

19 August 2021

Kelington Group

Fab Expansion on the Rise

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KGB has clinched another job win, this time from GlobalFoundries which recently allocated US\$4b to expand its wafer fab in Singapore. The award is worth RM45m for a base build specialty gas delivery system and work will commence immediately as the customer is seeing an urgent need to increase its 12-inch wafer output up to 1.5m per year (+43%) due to swelling chip demand. This brings YTD order wins to RM264m while order-book stands at RM523m. We believe this is the start of more fab expansions to come, indicating a slew of jobs in the pipeline for KGB. Maintain **OUTPERFORM** with a higher Target Price of RM1.50.

Just the start. Kelington Group (KGB) made an announcement yesterday indicating another UHP (ultra-high purity gas delivery system) job win, this time from GlobalFoundries' wafer fabrication plant in Singapore. This award is worth RM45m for a base build job relating to the specialty gas delivery system and work will commence immediately as the customer is seeing an urgent need to ramp up capacity due to swelling chip demand. We are very positive on this development as it strengthens our belief in KGB's competency and competitive edge among peers given that the group managed to win this contract in a short span of time, merely one month after GlobalFoundries announced its US\$4b capex plan to build a new wafer fab. Including the recent award, KGB has secured RM264m job wins in 2021 while its order-book has ballooned to RM523m.

More to come. We observed that larger wafer fab players such as TSMC and SMIC have started their capex plan early in the year, while medium sized players are only starting to execute their capex plans now and can no longer hold back as the gap between surging demand and available capacity continues to widen. This indicates that we can expect more wafer fab expansion to come and KGB is in a favourable position to benefit from more UHP jobs, in line with management's goal to achieve another year of record job wins. The group's tender-book has jumped to RM1.5b, a sharp increase of 50% from the RM1b usually reported by them. This is likely driven by strong demand for semiconductors as our channel check shows that laptop manufacturers are still experiencing chip supply that are 25-30% below demand while automotive semiconductor companies are locking in wafer orders with non-cancellation clauses for up to 24 months.

Braving through the MCO challenges. Despite running at 60% workforce restriction in its Malaysia operation during the MCO 3.0 period, we are hopeful for the 2QFY21 result to remain stable QoQ as UHP jobs in China have been running smoothly and would likely be able to offset the MCO 3.0 impact. Note that China contributes c.48% of the group's order-book.

Maintain FY21E-22E earnings of RM31.1m and RM35.6m, representing growth of 78% and 14%, respectively.

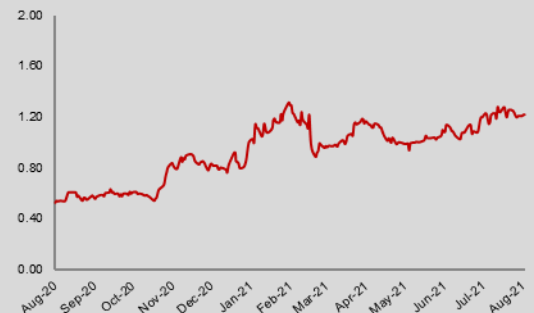
Maintain OUTPERFORM with a higher Target Price of RM1.50 (previously RM1.30), based on rolled forward FY22E PER of 26x, representing 15% discount to peers' average.

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

OUTPERFORM ↔

Price : RM1.20
Target Price : RM1.50 ↑

Share Price Performance



KLCI	1,525.24
YTD KLCI chg	-6.3%
YTD stock price chg	42.0%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	KGRB MK Equity
Market Cap (RM m)	771.6
Shares Outstanding	643.0
52-week range (H)	1.35
52-week range (L)	0.52
3-mth avg daily vol:	2,655,154
Free Float	47%
Beta	1.3

Major Shareholders

Palace Star	21.4%
Sun Lead International Ltd	6.2%
CIMB Group Holdings Bhd	5.7%

Summary Earnings Table

FYE Dec (RM m)	2020A	2021E	2022E
Turnover	394.6	426.8	484.7
EBITDA	33.5	49.2	57.4
PBT	20.9	41.3	47.2
Net Profit (NP)	17.5	31.1	35.6
Consensus (NP)	N.A.	28.4	33.8
Earning. Revision	N.A.	0%	0%
EPS (sen)	2.8	4.9	5.6
EPS growth (%)	-32.3	77.9	14.4
NDPS (sen)	0.8	1.2	1.4
BVPS (RM)	0.27	0.30	0.35
Price/BV (x)	4.5	4.0	3.5
PER (x)	43.4	24.4	21.3
Gearing (x)	0.3	0.3	0.3
ROA (%)	5.0	8.6	8.8
ROE (%)	10.4	16.2	16.3
Dividend Yield (%)	0.6	1.0	1.2



