

## Kelington Group Bhd

### Bumping up the orderbook

#### Summary

- Kelington Group Bhd's (KGB) wholly owned subsidiary, Kelington Engineering Pte Ltd has secured a contract valued at RM45.0m for the specialty gas systems distribution works for GlobalFoundries Inc.' new semiconductor fabrication plant in Singapore.
- The contract is for a period of 12 months commencing on 18th August 2021 and is expected to be completed by July 2022.
- The Ultra High Purity (UHP) contract secured marks the sixth major contract wins for KGB year-to-date, bumping its orderbook replenishment to RM264.0m (inclusive of smaller scale projects). This represents 58.7% of our orderbook replenishment target of RM450.0m for FY21f.
- Following the latest win, we reckon that jobs flow may continue to garner pace in subsequent quarters that will be uplifted by gradual recovery of business activities, coupled with the strong demand in the semiconductor sector. The move will also be supported by the approximately RM1.50bn worth of tenderbook.
- Although the local operations will experience minor impact from the implementation of Full Movement Control Order (FMCO), a recovery is largely in sight as operations are expected to gradually resume in coming months. Meanwhile, the stronger billings from the Ultra-High Purity segment for projects in China and Singapore may continue to anchor growth over the foreseeable future.
- On the global scale, the solid global semiconductor sales continue to demonstrate improvement, rising 29.2% YoY to USD44.5bn in June 2021 implies that the aforementioned sector outlook is on the boom amid the rising adoption of Internet of Things (IoT) and technology evolvement into 5G. Hence, we re-iterate our stance on KGB as one of the key beneficiaries to leverage on the semiconductor equipment players expansion plans in addressing the global chips shortage.

#### Valuation & Recommendation

- We made no changes to our earnings forecast, given that contract secured falls within our orderbook replenishment assumption. Therefore, we maintained our **BUY** recommendation on KGB, with an unchanged target price of RM1.37, pending the upcoming 2QFY21 results release, tentatively on next week.
- Our fair value is derived by assigning targeted P/E multiple of 30.0x to FY22f EPS of 4.6 sen. The assigned P/E multiple is in line with valuations of the technology sector that is trading at 30.5x for 2022.
- Risks to our recommendation and target price include weaker-than-expected

#### Company Update

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#### BUY

Share price	RM1.20
Target price	RM1.37
Previous TP	RM1.37
Capital upside	13.8%
Dividend return	1.0%
Total return	14.8%

#### Company profile

Principally involved in the provision of engineering services, construction and general trading

#### Stock information

Bursa Code	0151
Bloomberg ticker	KGRB MK
Listing market	MAIN
Share issued (m)	645.2
Market Cap (m)	774.3
52W High/Low	1.35 / 0.53
Est. Free float	46.8
Beta	1.3
3-mth avg vol ('000)	2,695.5
Shariah compliant	Yes

#### Major shareholders

Palace Star	21.1
Sun Lead International Ltd	6.2
CIMB Principle AM	5.7

#### Share price vs. KLCI (%)

Hist. return	1M	3M	12M
Absolute	0.0	21.2	122.2
Relative	-0.2	26.5	127.8

#### Earnings snapshot

FYE (Dec)	FY20	FY21f	FY22f
PATMI (m)	17.5	26.7	29.4
EPS (sen)	2.7	4.1	4.6
P/E (x)	44.2	29.0	26.4

#### Relative performance chart



targeted orderbook replenishment of RM450.0m for both FY21f and FY22f respectively. Any decline in semiconductor sales may dampen the large scale UHP projects delivery to China and Singapore, given that the UHP segment plays a major part in total revenue contribution and earnings growth.

