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Kelington's order book seen to boost earnings growth

Filepic of Kelington's headquarters in Shah Alam, Selangor. The group is slated to announce its March quarter results by the end of the month. **The Edge file photo**

Kelington Group Bhd (May 21, RM1.24)

Maintain buy with a higher target price of RM1.63: Kelington Group Bhd has recently bagged several new contracts, largely for specialised engineering works under its ultra-high-purity (UHP) segment. This brought new orders it secured to RM146 million in the first quarter of financial year 2019 (1QFY19), from RM78 million in 1QFY18. The UHP projects' order book stands at RM295 million, or 73% of the group's outstanding order book of RM406 million. Despite some concerns, new orders from China remained robust in 1QFY19 (an estimated RM40 million to RM50 million projects secured are from there). We note upside risks to our order book assumption if Kelington secures sizeable contracts or projects.

The group is slated to announce its March quarter results by the end of the month. We expect its 1QFY19 core earnings to surpass 1QFY18's RM2.7 million (excluding the one-off settlement claim from Biocon) based on its order book expansion and better revenue mix. However, core earnings are likely to be weaker quarter-on-quarter on seasonality.

While we retain our new order book replenishment assumptions for FY19 to FY21, we take the opportunity to adjust our progress billings to reflect the more cautious fab spending outlook for China in the medium term on concerns over the country's protracted trade tiff with the US. We also lift our capital expenditure (capex) assumptions by RM5 million to RM10 million over the next two financial years as we expect a ramp-up in the industrial gas business to capitalise on early opportunities. This includes an estimated RM6 million capex for a factory in China to house specialty gases.

We continue to like Kelington for its strong earnings growth prospects and order book. It is set to emerge as a strong challenger in the lucrative liquid carbon dioxide market with the completion of its production facility by year end. — *RHB Research Institute, May 21*

Kelington Group Bhd

FYE DEC (RM MIL)	2017	2018	2019F	2020F	2021F
Total turnover	313	350	458	540	627
Net profit	15	19	25	29	34
Net profit growth (%)	(26.6)	34.1	26.4	19.3	16.5
Recurring EPS (RM)	0.05	0.06	0.08	0.10	0.11
Recurring PER (x)	27.0	20.1	15.9	13.3	11.4
P/B (x)	5.0	3.4	2.5	2.2	1.9
P/CF (x)	16.9	46.7	12.8	12.9	10.9
Dividend yield (%)	1.3	0.8	1.5	1.9	1.7
EV/Ebitda (x)	18.1	12.0	8.9	7.0	5.8
ROAE (%)	20.0	20.0	18.1	17.7	17.9
Interest cover (x)	24.9	29.0	22.1	18.7	21.7

Sources: Company data, RHB