July 12, 2020

Maybank Kim Eng

Technology

Singapore

# Frencken Group Ltd (FRKN SP)

# Upping in quality

## BUY

| | |
|---|---|
| Share Price | SGD 0.92 |
| 12m Price Target | SGD 1.20 (+34%) |

## Quality growth, diversity and margins; initiate BUY

Frencken manufactures components and modules for market leaders leveraged to growth trends in 5G/ AI, health and wellness and population aging. Our FY21-22E PATMI are 14% higher vs. Bloomberg consensus, as we believe margin uplift potential from a breadth of new products with higher design content is underappreciated. Geographic and product diversity, as well as net cash-to-equity position of 23% should offer resilience amid Covid-19. Initiate BUY with ROE-g/COE-g TP of SGD1.20 (1.6x FY20E P/B).

## Growth through market-leading customers

In mechatronics (82% of revenues), Frencken's market-leading customers include ASML, Seagate, Thermo Fisher and Philips. Mechatronics products tend to be critical, have demanding requirements, and Frencken is usually the sole source. Frencken is currently involved with a breadth of new products across semiconductor, analytical, medical and more.

## Resilient to Covid-19 and US-China tension

Current demand disruptions are largely due to order or receipt delays and cancellations are not material. Customers like Philips and Thermo Fisher expect the resumption of elective surgeries and lab work to reinvigorate sales; Semiconductor is benefitting from strong cloud demand. All factories are now operating as usual. We see resilience to US-China tensions, given: i) Frencken predominantly serves domestic supply chains and/or markets; and ii) China accounts for only 15% of sales.

## Swing factors

We expect FY20E PATMI to fall 11% YoY before rebounding by 10-17% in FY21-22E. We expect core NPM to improve to 7.7% by 2022 from 7.1% in 2019. If i) industrial automation and semiconductor sales are stronger than expected and ii) net margin hits 9% by 2022E, we see bull-case fair value of SGD1.45. However, if i) protracted economic weakness erodes demand resilience; and ii) supply chain disruptions recur, we estimate bear-case fair value of SGD0.95 – suggesting an attractive margin of safety.

| FYE Dec (SGD m) | FY18A | FY19A | FY20E | FY21E | FY22E |
|---|---|---|---|---|---|
| Revenue | 626 | 659 | 620 | 671 | 692 |
| EBITDA | 71 | 80 | 75 | 84 | 90 |
| Core net profit | 34 | 47 | 42 | 49 | 54 |
| Core FDEPS (cts) | 8.0 | 11.0 | 9.7 | 11.4 | 12.5 |
| Core FDEPS growth(%) | 46.3 | 36.2 | (11.1) | 17.5 | 9.6 |
| Net DPS (cts) | 2.1 | 3.0 | 2.9 | 3.5 | 3.8 |
| Core FD P/E (x) | 5.2 | 8.4 | 9.4 | 8.0 | 7.3 |
| P/BV (x) | 0.7 | 1.3 | 1.2 | 1.1 | 1.0 |
| Net dividend yield (%) | 5.1 | 3.2 | 3.2 | 3.8 | 4.1 |
| ROAE (%) | 11.7 | 15.1 | 13.4 | 14.3 | 14.2 |
| ROAA (%) | 7.7 | 9.6 | 8.1 | 8.9 | 9.1 |
| EV/EBITDA (x) | 2.5 | 4.0 | 4.1 | 3.4 | 2.8 |
| Net gearing (%) (incl perps) | 0.6 | net cash | net cash | net cash | net cash |
| Consensus net profit | - | - | 40 | 42 | 46 |
| MKE vs. Consensus (%) | - | - | 3.9 | 16.3 | 16.0 |

Gene Lih Lai, CFA
laigenelih@maybank-ke.com.sg
(65) 6231 5832

### Company Description

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

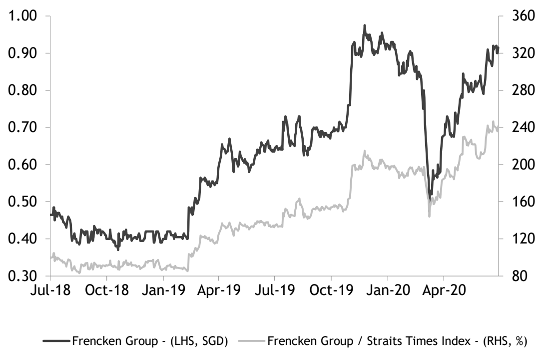
### Statistics

| | |
|---|---|
| 52w high/low (SGD) | 0.98/0.48 |
| 3m avg turnover (USDm) | 1.4 |
| Free float (%) | 59.7 |
| Issued shares (m) | 425 |
| Market capitalisation | SGD388.7M |
| | USD280M |

Major shareholders:

| | |
|---|---|
| GOOI FAMILY | 9.4% |
| Micro Compact Sdn. Bhd. | 6.2% |
| Precico Holdings Sdn. Bhd. | 6.2% |

### Price Performance



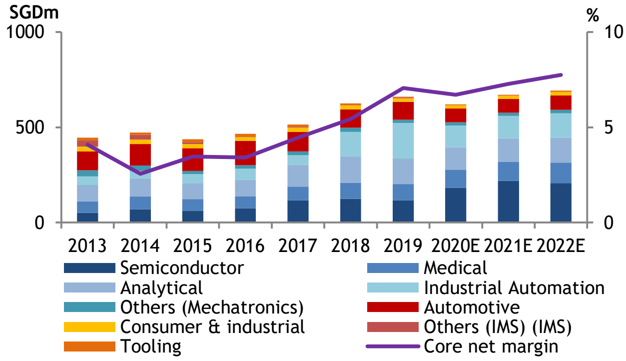

| | -1M | -3M | -12M |
|---|---|---|---|
| Absolute (%) | 9 | 36 | 44 |
| Relative to index (%) | 15 | 31 | 81 |

*Source: FactSet*

## 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.

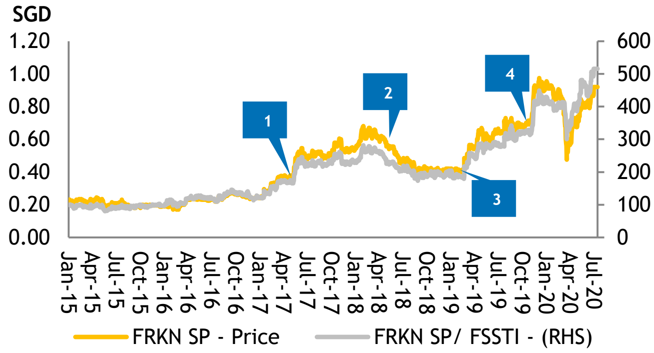
**Diverse end markets with room for margin expansion**




*Source: Company*

## Price Drivers

**Historical share price trend**



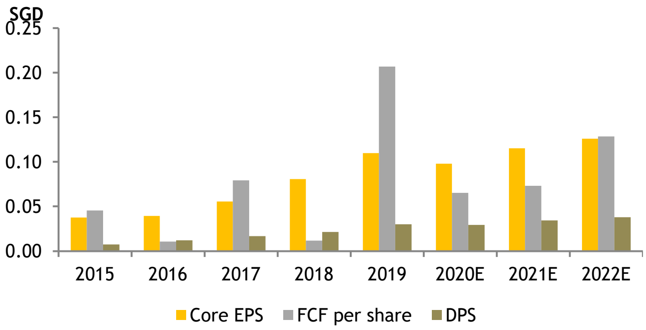

*Source: FactSet, Company, Maybank Kim Eng*

1. 1Q17 core net profit doubled to SGD6.1m, driven by strength in semiconductor and analytical subdivisions.
2. General derating of the Singapore tech sector amid initial US-China tensions.
3. Reported FY18 core net profit of SGD34m (+47% YoY) on strength from industrial automation.
4. 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.

## 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 uncertainties.
- 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 in FY20-21E.
- Robust margin accretion from new products and improving efficiencies.
- Improving institutional interest, which could help the stock rerate towards peers' valuations.

### Downside

- Erosion in revenue resilience due to on-going economic weakness.
- Supply chain disruptions that impede Frencken's production ability and revenue recognition.
- Lower-than-expected dividend pay-out.

laigenelih@maybank-ke.com.sg

# ESG

laigenelih@maybank-ke.com.sg

## 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 nor non-monetary sanctions pertaining environmental nor socioeconomic laws and regulations in 2019.
- 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 facilitates 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 2019, 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; 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.
- No Covid-19 cases as at May-20. Employee safety remains of paramount importance for Frencken with proper mitigation measures implemented.
- In 2019, Frencken's injury rate was 0.078%.
- Employees underwent an average of 8.9 hours of training in 2019 across topics such as environmental management, health and safety, HR, and quality management.
- Male employees account for 70.9% of workforce.
- Socioeconomic risks. In ensure smooth business operations, Frencken i) adheres to all applicable laws and regulations and ii) upholds strong ethical standards. This safeguards trusts with stakeholders and avoids liability due to non-compliance.

## Key G metrics and issues

- Board consists 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 company is approximately 22%.
- Three independent directors have served more than nine years from date of appointments. Frencken states that their independence was not in any way affected by their length of service.
- Professional background of independent directors include law, accounting, consultancy and electronics engineering.
- Key management/ directors' compensation accounted for 3.6%/1.2% of total employee compensation in 2019. (2018: 3.2%/ 1%)
- Related-party transactions were immaterial (<1% of profit).
- Auditor is Deloitte & Touche LLP, which were 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.

# 1. Investment thesis

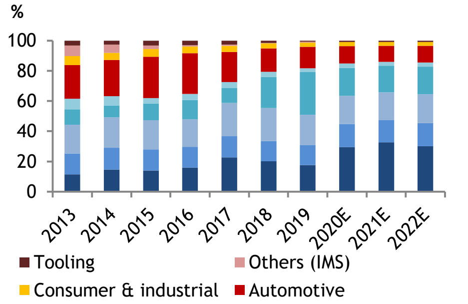
Our BUY on Frencken is premised upon: i) exposure to structurally growing markets through blue-chip customers; ii) earnings resilience despite a challenging business environment due to Covid-19 and US-China trade tensions; and iii) track record of margin improvement with room for more.

## 1.1 Attractive growth markets through blue-chip customers

Frencken's mechatronics division (82% of revenues) is exposed to three structural themes: i) 5G, AI and the boom of the data economy (through semiconductor and industrial automation subdivisions, 46% of revenue); ii) rising awareness for health and wellness (through life science and analytical subdivision, 20% of revenue); and iii) globally aging population and rising incidences of cardiovascular diseases (through medical subdivision, 13%) of revenue.

In the mechatronics division, Frencken is often the sole-supplier for critical components and/or modules. Customers outsource to Frencken as: i) this allows them to devote resources to their core IP to maintain market leadership; and ii) Frencken has a track record of being a reliable supplier. This is discussed further in the report in Chapter 5.3: "Resilience from strong relationship with customers".

**Fig 1: Diversified end markets provide resilience**




*Source: Company, Maybank Kim Eng*

## 1.2 Resilience to Covid-19

While visibility remains low for now, management has observed that order cancellations have not been material. Much of demand-side disruptions appear to be a result of order or receipt delays, as a result of lockdowns in many countries. Key customers Philips and Thermo Fisher remain constructive on the demand outlook, as they believe that a resumption of elective surgeries and the reopening of labs would reignite demand for their products.

We also take comfort in Frencken's geographical and product diversity. In our view, Frencken has been relatively sheltered from US-China trade tensions as China accounts for only 15% of revenue, and also because Frencken predominantly serves the local supply chain and/ or domestic markets at each locale.

Frencken's relationships with customers are also sticky, which in our view is a result of: i) decades-long working relationships; and ii) stringent processes and/or very demanding turnaround times.

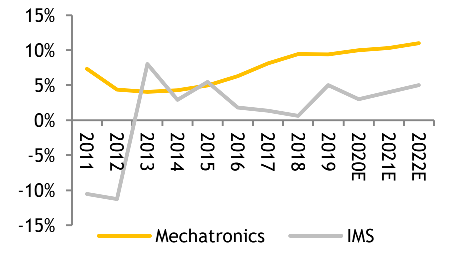
## 1.3 Multiple levers to drive margin accretion

Under the stewardship of the current management (since 2015), core net margin has more than doubled to 7.1% in 2019 from 2.6% in 2014. Much of this was due i) optimising mix in favour of higher value-add products; and ii) improving efficiencies. 2014-19 core earnings CAGR was an impressive 31%.

Over the medium term, we continue to see room for Frencken to drive margin expansion by transitioning product mix from build-to-print plus to engineer-to-spec, while remaining steadfast in driving efficiency gains.

Our FY21-22 earnings forecasts are 14% above Bloomberg consensus as we believe Frencken's margin-accretion potential may not be fully appreciated by the market.

**Fig 2: We see room for improving margins**
Breakdown of segmental margins




*Source: Company, Maybank Kim Eng*

Yet, factors that could swing our forecasts higher include: i) our own under-appreciation of margin accretion, given the lack of medium-term visibility; ii) stronger-than-expected contributions from Seagate in FY20E; and iii) more resilient-than-expected semiconductor revenues. In this bull-case scenario, we estimate ROE-g/COE-g fair value of SGD1.45.

In the bear-case scenario, we see downside from worsening macroeconomic conditions potentially eroding demand resilience currently seen across semiconductor, medical and analytical subdivisions, and/or exacerbated weakness from automotive. With insufficient scale, margins may be capped too. On the other hand, supply chain disruptions may also affect Frencken's prospects. In this scenario, we estimate ROE-g/COE-g fair value of SGD0.95. But given current share price of SGD0.92, we believe our bear-case scenario is already priced in. In this scenario, we see elevated risk for longer cash conversion cycle, potentially due to inventory buffers, slower turnover, and/or slower collection of receivables. We estimate for every one day increase in the cash-conversion cycle, FY20E FCF generated falls by around SGD3m.

