

Outthink. Outperform.

Earnings hit by admin costs and tax

Kelington's (KGB) 2Q19 earnings missed estimates as a result of higher-than-expected effective tax rate and admin expenses. We cut our FY19 earnings by RM2m in light of these, also factoring in our new FY20-21 forecasts. Nevertheless, we maintain positive on its long-term business outlook; the commencement of LCO₂ plant by end-2019 will be an earnings growth driver in FY20-21. Maintain our BUY rating with a lower TP at RM1.68 (from RM1.72).

2Q19 results was below our expectations

2Q19 net profit came in at RM5.1m (+5% qoq, +16% yoy), below ours and consensus' expectations. The miss was mainly due to a higher-than-expected tax rate and bonus provisions made in 2Q19. Excluding a RM0.7m write back of trade receivable, 2Q19 core net profit was lower yoy at RM4.3m (-23% qoq, -19% yoy). The Ultra-High Purity (UHP) segment saw lower revenue at RM55.6m (-26% yoy) as KGB has yet to recognize most of their major contracts, including their recent secured RM96m contract from Singapore. **Process Engineering (PE)** saw higher revenue of RM33.3m (>100% yoy) as the group wraps up several works in both Malaysia and Singapore. These two segments contributed to 93% of KGB's 2Q19 revenue (Fig 2).

Singapore remains the key market

2Q19 revenue was higher by 7% yoy at RM95m as KGB completed more jobs in their 3 main operating regions. Singapore continues to contribute the bulk of the revenue at RM38m (+45% yoy), followed by China at RM29m (-26% yoy) and Malaysia RM24m (+22% yoy).

Order book update

The total outstanding order book stood at RM312m (ytd new wins amounted to ~RM220m), compared to RM330m in end 1Q19. UHP segment made up the bulk of the order book at 76%, followed by PE and GC at 19% and 4% respectively. Singapore, Malaysia and China remains the 3 biggest contributors to the group's order book at 59%, 18% and 18% respectively.

Maintain BUY with a lower TP of RM1.68

We maintain our **BUY** call but lower our target price to RM1.68 (from RM1.72), based on unchanged 16x FY20 EPS. We cut our 2019-21E EPS by 3-9% after incorporating higher admin costs and effective tax rate. Notwithstanding our earnings cut, we remain optimistic on KGB's long-term growth premised on its industrial gas business expansion plan and the commission of the LCO₂ plant by end-2019.

Earnings & Valuation Summary

FYE 31 Dec	2017	2018	2019E	2020E	2021E
Revenue (RMm)	313.3	171.5	409.5	516.7	613.1
EBITDA (RMm)	24.8	15.4	37.1	51.1	59.2
Pretax profit (RMm)	16.8	13.7	31.1	42.0	50.2
Net profit (RMm)	10.9	9.9	23.4	32.3	38.5
EPS (sen)	4.8	3.2	7.6	10.5	12.5
PER (x)	26.7	39.3	16.7	12.1	10.2
Core net profit (RMm)	17.2	10.0	23.4	32.3	38.5
Core EPS (sen)	7.5	3.2	7.6	10.5	12.5
Core EPS growth (%)	(2.7)	(57.1)	134.5	38.1	19.3
Core PER (x)	16.9	39.3	16.7	12.1	10.2
Net DPS (sen)	1.0	1.2	2.5	3.0	3.5
Dividend Yield (%)	0.8	0.9	2.0	2.4	2.8
EV/EBITDA (x)	10.4	11.7	9.3	6.6	5.4
Chg in EPS (%)			(8.5)	(2.4)	(3.0)
Affin/Consensus (x)			1.0	1.1	1.1

Source: Company, Affin Hwang forecasts, Bloomberg

Results Note

Kelington

KGRB MK
Sector: Oil & Gas

RM1.27 @ 22 August 2019

BUY (maintain)

