

COMPANY UPDATE

**Frencken Group (FRKN SP)**

Positive Recovery Signs From Key Customers; Raise Target Price By 34% To S\$1.65

We expect Frencken to report 4Q23 earnings of S\$7m (-52% yoy/+0% qoq). Its recent positive results and the outlook of its semiconductor customers ASML and AMAT indicate that demand for semiconductor equipment is expected to improve in 2024, driven by strong order wins and higher PC, cloud and AI data centre spendings. These are positive for Frencken, as it derives one-third of its revenue from the semiconductor segment. Maintain BUY with a 34% higher target price of S\$1.65.

WHAT'S NEW

- **Expect 4Q23 earnings to be flat qoq but potential upside surprise given the strong results and outlook of key customers.** Frencken Group (Frencken) will be reporting its 2023 results on 27 Feb 24. We expect Frencken to report 4Q23 earnings of S\$7m (-52% yoy/+0% qoq), but there could be potential upside surprise given that two of its key semiconductors customer, Applied Materials (AMAT) and Advanced Semiconductor Materials Lithography (ASML), have reported better-than-expected results. AMAT's 1QFY24 revenue is flat yoy and qoq while its EPS rose 5% yoy and 1% qoq. Meanwhile, ASML's 4Q23 revenue increased 12% yoy and 7% qoq while EPS rose 13% yoy and 8% qoq. To recap, Frencken's 3Q23 earnings recorded a qoq recovery of around 3%, continuing the sequential recovery trend from 2Q23.
- **AMAT and ASML both indicating positive outlook for 2024.** AMAT expects its 2QFY24 revenue to come in 8% higher than consensus' forecasts on strong demand for advanced chips used in artificial intelligence (AI) and a recovery in the personal computer market. In addition, AMAT highlighted that: a) there is a reacceleration of capital investment by cloud companies, b) fab utilisation is increasing across all device types, and c) memory inventory levels are normalising. On the other hand, ASML guided that its 2024 sales will be similar to that of 2023 as it goes through a transition year before registering significant growth for 2025. We note that given that ASML's record-high revenue and earnings in 2023, a flat guidance is still a commendable guidance. ASML highlighted that there are some positive signs as industry end-market inventory levels continue to improve and lithography tool utilisation levels are beginning to show improvement. ASML's strong order intake of EUR9.2b in the fourth quarter clearly supports future demand.
- **Winning of AMAT's supplier excellence awards could lead to more projects in future.** In Feb 23, Frencken's subsidiary ETLA won AMAT's 2023 best-in-class suppliers performance award, making it one out of 16 suppliers to win the award. This could put Frencken in a better position to win more orders from AMAT in future.

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)	10.3	11.7	23.6	14.6	13.2
P/B (x)	1.6	1.5	1.5	1.4	1.3
EV/EBITDA (x)	5.6	5.9	9.0	6.5	6.1
Dividend yield (%)	2.9	2.6	1.3	2.1	2.3
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	-	-	26	43	51
UOBKH/Consensus (x)	-	-	0.98	0.96	0.91

Source: Frencken, Bloomberg, UOB Kay Hian

BUY

(Maintained)

Share Price	S\$1.42
Target Price	S\$1.65
Upside	+16.4%
(Previous TP)	S\$1.23)

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):	606.4
Market cap (US\$m):	450.4
3-mth avg daily t'over (US\$m):	3.4

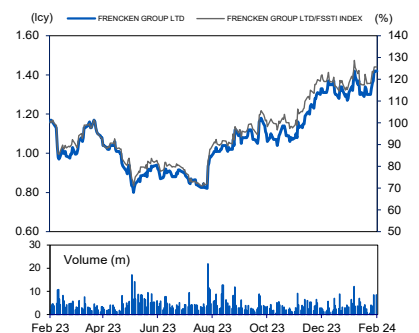
Price Performance (%)

52-week high/low	S\$ 1.42/S\$ 0.800			
<b>1mth</b>	<b>3mth</b>	<b>6mth</b>	<b>1yr</b>	<b>YTD</b>
9.2	31.5	49.5	17.4	5.2

Major Shareholders

Dato' Gooi Soon Chai	23.5%
FY24 NAV/Share (S\$)	1.02
FY24 Net Cash/Share (S\$)	0.29

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 a strong line-up of new products 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 with a 34% higher target price of S\$1.65**, pegged to 17.0x 2024F PE, based on 2SD above mean PE (+1SD of 12.6x previously). The +2SD in our PE multiple peg is to capture: a) the recovery of semiconductor cycle, which is exhibiting multiple positive indications, and b) an improvement in earnings quality where the automobile segment could see more contributions from several new customers in the electric vehicle space.

### SHARE PRICE CATALYST

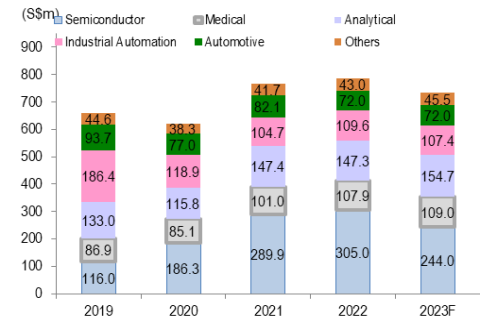
- Higher-than-expected factory utilisation rates and better cost management.

