

Kelington Group

Vaccine to Boost Dry Ice Demand

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Pfizer's Covid-19 vaccine announcement came as positive news for KGB. We believe KGB's dry ice plant could see a rise in demand as pharmaceutical companies are reportedly snapping up dry ice to store vaccines. More importantly, the availability of vaccine paves the way for a full economy re-opening, which facilitates KGB's UHP installation works. The stock now only trades at 16.7x Fwd. PER vs peers' average of 30-58x. Reiterate **OUTPERFORM** and TP of RM1.92.

Dry ice critical for Covid-19 vaccine. As reported by Bloomberg, Pfizer's Covid-19 vaccine proves to be 90% effective. Interestingly, we understand that the vaccine needs to be packed with dry ice to keep temperatures below -70°C in order to maintain its optimal efficacy. Because of this, according to NBC News, dry ice is experiencing a rise in demand from pharmaceutical companies working on vaccine as well as increased usage for food delivery service. Coincidentally, Kelington Group Bhd (KGB) has a dry ice plant located in Shah Alam, positioning them well to benefit from this demand surge.

A re-opening play. More importantly, the availability of vaccine paves the way for a full economy re-opening, which facilitates KGB's UHP installation works. Currently, KGB's outstanding orderbook has piled up to a record high of RM386m (vs. RM258m at end-FY19). This means that, as the economy reopens, there is a huge backlog of jobs for KGB to deliver. In fact, KGB has already been resuming operations in Malaysia, Taiwan and China, while Singapore operations are back to 75% (from 30% earlier).

All stars aligned. We believe KGB is poised for a strong earnings recovery in FY21, backed by record-high orderbook, imminent wafer shortages (thus requiring further expansions) and China's semiconductor localisation efforts. Besides, with Biden winning the US election, we believe sentiment overhang on SMIC and hence KGB is now cleared.

Maintain FY20E and FY21E earnings. We believe KGB's earnings potential in FY21 is being underestimated by market, which is only looking at RM17.9m. To put things into perspective, KGB already achieved PAT of RM24.4m in FY19 even with ~RM1m start-up losses for its liquid CO2 plant and ~RM2m idling losses at Taiwan division. For FY21, we forecast the liquid CO2 plant to start generating RM3-4m profit, while Taiwan also swings into profit of RM2m. With its all-time high orderbook, we believe we too are still being conservative with our FY21E PAT of RM26.0m (+230% YoY).

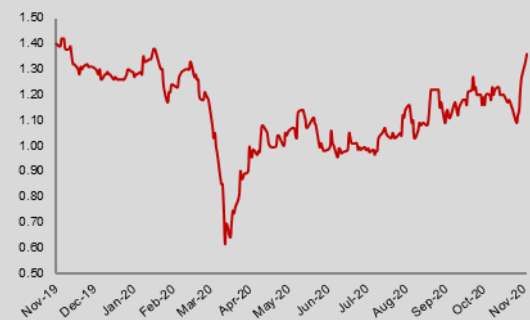
Maintain OUTPERFORM and Target Price of RM1.92, based on FY21E PER of 23.6x (+0.5SD from 3-year mean – a premium justly applied on our conservative FY21 estimate). The stock currently trades at FY21E PER of 16.7x, significantly cheaper than peers' average of 30-58x.

Risks to our call include: (i) Slower-than-expected revenue recognition due to Covid-19, (ii) downturn in semiconductor sales, and (iii) delay in liquid CO2 ramp up.

OUTPERFORM

Price : RM1.36
Target Price : RM1.92

Share Price Performance



KLCI	1,557.1
YTD KLCI chg	5.8%
YTD stock price chg	7.9%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	KGRB MK Equity
Market Cap (RM m)	438.8
Shares Outstanding	321.4
52-week range (H)	1.43
52-week range (L)	0.59
3-mth avg daily vol:	2,392,457
Free Float	53%
Beta	1.2

Major Shareholders

Palace Star	21.0%
Sun Lead International Ltd	6.2%
Kenanga Unit Trust	5.2%

Summary Earnings Table

FYE Dec (RM m)	2019A	2020E	2021E
Turnover	379.8	336.9	435.3
EBITDA	35.0	14.3	38.7
PBT	31.6	10.2	33.6
Net Profit (NP)	24.4	7.9	26.0
Consensus (NP)	n.a	7.7	17.9
Earning. Revision	n.a	0%	0%
EPS (sen)	8.2	2.5	8.1
EPS growth (%)	8.0	-69.8	230.1
NDPS (sen)	2.0	0.6	2.0
BVPS (RM)	0.52	0.51	0.57
Price/BV (x)	2.3	2.5	2.2
PER (x)	14.8	51.6	16.7
Gearing (x)	0.2	0.2	0.2
ROA (%)	8.1	2.4	7.3
ROE (%)	15.7	4.9	14.3
Dividend Yield (%)	1.7	0.5	1.6