Upside: 32%

Price Target: RM1.68

Previous Target: RM1.72



Price Performance

	1M	3M	12M
Absolute	-3.8%	+2.4%	+53.9%
Rel to KLCI	-0.6%	+2.5%	+72.7%

Stock Data

Issued shares (m)	310.2
Mkt cap (RMm)/(US\$m)	394/94.2
Avg daily vol - 6mth (m)	1.0
52-wk range (RM)	0.83-1.41
Est free float	52.8%
BV per share (RM)	0.46
P/BV (x)	2.77
Net cash/ (debt) (RMm) (2Q19)	34.1
ROE (2019E)	17.4%
Shariah Compliant	Yes

Key Shareholders

Palace Star	24.8%
Sun Lead International	6.4%
KWAP	5.5%

Source: Affin Hwang, Bloomberg

Tan Jianyuan, ACCA
(603) 2146 7538
jianyuan.tan@affinhwang.com

Outthink. Outperform.

Downside risks

The key downside risks to our call include a slowdown in the semiconductor sector, increased price competition, and a breakdown in trade negotiations between the US and China.

Fig 1: Results comparison

FYE 31 Dec (RMm)	2Q18	1Q19	2Q19	QoQ %chg	YoY %chg	6M18	6M19	YoY %chg	Comments
Revenue	89.2	76.4	95.1	24.4	6.6	175.8	171.5	(2.4)	2Q19 revenue grew 24% yoy largely driven by higher contract recognition in the Process Engineering segment.
Op costs	(82.3)	(68.2)	(87.9)	28.8	6.7	(163.2)	(156.1)	(4.4)	
EBITDA	6.9	8.2	7.2	(12.1)	4.6	12.5	15.4	22.9	
<i>EBITDA margin (%)</i>	7.7	10.7	7.6	-3.2ppt	-0.1ppt	7.1	9.0	1.9ppt	Lower 2Q19 margin qoq due to higher admin costs
Depn and amort	(0.5)	(0.6)	(0.6)	2.7	24.8	(0.9)	(1.1)	33.8	
EBIT	6.4	7.6	6.6	(13.2)	3.1	11.7	14.3	22.1	
<i>EBIT margin (%)</i>	7.2	10.0	7.0	-3ppt	-0.2ppt	6.7	8.3	1.7ppt	
Int expense	(0.3)	(0.3)	(0.3)	(26.8)	(11.9)	(0.6)	(0.6)	0.5	
Int and other inc	0.0	0.0	0.0	n.m	n.m	0.0	0.0	n.m	
Associates	0.0	0.0	0.0	n.m	n.m	0.0	0.0	n.m	
EI	(0.9)	(0.8)	0.8	n.m	n.m	0.6	(0.0)	n.m	Write back of trade receivable.
Pretax profit	5.2	6.5	7.2	10.0	36.9	11.7	13.7	17.1	
Core pretax	6.1	7.3	6.4	(12.6)	3.8	11.1	13.7	23.3	
Tax	(0.9)	(1.7)	(2.1)	24.2	>100	(3.1)	(3.9)	23.6	
<i>Tax rate (%)</i>	17.1	26.5	29.9	3.4ppt	12.9ppt	26.8	28.3	1.5ppt	
MI	0.1	0.1	0.1	n.m	n.m	0.1	0.2	92.3	
Net profit	4.4	4.8	5.1	5.3	15.9	8.6	9.9	15.5	
EPS (sen)	1.9	1.9	2.0	5.3	6.6	3.4	4.0	25.7	
Core net profit	5.3	5.6	4.3	(23.3)	(18.7)	8.1	10.0	23.8	Weaker 2Q19 core net profit due to higher admin costs and taxation.

Source: Affin Hwang, Company



Out think. Out perform.

Fig 2: Segmental and geographical revenue breakdown (RMm)

	1Q18	2Q18	3Q18	4Q18	1Q19	2Q19	qoq % chg	yoy % chg
Ultra High Purity	63.3	75.0	37.9	50.2	44.0	55.6	26.2	(26.0)
Process Engineering	14.5	9.5	15.5	35.2	20.8	33.3	59.9	>100
General Contracting	8.0	3.7	9.7	23.0	10.3	5.0	(51.1)	36.0
Industrial Gases	0.6	1.0	0.6	1.4	1.3	1.2	(4.3)	26.9
TOTAL	86.5	89.2	63.7	109.8	76.4	95.1	24.4	6.6