## 1.4 Valuation and risk

Our ROE-g/COE-g TP of SGD1.20 is based on 1.6x FY20E P/B, in turn based on average FY20-22E ROE of 14%, COE of 9.7% and long-term growth of 2%. Our TP implies 12.2x FY20E P/E, a 20% discount to Singapore-listed EMS and precision engineering peers, which are trading at 15.4x.

While our TP implies valuation multiples at the higher-end of its historical trading range, we believe it is realistic. Frencken was under-researched for the most part of the past decade, and could rerate higher towards what is justified by its ROEs, as institutional investors gain interest, in our view.

We see key risks to our view as: i) slower-than-expected economic recovery, leading to lacklustre earnings growth; and ii) margin-accretion profile being shallower than we expect, e.g. due to increasing difficulty in driving marginal gains.

## 2. Focus charts

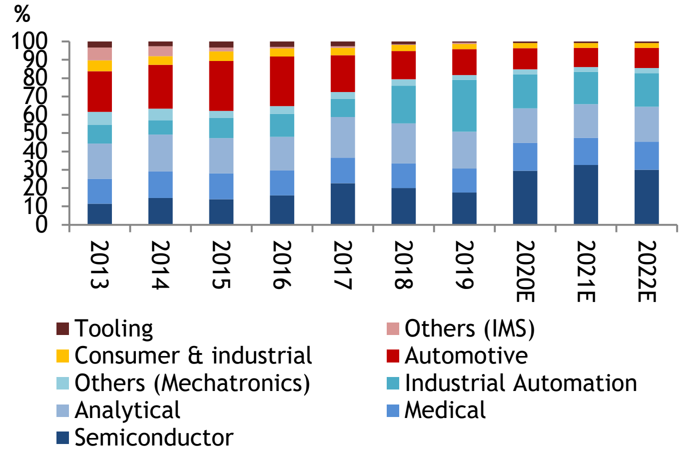
**Fig 3: Consensus broadly expects customers to grow in 2021-22E.**

| | Sales growth (%) | | |
|---|---|---|---|
| | FY20E | FY21E | FY22E |
| Frencken (consensus) | -2% | 6% | 6% |
| Agilent | 1% | 8% | 6% |
| Thermo Fisher | 0% | 8% | 6% |
| Royal Philips | 2% | 5% | 5% |
| ASML | 8% | 18% | 10% |
| Applied Materials | 14% | 7% | 3% |
| Seagate (Capex) | 9% | 11% | -12% |
| BMW | -9% | 8% | 5% |
| Valeo | -13% | 16% | 7% |
| KLA Tencor | 26% | 0% | 9% |
| Waters | -8% | 7% | 4% |
| **Average ex-Frencken** | **3%** | **9%** | **4%** |

*Note: We observe capex instead of sales for Seagate, as Frencken is leveraged to Seagate's capex cycles.*

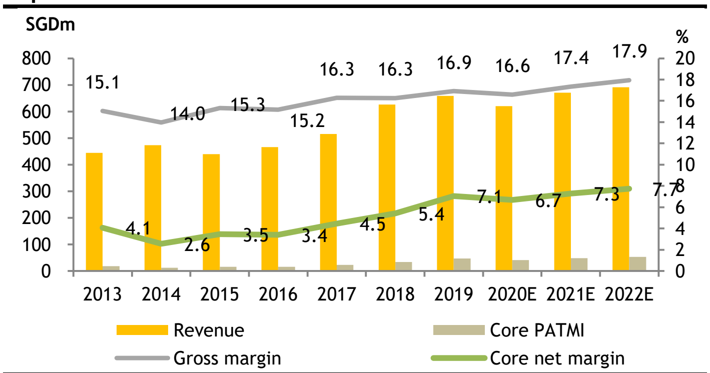
*Source: Bloomberg, Maybank Kim Eng*

**Fig 4: Product diversity across end-markets provide resilience; Rising mechatronics contributions improve mix**



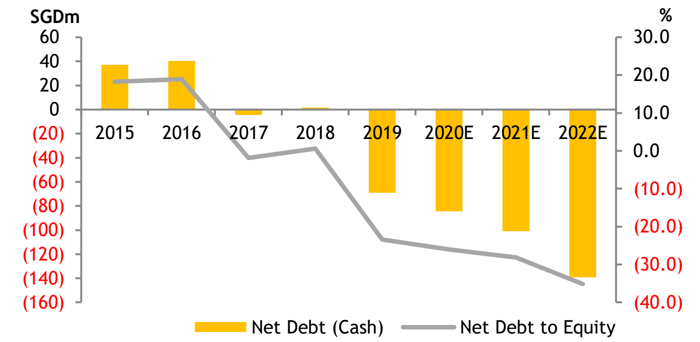

*Source: Company, Maybank Kim Eng*

**Fig 5: Consistently rising margins, with room for further improvement**



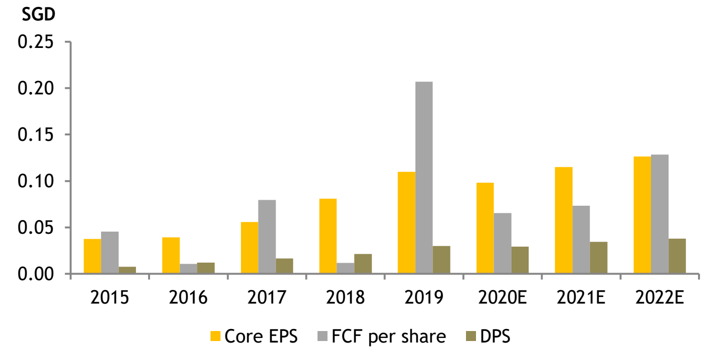

*Source: Company, Maybank Kim Eng*

**Fig 6: Balance sheet is improving as well**



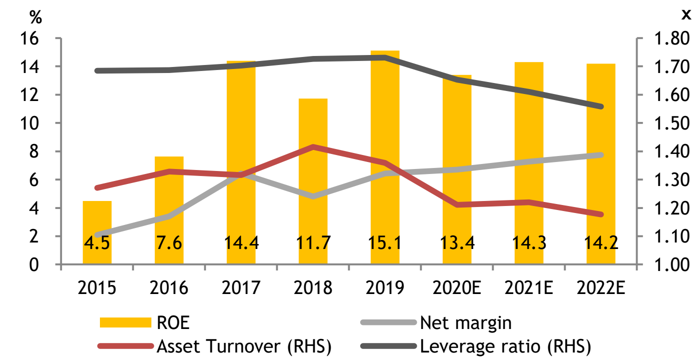

*Source: Company, Maybank Kim Eng*

**Fig 7: DPS comfortably funded out of FCF per share; Frencken typically pays out 30% of earnings**




*Source: Company, Maybank Kim Eng*

**Fig 8: DuPont ROE; effects of rising net margin offset by falling financial leverage**




*Source: Company, Maybank Kim Eng*

# 3. Corporate information

## 3.1 Business overview

Frencken is a contract manufacturer that provides end-to-end solutions from product conceptualisation and design to volume manufacturing and logistics services. Its key segments are mechatronics and integrated manufacturing services (IMS).

In the mechatronics segment, Frencken manufactures high-precision and complex systems for customers that are global leaders in healthcare, analytical & life sciences, semiconductor and industrial automation markets.

Meanwhile, the IMS segment designs and manufactures products for automotive and consumer & industrial electronics end-markets.

Frencken operates across 17 factories globally, and has 3,400 employees.

**Fig 9: Overview of customers, products and locations**

| Subdivision | E.g. customers | E.g. products | Key locations |
|---|---|---|---|
| Mechatronics | **Medical** - Philips, Siemens, GE<br><br>**Semiconductor** - ASML, Applied Materials, KLA Tencor, Teradyne, Kulicke & Soffa<br><br>**Analytical and life sciences** - Thermo Fisher (incl. FEI and Life Technologies subsidiaries), Oxford Instruments, Pan Analytical<br>**Industrial automation -** Seagate, Ulmann<br><br>**Others -** NASA | Components and subassemblies for:<br><br>**Medical** - cardiovascular patient table, histopathology digital scanner, X-ray gantry and telescopic tube, micro motor for heart implants<br><br>**Semiconductor** - wafer fabrication equipment, die bonding, IC testers and manipulators, vacuum systems<br><br>**Analytical and life sciences** - scanning electron microscope, mass spectrometry, gas/ liquid chromatography, spectroscopy, vacuum systems<br><br>**Industrial -** industrial automation, electric motors for customer applications, industrial robots, electrical switch-gear for industrial and home applications | **Netherlands** - Eindhoven, Reuther; **Malaysia** - Bangi; **Singapore; China** - Wuxi; **USA** - Spokane |
| IMS | **Automotive** – BMW, Denso, Continental, Valeo<br>**Consumer and industrial electronics -** Brother, Neopost, Dyson | **Automotive** - Filters, interior plastic decorative parts, dashboard clusters, pointers and clocks | **India** - Noida; **Thailand** - Bangkok; **Malaysia** - Johor, **Selangor; Singapore; China** - Zhuhai, Tianjin, Chuzhou; **Netherlands** - Rotterdam; **Switzerland** - Grechen |

*Source: Company, Maybank Kim Eng*

## 3.2 Covid-19 response and impact

Currently, factories in Singapore, Malaysia and China have resumed normal manufacturing operations following the easing of government restrictions. In Thailand, the Netherlands, the US and Switzerland, operations are continuing as usual.

While management adopts a cautiously optimistic tone, visibility is presently limited, due to the fluid and uncertain nature on the extent of the impact on supply chains and end-market demand. At this juncture, management has not observed significant order cancellations, although there are order delays, such as in the medical and analytical segments. These are discussed in Chapter 5: “Resilience to Covid-19”.

# 4. Leveraged to structurally growing end-markets

## 4.1 Diverse end-markets with structural growth

We estimate 46% of Frencken's revenue are leveraged to secular technology trends such as cloud, 5G and AI (through the semiconductor and industrial automation subdivisions) while 33% of revenue are linked to trends relating to health and wellness, and population aging (through the medical and healthcare segments).

**Riding the data boom**

We see Frencken as a beneficiary of the current semiconductor capex recovery that is led by sustained spending in logic and foundry, with the recovery in NAND and DRAM to follow. In the latest 2Q20 update, SEMI now sees global fab spending to grow 24% YoY to a record USD67.7b in 2021 (1Q20 forecast: USD65.7b).

5G is widely expected to usher in the "Data Era", enabling data-intensive applications like AI, IOT, AR/VR, high-resolution video streaming and autonomous driving (Fig. 10). With such intensive machine-to-machine communications, data generated is expected to reach 35ZB (zettabyte) by 2023, from 2.5ZB in 2018, based on Applied Materials' estimate (Fig. 11).

We expect this trend to drive both chip volumes and complexity. Volumes are driven by growing end-markets (Fig. 12), while complexity rises due to increasingly demanding cloud and edge workloads to support these applications.

We believe Frencken is leveraged to this data boom as its customers address key challenges in bringing a 5G world to fruition:

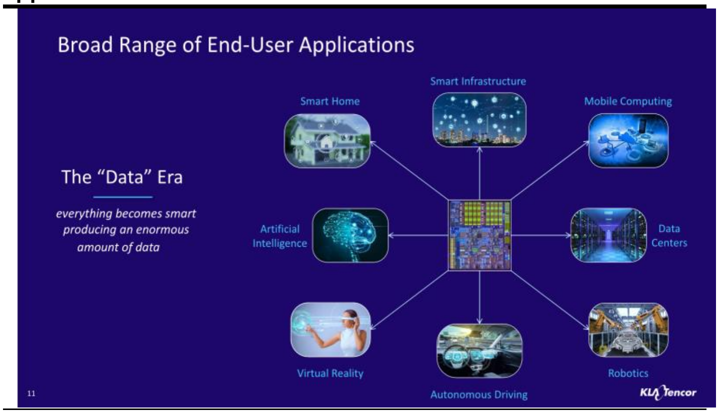
- The continued need to shrink transistor sizes – ASML believes that in the coming decade, its Extreme Ultraviolet (EUV) lithography technology will be a key driver in shrinking transistor sizes. According to ASML, process technology (including lithography) accounts for 30% of performance improvement opportunities (Fig. 13). While Frencken currently has nascent exposure to EUV, we note that this technology can bring exciting growth opportunities to Frencken. Smaller transistor sizes should also translate to more advanced inspection and metrology equipment, which should also benefit Frencken through customer KLA.

- Need for innovative materials and scaling approaches. However, there are limitations to traditional Moore's law scaling in driving performance improvements. This is overcome through the use of innovative materials and scaling approaches such as 3D stacking and heterogeneous packaging integration. In turn, this should benefit Applied Materials, of which Frencken is a supplier to.

- Beneficiary of the data explosion – As the data economy takes off storage requirements are also expected to increase. Seagate believes that its Heat Assisted Magnetic Recording (HAMR) technology is the key to enable larger amounts of data to be stored on a hard drive. Volume production of 20 TB HAMR drives are expected to begin later in the year. We expect Frencken to be a beneficiary of this through its industrial automation subdivision, as Seagate is expected to require the installation of new production lines for the volume manufacturing of this product.

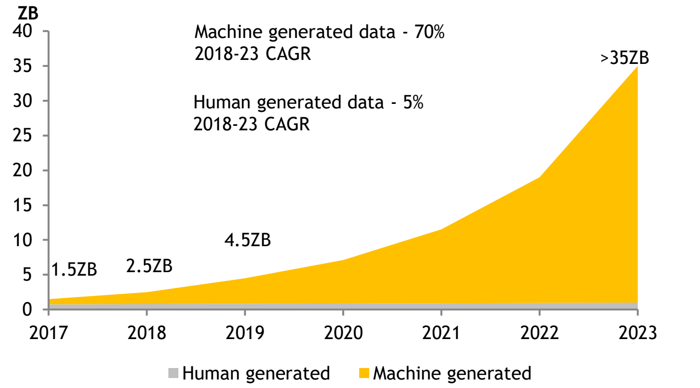
Whilst still cyclical, fluctuations in semiconductor spending have been less pronounced in recent years (Fig. 15), due to: i) structural growth of semiconductor chips in an increasingly data-centric world; and ii) rising capital intensity from increased semiconductor manufacturing complexity. However, we expect the industrial automation segment to be lumpier, depending on the capacity and product needs of Seagate.

