg

#### ANALYST(S)

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## STOCK IMPACT

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

## EARNINGS REVISION/RISK

- We reduce our 2023/24/25 earnings forecasts by 44%/26%/17% after reducing our gross margin assumptions by 3.8%/2.4%/1.7% to 12.3%/13.8%/14.5%. This is to reflect Frencken's weaker-than-expected gross margin in 1Q23 due to weaker revenue, inflationary pressure and higher depreciation expenses from capital investments to expand the manufacturing facilities.

## VALUATION/RECOMMENDATION

- **Maintain HOLD with a 28% lower target price of S\$0.78**, pegged to 13x 2023F PE, based on 1SD above mean PE. This is raised from the previous valuation multiple of 10x 2023F PE, or Frencken's mean PE. The increase in our PE multiple peg is to capture the Frencken's earnings cycle, which is approaching a trough, and improvement in earnings quality where the medical and analytical & life sciences segments could see more contributions. Also, we note that Frencken has a diverse stream of revenue sources, which could help the company remain more resilient amid a volatile macro environment.

## SHARE PRICE CATALYST

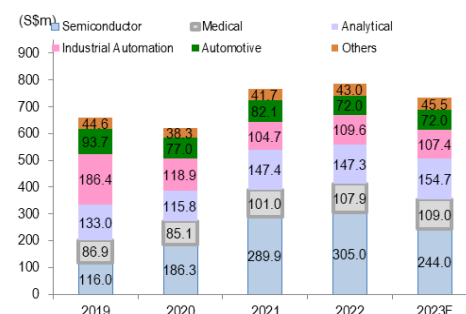
- Higher-than-expected factory utilisation rates and better cost management.

## PEER COMPARISON

Company	Ticker	Trading Curr (TC)	Price @ 22 May 23 (TC)	Market Cap (USD)	2023F (x)	2024F (x)	2023F (x)	2024F (x)	2023F (x)	2024F (x)	Yield 2023F (%)	Net Gearing (%)
Frencken	FRKN SP	SGD	0.835	265	13.9	10.1	0.9	0.8	4.9	3.9	2.2	(23.5)
<b>SGX-listed peers</b>												
Venture	VMS SP	SGD	15.21	3,292	13.8	13.3	1.5	1.5	8.9	8.6	5.3	(27.7)
AEM	AEM SP	SGD	3.18	730	12.7	11.2	1.8	1.6	7.7	6.9	2.0	(25.9)
UMS	UMSH SP	SGD	0.96	479	9.4	8.5	1.7	1.5	6.9	6.4	5.2	(5.9)
<b>Average</b>					<b>12.0</b>	<b>11.0</b>	<b>1.7</b>	<b>1.5</b>	<b>7.8</b>	<b>7.3</b>	<b>4.1</b>	
<b>Semiconductor (39% of Frencken's 2022 sales)</b>												
Asml Hol	ASML NA	EUR	639.2	278,739	34.0	28.4	23.7	19.1	27.5	22.8	1.0	(31.8)
Intel Corp	INTC US	USD	29.93	124,838	105.8	18.1	1.3	1.2	14.1	8.7	2.4	16.6
Kulicke & Soffa	KLIC US	USD	50.63	2,865	33.0	22.6	n.a.	n.a.	20.4	14.1	n.a.	(58.1)
Benchmark Elec	BHE US	USD	22.29	794	10.6	8.8	0.7	0.7	0.0	0.0	3.0	28.4
<b>Average</b>					<b>45.9</b>	<b>19.5</b>	<b>8.6</b>	<b>7.0</b>	<b>15.5</b>	<b>11.4</b>	<b>2.1</b>	
<b>Industrial automation (16% of 2022 sales)</b>												
Seagate Tech	STX US	USD	62.26	12,893	340.2	25.3	n.a.	n.a.	21.9	14.6	4.5	4,661.5
Western Digital	WDC US	USD	38.32	12,260	n.a.	n.a.	1.1	1.2	104.6	26.3	0.0	41.2
<b>Average</b>					<b>340.2</b>	<b>25.3</b>	<b>1.1</b>	<b>1.2</b>	<b>63.2</b>	<b>20.5</b>	<b>2.3</b>	
<b>Analytical &amp; Medical (31% of 2022 sales)</b>												
Thermo Fisher	TMO US	USD	527.38	203,422	22.2	19.9	4.2	4.0	19.9	17.9	0.3	74.9
Oxford Instruments	OXIG LN	GBp	2740	1,968	25.1	23.7	0.1	0.1	n.a.	n.a.	0.8	(20.8)
Koninklijke Philips	PHIA NA	EUR	18.854	18,939	17.7	13.7	1.4	1.4	10.4	8.3	4.4	50.9
Siemens Healthineers	SHL GR	EUR	53.9	65,766	26.8	22.5	3.0	2.8	18.2	15.7	1.7	86.3
<b>Average</b>					<b>23.0</b>	<b>19.9</b>	<b>2.2</b>	<b>2.1</b>	<b>16.2</b>	<b>14.0</b>	<b>1.8</b>	
<b>Automotive peers (15% of 2022 sales)</b>												
Valeo	FR FP	EUR	18.93	4,986	12.2	7.4	1.1	1.0	3.5	3.1	2.9	87.0
Visteon	VC US	USD	138.42	3,924	19.8	14.2	5.0	4.0	9.3	7.6	0.1	(0.4)
Thyssenkrupp	TKA GR	EUR	6.84	4,606	15.7	7.7	0.3	0.3	1.2	1.0	2.2	(19.3)
Bosch	BOS IN	INR	18793.95	6,693	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	1.4	(25.0)
Denso	6902 JP	JPY	8656	49,481	15.2	13.1	1.4	1.3	7.7	6.9	2.3	2.7
Johnson Contr	JCI US	USD	63.22	43,375	17.7	15.6	2.5	2.4	13.1	12.0	2.2	57.6
<b>Average</b>					<b>16.1</b>	<b>11.6</b>	<b>2.1</b>	<b>1.8</b>	<b>6.9</b>	<b>6.1</b>	<b>1.8</b>	
<b>Blended average (Based on 2022 sales composition)</b>					<b>68.2</b>	<b>19.1</b>	<b>4.6</b>	<b>3.9</b>	<b>20.0</b>	<b>12.5</b>	<b>2.0</b>	

