

"Results exceeded expectations"

### Share price performance



|              | 1M   | 3M   | 12M  |
|--------------|------|------|------|
| Absolute (%) | 41.7 | 57.4 | 28.8 |
| Rel KLCI (%) | 34.1 | 56.4 | 30.3 |

|           | BUY | HOLD | SELL |
|-----------|-----|------|------|
| Consensus | 1   | 2    | -    |

Source: Bloomberg

### Stock Data

|                          |             |
|--------------------------|-------------|
| Sector                   | Oil & Gas   |
| Issued shares (m)        | 321.4       |
| Mkt cap (RMm)/(US\$m)    | 546.4/133.8 |
| Avg daily vol - 6mth (m) | 2.3         |
| 52-wk range (RM)         | 0.59-1.82   |
| Est free float           | 52.7%       |
| Stock Beta               | 1.34        |
| Net cash/(debt) (RMm)    | 41.9        |
| ROE (CY21E)              | 11.6%       |
| Derivatives              | No          |
| Shariah Compliant        | Yes         |

### Key Shareholders

|                        |       |
|------------------------|-------|
| Palace Star            | 21.4% |
| Sun Lead International | 6.2%  |
| Kenanga                | 5.2%  |

Source: Affin Hwang, Bloomberg

### Tan Jianyuan, ACCA

T (603) 2146 7538

E jianyuan.tan@affinhwang.com

## Kelington (KGRB MK)

### HOLD (maintain)

Up/Downside: -3%

### Price Target: RM1.65

Previous Target (Rating): RM1.22 (HOLD)

### Higher Malaysian activities, positive China margin surprise

- KGB's 9M20 earnings were above our and consensus expectations (RM7m profit) on strong rebound in activities, while margins positively surprised
- Malaysia saw highest qoq recovery on more UHP and general contracting works. China executed on higher margin work. Liquid carbon dioxide (LCO2) plant utilisation rebounded to 50% in 3Q20 (from 14% in 2Q20)
- Reiterate our Hold rating with higher target price of RM1.65, pegged to a revised 25x FY21E EPS

### Malaysia activities and China margin lifted earnings

3Q20 revenue rose 27% qoq to RM98m, largely driven by higher Malaysia activities on the back of its higher ultra-high purity (UHP) and general contracting jobs. Malaysia made up 32% of total revenue in 3Q (vs 24% in 6M20). Singapore contribution remained low at 24% (2Q20: 27%). Margins rebounded 11ppts qoq on the back of higher margin work executed in China. LCO2 plant utilisation has returned to pre-Covid levels at 50%, rebounding from a low of 14% recorded in 2Q20.

### Dry ice profit is not as big as the share price rally indicated

A recent news report highlighted that KGB's dry ice business could see higher demand to cater for future vaccine storage needs. By our estimates, the existing plant will only contribute RM1-2m net profit (7% of our FY21 estimate), assuming 100% utilization and with the plant running on full 24-hour shifts. Thus far, management has not indicated any intention to expand beyond its current existing plant until further clarity from the pharmaceutical companies.

### Maintain Hold

We raise our previous 2020E net profit from RM7m to RM15.5m to factor in stronger work recovery and margins from China; and 2021-22E mainly on margins. We have included RM800k and RM1.2m of dry ice profit contribution in our revised 2021-22E numbers. While our 2021E revenue is projected to be higher than 2019, net profit would unlikely surpass that on expectation of a lower proportion of high-margin jobs from Singapore (2018 was a historical high at 46%). We raise our target price to RM1.65 (from RM1.22) pegged to a 25x PER (from 21x PER), +2SD its 5-year average valuation. We believe the current high valuation will continue to be supported by the long-term China growth prospects, coupled with the near-term view as a vaccine-related play. The key risk lies in KGB failing to be shortlisted as SMIC's main contractor for the whole of its 2021 work programme, which would then require them to secure new contract wins from other regions, which may not be as consistent.

### Earnings & Valuation Summary

| FYE 31 Dec            | 2018  | 2019  | 2020E  | 2021E | 2022E |
|-----------------------|-------|-------|--------|-------|-------|
| Revenue (RMm)         | 350.0 | 379.8 | 360.0  | 410.1 | 427.4 |
| EBITDA (RMm)          | 29.3  | 35.4  | 29.1   | 34.9  | 39.1  |
| Pretax profit (RMm)   | 25.0  | 31.6  | 20.0   | 26.5  | 31.1  |
| Net profit (RMm)      | 18.6  | 24.4  | 15.5   | 20.3  | 23.8  |
| EPS (sen)             | 6.1   | 7.9   | 5.0    | 6.6   | 7.7   |
| PER (x)               | 28.1  | 21.4  | 33.8   | 25.7  | 22.0  |
| Core net profit (RMm) | 20.6  | 25.8  | 15.5   | 20.3  | 23.8  |
| Core EPS (sen)        | 6.7   | 8.4   | 5.0    | 6.6   | 7.7   |
| Core EPS growth (%)   | 19.5  | 25.2  | (40.0) | 31.3  | 17.0  |
| Core PER (x)          | 25.4  | 20.3  | 33.8   | 25.7  | 22.0  |
| Net DPS (sen)         | 1.2   | 2.6   | 1.0    | 2.0   | 2.0   |
| Dividend Yield (%)    | 0.7   | 1.5   | 0.6    | 1.2   | 1.2   |
| EV/EBITDA (x)         | 16.2  | 13.5  | 16.2   | 12.6  | 11.0  |