**Fig 10: 5G is expected to enable many data-intensive applications…**



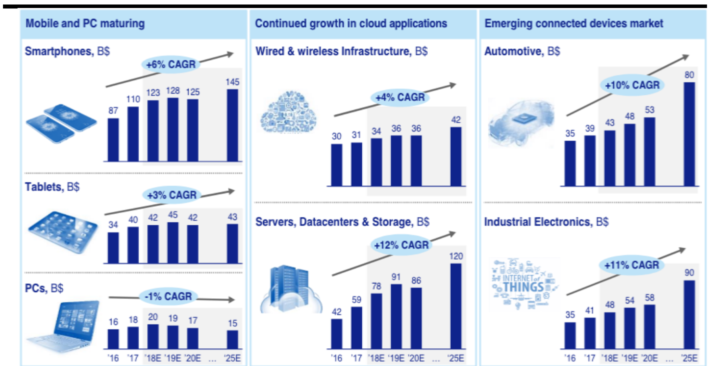

*Source: KLA Tencor*

**Fig 11: …in turn driving an explosion in data generated - much of it due to machines**



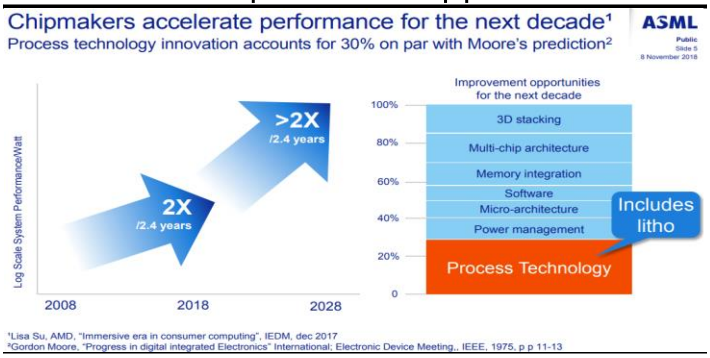

*Source: Applied Materials, based on forecasts published by Cisco, Intel and Western Digital*

**Fig 12: As end-markets grow, so will chip volumes**



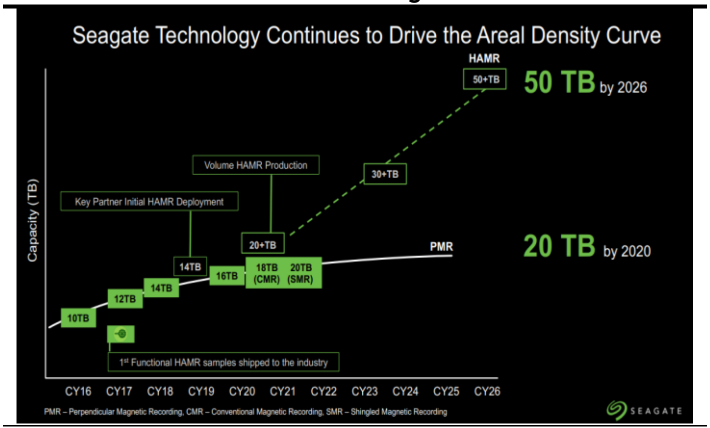

*Source: ASML*

**Fig 13: Process technology, including from lithography, remains crucial for improvement in chip performance**



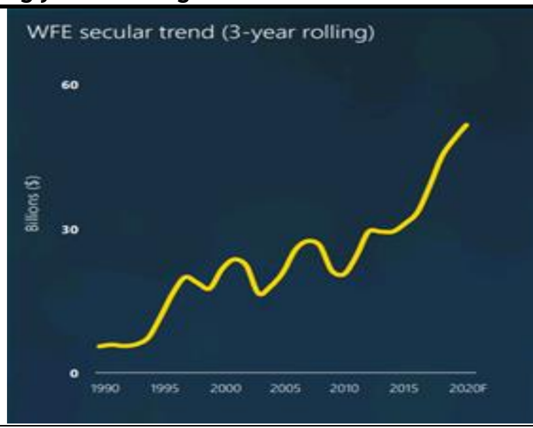

*Source: ASML*

**Fig 14: Seagate remains committed to delivering volume production of 20TB HAMR drives in 2020, which will benefit Frencken's industrial automation segment.**




*Source: Seagate*

**Fig 15: Recent cyclicality has been less pronounced, due to increasingly structural growth drivers**




*Source: Lam Research*

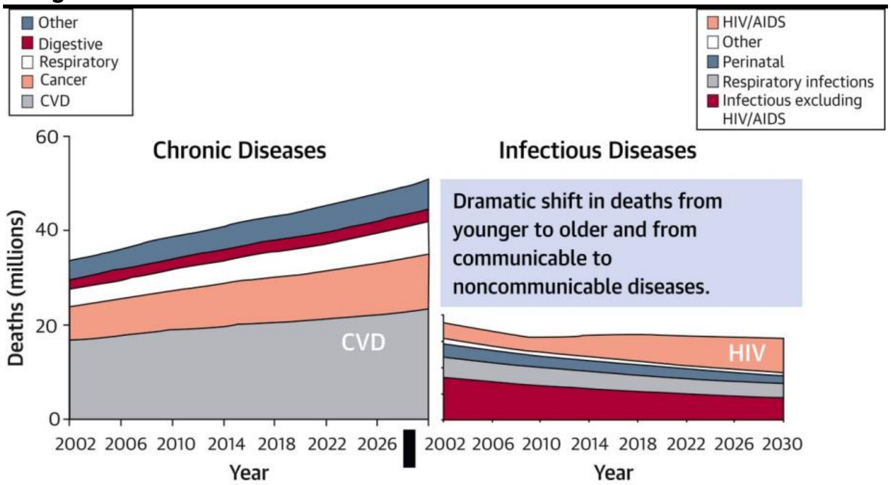
## Leveraged to globally aging population, rising awareness for health and wellness

Through the medical and analytical segments, we see Frencken as a beneficiary of the needs of a globally aging population, as well as the rising awareness for health and wellness through two key customers, Philips (medical) and Thermo Fisher (analytics and life sciences).

One of the key products in the medical segment is cardiovascular patient tables, which we believe should see steady growth from rising instances of cardiovascular diseases (CVDs) globally (see Fig 16). According to the WHO, CVDs are the No.1 cause of death globally, claiming the lives of 17.9m people annually, or 31% of deaths. The WHO expects this number to rise to 23.6m by 2030, representing a 2019-30 CAGR of 2.1%. Prevalence of CVDs tends to rise with age, as seen from data from the American Heart Association in Fig. 17 and 18. One of the key customers in the medical segment is Philips, which has a sales growth target of 4-6% p.a. for 2017-20 with scope for further improvement beyond 2020. However, due to disruptions caused by Covid-19, Philips is now expecting only modest sales growth in 2020.

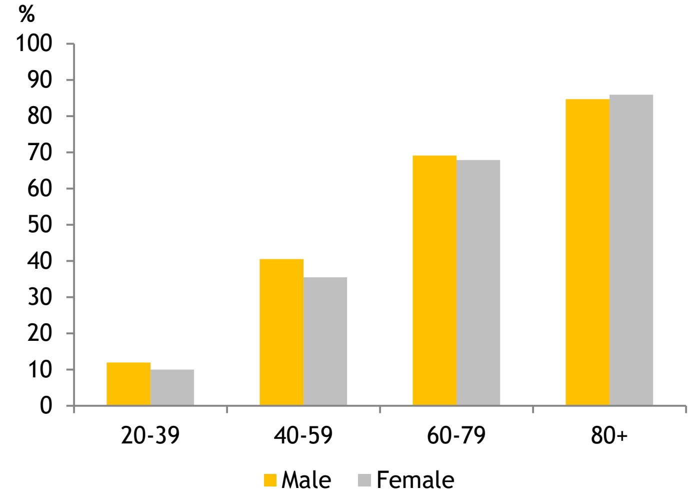
If the post-Covid-19 world sees an acceleration in academic, biotech and pharmaceutical R&D, we believe Thermo Fisher is a beneficiary. Thermo Fisher is a leading analytical and life science company that serves a USD160b addressable market that grows at a rate of 3-5% annually. Through a portfolio of strong products and services as well as exposure in high-growth markets (e.g. China), Thermo Fisher expects to deliver 5-7% organic revenue growth over a longer horizon, or 1-2ppt above the market.

**Fig 16: Global disease burden gradually shifting from infectious diseases to chronic; CVDs account for the highest number of deaths and it's steadily rising.**



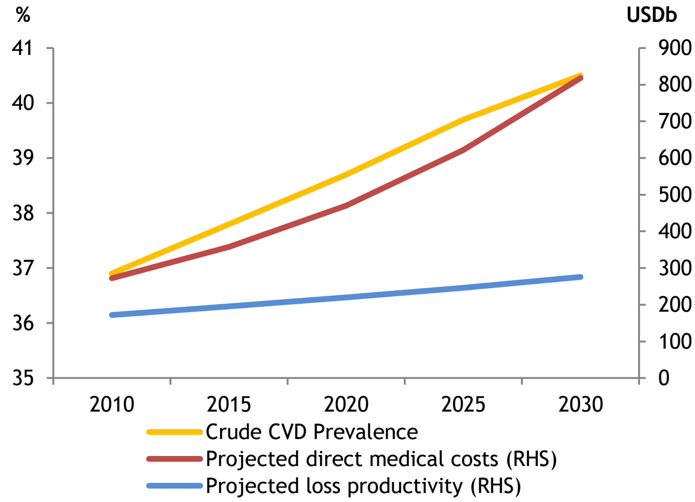

*Source: Journal of the American College of Cardiology*

**Fig 17: Prevalence of CVDs rises with age (US data)...**




*Source: American Heart Association*

**Fig 18: ... as seen in the US, which has an aging population**




*Source: American Heart Association*

**Fig 19: Strategy, drivers and cyclicality by subdivisions**

| Division / subdivision | Commentary on long term growth outlook / strategy | Growth outlook for 2Q20 |
|---|---|---|
| Mechatronics | Growth prospects more attractive than IMS due to attractive end-markets, and scope to value-add with customers through greater engineering design involvement | n/a |
| Medical | We expect steady long-term growth with low cyclicality. Leveraged to rising incidences of cardiovascular diseases globally amid population aging through cardiovascular patient tables. Philips has annual sales growth expectations of 4-6% throughout 2017-20. However, Philips has revised down 2020 sales growth expectations due to Covid-19. | QoQ growth |
| Semiconductor | We expect moderate to high growth with high cyclicality. Frencken is largely exposed to front-end semiconductor equipment spending. Long-term growth sources are from rising capital intensity as a result of increased number of chips globally amid structural trends like 5G, AI and EV, as well as limitations of traditional Moore's law scaling. | QoQ growth |
| Analytical | Liquid chromatographs and mass spectrometry (LC/MS) equipment are among key products of exposure. Structural drivers for such products are growth from the food safety and processing, pharmaceutical, biotech and cosmetic markets. Coherent Market Insights Analysis forecasts the LC/MS market to enjoy a 12% CAGR over 2019-27. | Stable QoQ |
| Industrial automation | Revenue in this segment is lumpy, but leveraged to the capital spending requirements of Seagate. We believe prospects for 2020 will be supported by product launches by Seagate - requiring new production lines. | Decline QoQ |
| IMS | Returns in this segment are less attractive than mechatronics due to high level of capital required, and intense competition. Due to high fixed costs, operating-leverage effects in this segment can be large. | n/a |
| Automotive | Transitioning product mix towards higher value-add products such as filters and proprietary eco-PVD products. | Decline QoQ |

*Source: Company, Maybank Kim Eng, various sources*

# 5. Resilience to Covid-19

## 5.1 Demand outlook broadly constructive

Despite limited visibility, Frencken's assessment of the demand outlook is cautiously optimistic. From a recent call with analysts, we noted that Frencken has not suffered material order cancellations, with the exception of the automotive business.

As at 1Q20, Frencken noted that much of the disruptions were related to: i) supply chain disruption; ii) order push-outs; and/ or iii) customers that were experiencing temporary shut downs and as such were not able to receive orders.

We believe the commentary from Frencken broadly corroborates observations from its customers. For instance, Philips and Thermo Fisher remain constructive on demand side view, and believe that the resumption of elective surgeries and lab work following the easing of shut-down measures globally would reignite demand for their products. Despite the Covid-19 situation, Thermo Fisher continues to showcase new equipment – such as the Orbitrap Exploris 240 mass spectrometer, in early Jun-20.

Meanwhile, with the lifting of many lockdown measures globally, Applied Materials views that risks of material disruptions in the supply chain is expected to be reduced going forward, as semiconductor and semiconductor equipment industries are seen as critical in many countries. Frencken expects its semiconductor subdivision to enjoy QoQ growth in 2Q20 – which also broadly corroborates the resilience in semiconductor equipment spending amid the current up-cycle.

An area of caution is the automotive segment, due to weak car sales globally. However, this segment now accounts for only 14% of revenue from 27% in 2015.

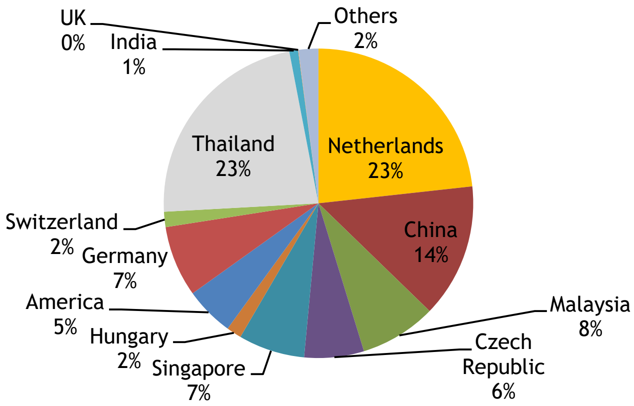
## 5.2 Resilience from diversity in product range and geographical spread

Amid lingering uncertainties from Covid-19 and rising US-China tensions, we seek comfort in Frencken's geographical and product diversity.

