

# Frencken Group Ltd (FRKN SP)

## Strong semi-con sales

# BUY

Share Price SGD 1.03  
 12m Price Target SGD 1.34 (+34%)  
 Previous Price Target SGD 1.20

### Top Pick: Maintain BUY with a higher TP of SGD1.34

Our channel checks show that Frencken is benefiting from strong orders from its semi-con customers, especially its European customers. We expect orders to increase by 30% from this customer in 1H25 and 2H25 will likely be dependent on orders from its American customer. As a result, we believe the outlook for 1H25 to be stronger than we initially expected and will likely benefit more if the highly anticipated semi-con recovery happens in 2H25. As a result, we raise our TP to SGD1.34 from SGD1.20, based on a blended 12x FY25/26E P/E instead of 12x FY25E to standardise our valuation methodology across semi-con SG names. Frencken remains our Top Pick in the Singapore tech sector.

### Semi-con sales likely to be stronger in 1H25

Management expects its semi-con sales to increase in 1H25E from 2H24, especially in Asia and continue to gain more wallet share of its key customers in the front-end equipment sector. From our channel checks, we believe Frencken is benefitting from more orders from its European customers and we expect sales from this customer to increase by 30% in 1H25. For 2H25E, we expect semi-con sales to fare much better along with the expected semi-con uplift, but we may have to wait until Apr/May'25 for more clarity.

### Singapore potential expansion points to more growth

To cater to new and expanded existing programmes, as well as future business growth, Frencken is considering enhancing and expanding its production resources in Singapore due to its strong intellectual property laws to increase efficiency, capacity and capabilities, especially as one of its key semi-con customers is also expanding in Singapore. This is likely to cost SGD40-60m and 2 years to complete. In the US, a new facility will be inaugurated in 1H25. This will expand the US operation's production capacity to support growth of the existing business and to capitalise on future opportunities.

### Top Pick in our Singapore tech universe

We continue to like Frencken and believe it will remain a key beneficiary of the recovery of the semi-conductor industry. However, with the ongoing macro uncertainty and Trump's tariffs, we believe customer demand may be impacted. Nonetheless, it remains our top Singapore tech pick.

FYE Dec (SGD m)	FY23A	FY24A	FY25E	FY26E	FY27E
Revenue	743	794	874	1,005	1,156
EBITDA	80	91	89	105	122
Core net profit	32	37	43	54	67
Core FDEPS (cts)	7.6	8.7	10.0	12.7	15.7
Core FDEPS growth(%)	(37.4)	14.3	15.5	27.0	23.8
Net DPS (cts)	2.3	2.6	3.0	3.8	4.7
Core FD P/E (x)	17.8	13.0	10.3	8.1	6.5
P/BV (x)	1.4	1.1	0.9	0.9	0.8
Net dividend yield (%)	1.7	2.3	2.9	3.7	4.6
ROAE (%)	8.2	8.9	9.6	11.3	12.8
ROAA (%)	4.4	5.0	5.5	6.5	7.5
EV/EBITDA (x)	6.6	4.5	2.7	3.7	2.3
Net gearing (%) (incl perps)	net cash	net cash	net cash	net cash	net cash
Consensus net profit	-	-	42	45	48
MIBG vs. Consensus (%)	-	-	2.1	22.2	41.0

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### Company Description

Frencken manufactures components and modules for various industries including semiconductor, life sciences, automotive and industrial automation.

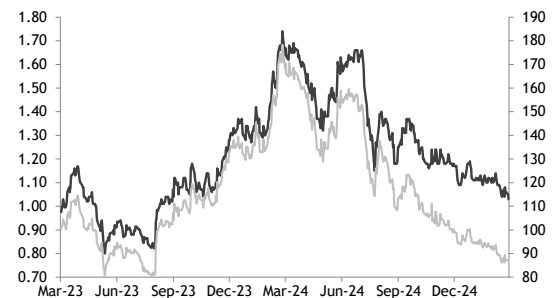
### Statistics

52w high/low (SGD)	1.69/1.03
3m avg turnover (USDm)	1.8
Free float (%)	59.8
Issued shares (m)	426
Market capitalisation	SGD438.9M
	USD330M

### Major shareholders:

Micro Compact Sdn. Bhd.	6.2%
Precico Holdings Sdn. Bhd.	6.1%
GOOI FAMILY	5.8%

### Price Performance



	-1M	-3M	-12M
Absolute (%)	(6)	(13)	(38)
Relative to index (%)	(7)	(15)	(50)

