Frontken

Record Quarter, with More to Come

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OUTPERFORM ↔

Price: RM5.21
Target Price: RM5.72 ↑

Frontken's 6MFY26 net profit of RM90.1m accounted for 41% of our, and 45% of consensus, full-year forecast. Excluding the RM5.9m withholding tax arising from dividend repatriation by its Taiwan subsidiary, earnings would have accounted for 44% of our FY26 forecast. We consider the results largely in line, as we expect earnings to strengthen progressively in 2HFY26, supported by the continued ramp-up in foundry utilisation amid sustained AI-driven demand. The in-line outcome was driven by a strong momentum in its semiconductor segment from Taiwan (+9% YoY), and stronger contribution from its Malaysia oil and gas division (+178% YoY). Looking ahead, we expect semiconductor contributions to remain robust, supported by order ramp-ups from customers across Singapore, Malaysia, and primarily Taiwan, as foundry activity remains vibrant amid the strong AI application ramp-up. Following the rolling-forward of our valuation base to FY27 and a 7% increase in our FY27 earnings forecast, we raise our target price to RM5.72 (from RM5.10). Reiterate OUTPERFORM rating.

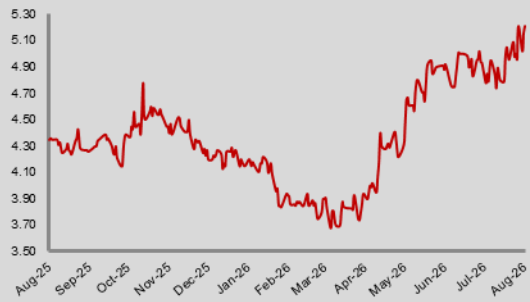
Frontken's 6MFY26 revenue of RM376.7m meet our and consensus forecasts, accounting for 47%/49% of the respective full-year estimates. Although the net profit of RM90.1m came in slightly below expectations, we consider the result in line, as the subdued bottom line was attributed to a higher contribution from its Malaysia oil and gas division, which yields a lower margin. We expect earnings to catch up in the coming quarters, as the semiconductor segment is strongly poised, driven by high activity levels on the foundry customer side, particularly in advanced nodes for key customer.

YoY, 1HFY26 revenue surged 30% to RM376.7m, driven primarily by a 178% YoY increase in sales from the Malaysia subsidiary, largely attributable to stronger oil & gas-related contributions. Meanwhile, the Taiwan subsidiary also delivered a solid performance, with revenue rising 19% YoY in TWD terms on stronger semiconductor demand. However, the appreciation of MYR against the TWD moderated the translated growth to 9% YoY in MYR terms. The stronger topline, coupled with a favourable business mix, translated into a 40% YoY increase in both PBT and net profit.

QoQ, group revenue eased 2% to RM186.9m, primarily due to weaker sales from the Malaysia operations, particularly the oil & gas division (-31% QoQ), following an exceptionally strong quarter previously. This was partly offset by a 14% QoQ increase in Taiwan revenue, driven by stronger orders from Taiwan foundries. Despite the slight decline in revenue, PBT rose 20% QoQ to RM73.8m, supported by a more favourable sales mix, as lower contributions from the lower-margin oil & gas segment lifted overall profitability. Consequently, net profit increased 13% QoQ to RM47.7m. Notably, excluding the withholding tax arising from dividends distributed by the Taiwan subsidiary, underlying net profit would have grown a stronger 25% QoQ.

Outlook: AI-driven semiconductor demand continues to show no signs of slowing, with utilisation at leading foundries remaining high, particularly for advanced nodes (<7nm). We are also observing a structural shift whereby mature-node capacity is increasingly being converted to support advanced technologies, a trend that benefits Frontken given that management indicated that ~70% of its revenue is already tied to leading-edge nodes. We are increasingly confident that TSMC's 2nm production will be ramped up over the coming quarters. The customer has now separately disclosed 2nm as

Share Price Performance



KLCI	1,748.17
YTD KLCI chg	4.1%
YTD stock price chg	24.6%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	FRCB MK EQUITY
Market Cap (RM m)	9445.4
Shares Outstanding	1812.9
52-week range (H)	5.27
52-week range (L)	3.61
3-mth avg. daily vol.	6,138,565
Free Float	89%
Beta	0.9