Thus far, we observe limited impact from the US-China trade war to Frencken's operations. In our view, this is because: i) China accounts for only 14% of revenue; and ii) across markets, Frencken largely adopts a "local-for-local" approach (i.e. largely catering to the local supply chain of the customer).

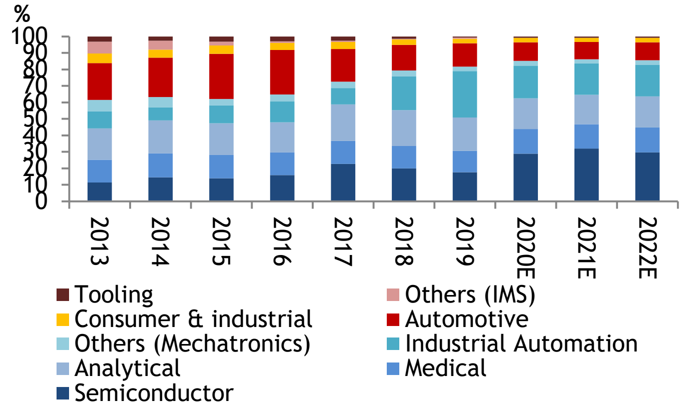
Meanwhile, we favour Frencken for its product diversity where strength from certain product categories can offset weaker ones during various parts of the business cycle or economic developments. For instance, while Frencken is currently experiencing push-outs for its high-end CVD patient tables, it has been enjoying brisk sales for digital pathology units in light of Covid-19.

**Fig 20: Geographical segmentation**




*Source: Company*

**Fig 21: Product mix by subdivisions**




*Source: Maybank Kim Eng*

## 5.3 Resilience from strong relationship with customers

Frencken boasts deep relationships with customers that span decades, for products that require strong expertise, stringent qualification processes, and at instances very demanding turnaround times. These products are often integral to the success of the customers' final product in the market place. Overall, we believe this boosts Frencken's stickiness with customers.

For instance, in the semiconductor subdivision, Frencken is the sole source of reticle masking units, a critical component for ASML's lithography equipment. ASML is the market leader in electron-beam wafer steppers, and development of future technologies requires considerable financial and human resources. As such, ASML looks to specialized suppliers like Frencken to turn their leading-edge technologies into machines for series production. Frencken has been a partner supplier for ASML since the latter's early days.

In the medical segment, one example would be built-to-order CVD patient tables for Philips, a leader in cardiovascular and diagnostic systems. These tables are integral in accurately positioning the patient within the scanner. Turnaround requirements for these products are very fast – three days from receipt of order to the delivery of a plug-and-play product. In turn, this enables Philips to maintain its competitive positioning with customers by providing very short lead times with high level of flexibility and customisation.

More case studies of Frencken's proposition to its customers can be found here: https://www.frencken.nl/cases/

# 6. Room to expand margins

## 6.1 Mechatronics – driving margins through increasing value-add

Particularly in the mechatronics segment, Frencken's products tend to be critical but are not core competencies of its customers. This allows the customers to free up resources to maintain their market leadership. Frequently, Frencken is chosen as a supplier not just because of its engineering and manufacturing expertise, but also because of its experience in managing the supply chain for complex products.

Given Frencken's solid executional track record, we see scope for Frencken to gain wallet share with its customers going forward, likely by providing new products with stronger value-add and enhanced margins. One key approach is to shift away from build-to-print plus projects (i.e. largely manufacturing with very little scope for engineering value-add) towards more engineering-to-spec (greater scope to provide engineering design solutions per required specifications from customers). We understand many of the higher value-add engineering work takes place in the Netherlands, where Frencken is close in proximity to customers with deep expertise like ASML, FEI and Philips.

Frencken is currently involved in new products across many of its sub-divisions, including semiconductor, analytical, medical and industrial automation.

## 6.2 IMS – driving proprietary technology

The key revenue contributor in the IMS segment (18% of revenue) is from the automotive subdivision (14%). In this segment, legacy projects tended to yield weak returns due to high working capital requirements, and razor-thin margins. In turn, razor-thin margins were caused by insufficient scale and pricing competition due to commoditisation.

Management's strategy is to move away from commoditised "dumb" plastics towards "smart" plastics, implying projects with value-add. If new projects are able to generate sufficient returns, we believe management would be more willing to commit further investment in this area.

To illustrate – with improving product mix, IMS segment margins jumped from 1% in both 2017-2018, to 5% in 2019. We view FY20E IMS margins of 3% to be a realistic expectation, due to weak automotive sales globally. However, we anticipate stronger margins as automotive sales recover, as well as from a more optimised mix over time.

Frencken believes one area of promise is its proprietary eco-PVD technology for coating processes. This process is cost-effective and it's expected to allow Frencken to ride the trend of environmentally-friendly processes in the automotive industry.

While our long-term view of Frencken's automotive prospects is favourable due to the strategy transition, we are cautious towards short-term prospects, owing to the discretionary and cyclical nature of global automotive demand.

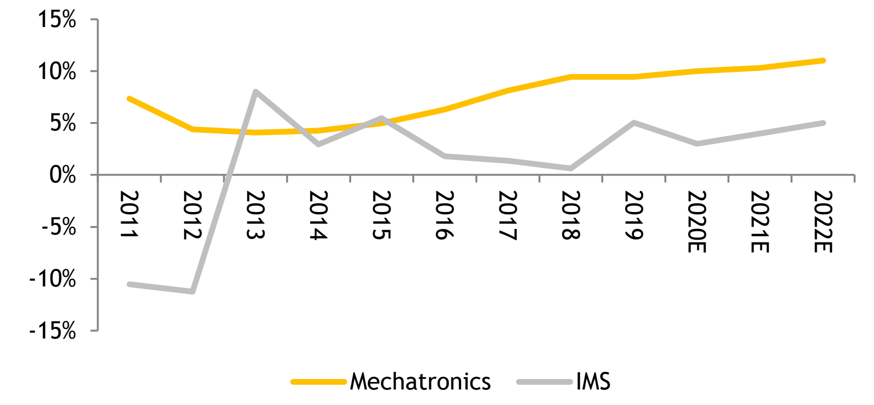
## 6.3 Improving efficiency and returns

To grow in its competencies and efficiency, Frencken has been selectively upgrading its equipment and facilities. In mechatronics, such investments include capacity expansion for high-precision machinery, while in the IMS segment a new facility in Chuzhou has been completed and received accreditations as a qualified supplier to the automotive industry.

Frencken is also constantly improving operating efficiency through its Frencken Operations eXcellence (FOX) and Frencken Production System. In short, these programmes continually identify processes that can be improved to extract efficiency. We believe these partially drove EBIT margins to 9% in 2019 from 5% in 2015. Over the same period, SG&A as a percentage of sales fell from 11.4% to 8.4%.

Such effects are even more pronounced in the automotive subdivision in our view, due to a large fixed cost base. With incrementally better volumes and/ or pricing, coupled with judicious cost management, the scope for operating leverage is attractive. For example, although IMS fell 6% in 2019, segment results jumped 7.6x to SGD6.1m on the confluence of improved product mix, and strong cost control.

**Fig 22: Frencken's segmental margins (i.e. segment results/ segment revenue).**
Improving product mix and efficiencies should drive further margin expansion




*Source: Company, Maybank Kim Eng*

# 7. Financial analysis

## 7.1 P&L

We forecast FY20 core net profit to decline 11% YoY due to supply chain and order delays caused by Covid-19. However, we expect earnings to increase by 18%/10% YoY in FY21-22E on the back of revenue growth and margin expansion, as Frencken optimises its product mix.

Our FY22E net margin estimate is 7.7%. This does not appear optimistic as: i) Frencken has already achieved core net margin of 7.1% in FY19; and ii) there is still plenty of room to improve on value-add with customers. Frencken is currently working on a range of new products across segments.

Our FY21-22 net profit forecasts are 14% higher than consensus despite revenue being 2-5% lower than consensus, as we believe the street may not fully appreciate the potential for margin upside during our forecast horizon. In our view, further evidence of margin accretion could catalyse a rerating for the stock.

In our view, upside swing factors are our potential underestimation of: i) industrial automation sales in FY20E; ii) semiconductor revenue strength in FY21E; iii) margin accretion from favourable product mix and cost control. In this bull-case scenario, we estimate fair value of SGD1.45.

On the other hand, we see a bear-case fair value of SGD0.95, which is higher than the current share price. This suggests long-term investors may find current valuations attractive. We believe this scenario can play out if: i) industrial automation and semiconductor revenue are weaker than expected in FY20-21E; ii) other divisions are more vulnerable than expected to a protracted slump in the global economy; iii) supply chain disruptions resurface persistently; and iv) our thesis of improving product mix and operating efficiencies does not play out.

**Fig 23: Revenue breakdown by subdivision**

| Segment/ subdivision revenue (SGDm) | FY17 | FY18 | FY19 | FY20E | FY21E | FY22E | Comments |
|---|---|---|---|---|---|---|---|
| **Mechatronics** | **373.3** | **496.8** | **539.6** | **526.5** | **577.1** | **591.2** | |
| YoY | ***24%*** | ***33%*** | ***9%*** | ***-2%*** | ***10%*** | ***2%*** | |
| Medical | 72.0 | 84.0 | 86.9 | 94.8 | 99.5 | 106.5 | Stable long-term demand from aging population |
| YoY | *13%* | *17%* | *3%* | *9%* | *5%* | *7%* | |
| Semiconductor | 116.4 | 125.5 | 116.0 | 182.4 | 218.8 | 207.9 | Beneficiary of capex upswing during FY20-21. |
| YoY | *57%* | *8%* | *-8%* | *57%* | *20%* | *-5%* | |
| Analytical | 114.5 | 136.7 | 133.0 | 117.2 | 123.1 | 131.7 | Stable long-term demand from increased health and wellness awareness |
| YoY | *34%* | *19%* | *-3%* | *-12%* | *5%* | *7%* | |
| Industrial automation | 50.9 | 129.0 | 186.4 | 114.6 | 118.1 | 126.3 | Typically lumpy in nature |
| YoY | *-14%* | *153%* | *44%* | *-38%* | *3%* | *7%* | |
| Others | 19.5 | 21.7 | 17.3 | 17.6 | 17.6 | 18.8 | |
| YoY | *2%* | *11%* | *-20%* | *2%* | *0%* | *7%* | |
| **IMS** | **141.6** | **128.7** | **121.0** | **93.9** | **93.9** | **100.5** | |
| YoY | ***-14%*** | ***-9%*** | ***-6%*** | ***-22%*** | ***0%*** | ***7%*** | |
| Automotive | 102.8 | 96.3 | 93.7 | 71.3 | 71.3 | 76.3 | Factoring in weak sales in FY20E due to downturn in the automotive market |
| YoY | *-19%* | *-6%* | *-3%* | *-24%* | *0%* | *7%* | |
| Consumer & industrial | 21.3 | 21.1 | 18.3 | 17.1 | 17.1 | 18.3 | |
| YoY | *5%* | *-1%* | *-14%* | *-7%* | *0%* | *7%* | |
| Tooling and others | 17.5 | 11.3 | 9.0 | 5.6 | 5.6 | 6.0 | |
| YoY | *-3%* | *-35%* | *-20%* | *-38%* | *0%* | *7%* | |

*Source: Company, Maybank Kim Eng*

## Fig 24: P&L summary

| FYE 31 Dec (SGDm) | 2017 | 2018 | 2019 | 2020E | 2021E | 2022E | Comments |
|---|---|---|---|---|---|---|---|
| **Sales** | 515.1 | 625.8 | 659.2 | 620.5 | 671.0 | 691.7 | |
| Cost of goods sold | (431.2) | (524.1) | (547.7) | (517.5) | (554.6) | (567.6) | |
| **Gross profit** | 83.9 | 101.7 | 111.4 | 103.0 | 116.4 | 124.1 | |
| Operating expenses | (59.9) | (61.3) | (58.2) | (54.9) | (59.1) | (60.9) | |
| **Operating Profit** | 30.3 | 45.1 | 59.4 | 54.1 | 63.4 | 69.3 | |
| Net int income/ (exp) | (0.3) | (1.0) | (1.3) | (1.3) | (1.3) | (1.3) | |
| Net other non-op. JV+Assc. | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | |
| Net extraordinaries | 10.1 | (3.9) | (4.2) | 0.0 | 0.0 | 0.0 | |
| **Pretax profit** | 40.1 | 40.2 | 53.9 | 52.9 | 62.1 | 68.0 | |
| Income taxes | (6.6) | (9.8) | (11.3) | (11.1) | (13.0) | (14.3) | |
| Minority interests | 0.4 | 0.3 | 0.2 | 0.2 | 0.2 | 0.2 | |
| **PATMI** | 33.1 | 30.0 | 42.4 | 41.6 | 48.8 | 53.5 | |
| **Core PATMI** | 23.0 | 33.9 | 46.5 | 41.6 | 48.8 | 53.5 | |
| | | | | | | | |
| Core EPS (SGD) | 0.08 | 0.07 | 0.10 | 0.10 | 0.12 | 0.13 | |
| | | | | | | | |
| EBITDA (SGDm) | 45.3 | 71.4 | 80.5 | 75.3 | 84.5 | 90.5 | |
| | | | | | | | |
| Gross margin (%) | 16.3 | 16.3 | 16.9 | 16.6 | 17.4 | 17.9 | |
| Core net margin (%) | 4.5 | 5.4 | 7.1 | 6.7 | 7.3 | 7.7 | |
| | | | | | | | |
| **Growth (YoY)** | | | | | | | |
| Revenue | 10.4% | 21.5% | 5.3% | -5.9% | 8.1% | 3.1% | |
| Core EPS | 40.8% | 46.3% | 36.2% | -11.1% | 17.5% | 9.6% | |