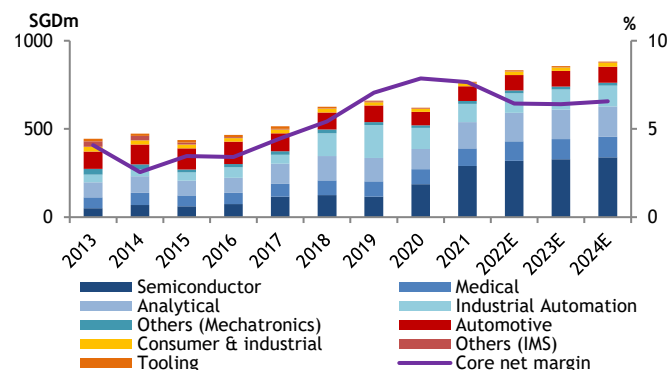
Source: FactSet

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 Tear Sheet Insert

## Value Proposition

- Technology hardware manufacturer that specialises in complex components.
- High-mix, low-volume, high complexity for mechatronics segment.
- Customers are sticky, given: i) decades-long working relationships; ii) complementary competencies; and iii) mutual dependency (sole-source for some critical products). We expect Frencken to leverage its relationships with customers to introduce products with greater value-add, in turn driving margins further.

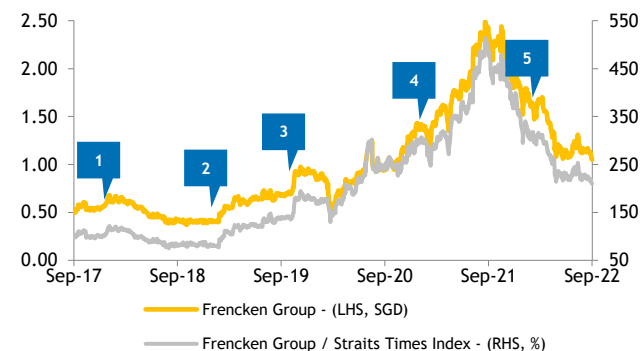
### Diverse end markets



Source: Company

## Price Drivers

### Historical share price trend



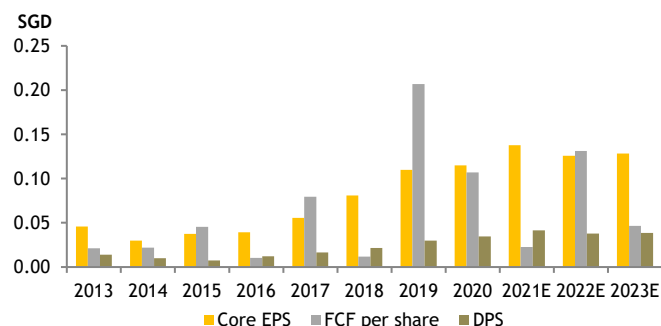
Source: Company, Maybank IBG Research

1. General de-rating of the Singapore tech sector amid initial US-China tensions.
2. Reported FY18 core net profit of SGD34m (+47% YoY) on strength from industrial automation.
3. Reported 3Q19 core net profit of SGD31m (+35%) on strength from industrial automation and semiconductor. General tech sector rerating amid initial signs of global semiconductor recovery.
4. Frencken’s semiconductor segment is a beneficiary of chip shortages.
5. Tech sector derating drove share price lower; 1Q22 net profit fell 12.6% YoY on margin pressures amid inflation and other supply chain challenges.

## Financial Metrics

- Over the medium term, we expect earnings to be driven by revenue growth and margin optimisation through new products and improving efficiencies.
- Net cash balance sheet and strong cash flow should provide resilience amid economic uncertainty.
- Historically pays out 30% of earnings as dividends. We expect this trend to continue.

### EPS, FCF per share and DPS



Source: Company

## Swing Factors

### Upside

- Stronger-than-expected semiconductor and industrial automation contributions.
- Robust margin accretion from new products and improving efficiencies.
- Improving institutional interest, which could help the stock re-rate towards peers’ valuations.

### Downside

- Drop in demand.
- Supply chain disruptions that impede Frencken’s production ability and revenue recognition.
- Lower-than-expected dividend pay-out.