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Income Statement

FY Dec (RM m)	2018A	2019A	2020A	2021E	2022E
Revenue	350.0	379.8	394.6	426.8	484.7
EBITDA	29.0	35.0	33.5	49.2	57.4
Depre & Amor	-3.1	-2.1	-5.1	-5.4	-7.7
Operating Profit	25.9	32.9	28.4	43.8	49.7
Other Income	0.9	5.3	8.7	3.3	3.7
Interest Exp	-0.9	-1.3	-2.5	-2.5	-2.5
Associate	0.0	0.0	-5.0	0.0	0.0
PBT	25.0	31.6	20.9	41.3	47.2
Taxation	-6.7	-7.7	-3.4	-10.0	-11.5
Minority Interest	-0.3	-0.5	0.1	0.2	0.2
PATAMI	18.6	24.4	17.5	31.1	35.6
Core PATAMI	18.6	24.4	17.5	31.1	35.6

Balance Sheet

FY Dec (RM m)	2018A	2019A	2020A	2021E	2022E
Fixed Assets	24.7	53.0	59.7	84.2	119.6
Intangible Assets	6.3	6.4	6.4	6.4	6.4
Other FA	0.0	4.3	4.7	4.7	4.7
Inventories	0.2	0.6	2.8	2.9	3.3
Receivables	81.4	90.9	74.2	80.3	91.2
Other CA	88.0	62.9	70.6	70.6	70.6
Cash	42.9	85.1	132.0	113.8	107.0
Total Assets	243.5	303.1	350.3	362.9	402.7
Payables	77.8	71.6	89.1	93.2	105.5
ST Borrowings	15.6	12.1	28.3	28.3	28.3
Other ST Liability	32.3	37.9	35.1	19.5	20.3
LT Borrowings	1.5	23.3	27.2	27.2	27.2
Other LT Liability	0.1	2.6	2.6	2.6	2.6
Net Assets	116.2	155.5	168.0	192.1	218.8
Shr. Equity	116.1	155.3	168.0	191.9	218.5
Mnrt. Interest	0.1	0.3	0.3	0.2	0.3
Total Equity	116.2	155.5	168.3	192.1	218.8

Cashflow Statement

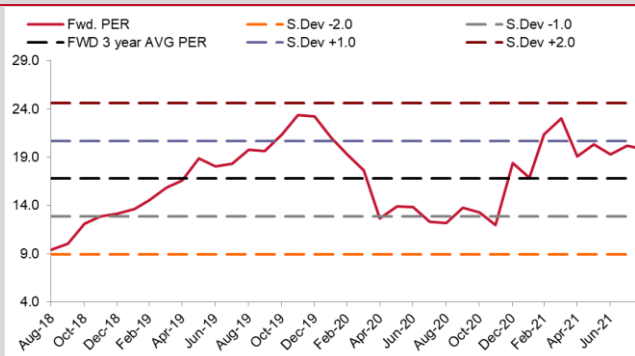
FY Dec (RM m)	2018A	2019A	2020A	2021E	2022E
Operating CF	8.4	20.0	45.7	33.8	42.0
Investing CF	-12.1	-35.2	-12.0	-30.0	-43.0
Financing CF	6.7	31.7	11.3	-3.8	-5.9