Major Shareholders

Employees Provident Fund	20.1%
Dazzle Clean	8.1%
KWAP	4.7%

Summary Earnings Table

FYE Dec (RM m)	2025A	2026F	2027F
Turnover	608	773	895
EBIT	205	265	338
PBT	230	297	357
Net Profit	**160**	**204**	**251**
Consensus	-	200	235
Earnings Revision	-	-7%	7%
Core EPS (sen)	9.8	11.6	14.3
EPS Growth (%)	17.1	27.3	22.9
NDPS (sen)	2.0	4.0	4.0
BV/Share (RM)	0.6	0.4	0.5
Core PER (x)	42.8	44.8	36.5
P/BV (x)	0.6	0.7	0.8
Gearing (x)	0.0	0.0	0.0

contributing 3% of revenue, and historically, each new node disclosure has been followed by a meaningful ramp in subsequent quarters (exhibit 1). This should be further supported by Apple's expected September 2026 launch of the iPhone 18, powered by the A20 chip built on the 2nm process. Overall, as new capacity comes online to meet accelerating demand, we expect Frontken's semiconductor segment to deliver a stronger earnings ramp in 2HFY26.

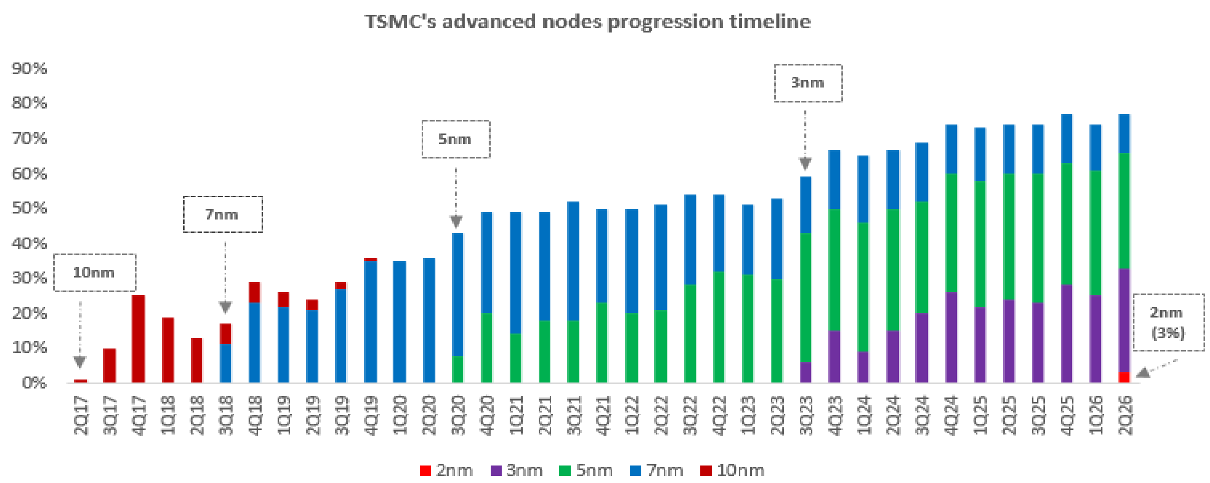
Forecasts. We lower our FY26F earnings by 7% but raise our FY27F earnings by 7%, as we now expect the earnings uplift to be pushed into FY27. This follows Frontken's largest Taiwan customer reporting that 2nm contributed only 3% of revenue as of end-June, suggesting the production ramp remains in its early stages. Historically, Frontken's revenue growth has trailed TSMC's technology ramps by approximately two quarters, reflecting its downstream exposure to fab utilisation and maintenance intensity. As we expect TSMC's 2nm production to accelerate through 2HFY27, we believe the resulting benefit to Frontken will materialise with an estimated two-quarter lag (exhibit 2), supporting stronger earnings momentum into FY27.

Valuations. We raise our TP to RM5.72 (from RM5.10) after rolling forward our earnings base to FY27, and raise our FY27 profit forecast by 7%, while keeping our targeted PER unchanged at 40x (+1SD above its 5-year forward average). This represents a ~20% premium to peers' forward mean, justified by Frontken's exposure to the world's largest foundries, which are at the forefront of the AI supercycle, and its continuous involvement in its customers' latest product innovations. There is no adjustment to our TP based on ESG given a 3-star rating as appraised by us (see Page 4).

Investment case. We like Frontken due to its: (i) strong positioning in the AI cycle, (ii) proven track record with global leading foundries, and (iii) solid capabilities, enabling it to support the most advanced semiconductor nodes.