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Risk Rating & Score <sup>1</sup>	na
Score Momentum <sup>2</sup>	na
Last Updated	na
Controversy Score <sup>3</sup>	na

## Business Model & Industry Issues

- The nature of Frencken’s business in the electronics and automotive manufacturing supply chains exposes it to risks including environmental, workplace safety, and conflict of interest. Frencken has not faced any fines or non-monetary sanctions pertaining environmental nor socioeconomic laws and regulations in 2021.
- From an environment perspective, Frencken’s Eco-PVD offering can be seen as a more environmentally friendly approach for automotive coating. While Frencken does not use recycled materials currently, it may do so in the future subject to customers’ requirements.
- From a governance and socioeconomic perspective, Frencken is adopting industry best practices, including those set by customers, as these facilitate smooth business.

### Material E issues

- Environmental risks - Frencken’s production process involves non-renewable materials and waste generation. Non-compliance of rules and laws may severely impact the environment of local communities.
- In 2021, Frencken had zero fines and non-monetary sanctions for non-compliance with environmental laws and/or regulations.
- Areas for potential improvement include: i) increased use of recycled materials, contingent on customer approval; and ii) increased efficiency of water and electric usage.
- Opportunities - Frencken’s proprietary eco-PVD coating technology is more environmentally friendly than traditional PVD methods. Frencken is optimistic of long-term prospects for this offering.

### Material S issues

- Employee health and safety risks. Frencken benchmarks its occupational safety and health practices against industry best practices. E.g. the Bangi (Malaysia) plant is in compliance with Agilent Supplier Environmental, Health and Safety and Social Responsibility guidelines.
- Employee safety remains of paramount importance for Frencken with proper mitigation measures implemented.
- In 2021, Frencken’s injury rate was 0%. (2019: 0.15%). Employees underwent an average of 1.2-17 hours of training in 2021 across technical, occupational health and safety and strategic topics.
- Male employees account for 66% of the workforce.
- Socioeconomic risks. To ensure smooth business operations, Frencken: i) adheres to all applicable laws and regulations; and ii) upholds strong ethical standards. This safeguards trust with stakeholders and avoids liability due to non-compliance.

### Key G metrics and issues

- The board consists of six directors, of whom one is an executive director (CEO), one is a non-executive, non-independent chairman, and four are independent (67%). All directors are male.
- The nominating, audit and remuneration committees are chaired by independent directors.
- Chairman Mr. Gooi Soon Chai’s deemed stake in the company is c.22%.
- Three independent directors have served more than nine years from date of appointments. Frencken states that their independence is not in any way affected by their length of service.
- Professional background of independent directors includes law, accounting, consultancy and electronics engineering.
- Key management/ directors’ compensation accounted for 3.4%/1.4% of total employee compensation in 2021. (2019: 3.8%/ 1.3%).
- Auditor is Deloitte & Touche LLP which was appointed in 2014.
- Former non-independent non-executive chairman Mr. Larry Low resigned in 2016 and pared his stake from 8.14% to 4.74% in 2018. Mr. Low is the father of fugitive Jho Low. However, this development has no impact to the governance nor operations of the company as current management and board are independent of Mr. Low.

<sup>1</sup>**Risk Rating & Score** - derived by Sustainalytics and assesses the company’s exposure to unmanaged ESG risks. Scores range between 0 - 50 in order of increasing severity with low/high scores & ratings representing negligible/significant risk to the company’s enterprise value, respectively, from ESG-driven financial impacts. <sup>2</sup>**Score Momentum** - indicates changes to the company’s score since the last update - a **negative** integer indicates a company’s improving risk score; a **positive** integer indicates a deterioration. <sup>3</sup>**Controversy Score** - reported periodically by Sustainalytics in the event of material ESG-related incident(s), with the impact severity scores of these events ranging from Category 0-5 (0 - no reports; 1 - negligible risks; ...; 5 - poses serious risks & indicative of potential structural deficiencies at the company).