|                     |      |       |       |
|---------------------|------|-------|-------|
| Chg in EPS (%)      | >100 | +13.7 | +14.8 |
| Affin/Consensus (x) | n.m  | 0.9   | 1.0   |

Source: Company, Affin Hwang estimates



### Order book details

As of end September 2020, current outstanding order book stood at RM370m (end June-20: RM324m). UHP made up the bulk of the order book at 71%, followed by 15% respectively for PE and GC. In terms of geographical breakdown, China made up 36% of order book, Malaysia at 27%, Singapore 26%, and rest at 12%.

Upside risks include higher contract wins and higher LCO2 plant utilisation rates. Downside risks could arise in the event of another cities-wide lock-down which will affect existing work progress; a halt in SMIC job execution; lower LCO2 plant utilisation; and lower-than-expected contract wins.

Fig 1: Results Comparison

| FYE 31 Dec (RMm)  | 3Q19   | 2Q20   | 3Q20   | QoQ<br>% chg | YoY<br>% chg | 9M19    | 9M20    | YoY<br>% chg | Comments   |
|-------------------|--------|--------|--------|--------------|--------------|---------|---------|--------------|--|
| Revenue           | 97.0   | 77.3   | 98.3   | 27.1         | 1.3          | 268.5   | 260.3   | (3.1)        | Malaysia driven-UHP and GC jobs  |
| Op costs          | (90.5) | (76.6) | (86.8) | 13.2         | (4.2)        | (246.6) | (242.9) | (1.5)        |  |
| EBITDA            | 6.5    | 0.7    | 11.5   | >100         | 76.9         | 21.9    | 17.4    | (20.5)       |  |
| EBITDA margin (%) | 6.7    | 0.9    | 11.7   | 10.8ppt      | 5ppt         | 8.2     | 6.7     | -1.5ppt      | Better margins from China jobs   |
| Depn and amort    | (0.6)  | (1.3)  | (1.3)  | 2.5          | 123.0        | (1.7)   | (3.8)   | 120.6        |  |
| EBIT              | 5.9    | (0.6)  | 10.2   | n.m          | 72.2         | 20.2    | 13.6    | (32.6)       |  |
| EBIT margin (%)   | 6.1    | (0.8)  | 10.3   | 11.1ppt      | 4.3ppt       | 7.5     | 5.2     | -2.3ppt      |  |
| Int expense       | (0.4)  | (0.6)  | (0.7)  | 24.8         | 89.4         | (1.0)   | (2.0)   | 102.9        |  |
| EI                | 2.0    | 2.4    | (2.3)  | n.m          | n.m          | 2.0     | 1.6     | n.m          | RM2m receivable impairment, RM800k forex loss, RM700k subsidy received from Singapore government |
| Pretax profit     | 7.5    | 1.2    | 7.2    | 497.9        | (5.1)        | 21.2    | 13.3    | (37.5)       |  |
| Core pre tax      | 5.5    | (1.2)  | 9.5    | n.m          | 71.1         | 19.2    | 11.6    | (39.4)       |  |
| Tax               | (1.3)  | (0.6)  | (2.2)  | 291.9        | 64.7         | (5.2)   | (3.6)   | (30.3)       |  |
| Tax rate (%)      | 17.6   | 46.6   | 30.5   | -16ppt       | 12.9ppt      | 24.5    | 27.3    | 2.8ppt       |  |
| MI                | 0.0    | (0.0)  | (0.1)  | n.m          | n.m          | 0.2     | (0.1)   | (160.6)      |  |
| Net profit        | 6.3    | 0.6    | 4.9    | 687.3        | (21.7)       | 16.2    | 9.5     | (41.3)       |  |
| EPS (sen)         | 2.5    | 0.2    | 2.0    | 687.3        | (21.7)       | 6.5     | 3.8     | (41.3)       |  |
| Core net profit   | 4.3    | (1.7)  | 7.2    | n.m          | 69.5         | 14.2    | 7.9     | (44.5)       | Results above our and consensus expectations   |

Source: Affin Hwang, Company

Fig 2: Segmental and geographical revenue breakdown (RMm)