Source: Kenanga Research

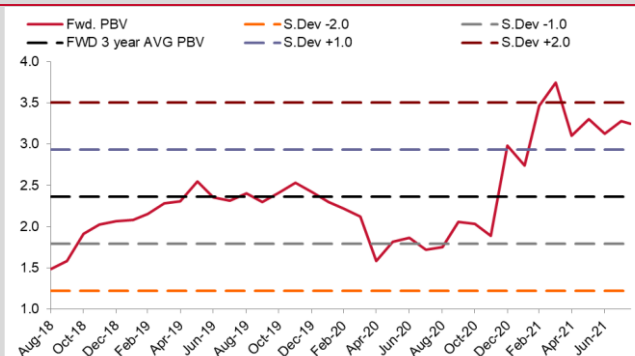
Financial Data & Ratios

FY Dec	2018A	2019A	2020A	2021E	2022E
Growth (%)					
Turnover	11.7	8.5	3.9	8.2	13.6
EBITDA	50.8	20.7	-4.1	46.8	16.6
Operating Profit	44.6	26.9	-13.6	54.2	13.6
PBT	45.7	26.3	-33.7	97.2	14.4
Adj Net Profit	58.2	30.9	-28.4	77.9	14.4
Profitability (%)					
EBITDA Margin	8.3	9.2	8.5	11.5	11.8
Operating Margin	7.4	8.7	7.2	10.3	10.3
PBT Margin	7.1	8.3	5.3	9.7	9.7
Core Net Margin	5.3	6.4	4.4	7.3	7.3
Effective Tax Rate	26.8	24.3	16.0	24.3	24.3
ROA	6.1	7.7	8.1	5.0	8.6
ROE	16.1	15.7	10.4	16.2	16.3
DuPont Analysis					
Net Margin (%)	5.3	6.4	4.4	7.3	7.3
Assets Turnover (x)	1.4	1.3	1.1	1.2	1.2
Leverage Factor (x)	2.1	1.9	2.1	1.9	1.8
ROE (%)	16.1	15.7	10.4	16.2	16.3
Leverage					
Debt/Asset (x)	0.1	0.1	0.2	0.2	0.1
Debt/Equity (x)	0.1	0.2	0.3	0.3	0.3
Net (Cash)/Debt	-25.8	-49.7	-76.5	-58.4	-51.5
Net Debt/Equity (x)	-0.2	-0.3	-0.5	-0.3	-0.2
Valuations					
Core EPS (sen)	7.6	8.2	2.8	4.9	5.6
DPS (sen)	0.0	2.0	0.8	1.2	1.4
BVPS (RM)	0.5	0.5	0.3	0.3	0.3
PER (x)	27.7	25.6	43.4	24.4	21.3
Div. Yield (%)	0.0	1.0	0.6	1.0	1.2
P/BV (x)	4.4	4.0	4.5	4.0	3.5
EV/EBITDA (x)	16.9	16.5	20.4	14.3	12.4

Fwd PER Band



Fwd PBV Band



Source: Bloomberg, Kenanga Research

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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	5.00	5,937.6	Y	12/2021	76.6%	10.8%	165%	11.0%	101.6	38.4	34.6	12.2	10.6	26.3%	0.9%	5.50	OP
GHL SYSTEMS BHD	2.00	2,283.0	Y	12/2021	4.3%	36.3%	8.4%	41.8%	68.4	63.1	44.5	4.4	4.1	6.5%	0.0%	2.30	OP
INARI AMERTRON BHD	3.42	12,585.5	Y	06/2021	22.5%	14.6%	19.2%	14.7%	36.0	30.2	26.3	8.7	8.0	26.4%	2.3%	4.80	OP
JHM CONSOLIDATION BHD	2.10	1,171.0	Y	12/2020	29.8%	10.7%	72.2%	11.1%	41.9	24.3	21.9	4.7	3.8	15.8%	0.8%	2.00	MP
KELINGTON GROUP BHD	1.20	771.6	Y	12/2021	8.2%	13.6%	77.9%	14.4%	43.4	24.4	21.3	4.5	4.0	16.2%	1.0%	1.50	OP
KESM INDUSTRIES BHD	12.66	544.6	Y	07/2021	-3.0%	18.7%	10633%	113%	5959	55.5	26.1	1.6	1.6	2.8%	0.7%	12.00	MP
MALAYSIAN PACIFIC INDUSTRIES BHD	43.60	8,671.9	Y	06/2021	20.0%	12.0%	65.4%	13.1%	46.2	29.2	25.8	6.2	5.8	16.1%	0.8%	47.50	OP
P.I.E. INDUSTRIAL BHD	3.52	1,351.8	Y	12/2021	59.9%	7.5%	31.2%	27.0%	24.0	18.3	14.4	2.3	2.0	11.1%	2.5%	4.15	OP
SKP RESOURCES BHD	1.89	2,952.9	Y	03/2022	20.0%	3.9%	25.9%	7.3%	20.0	15.9	14.8	3.6	3.3	19.9%	3.1%	2.40	OP
UNISEM (M) BHD	8.44	6,807.2	Y	12/2021	18.5%	7.0%	64.3%	8.5%	45.7	27.8	25.6	3.7	3.4	7.8%	0.7%	10.00	OP

Source: Kenanga Research

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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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