*Source: Company, Maybank Kim Eng*

## Fig 25: Scenario analysis

| Item | Case | 2019 | 2020E | 2021E | 2022E | Notes |
|---|---|---|---|---|---|---|
| Revenue (SGDm) | Bull | 659.2 | 667.0 | 741.0 | 768.5 | Stronger than expected: i) IA sales in FY20E; ii) semicon sales in FY21E; iii) resilience across other subdivisions |
| | Base | 659.2 | 620.5 | 671.0 | 691.7 | |
| | Bear | 659.2 | 605.5 | 635.5 | 650.7 | Weaker than expected: i) IA sales in FY20E; ii) semicon sales in FY21E; iii) resilience across other subdivisions |
| Change in Revenue | Bull | 5% | 1% | 11% | 4% | |
| | Base | 5% | -6% | 8% | 3% | |
| | Bear | 5% | -8% | 5% | 2% | |
| Gross margin | Bull | 17% | 16.8% | 18.1% | 19.3% | Stronger-than-expected gross margins in FY20E; gradually approaching top end of our estimates of blue-sky gross margins through FY22 |
| | Base | 17% | 16.6% | 17.4% | 17.9% | |
| | Bear | 17% | 15.5% | 16.2% | 16.8% | Weaker- than-expected gross margins in FY20E |
| SGA as a % of sales | Bull | 8.4% | 8.4% | 8.3% | 8.1% | Continued gains in efficiency driving lower SG&A as a % of sales |
| | Base | 8.4% | 8.4% | 8.4% | 8.4% | Factoring in constant SG&A as a % of sales |
| | Bear | 8.4% | 8.5% | 8.6% | 8.7% | Decline in efficiency through FY22 despite higher sales |
| EBITDA (SGDm) | Bull | 80.477 | 80.7 | 97.4 | 110.1 | |
| | Base | 80.477 | 75.3 | 84.5 | 90.5 | |
| | Bear | 80.477 | 66.9 | 72.6 | 76.8 | |
| Change in EBITDA | Bull | 13% | 0% | 21% | 13% | |
| | Base | 13% | -6% | 12% | 7% | |
| | Bear | 13% | -17% | 9% | 6% | |
| Core net profit (SGDm) | Bull | 46.53 | 45.8 | 59.0 | 69.1 | |
| | Base | 46.53 | 41.6 | 48.8 | 53.5 | |
| | Bear | 46.53 | 34.9 | 39.4 | 42.8 | |
| Change in Net Profit | Bull | | -2% | 29% | 17% | |
| | Base | | -11% | 18% | 10% | |
| | Bear | | -25% | 13% | 9% | |
| Core net margin | Bull | 7.1% | 6.9% | 8.0% | 9.0% | 9% is a realistic medium-term blue-sky target, in our view |
| | Base | 7.1% | 6.7% | 7.3% | 7.7% | |
| | Bear | 7.1% | 5.8% | 6.2% | 6.6% | |
| Avg. 20-22E ROE | Bull | | 16.4% | | | |
| | Base | | 14.0% | | | |
| | Bear | | 11.7% | | | |
| ROE-g/COE-g Fair value | Bull | | SGD1.45 | | | |
| | Base | | SGD1.20 | | | |
| | Bear | | SGD0.95 | | | |

*Source: Company, Maybank Kim Eng*

## 7.2 Balance sheet and cash flow

On the back of earnings resilience, we expect FCF to sufficiently cover DPS over our forecast horizon. We used a 30% dividend pay-out ratio assumption, referencing Frencken's historical pay-outs.

We forecast capex to be slightly higher than depreciation during our forecast period, reflecting our view that Frencken will selectively build capabilities in promising growth areas.

Overall, its balance-sheet health is strong. We forecast net cash to equity to rise from 23% in FY19 to 35% in FY22E due to robust cash generation.

**Fig 26: Balance sheet**

| As at 31 Dec FYE (SGDm) | 2017 | 2018 | 2019 | 2020E | 2021E | 2022E |
|---|---|---|---|---|---|---|
| Cash & Cash Equivalents | 68.2 | 67.1 | 122.4 | 137.6 | 154.1 | 192.5 |
| Trade Receivables | 100.3 | 115.9 | 97.6 | 102.9 | 114.0 | 109.6 |
| Other Receivables | 12.5 | 10.9 | 13.8 | 13.8 | 13.8 | 13.8 |
| Inventories | 112.2 | 144.6 | 140.7 | 128.7 | 160.0 | 135.5 |
| Others | 1.0 | 1.0 | 0.3 | 0.3 | 0.3 | 0.3 |
| **Current Assets** | **294.1** | **339.5** | **374.8** | **383.4** | **442.1** | **451.7** |
| Fixed Assets (Net) | 93.9 | 97.4 | 92.1 | 95.9 | 99.8 | 103.7 |
| Associates | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Other investments/financial assets | 5.6 | 4.9 | 4.9 | 4.9 | 4.9 | 4.9 |
| Deferred tax assets | 1.6 | 1.4 | 1.5 | 1.5 | 1.5 | 1.5 |
| Intangible Assets | 25.0 | 19.7 | 17.5 | 17.5 | 17.5 | 17.5 |
| Non-current assets | 126.0 | 124.3 | 131.4 | 119.8 | 123.6 | 127.5 |
| **Total Assets** | **420.2** | **463.7** | **506.2** | **518.7** | **581.2** | **594.7** |
| Short-term Loan | 61.7 | 67.5 | 53.1 | 53.1 | 53.1 | 53.1 |
| Trade Payables | 61.9 | 79.2 | 87.8 | 71.0 | 99.2 | 75.0 |
| Other Payables & Accruals | 37.5 | 38.3 | 38.8 | 38.8 | 38.8 | 38.8 |
| Income tax payable | 2.4 | 4.6 | 6.2 | 6.2 | 6.2 | 6.2 |
| Others (deferred income, etc) | 0.0 | 0.0 | 4.5 | 4.5 | 4.5 | 4.5 |
| **Current Liabilities** | **163.5** | **189.5** | **190.4** | **173.6** | **201.7** | **177.5** |
| Term Loans | 1.9 | 1.2 | 0.2 | 0.2 | 0.2 | 0.2 |
| Deferred Taxation | 3.7 | 3.8 | 4.1 | 4.1 | 4.1 | 4.1 |
| Other Liabilities | 1.5 | 1.6 | 13.4 | 13.4 | 13.4 | 13.4 |
| Long Term Liabilities | 7.1 | 6.7 | 17.7 | 17.7 | 17.7 | 17.7 |
| **Total Liabilities** | **170.6** | **196.2** | **208.0** | **191.2** | **219.4** | **195.2** |
| **Shareholders' Funds** | **247.2** | **264.9** | **295.4** | **324.5** | **358.6** | **396.1** |
| Minority Interests | 2.3 | 2.6 | 2.8 | 3.0 | 3.2 | 3.4 |
| **Liability + Equity** | **420.2** | **463.7** | **506.2** | **518.7** | **581.2** | **594.7** |

*Source: Company, Maybank Kim Eng*

## Fig 27: Cash flow statement

| FYE 31 Dec (SGDm) | 2017 | 2018 | 2019 | 2020E | 2021E | 2022E | Comments |
|---|---|---|---|---|---|---|---|
| Pretax Profit | 40.1 | 40.2 | 53.9 | 52.9 | 62.1 | 68.0 | |
| add: Depn | 31.1 | 26.4 | 21.1 | 21.1 | 21.1 | 21.1 | |
| add: Amortization | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | |
| less: (Profit)/Loss on Sale of Invts | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | |
| less: Associates | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | |
| less: Tax Paid | (5.2) | (7.4) | (9.4) | (11.1) | (13.0) | (14.3) | |
| less: Change in Working Capital | 2.0 | (28.3) | 33.6 | (10.2) | (14.1) | 4.6 | |
| **Cash Flow from Operations** | **57.8** | **34.7** | **103.4** | **52.7** | **56.1** | **79.5** | |
| | | | | | | | |
| Disposal/ (Addition) to Fixed Assets | (24.9) | (29.8) | (15.8) | (25.0) | (25.0) | (25.0) | Factoring capex to be slightly above depreciation |
| Disposal/ (Addition) to Associates | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | |
| Disposal/ (Addition) to Investments | (1.5) | 0.7 | 0.1 | 0.0 | 0.0 | 0.0 | |
| Disposal/ (Addition) to Intangibles | 0.3 | 5.4 | 13.9 | 0.0 | 0.0 | 0.0 | |
| Disposal/ (Addition to Other NCA | 1.7 | (0.8) | (14.6) | 0.0 | 0.0 | 0.0 | |
| **Cash Flow from Investing** | **(24.5)** | **(24.6)** | **(16.5)** | **(25.0)** | **(25.0)** | **(25.0)** | |
| | | | | | | | |
| Increase/ (Decrease) in ST Loans | 4.3 | 5.8 | (14.4) | 0.0 | 0.0 | 0.0 | |
| Increase/ (Decrease) in LT Loans | 0.5 | (0.7) | (1.0) | 0.0 | 0.0 | 0.0 | |
| Proceeds from Share Issue | 1.9 | 0.9 | 0.6 | 0.0 | 0.0 | 0.0 | |
| Proceeds from Minority Interests | (0.1) | (0.0) | (0.1) | 0.0 | 0.0 | 0.0 | |
| Capital Transfers | 14.6 | (7.1) | (7.6) | 0.0 | (0.0) | 0.0 | |
| Dividends Paid | (5.0) | (10.1) | (9.1) | (12.5) | (14.7) | (16.1) | |
| **Cash Flow from Financing** | **16.4** | **(11.2)** | **(31.6)** | **(12.5)** | **(14.7)** | **(16.1)** | |
| | | | | | | | |
| Change in Cash Position | **49.7** | **(1.1)** | **55.3** | **15.3** | **16.4** | **38.4** | |
| Adjustment | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | |
| Cash Position at Beg of Year | 18.5 | 68.2 | 67.1 | 122.4 | 137.6 | 154.1 | |
| Cash Position at End of Year | 68.2 | 67.1 | 122.4 | 137.6 | 154.1 | 192.5 | |
| | | | | | | | |
| Operating Cash Flow | 57.8 | 34.7 | 103.4 | 52.7 | 56.1 | 79.5 | |
| Free Cash Flow | 32.8 | 4.9 | 87.5 | 27.7 | 31.1 | 54.5 | |

*Source: Company, Maybank Kim Eng*

# 8. Valuation

## 8.1 Initiate BUY with TP of SGD1.20

Our ROE-g/COE-g TP of SGD1.20 is based on 1.6x FY20E P/B, in turn based on average FY20-22E ROE of 14%, COE of 9.7% and long-term growth of 2%. Our TP implies 12.2x FY20E P/E, or a 20% discount compared to Singapore-listed EMS and precision engineering peers, which are trading at 15.4x.

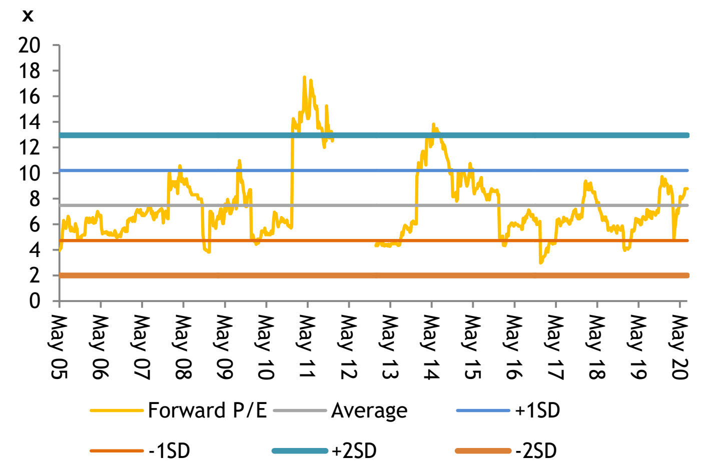
Frencken is trading at the higher end of its long-term forward P/E and P/B bands. Still, we see good potential for the stock to rerate further if our investment thesis plays out. This is even more so because the stock appears undervalued relative to peers and to its own intrinsic returns-generating ability.

