

COMPANY RESULTS

Frencken Group (FRKN SP)

1H23: Earnings In Line With Expectation; Stable Outlook Expected For 2H23; Upgrade To BUY

Frencken's 1H23 earnings of S\$12m (-54% yoy) is in line with expectation, accounting for 46% of our full-year estimate. 1H23 revenue fell 9% yoy as all segments saw revenue declines, with the exception of medical (+29% yoy) and analytical & life sciences (+7% yoy). Frencken is taking a cautious view and expects stable revenue in 2H23 vs 1H23. It has continued strong engagement with key customers. We raise our target price by 28% to S\$1.00 after rolling over our valuation base year. Upgrade to BUY.

1H23 RESULTS

Year to 31 Dec (\$m)	1H23	1H22	% chg (yoy)
Revenue	351.0	388.9	(9.7)
Net Profit	12.0	26.1	(53.8)
Gross margin (%)	12.3	15.6	(3.3ppt)
Net margin (%)	3.4	6.7	(3.3ppt)

Source: Frencken, UOB Kay Hian

RESULTS

- 1H23 earnings of S\$12m (-54% yoy) was in line with expectation.** Frencken Group (Frencken) reported earnings that are in line with our expectation, with 1H23 earnings accounting for 46% of our full-year estimate. 2Q23 earnings saw a notable qoq recovery of around 30%, due to seasonality and the low-base effect.
- Revenue declined across four segments, while that for medical and analytical & life sciences rose.** Frencken's 1H23 revenue decline of 10% yoy was led by declines in the industrial automation (-39% yoy), semiconductor (-20% yoy), consumer & industrial electronics (-9% yoy) and automotive (-3% 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 (+29% yoy) segment grew due to higher sales to a significant European customer, while sales of the analytical & life science segment grew 7% yoy.
- Stable outlook for 2H23 and potential for more new business in Asia.** Frencken maintains a cautious view for 2023 but expects to post stable revenue in 2H23 vs 1H23. Backed by its diverse exposure to multiple market segments, Frencken is confident of weathering the current headwinds. Frencken's outlooks for its various segments for 2H23 vs 1H23 are as follows: a) semiconductor: higher revenue, b) medical: stable revenue, c) analytical & life sciences: increasing revenue, d) industrial automation: decreasing revenue, and e) automotive: stable revenue. On the other hand, Frencken is seeing more new business opportunities in Asia than in Europe, especially in Malaysia.

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)	6.0	6.8	13.7	9.9	8.2
P/B (x)	0.9	0.9	0.9	0.8	0.8
EV/EBITDA (x)	3.0	3.2	4.8	3.8	3.4
Dividend yield (%)	5.0	4.4	2.2	3.0	3.7
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	-	-	25	37	47
UOBKH/Consensus (x)	-	-	1.02	0.97	0.92

Source: Frencken, Bloomberg, UOB Kay Hian

BUY

(Upgraded)

Share Price	S\$0.82
Target Price	S\$1.00
Upside	+21.5%
(Previous TP)	S\$0.78)

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):	350.2
Market cap (US\$m):	258.6
3-mth avg daily t'over (US\$m):	3.2

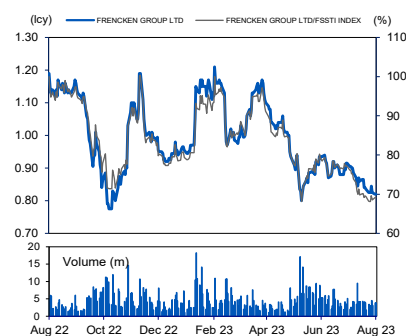
Price Performance (%)

52-week high/low	S\$ 1.21/S\$ 0.775			
1mth	3mth	6mth	1yr	YTD
(10.4)	(12.3)	(27.4)	(32.8)	(13.2)

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.** 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. Frencken has continued strong new product introduction (NPI) and first article (FA) engagement with key customers under the oneMechatronics programme, which is a site-transferring programme that spans semiconductor, analytical/life sciences, medical and aerospace sectors and across operating sites.

EARNINGS REVISION/RISK

- We maintain our financial forecasts.

VALUATION/RECOMMENDATION

- **Upgrade to BUY with a 28% higher target price of S\$1.00**, pegged to 12x 2024F PE, based on 1SD above mean PE. We have rolled over our valuation base year. The +1 SD 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, Frencken has a diverse stream of revenue sources, which could help the company remain resilient amid a volatile macro environment.

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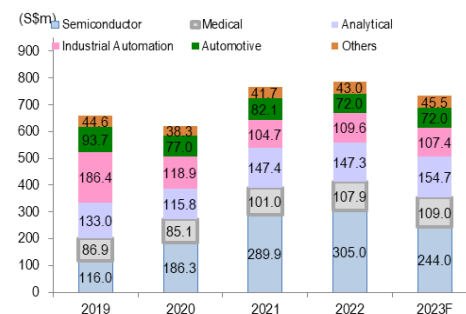
- Higher-than-expected factory utilisation rates and better cost management.

