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research@rakutenrade.my

Investment Idea

Kelington Group Bhd

Growth story remains intact

By Vincent Lau | vincent.lau@rakutenrade.my

We remain positive on Kelington Group Bhd (“KGB”) on the back of another good 1Q19 results supported by stronger billings and solid orderbook. Reiterate BUY with unchanged price target of RM1.68 premised on 16x PER FY20 figures as per closest related peers.

KGB’s 1Q19 results were commendable notwithstanding the on-going trade tension between US and China plus the technology sector fallout which has caused slowdown within the semiconductor related sector as seen in the recently 1Q19 results season among the technology listed companies. KGB remains prime beneficiary and proxy for China’s semiconductor chip ambitions.

Current outstanding orderbook of RM330m with RM146m new orders secured in 2019 with their core segment ultra-high purity (UHP) projects accounting close to 80% of the orders secured followed by process engineering (PE) with Singapore, Malaysia and China being the biggest markets for KGB.

KGB’s growth catalyst would be their new liquid carbon dioxide (LCO₂) industrial gas plant with 50,000 tonnes production capacity that is to be ramped up progressively in Kerteh situated next to Petronas Gas is on track to commence operations by 4Q19 and is set to catapult them to 2nd position in the industrial gas division to challenge incumbent market leader Linde Malaysia.

KGB’s growth story remains intact as evidenced by double digit growth over the last 2 years and we expect a 20% growth in EPS for FY20 as their LCO₂ business starts to contribute with improving margins and stable recurring income.

Technically Speaking

Resistance level	RM1.36
Support level	RM1.19

BUY

Price: **RM1.27**
Target price: **RM1.68**



Source: Thomson Reuters

KLCI	1,650.76
YTD KLCI change	-2.36%
YTD stock price change	+13.39%

Stock Information

Market Cap (RM'm)	363.6
Issued Shares (m)	295.6
52-week range (H)	1.41
52-week range (L)	0.71

Major Shareholders

Palace Star	28.8%
Sun Lead International	6.7%
KWAP	5.5%

Summary Earnings Table

FY Dec (RM'm)	2017A	2018A	2019F	2020F
Total Income	313.3	349.2	420.0	500.0
EBIT	24.8	32.8	35.0	43.0
PBT	16.8	24.5	34.0	41.0
Net Profit	10.9	18.5	25.0	30.0
Consensus	-	-	24.8	31.0
EPS (sen)	4.8	6.0	8.4	10.1
EPS growth	-	25%	40%	20%
DPS (sen)	1.5	1.2	1.5	2.0
PER (x)	26.7	16.5	15.0	12.5
BV/Share (RM)	0.34	0.41	0.48	0.57
ROE (%)	14.7	18.3	16.7	17.5
Div. Yield	1.1%	0.9%	1.1%	1.5%

Sources: Company, Rakuten Research



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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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RAKUTEN TRADE SDN BHD (266701-P)

Level 7, Kenanga Tower, 237, Jalan Tun Razak, 50400 Kuala Lumpur, Malaysia
Telephone: (603) 2110 7188 Website: www.rakutenrade.my

Kenny Yee Shen Pin
Head of Research