	1Q18	2Q18	3Q18	4Q18	1Q19	2Q19	qoq % chg	yoy % chg
Malaysia	22.7	19.9	20.3	51.5	21.5	24.2	12.3	21.6
Singapore	13.6	26.2	25.7	46.2	31.1	37.9	22.0	44.8
China	46.7	39.7	12.5	8.3	22.1	29.4	33.1	(26.0)
Taiwan	3.2	2.8	4.6	2.0	1.5	3.2	>100	13.4
Indonesia	0.3	0.7	0.7	1.8	0.3	0.5	85.3	(31.3)
TOTAL	86.5	89.2	63.7	109.8	76.4	95.1	24.4	6.6

Source: Affin Hwang, Company

Important Disclosures and Disclaimer

Equity Rating Structure and Definitions

BUY	Total return is expected to exceed +10% over a 12-month period
HOLD	Total return is expected to be between -5% and +10% over a 12-month period
SELL	Total return is expected to be below -5% over a 12-month period
NOT RATED	Affin Hwang Investment Bank Berhad does not provide research coverage or rating for this company. Report is intended as information only and not as a recommendation

The total expected return is defined as the percentage upside/downside to our target price plus the net dividend yield over the next 12 months.

OVERWEIGHT	Industry, as defined by the analyst's coverage universe, is expected to outperform the KLCI benchmark over the next 12 months
NEUTRAL	Industry, as defined by the analyst's coverage universe, is expected to perform inline with the KLCI benchmark over the next 12 months
UNDERWEIGHT	Industry, as defined by the analyst's coverage universe is expected to under-perform the KLCI benchmark over the next 12 months

This report is intended for information purposes only and has been prepared by Affin Hwang Investment Bank Berhad (14389-U) ("the Company") based on sources believed to be reliable. However, such sources have not been independently verified by the Company, and as such the Company does not give any guarantee, representation or warranty (express or implied) as to the adequacy, accuracy, reliability or completeness of the information and/or opinion provided or rendered in this report. Facts, information, views and/or opinion presented in this report have not been reviewed by, may not reflect information known to, and may present a differing view expressed by other business units within the Company, including investment banking personnel. Reports issued by the Company, are prepared in accordance with the Company's policies for managing conflicts of interest arising as a result of publication and distribution of investment research reports. Under no circumstances shall the Company, its associates and/or any person related to it be liable in any manner whatsoever for any consequences (including but are not limited to any direct, indirect or consequential losses, loss of profit and damages) arising from the use of or reliance on the information and/or opinion provided or rendered in this report. Any opinions or estimates in this report are that of the Company, as of this date and subject to change without prior notice. Under no circumstances shall this report be construed as an offer to sell or a solicitation of an offer to buy any securities. The Company and/or any of its directors and/or employees may have an interest in the securities mentioned therein. The Company may also make investment decisions or take proprietary positions that are inconsistent with the recommendations or views in this report.

Comments and recommendations stated here rely on the individual opinions of the ones providing these comments and recommendations. These opinions may not fit to your financial status, risk and return preferences and hence an independent evaluation is essential. Investors are advised to independently evaluate particular investments and strategies and to seek independent financial, legal and other advice on the information and/or opinion contained in this report before investing or participating in any of the securities or investment strategies or transactions discussed in this report.

Third-party data providers make no warranties or representations of any kind relating to the accuracy, completeness, or timeliness of the data they provide and shall not have liability for any damages of any kind relating to such data.

The Company's research, or any portion thereof may not be reprinted, sold or redistributed without the consent of the Company.

The Company, is a participant of the Capital Market Development Fund-Bursa Research Scheme, and will receive compensation for the participation.

This report is printed and published by:
 Affin Hwang Investment Bank Berhad (14389-U)
 A Participating Organisation of Bursa Malaysia Securities Berhad

22nd Floor, Menara Boustead,
 69, Jalan Raja Chulan,
 50200 Kuala Lumpur, Malaysia.

T : + 603 2146 3700
 F : + 603 2146 7630
research@affinhwang.com

www.affinhwang.com