11 November 2020

Income Statement

FY Dec (RM m)	2017A	2018A	2019A	2020E	2021E
Revenue	313.3	350.0	379.8	336.9	435.3
EBITDA	19.2	29.0	35.0	14.3	38.7
Depre & Amor	-1.3	-3.1	-2.1	-2.8	-3.8
Operating Profit	17.9	25.9	32.9	11.5	34.9
Other Income	2.1	0.9	5.3	2.6	3.4
Interest Exp	-0.8	-0.9	-1.3	-1.3	-1.3
Associate	0.0	0.0	0.0	0.0	0.0
PBT	17.2	25.0	31.6	10.2	33.6
Taxation	-5.6	-6.7	-7.7	-2.5	-8.2
Minority Interest	-0.2	-0.3	-0.5	-0.2	-0.5
PATAMI	11.8	18.6	24.4	7.9	26.0
Core PATAMI	11.8	18.6	24.4	7.9	26.0

Balance Sheet

FY Dec (RM m)	2017A	2018A	2019A	2020E	2021E
Fixed Assets	15.5	24.7	53.0	70.1	96.4
Intangible Assets	6.3	6.3	6.4	6.4	6.4
Other FA	0.0	0.0	4.3	4.3	4.3
Inventories	1.0	0.2	0.6	0.5	0.6
Receivables	81.2	81.4	90.9	80.7	104.2
Other CA	78.3	88.0	91.0	91.0	91.0
Cash	47.5	42.9	57.0	69.9	51.6
Total Assets	229.9	243.5	303.1	322.8	354.4
Payables	93.6	77.8	71.6	67.0	82.3
ST Borrowings	27.9	15.6	12.1	12.1	12.1
Other ST Liability	27.4	32.3	37.9	56.2	53.4
LT Borrowings	2.3	1.5	23.3	23.3	23.3
Other LT Liability	0.2	0.1	2.6	2.6	2.6
Net Assets	78.5	116.2	155.5	161.6	180.7
Shr. Equity	78.2	116.1	155.3	161.7	181.2
Mnrt. Interest	0.2	0.1	0.3	-0.1	-0.5
Total Equity	78.5	116.2	155.5	161.6	180.7

Cashflow Statement

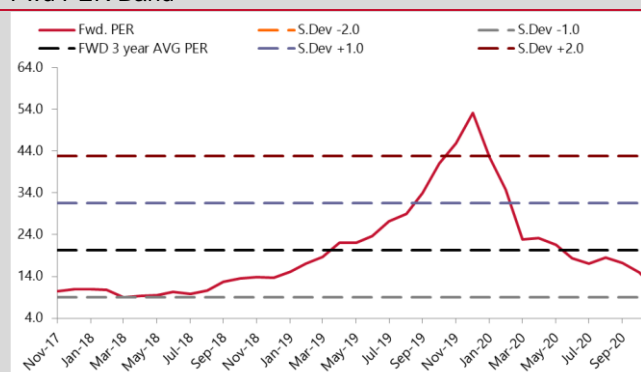
FY Dec (RM m)	2017A	2018A	2019A	2020E	2021E
Operating CF	23.2	8.4	20.0	18.3	14.2
Investing CF	-13.4	-12.1	-35.2	-20.0	-30.0
Financing CF	5.4	6.7	31.7	3.6	-2.5