### PEER COMPARISON

Company	Ticker	Trading Curr (TC)	Price @ 16 Feb 24 (TC)	Market Cap (USD)	PE		PB		EV/EBITDA		ROE	Yield
					2023F (x)	2024F (x)	2023F (x)	2024F (x)	2023F (%)	2024F (x)	2023F (%)	2023F (%)
Frencken	FRKN SP	SGD	1.42	450	23.6	14.6	1.5	1.4	11.5	8.3	9.9	2.1
<b>SGX-listed peers</b>												
Venture	VMS SP	SGD	13.99	3,016	15.1	14.5	1.4	1.4	9.2	9.0	9.6	5.4
AEM	AEM SP	SGD	2.76	633	n.a.	13.5	1.8	1.6	56.4	9.6	12.5	1.8
UMS	UMSH SP	SGD	1.46	771	16.4	12.6	2.7	2.4	11.4	9.0	20.1	3.8
<b>Average</b>					15.7	13.6	2.0	1.8	25.6	9.2	14.1	3.7
<b>Semiconductor (39% of Frencken's 2022 sales)</b>												
Asml Hol	ASML NA	EUR	875.3	376,548	44.0	46.0	26.0	23.0	35.5	36.8	50.9	0.8
Intel Corp	INTC US	USD	44.05	186,243	110.1	33.2	1.8	1.8	21.2	13.7	4.4	1.2
Kulicke & Soffa	KLIC US	USD	50.53	2,847	50.0	28.6	2.4	n.a.	27.7	22.8	8.1	n.a.
Benchmark Elec	BHE US	USD	30.55	1,090	16.9	16.2	1.0	1.0	8.2	8.3	6.0	2.2
<b>Average</b>					55.2	31.0	7.8	8.6	23.1	20.4	17.3	1.4
<b>Industrial automation (16% of 2022 sales)</b>												
Seagate Tech	STX US	USD	88.16	18,470	n.a.	123.1	n.a.	n.a.	121.6	26.0	(1.4)	3.2
Western Digital	WDC US	USD	56.01	18,251	n.a.	n.a.	1.7	1.7	n.a.	42.9	(6.0)	0.0
<b>Average</b>					n.a.	123.1	1.7	1.7	121.6	34.4	(3.7)	1.6
<b>Analytical &amp; Medical (31% of 2022 sales)</b>												
Thermo Fisher	TMO US	USD	548.57	211,952	35.3	25.3	4.5	4.3	23.3	22.2	16.8	0.3
Oxford Instruments	OXIG LN	Gbp	2145	1,562	20.3	19.1	0.0	0.0	n.a.	n.a.	15.8	1.0
Koninklijke Philips	PHIA NA	EUR	18.842	18,531	n.a.	13.7	1.4	1.4	20.1	7.8	8.5	4.6
Siemens Healthineers	SHL GR	EUR	54.82	66,574	40.6	24.7	3.4	3.2	20.7	16.6	12.6	1.9
<b>Average</b>					32.1	20.7	2.3	2.2	21.4	15.6	13.4	1.9
<b>Automotive peers (15% of 2022 sales)</b>												
Valeo	FR FP	EUR	11.89	3,131	10.7	7.4	0.7	0.7	3.2	2.9	8.8	4.9
Visteon	VC US	USD	123.13	3,424	18.0	13.8	4.5	3.9	8.0	7.0	28.6	0.0
Thyssenkrupp	TKA GR	EUR	4.762	3,192	n.a.	13.0	0.3	0.3	n.a.	0.3	2.8	3.4
Bosch	BOS IN	INR	28367.1	10,076	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	1.1
Denso	6902 JP	JPY	2669.5	55,987	18.1	14.4	1.7	1.6	9.7	7.9	11.3	2.2
Johnson Contr	JCI US	USD	57.4	39,117	21.3	15.9	2.4	2.2	17.1	11.6	14.0	2.6
<b>Average</b>					17.0	12.9	1.9	1.7	9.5	5.9	13.1	2.4

Source: Bloomberg, UOB Kay Hian

### REVENUE BY SEGMENT (2019-23)



Source: Frencken, UOB Kay Hian

### HISTORICAL 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>791.7</b>	<b>828.3</b>
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)
<b>Pre-tax profit</b>	<b>63.0</b>	<b>31.6</b>	<b>50.8</b>	<b>55.9</b>
Tax	(11.4)	(5.7)	(9.1)	(10.1)
Minorities	0.2	(0.2)	(0.1)	(0.1)
<b>Net profit</b>	<b>51.9</b>	<b>25.6</b>	<b>41.5</b>	<b>45.8</b>

### CASH FLOW

Year to 31 Dec (\$m)	2022	2023F	2024F	2025F
<b>Operating</b>	<b>37.8</b>	<b>74.7</b>	<b>60.0</b>	<b>70.1</b>
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
<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>(5.1)</b>	<b>(10.1)</b>
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)
<b>Net cash inflow (outflow)</b>	<b>(37.1)</b>	<b>6.1</b>	<b>32.2</b>	<b>37.3</b>
<b>Beginning cash &amp; cash equivalent</b>	<b>192.6</b>	<b>167.0</b>	<b>177.0</b>	<b>212.5</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>212.5</b>	<b>253.4</b>

### BALANCE SHEET

Year to 31 Dec (\$m)	2022	2023F	2024F	2025F
<b>Fixed assets</b>	<b>166.5</b>	<b>159.7</b>	<b>151.5</b>	<b>142.0</b>
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
<b>Total assets</b>	<b>725.2</b>	<b>686.2</b>	<b>748.0</b>	<b>797.1</b>
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
<b>Total liabilities &amp; equity</b>	<b>725.2</b>	<b>686.2</b>	<b>748.2</b>	<b>797.4</b>

### KEY METRICS

Year to 31 Dec (%)	2022	2023F	2024F	2025F
<b>Profitability</b>				
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
<b>Growth</b>				
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
<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)	(28.2)	(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 2024, UOB Kay Hian Pte Ltd. All rights reserved.

<http://research.uobkayhian.com>

RCB Regn. No. 197000447W