## Financial Highlights

All items in (RM m) unless otherwise stated

Income Statement						Balance Sheet					
FYE Mar (RM m)	FY18	FY19	FY20	FY21f	FY22f	FYE Mar (RM m)	FY18	FY19	FY20	FY21f	FY22f
<b>Revenue</b>	<b>349.2</b>	<b>379.8</b>	<b>394.6</b>	<b>468.7</b>	<b>504.7</b>	Cash	67.1	85.2	132.0	129.4	128.6
EBITDA	26.0	35.0	27.8	43.4	48.0	Receivables	98.3	90.9	74.2	96.3	103.7
EBIT	25.2	31.9	22.7	37.7	41.5	Inventories	0.2	0.6	2.8	3.3	3.5
Net finance income/ (cost)	(0.2)	(0.3)	(1.7)	(2.4)	(2.7)	PPE	24.7	53.0	59.7	68.1	76.8
Associates & JV	-	-	-	-	-	Others	53.5	46.8	68.6	75.3	67.9
<b>Profit before tax</b>	<b>25.0</b>	<b>31.6</b>	<b>20.9</b>	<b>35.2</b>	<b>38.8</b>	<b>Assets</b>	<b>243.5</b>	<b>304.5</b>	<b>350.3</b>	<b>371.3</b>	<b>391.7</b>
Tax	(6.7)	(7.7)	(3.4)	(8.5)	(9.3)	Debts	17.1	38.8	58.5	59.8	63.6
<b>Net profit</b>	<b>18.3</b>	<b>23.9</b>	<b>17.6</b>	<b>26.8</b>	<b>29.5</b>	Payables	77.8	43.3	71.5	97.6	103.9
Minority interest	(0.3)	(0.5)	0.1	0.1	0.1	Others	32.4	66.9	52.0	33.5	30.5
<b>Core earnings</b>	<b>18.6</b>	<b>24.4</b>	<b>17.5</b>	<b>26.7</b>	<b>29.4</b>	<b>Liabilities</b>	<b>127.3</b>	<b>149.0</b>	<b>182.0</b>	<b>190.9</b>	<b>198.0</b>
Exceptional items	-	-	-	-	-	Shareholder's equity	78.2	116.1	155.8	168.6	187.2
Reported earnings	18.6	24.4	17.5	26.7	29.4	Minority interest	0.1	0.3	0.3	0.3	0.3
						<b>Equity</b>	<b>116.2</b>	<b>155.5</b>	<b>168.3</b>	<b>186.9</b>	<b>208.2</b>
Cash Flow Statement						Valuation & Ratios					
FYE Mar (RM m)	FY18	FY19	FY20	FY21f	FY22f	FYE Mar (RM m)	FY18	FY19	FY20	FY21f	FY22f
Profit before taxation	25.0	31.6	20.9	35.2	38.8	Core EPS (sen)	2.9	3.8	2.7	4.1	4.6
Depreciation & amortisation	2.1	3.1	5.1	5.7	6.5	P/E (x)	41.5	31.7	44.2	29.0	26.4
Changes in working capital	(16.3)	(19.1)	18.6	56.4	18.8	DPS (sen)	1.3	1.0	0.8	1.3	1.3
Share of JV profits	-	-	-	-	-	Dividend yield	1.0%	0.8%	0.6%	1.0%	1.0%
Taxation	(5.9)	(7.9)	(5.1)	(8.5)	(9.3)	BVPS (RM)	0.18	0.24	0.26	0.29	0.32
Others	1.1	0.8	5.2	2.4	2.7	P/B (x)	6.7	5.0	4.6	4.1	3.7
<b>Operating cash flow</b>	<b>8.4</b>	<b>21.1</b>	<b>45.7</b>	<b>24.0</b>	<b>28.5</b>	EBITDA margin	7.4%	9.2%	7.1%	9.3%	9.5%
Net capex	(12.6)	(34.9)	(12.3)	(14.1)	(15.1)	EBIT margin	7.2%	8.4%	5.8%	8.0%	8.2%
Others	0.5	(0.3)	0.3	-	-	PBT margin	7.2%	8.3%	5.3%	7.5%	7.7%
<b>Investing cash flow</b>	<b>(12.1)</b>	<b>(35.2)</b>	<b>(12.0)</b>	<b>(14.1)</b>	<b>(15.1)</b>	PAT margin	5.2%	6.3%	4.5%	5.7%	5.8%
Changes in borrowings	(10.8)	21.7	19.7	1.3	3.8	Core PAT margin	5.3%	6.4%	4.4%	5.7%	5.8%
Issuance of shares	1.9	24.2	20.2	-	-	ROE	16.0%	15.7%	10.4%	14.3%	14.1%
Dividends paid	(2.3)	(3.7)	(8.1)	(4.8)	(8.1)	ROA	7.7%	8.0%	5.0%	7.2%	7.5%
Others	(3.7)	(8.1)	(4.8)	(8.1)	(8.1)	Net gearing	Net Cash	Net Cash	Net Cash	Net Cash	Net Cash
<b>Financing cash flow</b>	<b>6.7</b>	<b>30.6</b>	<b>11.3</b>	<b>(5.6)</b>	<b>(5.6)</b>						
<b>Net cash flow</b>	<b>3.0</b>	<b>16.5</b>	<b>45.0</b>	<b>4.3</b>	<b>7.8</b>						
Forex	0.2	(0.7)	0.8	(0.5)	(0.5)						
Others	-	-	-	-	-						
Beginning cash	49.0	52.2	68.0	113.8	111.2						
Ending cash	52.2	68.0	113.8	111.2	110.4						