

Investment Idea

Kelington Group Bhd

Industrial gas player to watch

BUY

Price: **RM0.84**

Target price: **RM1.06**

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Kelington Group Bhd (“KGB”) growth trajectory continues with their industrial gas foray via a 15-year supply agreement from Petronas to purchase CO₂ gas for their new plant (next to Petronas Gas Processing Plant) in Kerteh Terengganu. The plant is expected to start contributing by mid-2019. We are upgrading our target price to RM1.06 based on 12x PER FY19 FBM Small Cap Index average.

KGB recent results continues to show strong growth with revenue rising 28% and net profit almost doubling to RM8.6m in 1H2018 vs RM4.4m in 1H2017. This is supported by their core business division of Ultra High Purity (“UHP”) gas and process engineering which tend to command better margins.

KGB has secured new projects totalling RM236m to-date and management is confident it will be better than the RM374m secured last year. Outstanding orderbook of RM252m is expected to benefit from China’s ambitious plans for self-sufficiency and Made in China 2025 for semiconductor and fab equipment.

KGB’s next growth catalyst would be their industrial gas division where they are building a CO₂ plant next to Petronas Gas Processing Plant in Kerteh costing an estimated RM50-60m with production capacity of 50,000 tonnes per year. It recently completed 10% private placement raising RM17.8m to part-finance the venture. This division started on strong footing last year with a RM20m 10-year contract for on-site gas supply to one of the largest manufacturers of solar cells and modules in Cyberjaya.

KGB balance sheet remains sound with net cash position of RM40m and has 25% dividend policy translating to over 2% in dividend yield. In line with global semiconductor growth and their industrial gas business expansion plans, earnings are projected to continue to grow at double digit close to 30% FY18 and FY19.

Technically Speaking

Resistance level **RM0.90**

Support level **RM0.82**



Source: Thomson Reuters

KLCI	1,819.66
YTD KLCI change	+1.27%
YTD stock price change	-2.89%

Stock Information

Market Cap (RM m)	212.3
Issued shares (m)	252.8
52-week range (H)	0.905
52-week range (L)	0.600

Major Shareholders

Palace Star Sdn Bhd	36.89%
Sun Lead International Ltd	7.84%

Summary Earnings Table

FY Dec (RM'm)	2016A	2017A	2018F	2019F
Turnover	343.3	313.3	360.0	440.0
EBIT	18.3	17.9	22.0	30.0
PBT	10.1	17.2	21.0	28.0
Net Profit	8.9	11.8	16.0	22.0
Consensus	-	-	-	-
EPS (sen)	4.0	5.2	6.6	8.8
EPS growth (%)	-	30%	27%	28%
DPS (sen)	1.0	1.5	1.7	2.1
PER (x)	21.1	16.7	12.7	9.6
BV/Share (RM)	0.30	0.34	0.41	0.48
ROE (%)	13.0	14.7	15.9	17.9
Net Div Yield (%)	1.1	1.7	1.9	2.6

Sources: Company & Rakuten Trade Research

COMPANY	Definition
Buy	The stock return is expected to exceed the KLCI benchmark by more than 10% over the next 6-12 months.
Trading Buy	Short-term positive development on the stock that could lead to a re-rating in the share price and translate into an absolute return of 10% over the next 3-6 months. Trading Buy is generally for investors who are willing to take on higher risks.
Take profit	The stock return previously recommended has gained by >10%
Hold	The stock return is expected to be in line with the KLCI benchmark (+/- 5%) over the next 6-12 months.
Sell	The stock return is expected to underperform the KLCI benchmark by more than 10% over the next 6-12 months.
SECTOR	
Overweight	Industry expected to outperform the KLCI benchmark, weighted by market capitalization, over the next 6-12 months.
Neutral	Industry expected to perform in-line with the KLCI benchmark, weighted by market capitalization, over the next 6-12 months.
Underweight	Industry expected to underperform the KLCI benchmark, weighted by market capitalization, over the next 6-12 months.

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Published:

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