**Fig 28: ROE-g/COE-g fair value parameters**

| | |
|---|---|
| **Fair value (SGD)** | **1.20** |
| Beta (x) | 1.10 |
| Risk free rate (%) | 2.5 |
| Market risk premium (%) | 6.5 |
| Cost of equity (%) | 9.7 |
| Avg ROE FY20-21E (%) | 14.0 |
| Terminal growth rate (%) | 2 |
| Justified P/B ratio (x) | 1.6 |
| FY20E BVPS (SGD) | 0.76 |

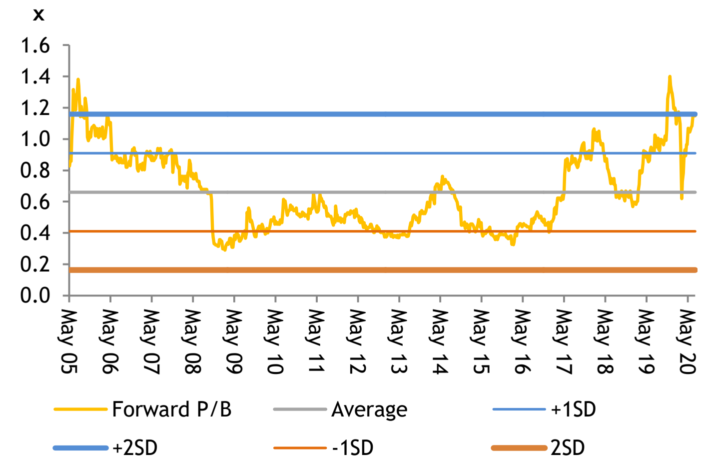
*Source: Maybank Kim Eng*

**Fig 29: Forward P/E band**




*Source: FactSet, Maybank Kim Eng*

**Fig 30: Forward P/B band**




*Source: FactSet, Maybank Kim Eng*

**Fig 31: Fair-value sensitivity to COE and ROE changes**

| | SGD FV/ share | COE (%) | | | | |
|---|---|---|---|---|---|---|
| | | 7.7 | 8.7 | 9.7 | 10.7 | 11.7 |
| ROE (%) | 11.0 | 1.21 | 1.03 | 0.90 | 0.79 | 0.71 |
| | 12.0 | 1.35 | 1.15 | 1.00 | 0.88 | 0.79 |
| | 13.0 | 1.48 | 1.26 | 1.10 | 0.97 | 0.87 |
| | 14.0 | 1.62 | 1.38 | 1.20 | 1.06 | 0.95 |
| | 15.0 | 1.75 | 1.49 | 1.30 | 1.15 | 1.03 |
| | 16.0 | 1.89 | 1.61 | 1.40 | 1.23 | 1.11 |
| | 17.0 | 2.03 | 1.72 | 1.50 | 1.32 | 1.19 |

*Source: Maybank Kim Eng*

## Fig 32: Peer comparisons

| Company | BBG | MKE | MKE TP | Price | FYE | Mcap | P/E (x) | | | | EV /EBITDA (x) | PBR (x) | Div yield (%) |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Code | Rec | (LC) | (LC) | mm | USDm | Act | FY1 | FY2 | FY3 | FY1 | FY1 | FY1 |
| Frencken | FRKN SP | Buy | 1.20 | 0.92 | 12 | 275 | 8.4 | 9.4 | 8.0 | 7.3 | 4.0 | 1.2 | 3.2 |
| | | | | | | | | | | | | | |
| **Singapore listed EMS and precision engineering peers** | | | | | | | | | | | | | |
| Venture Corp | VMS SP | Hold | 14.66 | 16.64 | 12 | 3,468 | 13.2 | 15.7 | 13.3 | 11.7 | 10.1 | 1.9 | 4.2 |
| Valuetronics | VALUE SP | Hold | 0.66 | 0.60 | 03 | 188 | 8.1 | 11.5 | 9.5 | 9.0 | 2.5 | 1.1 | 3.6 |
| Sunningdale Tech | SUNN SP | NR | - | 1.02 | 12 | 141 | 16.4 | - | 22.2 | 19.6 | - | 0.5 | 7.8 |
| HI-P Int'l | HIP SP | Hold | 0.78 | 1.34 | 12 | 853 | 13.4 | 19.7 | 16.0 | 13.4 | 6.5 | 1.9 | 1.9 |
| **Average** | | | | | | | **12.9** | **15.4** | **13.6** | **11.9** | **8.6** | **1.8** | **3.8** |
| | | | | | | | | | | | | | |
| **High mix low volume EMS peers** | | | | | | | | | | | | | |
| Benchmark Elec | BHE US | NR | - | 19.83 | 12 | 722 | 15.0 | 22.4 | 15.6 | - | - | - | - |
| Plexus | PLXS US | NR | - | 67.56 | 09 | 1,972 | 19.7 | 20.8 | 16.5 | 14.0 | 10.4 | 2.1 | - |
| **Average** | | | | | | | **18.4** | **21.2** | **16.3** | **14.0** | **10.4** | **2.1** | **0.0** |
| | | | | | | | | | | | | | |
| **Global EMS players** | | | | | | | | | | | | | |
| Hon Hai | 2317 TT | NR | - | 87.00 | 12 | 40,942 | 10.5 | 12.0 | 9.7 | 8.5 | 5.5 | 0.9 | 4.4 |
| Flex | FLEX US | NR | - | 9.88 | 03 | 4,918 | 8.0 | 9.5 | 7.7 | 6.5 | 3.3 | 1.5 | 0.0 |
| Jabil | JBL US | NR | - | 30.99 | 08 | 4,666 | 10.4 | 11.9 | 8.8 | 7.9 | 3.9 | 2.6 | 1.1 |
| Pegatron | 2938 TT | NR | - | 65.10 | 12 | 5,769 | 8.8 | 11.8 | 10.7 | 10.4 | 4.0 | 1.0 | 6.3 |
| SKP Resources | SKP MK | NR | - | 1.38 | 03 | 404 | 23.0 | 13.9 | 11.8 | 10.6 | 9.4 | 2.6 | 3.9 |
| V.S. Industry | VSI MK | Sell | 0.85 | 1.04 | 07 | 454 | 11.6 | 24.2 | 13.3 | 11.8 | 8.5 | 1.1 | 2.3 |
| Sanmina | SANM | NR | - | 24.02 | 09 | 1,638 | 7.1 | 12.9 | 9.9 | 9.5 | - | - | 0.0 |
| FIH Mobile | 2038 HK | NR | - | 0.93 | 12 | 984 | - | 18.5 | 13.3 | 12.0 | 1.0 | 0.5 | 0.0 |
| Celestica | CLS CN | NR | - | 9.21 | 12 | 751 | 12.9 | 10.3 | 8.5 | - | 3.8 | 0.5 | 0.0 |
| Fabrinet | FN US | NR | - | 63.26 | 06 | 2,323 | 16.6 | 17.4 | 15.6 | 13.8 | 11.0 | 2.2 | - |
| **Average** | | | | | | | **10.4** | **12.2** | **9.9** | **8.8** | **5.2** | **1.1** | **4.3** |

*Source: FactSet, Bloomberg, Maybank Kim Eng*

# 9. Risks

## 9.1 Demand-side risks

Despite the cautiously optimistic outlook, we remain wary of demand risks. In our view, the largest risk is macroeconomic. For instance, a weaker-than-expected global economy may erode the current resilience of semiconductor equipment spending as demand for discretionary consumer electronics wane. On the other hand, a weaker global economy is also likely to negatively impact automotive sales, in turn affecting Frencken.

On the other hand, a resurgence of Covid-19 globally may also result in longer-than-expected delays for elective procedures and resumption of work at certain labs. These in turn should also affect Frencken's revenues in the more immediate term.

## 9.2 Supply chain and production risks

In our view, severe and recurring waves of Covid-19 may result in affected countries shutting down parts of their local economies to prevent the spread of the virus. This may disrupt supply chains that Frencken are in. This may in turn affect production rates at Frencken's factories, depending on inventory levels.

Currently, all of Frencken's factories are operating as usual. In Malaysia and Singapore, Frencken were given exemptions to operate during movement restriction measures. We believe this indicates both governments' pragmatic stance towards the technology manufacturing sector in both countries despite the current Covid-19 pandemic. In our view, this minimizes the risk that Frencken will have to shut down its sites in Malaysia and Singapore in the event of future Covid-19 waves.

## 9.3 Cyclicality risks

The industrial automation and semiconductor subdivisions are inherently cyclical, and are leveraged to the capex budgets of Seagate and chipmakers globally. In turn, these depend on many factors such as general economic conditions, development of new technologies, factory utilisation and government policies.

While the medical and analytical subdivisions are expected to be less cyclical, short-term revenue volatility may arise as a result of timing and quantum of government, academic and pharmaceutical spends.

| FYE 31 Dec | FY18A | FY19A | FY20E | FY21E | FY22E |
|---|---|---|---|---|---|
| **Key Metrics** | | | | | |
| P/E (reported) (x) | 7.0 | 6.4 | 9.3 | 7.9 | 7.2 |
| Core P/E (x) | 5.2 | 8.4 | 9.3 | 7.9 | 7.2 |
| Core FD P/E (x) | 5.2 | 8.4 | 9.4 | 8.0 | 7.3 |
| P/BV (x) | 0.7 | 1.3 | 1.2 | 1.1 | 1.0 |
| P/NTA (x) | 0.7 | 1.3 | 1.2 | 1.1 | 1.0 |
| Net dividend yield (%) | 5.1 | 3.2 | 3.2 | 3.8 | 4.1 |
| FCF yield (%) | 2.8 | 22.4 | 7.1 | 8.0 | 14.0 |
| EV/EBITDA (x) | 2.5 | 4.0 | 4.1 | 3.4 | 2.8 |
| EV/EBIT (x) | 4.0 | 5.5 | 5.7 | 4.6 | 3.6 |
| | | | | | |
| **INCOME STATEMENT (SGD m)** | | | | | |
| Revenue | 625.8 | 659.2 | 620.5 | 671.0 | 691.7 |
| Gross profit | 101.7 | 111.4 | 103.0 | 116.4 | 124.1 |
| EBITDA | 71.4 | 80.5 | 75.3 | 84.5 | 90.5 |
| Depreciation | (26.4) | (21.1) | (21.1) | (21.1) | (21.1) |
| Amortisation | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| EBIT | 45.1 | 59.4 | 54.1 | 63.4 | 69.3 |
| Net interest income /(exp) | (1.0) | (1.3) | (1.3) | (1.3) | (1.3) |
| Associates & JV | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Exceptionals | (3.9) | (4.2) | 0.0 | 0.0 | 0.0 |
| Other pretax income | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Pretax profit | 40.2 | 53.9 | 52.9 | 62.1 | 68.0 |
| Income tax | (9.8) | (11.3) | (11.1) | (13.0) | (14.3) |
| Minorities | (0.3) | (0.2) | (0.2) | (0.2) | (0.2) |
| Discontinued operations | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Reported net profit | 30.0 | 42.4 | 41.6 | 48.8 | 53.5 |
| Core net profit | 33.9 | 46.5 | 41.6 | 48.8 | 53.5 |
| | | | | | |
| **BALANCE SHEET (SGD m)** | | | | | |
| Cash & Short Term Investments | 67.1 | 122.4 | 137.6 | 154.1 | 192.5 |
| Accounts receivable | 115.9 | 97.6 | 102.9 | 114.0 | 109.6 |
| Inventory | 144.6 | 140.7 | 128.7 | 160.0 | 135.5 |
| Property, Plant & Equip (net) | 97.4 | 92.1 | 95.9 | 99.8 | 103.7 |
| Intangible assets | 19.7 | 17.5 | 17.5 | 17.5 | 17.5 |
| Investment in Associates & JVs | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Other assets | 19.1 | 35.9 | 35.9 | 35.9 | 35.9 |
| **Total assets** | **463.7** | **506.2** | **518.7** | **581.2** | **594.7** |
| ST interest bearing debt | 67.5 | 53.1 | 53.1 | 53.1 | 53.1 |
| Accounts payable | 79.2 | 87.8 | 71.0 | 99.2 | 75.0 |
| LT interest bearing debt | 1.2 | 0.2 | 0.2 | 0.2 | 0.2 |
| Other liabilities | 48.0 | 67.0 | 67.0 | 67.0 | 67.0 |
| **Total Liabilities** | **196.2** | **208.0** | **191.2** | **219.4** | **195.2** |
| Shareholders Equity | 264.9 | 295.4 | 324.5 | 358.6 | 396.1 |
| Minority Interest | 2.6 | 2.8 | 3.0 | 3.2 | 3.4 |
| **Total shareholder equity** | **267.5** | **298.2** | **327.4** | **361.8** | **399.5** |
| **Total liabilities and equity** | **463.7** | **506.2** | **518.7** | **581.2** | **594.7** |
| | | | | | |
| **CASH FLOW (SGD m)** | | | | | |
| Pretax profit | 40.2 | 53.9 | 52.9 | 62.1 | 68.0 |
| Depreciation & amortisation | 26.4 | 21.1 | 21.1 | 21.1 | 21.1 |
| Adj net interest (income)/exp | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Change in working capital | (28.3) | 33.6 | (10.2) | (14.1) | 4.6 |
| Cash taxes paid | (7.4) | (9.4) | (11.1) | (13.0) | (14.3) |
| Other operating cash flow | 3.9 | 4.2 | 0.0 | 0.0 | 0.0 |
| Cash flow from operations | 34.7 | 103.4 | 52.7 | 56.1 | 79.5 |
| Capex | (29.8) | (15.8) | (25.0) | (25.0) | (25.0) |
| Free cash flow | 4.9 | 87.5 | 27.7 | 31.1 | 54.5 |
| Dividends paid | (10.1) | (9.1) | (12.5) | (14.7) | (16.1) |
| Equity raised / (purchased) | 0.9 | 0.6 | 0.0 | 0.0 | 0.0 |
| Change in Debt | 5.1 | (15.5) | 0.0 | 0.0 | 0.0 |
| Other invest/financing cash flow | (1.1) | 6.4 | 0.0 | 0.0 | 0.0 |
| Effect of exch rate changes | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Net cash flow | (0.2) | 69.9 | 15.3 | 16.4 | 38.4 |

| FYE 31 Dec | FY18A | FY19A | FY20E | FY21E | FY22E |
|---|---|---|---|---|---|
| **Key Ratios** | | | | | |
| **Growth ratios (%)** | | | | | |
| Revenue growth | 21.5 | 5.3 | (5.9) | 8.1 | 3.1 |
| EBITDA growth | 16.5 | 12.6 | (6.5) | 12.2 | 7.1 |
| EBIT growth | 48.8 | 31.7 | (8.8) | 17.0 | 9.4 |
| Pretax growth | 0.2 | 34.2 | (1.9) | 17.4 | 9.6 |
| Reported net profit growth | (9.3) | 41.1 | (1.9) | 17.5 | 9.6 |
| Core net profit growth | 47.7 | 37.1 | (10.7) | 17.5 | 9.6 |
| | | | | | |
| **Profitability ratios (%)** | | | | | |
| EBITDA margin | 11.4 | 12.2 | 12.1 | 12.6 | 13.1 |
| EBIT margin | 7.2 | 9.0 | 8.7 | 9.4 | 10.0 |
| Pretax profit margin | 6.4 | 8.2 | 8.5 | 9.3 | 9.8 |
| Payout ratio | 29.9 | 30.0 | 30.0 | 30.0 | 30.0 |
| | | | | | |
| **DuPont analysis** | | | | | |
| Net profit margin (%) | 4.8 | 6.4 | 6.7 | 7.3 | 7.7 |
| Revenue/Assets (x) | 1.3 | 1.3 | 1.2 | 1.2 | 1.2 |
| Assets/Equity (x) | 1.8 | 1.7 | 1.6 | 1.6 | 1.5 |
| ROAE (%) | 11.7 | 15.1 | 13.4 | 14.3 | 14.2 |
| ROAA (%) | 7.7 | 9.6 | 8.1 | 8.9 | 9.1 |
| | | | | | |
| **Liquidity & Efficiency** | | | | | |
| Cash conversion cycle | 101.9 | 97.2 | 96.7 | 96.7 | 96.7 |
| Days receivable outstanding | 62.2 | 58.3 | 58.2 | 58.2 | 58.2 |
| Days inventory outstanding | 88.2 | 93.8 | 93.7 | 93.7 | 93.7 |
| Days payables outstanding | 48.5 | 54.9 | 55.2 | 55.2 | 55.2 |
| Dividend cover (x) | 3.3 | 3.3 | 3.3 | 3.3 | 3.3 |
| Current ratio (x) | 1.8 | 2.0 | 2.2 | 2.2 | 2.5 |
| | | | | | |
| **Leverage & Expense Analysis** | | | | | |
| Asset/Liability (x) | 2.4 | 2.4 | 2.7 | 2.6 | 3.0 |
| Net gearing (%) (incl perps) | 0.6 | net cash | net cash | net cash | net cash |
| Net gearing (%) (excl. perps) | 0.6 | net cash | net cash | net cash | net cash |
| Net interest cover (x) | 45.2 | 45.9 | 41.9 | 49.0 | 53.6 |
| Debt/EBITDA (x) | 1.0 | 0.7 | 0.7 | 0.6 | 0.6 |
| Capex/revenue (%) | 4.8 | 2.4 | 4.0 | 3.7 | 3.6 |
| Net debt/ (net cash) | 1.6 | (69.2) | (84.4) | (100.8) | (139.3) |