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Quantitative Parameters (Score: 32)						
	Particulars	Unit	2019	2020	2021	Venture SG (2023)
E	Scope 1 emissions	tCO2e	NA	NA	NA	2,659
	Scope 2 emissions	tCO2e	NA	NA	NA	NA
	<b>Total</b>	<b>tCO2e</b>	<b>NA</b>	<b>NA</b>	<b>NA</b>	<b>161,054</b>
	Scope 3 emissions (operational)	tCO2e	NA	NA	NA	NA
	<b>Total</b>	<b>tCO2e</b>	<b>NA</b>	<b>NA</b>	<b>NA</b>	<b>161,054</b>
	GHG intensity (Scope 1 and 2)	KgCO2e/emp	NA	NA	NA	26.77
	Energy consumption	%/unit of sales	4.38	NA	NA	43.92
	Water consumption	%/unit of sales	0.11	NA	NA	0.25
	Recycled waste generated	Metric tonnes	17	NA	NA	219
S	% of women in workforce	%	34%	31.82%	32%	55%
	Economic value generated and distributed	SGD'000	767.069	786.107	742.859	312322
	Average training hours by gender (women)	Number	6.3	NA	NA	34.8
	New employees hired by gender (women)	%	NA	NA	NA	16%
	Total training hours	hrs	11499	NA	NA	399591.6
	Key operations assessed for risks related to corruption	%	100	100	100	100
G	MD/CEO salary as % of reported net profit	%	4.72	6.44	2.98	2.41
	Board salary as % of reported net profit	%	2.29	2.25	1.7	0.27
	Independent directors on the Board	%	75%	75%	75%	63%
	Female directors on the Board	%	0	0	25%	43%

Qualitative Parameters (Score: 67)	
a)	Is there an ESG policy in place and is there a standalone ESG committee or is it part of the risk committee? <i>Yes, Frencken added Ethical Sustainable Profitable Growth to the tag line, signalling the start of its sustainability journey called "Frencken*Sustain*Life" (FSL). FSL is its Environment Social Governance programme, managed by its board and key management team, which will prioritize returns to stakeholders.</i>
b)	Is the senior management salary linked to fulfilling ESG targets? <i>Yes. The BSC KPI's are accessed on an annual basis during management review meetings.</i>
c)	Does the company follow the task force of climate related disclosures (TCFD) framework for ESG reporting? <i>Yes</i>
d)	Does the company have a mechanism to capture Scope 3 emissions - which parameters are captured? <i>No</i>
e)	What are the 2-3 key carbon mitigation/water/waste management strategies adopted by the company? <i>For new shipments, Frencken reuses cartons and plastic pallets returned by customers. In this way, it aligns with its customer's efforts in reducing plastic and paper waste to landfill as their global supply chain partner. To reduce their carbon footprint and build greater business sustainability, solar energy panels have been installed at its factories in Chuzhou (China), Selangor (Malaysia) and Thailand.</i>
f)	Does carbon offset form part of the net zero/carbon neutrality target of the company? <i>No</i>

Target (Score: 33)		
Particulars	Target	Achieved
Less than 0.20% of water consumption per sale value	0.20%	NA
Less than 7% of electricity consumption per sale value	7.00%	NA
Briefings to present quarterly and FY results	100%	100%
Carbon neutrality/net zero	NA	NA
<b>Impact</b>		
NA		
<b>Overall Score: 41</b>		
As per our ESG matrix, Frencken Group (FRKN SP) has an overall score of 41.		

ESG score	Weights	Scores	Final Score
Quantitative	50%	32	16
Qualitative	25%	67	17
Target	25%	33	8
<b>Total</b>			<b>41</b>

As per our ESG assessment, FRKN has an established framework, internal policies, and tangible medium/long-term targets but needs to make major headway in improving its quantitative "E" metrics, especially disclosing on GHG emissions. FRKN's overall ESG score is 41, which makes its ESG rating below average in our view (average ESG rating = 50).

FYE 31 Dec	FY23A	FY24A	FY25E	FY26E	FY27E
<b>Key Metrics</b>					
P/E (reported) (x)	13.6	16.0	10.3	8.1	6.5
Core P/E (x)	17.8	13.0	10.3	8.1	6.5
Core FD P/E (x)	17.8	13.0	10.3	8.1	6.5
P/BV (x)	1.4	1.1	0.9	0.9	0.8
P/NTA (x)	1.4	1.1	0.9	0.9	0.8
Net dividend yield (%)	1.7	2.3	2.9	3.7	4.6
FCF yield (%)	3.9	7.3	32.6	nm	29.1
EV/EBITDA (x)	6.6	4.5	2.7	3.7	2.3
EV/EBIT (x)	11.4	8.0	4.2	5.5	3.2