Source: Bloomberg, UOB Kay Hian

## 2019-23 REVENUE BY SEGMENT



Source: Frencken, UOB Kay Hian

## FORWARD PE BAND



Source: Bloomberg, UOB Kay Hian

### PROFIT & LOSS

Year to 31 Dec (\$m)	2022	2023F	2024F	2025F
<b>Net turnover</b>	<b>786.1</b>	<b>732.5</b>	<b>756.8</b>	<b>791.7</b>
EBITDA	82.2	54.3	68.0	76.8
Deprec. & amort.	27.8	29.8	31.2	32.6
EBIT	54.3	24.5	36.8	44.3
Total other non-operating income	12.3	10.4	10.0	11.4
Associate contributions	0.0	0.0	0.0	0.0
Net interest income/(expense)	(3.6)	(3.4)	(3.5)	(3.6)
<b>Pre-tax profit</b>	<b>63.0</b>	<b>31.6</b>	<b>43.4</b>	<b>52.0</b>
Tax	(11.4)	(5.7)	(7.8)	(9.4)
Minorities	0.2	(0.2)	(0.1)	(0.1)
<b>Net profit</b>	<b>51.9</b>	<b>25.6</b>	<b>35.5</b>	<b>42.6</b>

### 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	27.1
Cash/ST investment	167.0	177.0	211.4	251.6
Other current assets	365.4	322.9	341.3	358.0
<b>Total assets</b>	<b>725.2</b>	<b>686.2</b>	<b>731.1</b>	<b>778.7</b>
ST debt	107.7	81.2	86.8	93.3
Other current liabilities	182.2	172.4	181.4	186.6
LT debt	1.1	1.1	1.1	1.1
Other LT liabilities	37.7	24.1	26.7	30.6
Shareholders' equity	391.9	402.9	430.6	462.6
Minority interest	4.5	4.5	4.5	4.5
<b>Total liabilities &amp; equity</b>	<b>725.2</b>	<b>686.2</b>	<b>731.1</b>	<b>778.7</b>

### CASH FLOW

Year to 31 Dec (\$m)	2022	2023F	2024F	2025F
<b>Operating</b>	<b>37.8</b>	<b>74.7</b>	<b>59.9</b>	<b>67.7</b>
Pre-tax profit	63.0	31.6	43.4	52.0
Tax	(8.9)	(9.4)	(6.5)	(8.2)
Deprec. & amort.	27.8	29.8	31.2	32.6
Working capital changes	(16.6)	22.8	(8.2)	(8.7)
Non-cash items	(27.5)	0.0	0.0	0.0
<b>Investing</b>	<b>(44.5)</b>	<b>(22.7)</b>	<b>(22.7)</b>	<b>(22.7)</b>
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
<b>Financing</b>	<b>(30.4)</b>	<b>(45.9)</b>	<b>(6.1)</b>	<b>(8.4)</b>
Dividend payments	(17.6)	(15.5)	(7.7)	(10.6)
Issue of shares	0.0	0.0	0.0	0.0
Loan repayment	11.6	(26.5)	5.6	6.4
Others/interest paid	(24.4)	(3.9)	(4.0)	(4.2)
<b>Net cash inflow (outflow)</b>	<b>(37.1)</b>	<b>6.1</b>	<b>31.1</b>	<b>36.6</b>
<b>Beginning cash &amp; cash equivalent</b>	<b>192.6</b>	<b>167.0</b>	<b>177.0</b>	<b>211.4</b>
Changes due to forex impact	11.5	4.0	3.3	3.6
<b>Ending cash &amp; cash equivalent</b>	<b>167.0</b>	<b>177.0</b>	<b>211.4</b>	<b>251.6</b>

### KEY METRICS

Year to 31 Dec (%)	2022	2023F	2024F	2025F
<b>Profitability</b>				
EBITDA margin	10.5	7.4	9.0	9.7
Pre-tax margin	8.0	4.3	5.7	6.6
Net margin	6.6	3.5	4.7	5.4
ROA	7.3	3.6	5.0	5.6
ROE	13.5	6.5	8.5	9.5
<b>Growth</b>				
Turnover	2.5	(6.8)	3.3	4.6
EBITDA	(5.9)	(33.9)	25.2	12.9
Pre-tax profit	(10.6)	(49.9)	37.5	19.8
Net profit	(11.7)	(50.6)	38.3	20.1
Net profit (adj.)	(11.7)	(50.6)	38.3	20.1
EPS	(11.7)	(50.6)	38.3	20.1
<b>Leverage</b>				
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)	(28.7)	(34.0)
Interest cover (x)	22.8	16.2	19.6	21.2

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