*Source: Company; Maybank*

# Research Offices


## MACRO

**Sadiq CURRIMBHOY**
Head of Regional Macro Research
(65) 6231 5836
sadiq@maybank-ke.com.sg

## ECONOMICS

**Suhaimi ILIAS**
Chief Economist
Malaysia | Philippines | Global
(603) 2297 8682
suhaimi_ilias@maybank-ib.com

**CHUA Hak Bin**
Regional Thematic Macroeconomist
(65) 6231 5830
chuahb@maybank-ke.com.sg

**LEE Ju Ye**
Singapore | Thailand
(65) 6231 5844
leejuye@maybank-ke.com.sg

**Linda LIU**
Singapore | Vietnam
(65) 6231 5847
lindaliu@maybank-ke.com.sg

**Dr Zamros DZULKAFLI**
(603) 2082 6818
zamros.d@maybank-ib.com

**Ramesh LANKANATHAN**
(603) 2297 8685
ramesh@maybank-ib.com

**William POH**
(603) 2297 8683
william.poh@maybank-ib.com

## FX

**Saktiandi SUPAAT**
Head of FX Research
(65) 6320 1379
saktiandi@maybank.com.sg

**Christopher WONG**
(65) 6320 1347
wongkl@maybank.com.sg

**TAN Yanxi**
(65) 6320 1378
tanyx@maybank.com.sg

**Fiona LIM**
(65) 6320 1374
fionalim@maybank.com.sg

## STRATEGY

**Willie CHAN**
Regional
(852) 2268 0631
williechan@kimeng.com.hk

**Anand PATHMAKANTHAN**
ASEAN
(603) 2297 8783
anand.pathmakanthan@maybank-ib.com

## FIXED INCOME

**Winson PHOON, ACA**
(65) 6812 8807
winsonphoon@maybank-ke.com.sg

**SE THO Mun Yi**
(603) 2074 7606
munyi.st@maybank-ib.com

## REGIONAL EQUITIES

**Anand PATHMAKANTHAN**
Head of Regional Equity Research
(603) 2297 8783
anand.pathmakanthan@maybank-ib.com

**WONG Chew Hann, CA**
Head of ASEAN Equity Research
(603) 2297 8686
wchewh@maybank-ib.com

**ONG Seng Yeow**
Research, Technology & Innovation
(65) 6231 5839
ongsengyeow@maybank-ke.com.sg

## MALAYSIA

**Anand PATHMAKANTHAN** *Head of Research*
(603) 2297 8783
anand.pathmakanthan@maybank-ib.com
• Strategy

**Desmond CH'NG, BFP, FCA**
(603) 2297 8680
desmond.chng@maybank-ib.com
• Banking & Finance

**LIAW Thong Jung**
(603) 2297 8688 tjliaw@maybank-ib.com
• Oil & Gas Services- Regional
• Automotive

**ONG Chee Ting, CA**
(603) 2297 8678 ct.ong@maybank-ib.com
• Plantations - Regional

**YIN Shao Yang, CPA**
(603) 2297 8916 samuel.y@maybank-ib.com
• Gaming – Regional
• Media • Aviation

**TAN Chi Wei, CFA**
(603) 2297 8690 chiwei.t@maybank-ib.com
• Power • Telcos

**WONG Wei Sum, CFA**
(603) 2297 8679 weisum@maybank-ib.com
• Property

**LEE Yen Ling**
(603) 2297 8691 lee.yl@maybank-ib.com
• Glove • Ports • Shipping • Healthcare
• Petrochem

**Kevin WONG**
(603) 2082 6824 kevin.wong@maybank-ib.com
• REITs • Consumer Discretionary • Technology

**Jade TAM**
(603) 2297 8687 jade.tam@maybank-ib.com
• Consumer Staples

**TEE Sze Chiah** *Head of Retail Research*
(603) 2082 6858 szechiah.t@maybank-ib.com

**Nik Ihsan RAJA ABDULLAH, MSTA, CFTe**
(603) 2297 8694
nikmohdihsan.ra@maybank-ib.com
• Chartist

**Amirah AZMI**
(603) 2082 8769 amirah.azmi@maybank-ib.com
• Retail Research

## SINGAPORE

**Thilan WICKRAMASINGHE** *Head of Research*
(65) 6231 5840 thilanw@maybank-ke.com.sg
• Banking & Finance - Regional
• Consumer

**CHUA Su Tye**
(65) 6231 5842 chuasutye@maybank-ke.com.sg
• REITs - Regional

**LAI Gene Lih, CFA**
(65) 6231 5832 laigenelih@maybank-ke.com.sg
• Technology • Healthcare

**Kareen CHAN**
(65) 6231 5926 kareenchan@maybank-ke.com.sg
• Transport

**TAN Chin Poh** *Head of Retail Research*
(65) 6231 5928 chinpoh@maybank-ke.com.sg

**Eric ONG**
(65) 6231 5924 ericong@maybank-ke.com.sg
• Retail Research

**Matthew SHIM**
(65) 6231 5929
matthewshim@maybank-ke.com.sg
• Retail Research

## INDIA

**Jigar SHAH** *Head of Research*
(91) 22 4223 2632 jigar@maybank-ke.co.in
• Strategy • Oil & Gas • Automobile • Cement

**Neerav DALAL**
(91) 22 4223 2606 neerav@maybank-ke.co.in
• Software Technology • Telcos

**Kshitiz PRASAD**
(91) 22 4223 2607
kshitiz@maybank-ke.co.in
• Banks

## INDONESIA

**Isnaputra ISKANDAR** *Head of Research*
(62) 21 8066 8680
isnaputra.iskandar@maybank-ke.co.id
• Strategy • Metals & Mining • Cement
• Autos • Consumer • Utility

**Rahmi MARINA**
(62) 21 8066 8689
rahmi.marina@maybank-ke.co.id
• Banking & Finance

**Aurellia SETIABUDI**
(62) 21 8066 8691
aurellia.setiabudi@maybank-ke.co.id
• Property

**Arnanto JANURI**
(62) 21 8066 8683
arnanto.januri@maybank-ke.co.id
• Construction

**Willy GOUTAMA**
(62) 21 8066 8500
willy.goutama@maybank-ke.co.id
• Consumer

## PHILIPPINES

**Romel LIBO-ON**
(63) 2 8849 8844
romel_libo-on@maybank-atrke.com
• Property

**Fredrick De GUZMAN**
(63) 2 8849 8847
fredrickdaniel.deguzman@maybank.com
• Consumer • Banking & Finance

## THAILAND

**Maria LAPIZ** *Head of Institutional Research*
Dir (66) 2257 0250 | (66) 2658 6300 ext 1399
Maria.L@maybank-ke.co.th
• Strategy • Consumer • Materials • Services

**Jesada TECHAHUSDIN, CFA**
(66) 2658 6300 ext 1395
jesada.t@maybank-ke.co.th
• Banking & Finance

**Kaushal LADHA, CFA**
(66) 2658 6300 ext 1392
Kaushal.l@maybank-ke.co.th
• Oil & Gas

**Ekachai TARAPORNTIP** *Head of Retail Research*
(66) 2658 5000 ext 1530
Ekachai.t@maybank-ke.co.th

**Surachai PRAMUALCHAROENKIT**
(66) 2658 5000 ext 1470
Surachai.p@maybank-ke.co.th
• Auto • Conmat • Contractor • Steel

**Suttatip PEERASUB**
(66) 2658 5000 ext 1430
suttatip.p@maybank-ke.co.th
• Media • Commerce

**Jaroonpan WATTANAWONG**
(66) 2658 5000 ext 1404
jaroonpan.w@maybank-ke.co.th
• Transportation • Small cap

**Thanatphat SUKSRICHAVALIT**
(66) 2658 5000 ext 1401
thanaphat.s@maybank-ke.co.th
• Media • Electronics

**Wijit ARAYAPISIT**
(66) 2658 5000 ext 1450
wijit.a@maybank-ke.co.th
• Strategist

**Theerasate PROMPONG**
(66) 2658 5000 ext 1400
theerasate.p@maybank-ke.co.th
• Equity Portfolio Strategist

**Apiwat TAVESIRIVATE**
(66) 2658 5000 ext 1310
apiwat.t@maybank-ke.co.th
• Chartist and TFEX

## VIETNAM

**LE Hong Lien, ACCA**
*Head of Institutional Research*
(84 28) 44 555 888 ext 8181
lien.le@maybank-kimeng.com.vn
• Strategy • Consumer • Diversified

**LE Nguyen Nhat Chuyen**
(84 28) 44 555 888 ext 8082
chuyen.le@maybank-kimeng.com.vn
• Oil & Gas

**QUAN Trong Thanh**
(84 28) 44 555 888 ext 8184
thanh.quan@maybank-kimeng.com.vn
• Banks

**NGUYEN Thi Sony Tra Mi**
(84 28) 44 555 888 ext 8084
mi.nguyen@maybank-kimeng.com.vn
• Consumer

**Tyler Manh Dung Nguyen**
(84 28) 44 555 888 ext 8180
dung.nguyen@maybank-kimeng.com.vn
• Utilities

**NGUYEN Thi Ngan Tuyen**
*Head of Retail Research*
(84 28) 44 555 888 ext 8081
tuyen.nguyen@maybank-kimeng.com.vn
• Food & Beverage • Oil & Gas • Banking

**NGUYEN Thanh Lam**
(84 28) 44 555 888 ext 8086
thanhlam.nguyen@maybank-kimeng.com.vn
• Technical Analysis

## APPENDIX I: TERMS FOR PROVISION OF REPORT, DISCLAIMERS AND DISCLOSURES

### DISCLAIMERS

This research report is prepared for general circulation and for information purposes only and under no circumstances should it be considered or intended as an offer to sell or a solicitation of an offer to buy the securities referred to herein. Investors should note that values of such securities, if any, may fluctuate and that each security's price or value may rise or fall. Opinions or recommendations contained herein are in form of technical ratings and fundamental ratings. Technical ratings may differ from fundamental ratings as technical valuations apply different methodologies and are purely based on price and volume-related information extracted from the relevant jurisdiction's stock exchange in the equity analysis. Accordingly, investors' returns may be less than the original sum invested. Past performance is not necessarily a guide to future performance. This report is not intended to provide personal investment advice and does not take into account the specific investment objectives, the financial situation and the particular needs of persons who may receive or read this report. Investors should therefore seek financial, legal and other advice regarding the appropriateness of investing in any securities or the investment strategies discussed or recommended in this report.

The information contained herein has been obtained from sources believed to be reliable but such sources have not been independently verified by Maybank Investment Bank Berhad, its subsidiary and affiliates (collectively, "MKE") and consequently no representation is made as to the accuracy or completeness of this report by MKE and it should not be relied upon as such. Accordingly, MKE and its officers, directors, associates, connected parties and/or employees (collectively, "Representatives") shall not be liable for any direct, indirect or consequential losses or damages that may arise from the use or reliance of this report. Any information, opinions or recommendations contained herein are subject to change at any time, without prior notice.

This report may contain forward looking statements which are often but not always identified by the use of words such as "anticipate", "believe", "estimate", "intend", "plan", "expect", "forecast", "predict" and "project" and statements that an event or result "may", "will", "can", "should", "could" or "might" occur or be achieved and other similar expressions. Such forward looking statements are based on assumptions made and information currently available to us and are subject to certain risks and uncertainties that could cause the actual results to differ materially from those expressed in any forward looking statements. Readers are cautioned not to place undue relevance on these forward-looking statements. MKE expressly disclaims any obligation to update or revise any such forward looking statements to reflect new information, events or circumstances after the date of this publication or to reflect the occurrence of unanticipated events.

MKE and its officers, directors and employees, including persons involved in the preparation or issuance of this report, may, to the extent permitted by law, from time to time participate or invest in financing transactions with the issuer(s) of the securities mentioned in this report, perform services for or solicit business from such issuers, and/or have a position or holding, or other material interest, or effect transactions, in such securities or options thereon, or other investments related thereto. In addition, it may make markets in the securities mentioned in the material presented in this report. One or more directors, officers and/or employees of MKE may be a director of the issuers of the securities mentioned in this report to the extent permitted by law.

