

ASIAN GEMS CORPORATE HIGHLIGHTS

Frencken Group (FRKN SP)

Expect Gradual Recovery Across Most Segments

Frencken expects to see a gradual recovery in its major segments, including the semiconductor and life science segments. However, its automobile segment could see a slower ramp-up as major customers have yet to make their final decisions on whether to select new energy or traditional vehicles. On the other hand, Frencken's industrial automation segment should see a stable performance from a low base, while its medical segment should remain stable as well. Maintain BUY and target price of S\$1.74.

WHAT'S NEW

- **Diversified business with ability to share core competencies; focusing on customers who are leaders in their field.** Frencken Group (Frencken) highlighted that it provides diversified integrated manufacturing solutions for multinational companies in the semiconductor, analytical life sciences, automobile, healthcare and industrial automation sectors. Frencken is able to leverage and share its core competencies across all segments. Long standing customer like Philips values Frencken for its high precision and cleanroom capabilities. In the semiconductor segment, Frencken has moved from a supplier of components to an entire fab processing system. In addition, it focuses on customers who are leaders in their field and it aims to be relevant and grow together with its customers.
- **Expect gradual recovery for major segments including semiconductor and analytical life sciences.** Frencken continues to see a positive trend from its semiconductor customers, but with a mixed pace of recovery due to uneven demand across the segment in the semiconductor space. As a result, Frencken expects to see more meaningful recovery in 2H25. On the other hand, Frencken continues to see a long tailwind of growth in the analytical life sciences segment, but recovery is slower than expected due to weaker demand experienced by its major customers.
- **Automobile segment may see a slower-than-expected ramp-up,** due to some uncertainties of its major customers on the decision of either to focus on electric vehicles or traditional vehicle platforms as they are deciding if electric vehicles will be the preferred option for consumers in the long run. Frencken is agnostic to the type of platform but delays in choosing the platform may slow the ramping up of its automotive programme.
- **Industrial automation and healthcare segments to remain stable.** Frencken expects to see a stable performance, with some fluctuations for its industrial automation segment as revenue has reached a base run rate based on its customer's guidance. On the other hand, the healthcare segment should continue to see stable performance as well.

KEY FINANCIALS

Year to 31 Dec (S\$m)	2022	2023	2024F	2025F	2026F
Net turnover	786	743	807	850	895
EBITDA	82	65	79	84	89
Operating profit	54	35	48	51	55
Net profit (rep./act.)	52	32	44	48	51
Net profit (adj.)	52	32	44	48	51
EPS (S\$ cent)	12.1	7.6	10.3	11.2	11.9
PE (x)	10.5	16.7	12.4	11.3	10.7
P/B (x)	1.4	1.4	1.2	1.2	1.1
EV/EBITDA (x)	5.6	7.0	5.8	5.4	5.1
Dividend yield (%)	2.9	1.8	2.4	2.6	2.8
Net margin (%)	6.6	4.4	5.4	5.6	5.7
Net debt/(cash) to equity (%)	(14.8)	(12.6)	(20.6)	(25.5)	(30.7)
Interest cover (x)	22.8	13.6	15.1	15.3	15.4
ROE (%)	13.5	8.2	10.4	10.5	10.4
Consensus net profit (S\$m)	-	-	44	51	58
UOBKH/Consensus (x)	-	-	0.99	0.93	0.88

Source: Frencken, Bloomberg, UOB Kay Hian

BUY

(Maintained)

Share Price	S\$1.27
Target Price	S\$1.74
Upside	+37.0%

COMPANY DESCRIPTION

Frencken Group is a global integrated technology solutions company. The group provides ODM and OEM services for the automobile, healthcare, industrial automation, analytical life sciences and semiconductor industries.

STOCK DATA

GICS sector	Information Technology
Bloomberg ticker:	FRKN SP
Shares issued (m):	427.1
Market cap (RMm):	542.4
Market cap (US\$m):	415.3
3-mth avg daily t'over (US\$m):	4.7

Price Performance (%)

52-week high/low	S\$ 1.74/S\$ 1.04			
1mth	3mth	6mth	1yr	YTD
1.6	(22.1)	(20.6)	7.6	(5.9)

Major Shareholders

	%
Dato' Gooi Soon Chai	23.7
FY24 NAV/Share (S\$)	1.02
FY24 Net Cash/Share (S\$)	0.21

PRICE CHART



Source: Bloomberg

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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 it is well-positioned to capitalise on a recovery in the global economy and technology sector. Frencken has continued strong new product introduction 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 forecasts.

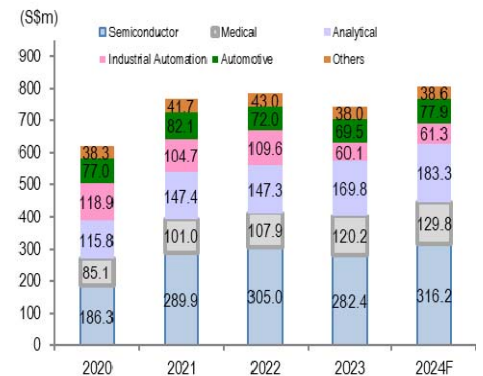
VALUATION/RECOMMENDATION

• **Maintain BUY with an unchanged target price of S\$1.74**, pegged to the same 17.0x 2024F PE, based on 2SD above mean PE. The +2SD in our PE multiple peg is to capture: a) the recovery of the 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.

