Highlight

Kelington confident of fourth straight year of record profit

Justin Lim / The Edge Financial Daily
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KUALA LUMPUR: Kelington Group Bhd is confident of achieving another record year for the 12 months ending Dec 31, 2019 (FY19), which will mark a fourth straight year of record net profit after a blip in FY15.

The integrated engineering solutions provider swung into a net loss of RM2.62 million in FY15 as it recognised impairment losses on certain projects, trade receivables and amounts owing by customers. However, it rebounded the following year and has been profitable since.

Group chief executive officer Raymond Gan Hung Keng said FY19 profit growth will be driven by its ultra-high purity (UHP) business, which continues to be the group's anchor of growth.

"I am confident we will [perform] better this year, thanks to a higher proportion of UHP jobs that bring higher profit margins," he told The Edge Financial Daily in an interview.

He added that the bulk of the group's outstanding order book totalling RM330 million will be recognised this year.

Kelington reported its highest-ever annual net profit in FY18, which jumped 59% year-on-year (y-o-y) to RM18.32 million with revenue up 12% y-o-y to RM350.02 million.

The record earnings had a favourable impact on its share price, which rose to an all-time high of RM1.39 on April 25. Its price has since pulled back, closing at RM1.25 last Thursday, but still up 51% from 83 sen a year ago. This brings the group's market capitalisation to RM379.59 million.

On its performance in the first quarter of FY19 (1QFY19), it is on track to meet its full-year expectations. The group's 1QFY19 net profit was up 5% y-o-y at RM4.84 million despite a decrease in revenue to RM76.41 million from RM86.55 million in 1QFY18.

Year-to-date, Kelington has clinched new projects totalling RM146 million, 87% higher than the RM79 million achieved in 1QFY18. This brings the group's total outstanding order book to RM330 million, 70% of which are derived from UHP projects, followed by process engineering (16%), general contracting (4%) and industrial gas business (1%).

Gan declined to give the group's order book target for 2019, except to say that it is still too early to tell.

The total value of projects clinched by Kelington last year hit record of RM424 million, surpassing the RM374 million achieved in FY17.

Gan said the group is tendering for RM1.2 billion worth of jobs, in Malaysia, Singapore, China and Taiwan.

He noted that so far, there has been no slowdown in the number of tenders from China, despite ongoing trade tensions between the US and China and negative growth data recorded on the latest worldwide spending on semiconductor equipment.

Of the group's total outstanding order book, China accounts for 15%, followed by Singapore at 59% and Malaysia, 17%. The most recent order the group secured was from China, a RM53 million new contract for specialised engineering works under the UHP segment for wafer fabrication.

According to the US-based Semiconductor Equipment and Material International data, China remained as one of the top three world's largest semiconductor equipment spenders in the first quarter of 2019 (1Q19) with billings of US$2.36 billion, down 11% y-o-y from RM2.69 billion. Still, China outperformed worldwide spending on semiconductor equipment, which declined 19% y-o-y to US$13.79 billion.

Industrial gas business to take off in FY20

On its industrial gas business segment, where it made its first foray in 2016, Gan said the business is profitable albeit its contribution to the group's revenue is still immaterial.

However, he expects its contribution to take off from FY20 when the group's liquid carbon dioxide (LCO2) manufacturing plant in Kerteh, Terengganu commences production in 4Q19. It is setting aside RM60 million in capital expenditure for the new plant, half of which will be used this year and the rest progressively over the next five years.

Already, Kelington has secured orders for the new LCO2 plant, which will take up some 20% of total annual capacity of 50,000 tonnes.

Additionally, it has secured a 10-year contract to supply on-site nitrogen gas to a photovoltaic manufacturer's manufacturing plant.

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