This report is prepared for the use of MKE's clients and may not be reproduced, altered in any way, transmitted to, copied or distributed to any other party in whole or in part in any form or manner without the prior express written consent of MKE and MKE and its Representatives accepts no liability whatsoever for the actions of third parties in this respect.

This report is not directed to or intended for distribution to or use by any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction where such distribution, publication, availability or use would be contrary to law or regulation. This report is for distribution only under such circumstances as may be permitted by applicable law. The securities described herein may not be eligible for sale in all jurisdictions or to certain categories of investors. Without prejudice to the foregoing, the reader is to note that additional disclaimers, warnings or qualifications may apply based on geographical location of the person or entity receiving this report.

### Malaysia

Opinions or recommendations contained herein are in the form of technical ratings and fundamental ratings. Technical ratings may differ from fundamental ratings as technical valuations apply different methodologies and are purely based on price and volume-related information extracted from Bursa Malaysia Securities Berhad in the equity analysis.

### Singapore

This report has been produced as of the date hereof and the information herein may be subject to change. Maybank Kim Eng Research Pte. Ltd. ("Maybank KERPL") in Singapore has no obligation to update such information for any recipient. For distribution in Singapore, recipients of this report are to contact Maybank KERPL in Singapore in respect of any matters arising from, or in connection with, this report. If the recipient of this report is not an accredited investor, expert investor or institutional investor (as defined under Section 4A of the Singapore Securities and Futures Act), Maybank KERPL shall be legally liable for the contents of this report, with such liability being limited to the extent (if any) as permitted by law.

### Thailand

Except as specifically permitted, no part of this presentation may be reproduced or distributed in any manner without the prior written permission of Maybank Kim Eng Securities (Thailand) Public Company Limited. Maybank Kim Eng Securities (Thailand) Public Company Limited ("MBKET") accepts no liability whatsoever for the actions of third parties in this respect.

Due to different characteristics, objectives and strategies of institutional and retail investors, the research products of MBKET Institutional and Retail Research departments may differ in either recommendation or target price, or both. MBKET reserves the rights to disseminate MBKET Retail Research reports to institutional investors who have requested to receive it. If you are an authorised recipient, you hereby tacitly acknowledge that the research reports from MBKET Retail Research are first produced in Thai and there is a time lag in the release of the translated English version.

The disclosure of the survey result of the Thai Institute of Directors Association ("IOD") regarding corporate governance is made pursuant to the policy of the Office of the Securities and Exchange Commission. The survey of the IOD is based on the information of a company listed on the Stock Exchange of Thailand and the market for Alternative Investment disclosed to the public and able to be accessed by a general public investor. The result, therefore, is from the perspective of a third party. It is not an evaluation of operation and is not based on inside information. The survey result is as of the date appearing in the Corporate Governance Report of Thai Listed Companies. As a result, the survey may be changed after that date. MBKET does not confirm nor certify the accuracy of such survey result.

The disclosure of the Anti-Corruption Progress Indicators of a listed company on the Stock Exchange of Thailand, which is assessed by Thaipat Institute, is made in order to comply with the policy and sustainable development plan for the listed companies of the Office of the Securities and Exchange Commission. Thaipat Institute made this assessment based on the information received from the listed company, as stipulated in the form for the assessment of Anti-corruption which refers to the Annual Registration Statement (Form 56-1), Annual Report (Form 56-2), or other relevant documents or reports of such listed company. The assessment result is therefore made from the perspective of Thaipat Institute that is a third party. It is not an assessment of operation and is not based on any inside information. Since this assessment is only the assessment result as of the date appearing in the assessment result, it may be changed after that date or when there is any change to the relevant information. Nevertheless, MBKET does not confirm, verify, or certify the accuracy and completeness of the assessment result.

### US

This third-party research report is distributed in the United States ("US") to Major US Institutional Investors (as defined in Rule 15a-6 under the Securities Exchange Act of 1934, as amended) only by Maybank Kim Eng Securities USA Inc ("Maybank KESUSA"), a broker-dealer registered in the US (registered under Section 15 of the Securities Exchange Act of 1934, as amended). All responsibility for the distribution of this report by Maybank KESUSA in the US shall be borne by Maybank KESUSA. This report is not directed at you if MKE is prohibited or restricted by any legislation or regulation in any jurisdiction from making it available to you. You should satisfy yourself before reading it that Maybank KESUSA is permitted to provide research material concerning investments to you under relevant legislation and regulations. All U.S. persons receiving and/or accessing this report and wishing to effect transactions in any security mentioned within must do so with: Maybank Kim Eng Securities USA Inc. 400 Park Avenue, 11th Floor, New York, New York 10022, 1-(212) 688-8886 and not with, the issuer of this report.

## UK

This document is being distributed by Maybank Kim Eng Securities (London) Ltd ("Maybank KESL") which is authorized and regulated, by the Financial Conduct Authority and is for Informational Purposes only. This document is not intended for distribution to anyone defined as a Retail Client under the Financial Services and Markets Act 2000 within the UK. Any inclusion of a third party link is for the recipients convenience only, and that the firm does not take any responsibility for its comments or accuracy, and that access to such links is at the individuals own risk. Nothing in this report should be considered as constituting legal, accounting or tax advice, and that for accurate guidance recipients should consult with their own independent tax advisers.

## DISCLOSURES

### Legal Entities Disclosures

**Malaysia:** This report is issued and distributed in Malaysia by Maybank Investment Bank Berhad (15938- H) which is a Participating Organization of Bursa Malaysia Berhad and a holder of Capital Markets and Services License issued by the Securities Commission in Malaysia. **Singapore:** This report is distributed in Singapore by Maybank KERPL (Co. Reg No 198700034E) which is regulated by the Monetary Authority of Singapore. **Indonesia:** PT Maybank Kim Eng Securities ("PTMKES") (Reg. No. KEP-251/PM/1992) is a member of the Indonesia Stock Exchange and is regulated by the Financial Services Authority (Indonesia). **Thailand:** MBKET (Reg. No.0107545000314) is a member of the Stock Exchange of Thailand and is regulated by the Ministry of Finance and the Securities and Exchange Commission. **Philippines:** Maybank ATRKES (Reg. No.01-2004-00019) is a member of the Philippines Stock Exchange and is regulated by the Securities and Exchange Commission. **Vietnam:** Maybank Kim Eng Securities Limited (License Number: 117/GP-UBCK) is licensed under the State Securities Commission of Vietnam. **Hong Kong:** KESHK (Central Entity No AAD284) is regulated by the Securities and Futures Commission. **India:** Kim Eng Securities India Private Limited ("KESI") is a participant of the National Stock Exchange of India Limited and the Bombay Stock Exchange and is regulated by Securities and Exchange Board of India ("SEBI") (Reg. No. INZ000010538). KESI is also registered with SEBI as Category 1 Merchant Banker (Reg. No. INM 000011708) and as Research Analyst (Reg No: INH000000057) **US:** Maybank KESUSA is a member of/ and is authorized and regulated by the FINRA – Broker ID 27861. **UK:** Maybank KESL (Reg No 2377538) is authorized and regulated by the Financial Conduct Authority.

### Disclosure of Interest

**Malaysia:** MKE and its Representatives may from time to time have positions or be materially interested in the securities referred to herein and may further act as market maker or may have assumed an underwriting commitment or deal with such securities and may also perform or seek to perform investment banking services, advisory and other services for or relating to those companies.

**Singapore:** As of 12 July 2020, Maybank KERPL and the covering analyst do not have any interest in any companies recommended in this research report.

**Thailand:** MBKET may have a business relationship with or may possibly be an issuer of derivative warrants on the securities /companies mentioned in the research report. Therefore, Investors should exercise their own judgment before making any investment decisions. MBKET, its associates, directors, connected parties and/or employees may from time to time have interests and/or underwriting commitments in the securities mentioned in this report.

**Hong Kong:** As of 12 July 2020, KESHK and the authoring analyst do not have any interest in any companies recommended in this research report.

**India:** As of 12 July 2020, and at the end of the month immediately preceding the date of publication of the research report, KESI, authoring analyst or their associate / relative does not hold any financial interest or any actual or beneficial ownership in any shares or having any conflict of interest in the subject companies except as otherwise disclosed in the research report.

In the past twelve months KESI and authoring analyst or their associate did not receive any compensation or other benefits from the subject companies or third party in connection with the research report on any account what so ever except as otherwise disclosed in the research report.

MKE may have, within the last three years, served as manager or co-manager of a public offering of securities for, or currently may make a primary market in issues of, any or all of the entities mentioned in this report or may be providing, or have provided within the previous 12 months, significant advice or investment services in relation to the investment concerned or a related investment and may receive compensation for the services provided from the companies covered in this report.

## OTHERS

### Analyst Certification of Independence

The views expressed in this research report accurately reflect the analyst's personal views about any and all of the subject securities or issuers; and no part of the research analyst's compensation was, is or will be, directly or indirectly, related to the specific recommendations or views expressed in the report.

### Reminder

Structured securities are complex instruments, typically involve a high degree of risk and are intended for sale only to sophisticated investors who are capable of understanding and assuming the risks involved. The market value of any structured security may be affected by changes in economic, financial and political factors (including, but not limited to, spot and forward interest and exchange rates), time to maturity, market conditions and volatility and the credit quality of any issuer or reference issuer. Any investor interested in purchasing a structured product should conduct its own analysis of the product and consult with its own professional advisers as to the risks involved in making such a purchase.



### Definition of Ratings

Maybank Kim Eng Research uses the following rating system

| | |
|---|---|
| **BUY** | Return is expected to be above 10% in the next 12 months (including dividends) |
| **HOLD** | Return is expected to be between 0% to 10% in the next 12 months (including dividends) |
| **SELL** | Return is expected to be below 0% in the next 12 months (including dividends) |

### Applicability of Ratings

The respective analyst maintains a coverage universe of stocks, the list of which may be adjusted according to needs. Investment ratings are only applicable to the stocks which form part of the coverage universe. Reports on companies which are not part of the coverage do not carry investment ratings as we do not actively follow developments in these companies.

## Malaysia

**Maybank Investment Bank Berhad**
(A Participating Organisation of
Bursa Malaysia Securities Berhad)
33rd Floor, Menara Maybank,
100 Jalan Tun Perak,
50050 Kuala Lumpur
Tel: (603) 2059 1888;
Fax: (603) 2078 4194

Stockbroking Business:
Level 8, Tower C, Dataran Maybank,
No.1, Jalan Maarof
59000 Kuala Lumpur
Tel: (603) 2297 8888
Fax: (603) 2282 5136

## Singapore

**Maybank Kim Eng Securities Pte Ltd**
**Maybank Kim Eng Research Pte Ltd**
50 North Canal Road
Singapore 059304

Tel: (65) 6336 9090

## London

**Maybank Kim Eng Securities (London) Ltd**
PNB House
77 Queen Victoria Street
London EC4V 4AY, UK

Tel: (44) 20 7332 0221
Fax: (44) 20 7332 0302

## New York

**Maybank Kim Eng Securities USA Inc**
400 Park Avenue, 11th Floor
New York, New York 10022,
U.S.A.

Tel: (212) 688 8886
Fax: (212) 688 3500

## Hong Kong

**Kim Eng Securities (HK) Ltd**
28/F, Lee Garden Three,
1 Sunning Road, Causeway Bay,
Hong Kong

Tel: (852) 2268 0800
Fax: (852) 2877 0104

## Indonesia

**PT Maybank Kim Eng Securities**
Sentral Senayan III, 22nd Floor
Jl. Asia Afrika No. 8
Gelora Bung Karno, Senayan
Jakarta 10270, Indonesia

Tel: (62) 21 2557 1188
Fax: (62) 21 2557 1189

## India

**Kim Eng Securities India Pvt Ltd**
1101, 11th floor, A Wing, Kanakia
Wall Street, Chakala, Andheri -
Kurla Road, Andheri East,
Mumbai City - 400 093, India

Tel: (91) 22 6623 2600
Fax: (91) 22 6623 2604

## Philippines

**Maybank ATR Kim Eng Securities Inc.**
17/F, Tower One & Exchange Plaza
Ayala Triangle, Ayala Avenue
Makati City, Philippines 1200

Tel: (63) 2 8849 8888
Fax: (63) 2 8848 5738

## Thailand

**Maybank Kim Eng Securities (Thailand) Public Company Limited**
999/9 The Offices at Central World,
20th - 21st Floor,
Rama 1 Road Pathumwan,
Bangkok 10330, Thailand

Tel: (66) 2 658 6817 (sales)
Tel: (66) 2 658 6801 (research)

## Vietnam

**Maybank Kim Eng Securities Limited**
4A-15+16 Floor Vincom Center Dong
Khoi, 72 Le Thanh Ton St. District 1
Ho Chi Minh City, Vietnam

Tel : (84) 844 555 888
Fax : (84) 8 38 271 030

## Saudi Arabia

*In association with*
**Anfaal Capital**
Ground Floor, KANOO Building
No.1 - Al-Faisaliyah,Madina Road,
P.O.Box 126575 Jeddah 21352
Kingdom of Saudi Arabia

Tel: (966) 920023423

## South Asia Sales Trading

Kevin Foy
Regional Head Sales Trading
kevinfoy@maybank-ke.com.sg
Tel: (65) 6636-3620
US Toll Free: 1-866-406-7447

### Indonesia

Iwan Atmadjaja
iatmadjaja2@bloomberg.net
(62) 21 8066 8555

### New York

James Lynch
jlynch@maybank-keusa.com
Tel: (212) 688 8886

### Philippines

Keith Roy
keith_roy@maybank-atrke.com
Tel: (63) 2 848-5288

## North Asia Sales Trading

Andrew Lee
andrewlee@kimeng.com.hk
Tel: (852) 2268 0283
US Toll Free: 1 877 837 7635

### London

Greg Smith
gsmith@maybank-ke.co.uk
Tel: (44) 207-332-0221

### India

Sanjay Makhija
sanjaymakhija@maybank-ke.co.in
Tel: (91)-22-6623-2629


www.maybank-ke.com | www.maybank-keresearch.com