REVENUE BY SEGMENT (2020-24)



Source: Frencken, UOB Kay Hian

HISTORICAL PE BAND



Source: Bloomberg, UOB Kay Hian

OVERVIEW OF FRENCKEN'S KEY SEGMENTS

FRENCKEN GROUP AT A GLANCE

- 77 Years History of Excellence since 1947
- Listed on Singapore SGX in 2005
- 3,600 employees across 18 global sites
- > S\$ 740M Revenue serving customers across 50+ countries

DIVERSITY BRINGS RESILIENCE AND STABILITY | **GLOBAL REACH, LOCAL EXPERTISE**

Segments: Semiconductor, Analytical Life Sciences, Medical & Healthcare, Automotive, Industrial & Ind. Automation, Aerospace, Materials

COMPETENCIES AND EXPERTISE

Product Conceptualization, Product Design, Prototyping and NPI, Design for Supply Chain, Value and Volume Manufacturing, Service and Support

TRACK RECORDS OF EXCELLENCE

- Singapore Corporate Awards (SCA) Best Managed Board and Investor Relations Award
- Supplier Excellence Awards Best in Class Quality
- The Edge Billion Dollar Club Centurion Club Corporate Awards

Source: Frencken

DEVELOPMENTS OF FRENCKEN'S KEY SEGMENTS

SEMICONDUCTOR

Europe: ReMa for EUV EXE 5000

Asia: From components to an entire wafer fab process system for a leading process tool company

AUTOMOTIVE

AMG Pure-Speed Monaco F1 2024 - Cockpit solution

Source: Frencken

PROFIT & LOSS

Year to 31 Dec (\$m)	2023	2024F	2025F	2026F
Net turnover	742.9	807.2	849.7	894.6
EBITDA	65.2	79.0	83.9	88.8
Deprec. & amort.	29.8	31.3	32.8	34.3
EBIT	35.4	47.6	51.1	54.5
Total other non-operating income	10.9	10.8	12.4	12.7
Associate contributions	0.0	0.0	0.0	0.0
Net interest income/(expense)	(4.8)	(5.2)	(5.5)	(5.8)
Pre-tax profit	41.5	53.2	58.0	61.5
Tax	(9.6)	(9.6)	(10.4)	(11.1)
Minorities	0.5	0.1	0.3	0.4
Net profit	32.5	43.8	47.9	50.8
Net profit (adj.)	32.5	43.8	47.9	50.8

BALANCE SHEET

Year to 31 Dec (\$m)	2023	2024F	2025F	2026F
Fixed assets	179.1	172.8	165.0	155.7
Other LT assets	27.7	28.1	28.4	28.8
Cash/ST investment	142.6	178.6	215.6	258.6
Other current assets	385.8	384.6	413.0	441.2
Total assets	735.3	764.1	822.0	884.2
ST debt	91.6	88.1	95.1	102.4
Other current liabilities	190.7	198.0	206.4	221.2
LT debt	0.5	0.5	0.5	0.5
Other LT liabilities	47.3	36.8	44.5	48.2
Shareholders' equity	401.2	436.7	471.5	507.9
Minority interest	4.0	4.0	4.0	4.0
Total liabilities & equity	735.3	764.1	822.0	884.2

CASH FLOW

Year to 31 Dec (\$m)	2023	2024F	2025F	2026F
Operating	49.0	71.2	68.2	75.0
Profit for the year	41.5	53.2	58.0	61.5
Tax	(9.6)	(9.6)	(10.4)	(11.1)
Deprec. & amort.	29.8	31.3	32.8	34.3
Associates	(0.0)	0.0	0.0	0.0
Working capital changes	(0.1)	(3.9)	(13.2)	(10.4)
Non-cash items	(12.2)	0.0	0.0	0.0
Other operating cashflows	(0.5)	0.1	0.9	0.7
Investing	(27.3)	(22.2)	(24.0)	(23.9)
Capex (growth)	(26.8)	(25.0)	(25.0)	(25.0)
Investment	1.3	1.3	1.3	1.3
Others	(2.3)	1.5	(0.2)	(0.2)
Financing	(35.8)	(19.8)	(13.0)	(14.3)
Dividend payments	(15.5)	(9.7)	(13.1)	(14.4)
Proceeds from borrowings	0.0	0.0	0.0	0.0
Loan repayment	(16.8)	(3.5)	7.0	7.3
Others/interest paid	(3.5)	(6.5)	(6.9)	(7.2)
Net cash inflow (outflow)	(14.1)	29.2	31.2	36.8
Beginning cash & cash equivalent	167.0	142.6	178.6	215.6
Changes due to forex impact	(10.2)	6.8	5.8	6.1
Ending cash & cash equivalent	142.6	178.6	215.6	258.6

KEY METRICS

Year to 31 Dec (%)	2023	2024F	2025F	2026F
Profitability				
EBITDA margin	8.8	9.8	9.9	9.9
Pre-tax margin	5.6	6.6	6.8	6.9
Net margin	4.4	5.4	5.6	5.7
ROA	4.4	5.8	6.0	6.0
ROE	8.2	10.4	10.5	10.4
Growth				
Turnover	(5.5)	8.7	5.3	5.3
EBITDA	(20.7)	21.1	6.3	5.9
Pre-tax profit	(34.1)	28.2	8.9	6.0
Net profit	(37.4)	34.8	9.3	6.1
Net profit (adj.)	(37.4)	34.8	9.3	6.1
EPS	(37.4)	34.8	9.3	6.1
Leverage				
Debt to total capital	18.5	16.7	16.7	16.7
Debt to equity	22.9	20.3	20.3	20.3
Net debt/(cash) to equity	(12.6)	(20.6)	(25.5)	(30.7)
Interest cover (x)	13.6	15.1	15.3	15.4

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