**INCOME STATEMENT (SGD m)**

Revenue	742.9	794.3	873.8	1,004.8	1,155.6
EBITDA	80.3	91.3	89.1	104.8	122.2
Depreciation	(34.0)	(39.8)	(31.7)	(33.5)	(35.3)
Amortisation	0.0	0.0	0.0	0.0	0.0
EBIT	46.3	51.5	57.4	71.3	86.9
Net interest income / (exp)	(4.8)	(5.5)	(5.5)	(5.5)	(5.5)
Associates & JV	0.0	(0.0)	0.0	0.0	0.0
Exceptionals	0.0	0.0	0.0	0.0	0.0
Other pretax income	0.0	0.0	0.0	0.0	0.0
Pretax profit	41.5	46.0	51.9	65.8	81.4
Income tax	(9.6)	(9.4)	(8.8)	(11.2)	(13.8)
Minorities	0.5	0.5	(0.2)	(0.2)	(0.2)
Discontinued operations	0.0	0.0	0.0	0.0	0.0
Reported net profit	32.5	37.1	42.9	54.4	67.4
Core net profit	32.5	37.1	42.9	54.4	67.4

**BALANCE SHEET (SGD m)**

Cash & Short Term Investments	142.6	159.2	289.7	141.1	249.1
Accounts receivable	171.2	137.8	149.5	180.9	199.0
Inventory	203.4	226.5	185.9	285.0	253.5
Property, Plant & Equip (net)	129.8	120.0	102.1	127.1	152.1
Intangible assets	21.3	22.0	22.0	22.0	22.0
Investment in Associates & JVs	0.0	0.0	0.0	0.0	0.0
Other assets	66.9	69.7	82.8	83.8	83.8
<b>Total assets</b>	<b>735.3</b>	<b>735.1</b>	<b>832.0</b>	<b>840.0</b>	<b>959.6</b>
ST interest bearing debt	91.6	86.5	86.5	86.5	86.5
Accounts payable	124.8	94.5	161.2	130.8	203.1
LT interest bearing debt	0.5	0.1	0.1	0.1	0.1
Other liabilities	113.0	117.0	117.0	117.0	117.0
<b>Total Liabilities</b>	<b>330.0</b>	<b>297.6</b>	<b>364.3</b>	<b>334.0</b>	<b>406.2</b>
Shareholders Equity	401.2	434.0	464.0	502.1	549.3
Minority Interest	4.0	3.5	3.7	3.9	4.1
<b>Total shareholder equity</b>	<b>405.3</b>	<b>437.5</b>	<b>467.7</b>	<b>506.0</b>	<b>553.4</b>
<b>Total liabilities and equity</b>	<b>735.3</b>	<b>735.1</b>	<b>832.0</b>	<b>840.0</b>	<b>959.6</b>

**CASH FLOW (SGD m)**

Pretax profit	41.5	46.0	51.9	65.8	81.4
Depreciation & amortisation	34.0	39.8	31.7	33.5	35.3
Adj net interest (income)/exp	0.0	0.0	0.0	0.0	0.0
Change in working capital	(14.8)	(29.7)	82.4	(161.9)	85.6
Cash taxes paid	(11.8)	(8.1)	(8.8)	(11.2)	(13.8)
Other operating cash flow	0.0	0.0	0.0	0.0	0.0
Cash flow from operations	49.0	48.1	157.2	(73.7)	188.5
Capex	(26.3)	(13.0)	(13.8)	(58.5)	(60.3)
Free cash flow	22.6	35.1	143.4	(132.2)	128.2
Dividends paid	(15.5)	(9.7)	(12.9)	(16.3)	(20.2)
Equity raised / (purchased)	0.0	0.1	0.0	0.0	0.0
Change in Debt	(20.3)	(5.9)	0.0	0.0	0.0
Other invest/financing cash flow	(0.0)	(0.0)	0.0	0.0	0.0
Effect of exch rate changes	(4.9)	3.9	0.0	0.0	0.0
Net cash flow	(18.1)	23.4	130.5	(148.6)	108.0