Source: Kenanga Research

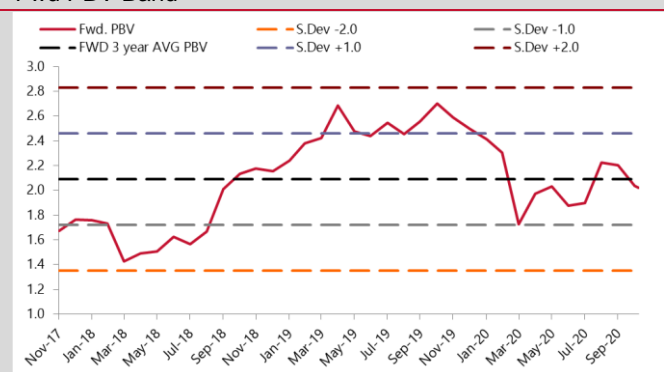
Financial Data & Ratios

FY Dec	2017A	2018A	2019A	2020E	2021E
Growth (%)					
Turnover	-27.1	11.7	8.5	-11.3	29.2
EBITDA	-67.5	50.8	20.7	-59.0	169.9
Operating Profit	-43.9	44.6	26.9	-65.0	203.8
PBT	-42.0	45.7	26.3	-67.8	230.1
Adj Net Profit	-24.2	58.2	30.9	-67.8	230.1
Profitability (%)					
EBITDA Margin	6.1	8.3	9.2	4.3	8.9
Operating Margin	5.7	7.4	8.7	3.4	8.0
PBT Margin	5.5	7.1	8.3	3.0	7.7
Core Net Margin	3.8	5.3	6.4	2.3	6.0
Effective Tax Rate	32.8	26.8	24.3	24.3	24.3
ROA	6.1	5.1	7.7	8.1	2.4
ROE	15.1	16.1	15.7	4.9	14.3
DuPont Analysis					
Net Margin (%)	3.8	5.3	6.4	2.3	6.0
Assets Turnover (x)	1.4	1.4	1.3	1.0	1.2
Leverage Factor (x)	2.9	2.1	1.9	2.0	2.0
ROE (%)	15.1	16.1	15.7	4.7	14.3
Leverage					
Debt/Asset (x)	0.1	0.1	0.1	0.1	0.1
Debt/Equity (x)	0.4	0.1	0.2	0.2	0.2
Net (Cash)/Debt	-17.3	-25.8	-21.6	-35.8	-16.0
Net Debt/Equity (x)	-0.2	-0.2	-0.1	-0.2	-0.1
Valuations					
Core EPS (sen)	5.2	7.6	8.2	2.5	8.1
DPS (sen)	0.0	0.0	2.0	0.6	2.0
BVPS (RM)	0.3	0.5	0.5	0.5	0.6
PER (x)	24.6	16.8	15.6	51.6	16.7
Div. Yield (%)	0.0	0.0	1.6	0.5	1.6
P/BV (x)	3.7	2.7	2.4	2.5	2.2
EV/EBITDA (x)	14.2	9.9	10.2	25.9	10.1

Fwd PER Band



Fwd PBV Band



Source: Bloomberg, Kenanga Research

11 November 2020

Malaysian Technology Peers Comparison

Name	Last Price (RM)	Mkt Cap (RM'm)	Shariah Compliant	Current FYE	Revenue Growth		Core Earnings Growth		PER (x) - Core Earnings			PBV (x)		ROE (%)	Net Div Yld (%)	Target Price (RM)	Rating
					1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	Hist.	1-Yr. Fwd.	2-Yr. Fwd.	Hist.	1-Yr. Fwd.	1-Yr. Fwd.			
D&O GREEN TECHNOLOGIES BHD	1.22	1,390.0	Y	12/2019	0.0%	14.2%	-2.5%	56.7%	28.6	29.7	18.9	2.8	2.5	13.0%	1.1%	1.20	OP
INARI AMERTRON BHD	2.65	8,690.0	Y	06/2020	37.4%	24.9%	66.7%	25.1%	54.8	33.3	26.7	7.1	7.0	21.6%	2.5%	3.14	OP
JHM CONSOLIDATION BHD	1.94	1,082.5	Y	12/2020	5.9%	24.7%	3.6%	58.2%	23.8	22.9	14.5	3.6	3.0	13.1%	1.6%	2.00	OP
KELINGTON GROUP BHD	1.36	438.8	Y	12/2020	-11.3%	29.2%	-67.8%	230.0%	15.6	53.7	16.7	2.4	2.5	4.9%	0.5%	1.92	OP
KESM INDUSTRIES BHD	9.95	428.0	Y	07/2020	14.6%	5.3%	19158%	34.2%	3768	19.6	14.6	1.0	1.0	5.0%	1.1%	8.60	MP
MALAYSIAN PACIFIC INDUSTRIES BHD	22.66	4,762.9	Y	06/2020	8.0%	8.0%	16.0%	11.0%	19.5	16.7	15.1	1.7	1.8	11.8%	1.9%	18.80	OP
P.I.E. INDUSTRIAL BHD	1.91	733.5	Y	12/2020	13.5%	13.5%	24.3%	15.0%	15.5	36.3	14.6	1.3	1.2	3.5%	1.4%	1.45	MP
SKP RESOURCES BHD	1.84	2,303.8	Y	03/2020	23.7%	9.7%	67.3%	20.7%	27.5	16.4	13.6	3.3	3.0	18.0%	3.0%	1.83	OP
UNISEM (M) BHD	5.70	4,180.4	Y	12/2020	9.0%	17.6%	71.9%	47.7%	49.7	28.9	19.6	2.4	2.2	7.8%	1.4%	5.15	OP

Source: Kenanga Research

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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