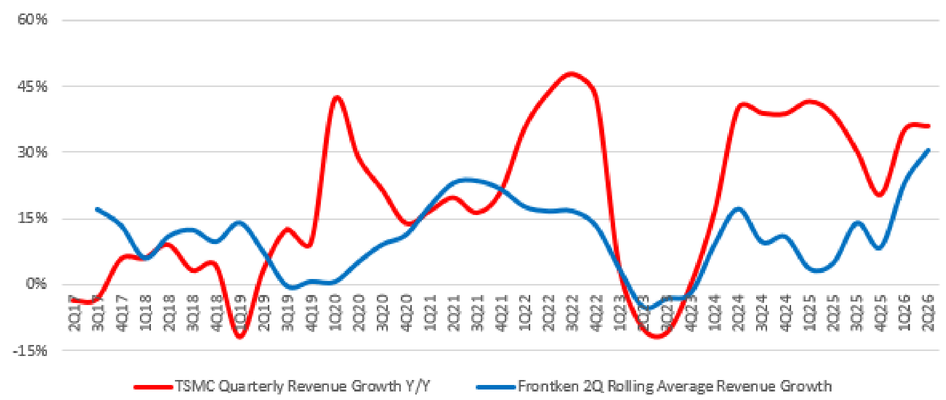
Risks to our call include: (i) slowdown in the AI-driven cycle which could affect the demand for equipment cleaning, (ii) customer concentration risk, with largest accounting for ~32% of its total revenue, and (iii) loss of market share from key customers to competing foundries.

Exhibit 1: 2nm Revenue Still at a Low Base; Historically, New Node Carve-Outs Are Followed by Rapid Ramps



Source: TSMC, Kenanga Research

Exhibit 2: Frontken's 2Q Rolling Growth Generally Follows TSMC's Cycle With a ~2-Quarter Lag



Source: Kenanga Research

Results Highlights

	2Q26	1Q26	QoQ Chg	2Q25	YoY Chg	6M26	6M25	YoY Chg
Revenue	186.9	189.8	-2%	156.4	19%	376.7	289.0	30%
EBITDA	68.0	58.6	16%	49.6	37%	126.6	98.2	29%
EBIT	62.8	53.4	18%	44.2	42%	116.2	87.6	33%
PBT	73.8	61.3	20%	47.6	55%	135.1	96.3	40%
Taxation	(21.4)	(14.3)	50%	(11.1)	93%	(35.6)	(25.7)	39%
MI	4.7	4.7	2%	3.0	55%	9.4	6.1	54%
PATMI	47.7	42.4	13%	33.5	43%	90.1	64.6	40%
EPS (sen)	2.7	2.7	1%	2.1	29%	5.4	4.1	33%
EBITDA Margin	36%	31%	5.5 ppt	32%	4.6 ppt	34%	34%	-0.4 ppt
EBIT Margin	34%	28%	5.5 ppt	28%	5.3 ppt	31%	30%	0.5 ppt
PBT Margin	39%	32%	7.2 ppt	30%	9.0 ppt	36%	33%	2.5 ppt
PATMI Margin	26%	22%	3.2 ppt	21%	4.1 ppt	24%	22%	1.6 ppt
Tax Rate	29%	23%	5.6 ppt	23%	5.7 ppt	26%	27%	-0.3 ppt

Source: Kenanga Research

Geographical Breakdown

FYE Dec (RM m)	2Q26	1Q26	QoQ Chg	2Q25	YoY Chg	6M26	6M25	YoY Chg
Taiwan	124.5	109.4	14%	116.5	7%	233.9	214.7	9%
Malaysia	44.0	63.4	-31%	21.4	106%	107.4	38.7	178%
Singapore	14.4	13.1	10%	14.0	2%	27.4	26.7	3%
Philippines	4.1	3.9	4%	4.5	-9%	8.0	8.9	-10%
Total	**186.9**	**189.8**	**-2%**	**156.4**	**19%**	**376.7**	**289.0**	**30%**