FYE 31 Dec	FY23A	FY24A	FY25E	FY26E	FY27E
<b>Key Ratios</b>					
<b>Growth ratios (%)</b>					
Revenue growth	(5.5)	6.9	10.0	15.0	15.0
EBITDA growth	(14.9)	13.8	(2.5)	17.7	16.6
EBIT growth	(30.5)	11.2	11.4	24.3	21.9
Pretax growth	(34.1)	10.8	12.7	26.8	23.7
Reported net profit growth	(37.4)	14.3	15.5	27.0	23.8
Core net profit growth	(37.4)	14.3	15.5	27.0	23.8
<b>Profitability ratios (%)</b>					
EBITDA margin	10.8	11.5	10.2	10.4	10.6
EBIT margin	6.2	6.5	6.6	7.1	7.5
Pretax profit margin	5.6	5.8	5.9	6.6	7.0
Payout ratio	30.0	30.0	30.0	30.0	30.0
<b>DuPont analysis</b>					
Net profit margin (%)	4.4	4.7	4.9	5.4	5.8
Revenue/Assets (x)	1.0	1.1	1.1	1.2	1.2
Assets/Equity (x)	1.8	1.7	1.8	1.7	1.7
ROAE (%)	8.2	8.9	9.6	11.3	12.8
ROAA (%)	4.4	5.0	5.5	6.5	7.5
<b>Liquidity &amp; Efficiency</b>					
Cash conversion cycle	126.9	125.8	96.7	96.7	96.7
Days receivable outstanding	71.3	70.0	59.2	59.2	59.2
Days inventory outstanding	120.6	114.0	98.6	98.6	98.6
Days payables outstanding	65.1	58.1	61.2	61.2	61.2
Dividend cover (x)	3.3	3.3	3.3	3.3	3.3
Current ratio (x)	1.9	2.2	2.1	2.2	2.0
<b>Leverage &amp; Expense Analysis</b>					
Asset/Liability (x)	2.2	2.5	2.3	2.5	2.4
Net gearing (%) (incl perps)	net cash	net cash	net cash	net cash	net cash
Net gearing (%) (excl. perps)	net cash	net cash	net cash	net cash	net cash
Net interest cover (x)	9.6	9.4	10.5	13.0	15.9
Debt/EBITDA (x)	1.1	0.9	1.0	0.8	0.7
Capex/revenue (%)	3.5	1.6	1.6	5.8	5.2
Net debt/ (net cash)	(50.6)	(72.6)	(203.1)	(54.5)	(162.5)

Source: Company; Maybank IBG Research



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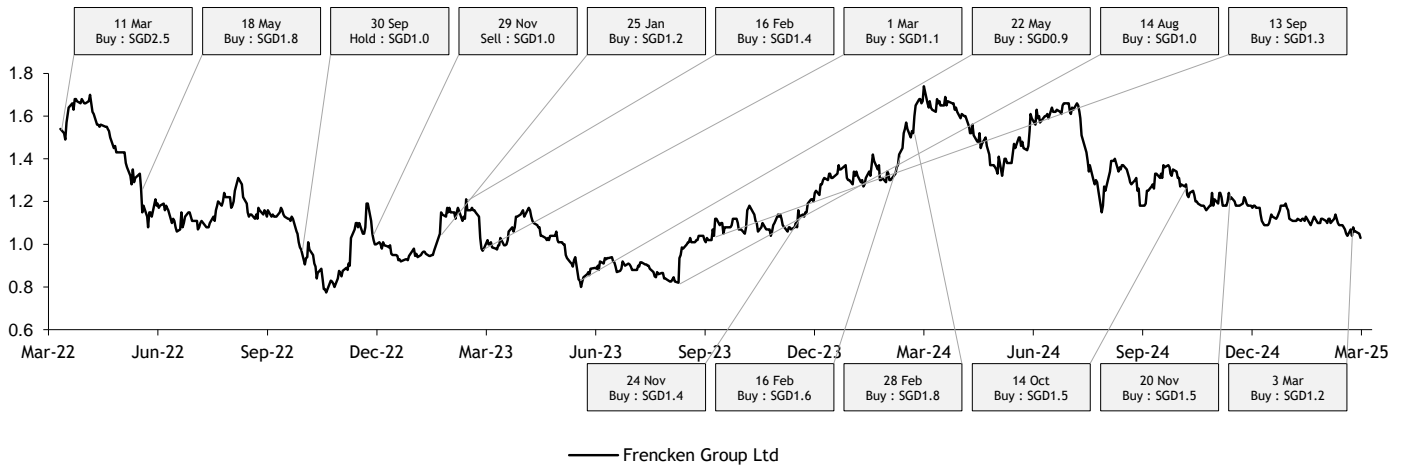
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