PEER COMPARISON

Company	Ticker	Trading Curr (TC)	Price @ 14 Aug 23 (TC)	Market Cap (USD)	PE 2023F (x)	PE 2024F (x)	PB 2023F (x)	PB 2024F (x)	EV/EBITDA 2023F (x)	EV/EBITDA 2024F (x)	Yield 2023F (%)	Net Gearing (%)
Frencken	FRKN SP	SGD	0.82	259	13.7	9.9	0.9	0.8	6.2	5.0	2.2	(4.2)
SGX-listed peers												
Venture	VMS SP	SGD	13.81	2,967	14.3	13.8	1.4	1.4	8.6	8.4	5.4	(31.1)
AEM	AEM SP	SGD	3.11	709	12.5	10.9	1.8	1.6	7.5	6.8	2.0	(25.9)
UMS	UMSH SP	SGD	1.03	510	10.0	9.1	1.8	1.7	7.4	6.8	4.9	(5.9)
Average					12.3	11.3	1.7	1.5	7.8	7.3	4.1	
Semiconductor (39% of Frencken's 2022 sales)												
Asml Hol	ASML NA	EUR	606.7	267,697	31.3	27.6	21.0	17.9	25.5	22.2	1.1	(17.2)
Intel Corp	INTC US	USD	34.89	146,119	64.9	20.3	1.4	1.4	16.6	10.3	1.9	18.1
Kulicke & Soffa	KLIC US	USD	51.77	2,924	29.9	25.8	n.a.	n.a.	20.0	14.9	n.a.	(58.1)
Benchmark Elec	BHE US	USD	25.4	906	12.7	10.6	0.8	0.8	n.a.	n.a.	2.6	26.9
Average					34.7	21.1	7.7	6.7	20.7	15.8	1.9	
Industrial automation (16% of 2022 sales)												
Seagate Tech	STX US	USD	66.85	13,864	n.a.	78.2	n.a.	n.a.	98.5	20.3	4.2	n.a.
Western Digital	WDC US	USD	41.88	13,399	n.a.	n.a.	1.2	1.4	n.a.	n.a.	0.0	43.1
Average					n.a.	78.2	1.2	1.4	98.5	20.3	2.1	
Analytical & Medical (31% of 2022 sales)												
Thermo Fisher	TMO US	USD	543.78	209,872	24.0	21.8	4.5	4.1	21.4	19.4	0.2	70.3
Oxford Instruments	OXIG LN	GBp	2335	1,715	21.0	20.4	0.0	0.0	n.a.	n.a.	0.9	(20.0)
Koninklijke Philips	PHIA NA	EUR	19.362	19,680	16.9	13.6	1.4	1.4	9.2	8.3	4.4	59.6
Siemens Healthineers	SHL GR	EUR	47.31	58,409	23.6	20.0	2.6	2.5	16.5	14.1	1.8	85.9
Average					21.4	19.0	2.1	2.0	15.7	14.0	1.9	
Automotive peers (15% of 2022 sales)												
Valeo	FR FP	EUR	18.705	4,985	12.6	7.6	1.1	1.0	3.7	3.2	2.9	104.2
Visteon	VC US	USD	135.25	3,814	19.9	13.9	5.1	4.0	9.1	7.4	0.1	2.1
Thyssenkrupp	TKA GR	EUR	6.902	4,703	24.7	9.2	0.3	0.3	1.1	1.0	2.4	(20.9)
Bosch	BOS IN	INR	18062.3	6,420	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	1.5	(24.5)
Denso	6902 JP	JPY	9685	52,662	15.6	14.0	1.6	1.5	8.0	7.4	2.1	0.2
Johnson Contr	JCI US	USD	59.39	40,404	16.9	14.9	2.4	2.2	12.5	11.5	2.5	58.1
Average					17.9	11.9	2.1	1.8	6.9	6.1	1.9	
Blended average (Based on 2022 sales composition)					21.6	25.6	4.2	3.8	26.0	14.2	1.9	

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)	2022	2023F	2024F	2025F
Net turnover	786.1	732.5	756.8	791.7
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)
Pre-tax profit	63.0	31.6	43.4	52.0
Tax	(11.4)	(5.7)	(7.8)	(9.4)
Minorities	0.2	(0.2)	(0.1)	(0.1)
Net profit	51.9	25.6	35.5	42.6

CASH FLOW

Year to 31 Dec (\$m)	2022	2023F	2024F	2025F
Operating	37.8	74.7	59.9	67.7
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
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)	(6.1)	(8.4)
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)
Net cash inflow (outflow)	(37.1)	6.1	31.1	36.6
Beginning cash & cash equivalent	192.6	167.0	177.0	211.4
Changes due to forex impact	11.5	4.0	3.3	3.6
Ending cash & cash equivalent	167.0	177.0	211.4	251.6

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
Total assets	725.2	686.2	731.1	778.7
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
Total liabilities & equity	725.2	686.2	731.1	778.7

KEY METRICS

Year to 31 Dec (%)	2022	2023F	2024F	2025F
Profitability				
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
Growth				
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
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)	(28.7)	(34.0)
Interest cover (x)	22.8	16.2	19.6	21.2

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