Source: Kenanga Research

Malaysian Technology Peers Comparison

Name	Rating	Last Price (RM)	Target Price (RM)	Upside	Mkt Cap (RM m)	Shariah Compliant	Current FYE	Core EPS (sen) 1-Yr. Fwd.	Core EPS (sen) 2-Yr. Fwd.	Core EPS Growth 1-Yr. Fwd.	Core EPS Growth 2-Yr. Fwd.	PER (x) – Core Earnings 1-Yr. Fwd.	PER (x) – Core Earnings 2-Yr. Fwd.	PBV (x) 1-Yr. Fwd.	ROE 1-Yr. Fwd.	Net. Div. (sen) 1-Yr. Fwd.	Net. Div. Yld 1-Yr. Fwd.
D&O GREEN TECHNOLOGIES BHD	MP	0.355	0.440	23.9%	440.0	Y	12/2026	(2.6)	2.0	-385.8%	-0.3%	N.A.	17.8	0.8	-16.6%	1.0	2.8%
FRONTKEN BHD	OP	5.21	5.72	9.8%	9,445.4	Y	12/2026	12.3	15.2	27.3%	22.9%	42.3	34.4	7.4	18.5%	4.0	0.8%
INARI AMERTRON BHD	OP	2.41	2.72	12.9%	9,246.3	Y	06/2026	4.8	8.0	-28.1%	64.6%	49.9	30.3	3.3	5.9%	5.0	2.1%
KELINGTON GROUP BHD	OP	8.75	9.05	3.4%	7,723.0	Y	12/2026	21.4	24.5	29.1%	14.1%	40.8	35.8	9.9	27.5%	15.0	1.7%
LGMS BHD	OP	0.510	0.580	13.7%	232.6	Y	12/2026	2.9	3.6	30.4%	21.8%	17.5	14.4	1.8	10.5%	2.0	3.9%
MALAYSIAN PACIFIC INDUSTRIES	MP	46.94	43.70	-6.9%	9,359.7	Y	06/2026	104.7	134.1	35.6%	28.0%	44.8	35.0	4.2	9.7%	40.0	0.9%
NATIONGATE HOLDINGS BHD	MP	1.36	0.780	-42.6%	3,076.4	Y	12/2026	3.5	5.2	-20.1%	49.3%	39.0	26.1	2.9	7.6%	2.0	1.5%
OPPSTAR BHD	UP	0.625	0.430	-31.2%	404.1	Y	03/2027	1.2	2.0	-50.9%	58.2%	50.7	32.0	3.1	6.3%	0.0	0.0%
PIE INDUSTRIAL BHD	MP	1.56	1.51	-3.2%	599.1	Y	12/2026	5.9	8.4	0.4%	42.3%	26.4	18.5	0.9	3.5%	0.0	0.0%
SKP RESOURCES BHD	UP	0.325	0.270	-16.9%	496.2	Y	03/2027	2.5	3.5	-19.4%	42.0%	13.2	9.3	0.5	3.7%	0.0	0.0%
SKYECHIP BHD	OP	3.06	2.00	-34.6%	5,495.8	Y	03/2027	2.6	3.4	30.1%	32.1%	117.7	89.1	31.7	31.2%	70.0	22.9%
UNISEM (M) BHD	UP	4.57	3.81	-16.6%	7,836.3	Y	12/2026	5.6	11.7	44.4%	107.5%	81.2	39.1	3.4	3.5%	0.0	0.0%
UWC BHD	OP	6.48	7.00	8.0%	7,149.6	Y	07/2026	8.6	15.9	132.3%	86.3%	75.7	40.6	12.5	18.0%	0.0	0.0%
PENTAMASTER CORP BHD	MP	5.70	4.68	-17.9%	4,054.5	Y	12/2026	12.1	13.1	39.0%	8.1%	47.0	43.5	4.7	10.4%	2.0	0.4%
INFOMINA BHD	OP	1.50	1.90	26.7%	899.1	Y	05/2027	7.6	8.5	30.2%	11.6%	19.7	17.7	4.7	25.8%	3.0	2.0%
SECTOR AGGREGATE					66,458.0					13.4%	46.3%	51.8	35.4	6.1	11.0%		2.6%

Source: Kenanga Research

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Stock ESG Ratings:

	Criterion	Rating				
GENERAL	Earnings Sustainability & Quality	★	★	★	☆	
	Community Investment	★	★	☆		
	Workers Safety & Wellbeing	★	★	★		
	Corporate Governance	★	★	★		
	Anti-Corruption Policy	★	★	★		
	Emissions Management	★	★	★		
SPECIFIC	Technology & Innovation	★	★	★	☆	
	Supply Chain Management	★	★	★		
	Energy Efficiency	★	★	★		
	Effluent/Water Management	★	★	★		
	Waste Management	★	★	★		
	Ethical Practices	★	★	★	☆	
	OVERALL	★	★	★		

☆ denotes half-star
★ -10% discount to TP
★★ -5% discount to TP
★★★ TP unchanged
★★★★ +5% premium to TP
★★★★★ +10% premium to TP

Stock Ratings are defined as follows:

Stock Recommendations

OUTPERFORM : A particular stock's Expected Total Return is MORE than 10%
MARKET PERFORM : A particular stock's Expected Total Return is WITHIN the range of -5% to 10%
UNDERPERFORM : A particular stock's Expected Total Return is LESS than -5%

Sector Recommendations***

OVERWEIGHT : A particular sector's Expected Total Return is MORE than 10%
NEUTRAL : A particular sector's Expected Total Return is WITHIN the range of -5% to 10%
UNDERWEIGHT : A particular sector's Expected Total Return is LESS than -5%

******Sector recommendations are defined based on market capitalisation weighted average expected total return for stocks under our coverage.***

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