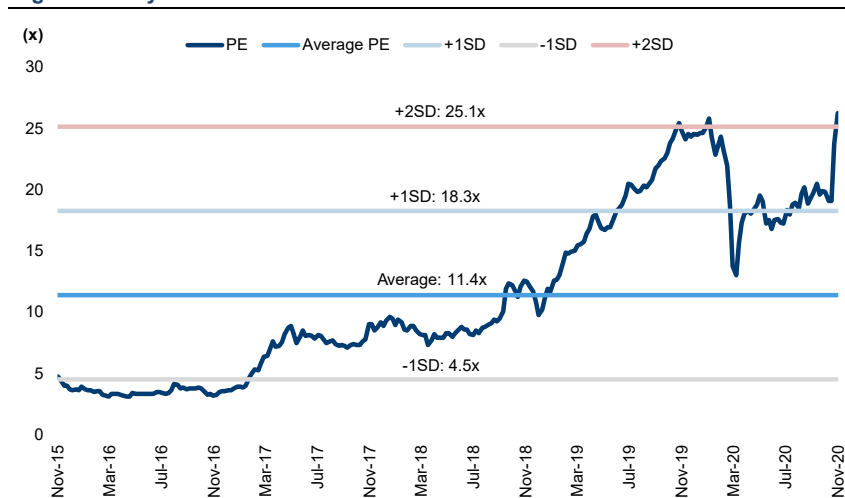
|                     | 1Q19        | 2Q19        | 3Q19        | 4Q19         | 1Q20        | 2Q20        | 3Q20        | qoq<br>% chg | yoy<br>% chg | 9M19         | 9M20         | yoy<br>% chg |
|---------------------|-------------|-------------|-------------|--------------|-------------|-------------|-------------|--------------|--------------|--------------|--------------|--------------|
| Ultra High Purity   | 44.0        | 55.6        | 73.1        | 90.2         | 63.5        | 62.7        | 70.1        | 11.7         | (4.1)        | 172.7        | 196.3        | 13.7         |
| Process Engineering | 20.8        | 33.3        | 17.0        | 14.7         | 11.1        | 6.2         | 9.3         | 50.6         | (45.1)       | 71.1         | 26.6         | (62.6)       |
| General Contracting | 10.3        | 5.0         | 5.5         | 2.4          | 5.2         | 5.3         | 11.6        | 118.9        | 110.2        | 20.8         | 22.1         | 6.3          |
| Industrial Gases    | 1.3         | 1.2         | 1.4         | 4.1          | 5.0         | 3.1         | 7.2         | 133.6        | 432.3        | 3.9          | 15.3         | 293.7        |
| <b>TOTAL</b>        | <b>76.4</b> | <b>95.1</b> | <b>97.0</b> | <b>111.3</b> | <b>84.7</b> | <b>77.3</b> | <b>98.3</b> | <b>27.1</b>  | <b>1.3</b>   | <b>268.5</b> | <b>260.3</b> | <b>(3.1)</b> |

|              | 1Q19        | 2Q19        | 3Q19        | 4Q19         | 1Q20        | 2Q20        | 3Q20        | qoq<br>% chg | yoy<br>% chg | 9M19         | 9M20         | yoy<br>% chg |
|--------------|-------------|-------------|-------------|--------------|-------------|-------------|-------------|--------------|--------------|--------------|--------------|--------------|
| Malaysia     | 21.5        | 24.2        | 20.7        | 22.8         | 20.0        | 18.7        | 31.5        | 68.9         | 52.0         | 66.4         | 70.2         | 5.6          |
| Singapore    | 31.1        | 37.9        | 48.0        | 60.6         | 49.8        | 21.1        | 24.1        | 14.0         | (49.9)       | 117.0        | 94.9         | (18.8)       |
| China        | 22.1        | 29.4        | 25.3        | 22.8         | 12.9        | 32.1        | 35.0        | 8.9          | 38.2         | 76.7         | 80.0         | 4.3          |
| Taiwan       | 1.5         | 3.2         | 2.1         | 1.7          | 1.2         | 4.5         | 5.4         | 19.1         | 153.4        | 6.8          | 11.1         | 63.1         |
| Indonesia    | 0.3         | 0.5         | 0.3         | 0.4          | 0.0         | 0.3         | 0.1         | (82.1)       | (79.5)       | 1.0          | 0.4          | (61.3)       |
| Others       | -           | -           | 0.6         | 2.9          | 0.8         | 0.6         | 2.3         | 276.1        | 286.2        | 0.6          | 3.7          | 522.4        |
| <b>TOTAL</b> | <b>76.4</b> | <b>95.1</b> | <b>97.0</b> | <b>111.3</b> | <b>84.7</b> | <b>77.3</b> | <b>98.3</b> | <b>27.1</b>  | <b>1.3</b>   | <b>268.5</b> | <b>260.3</b> | <b>(3.1)</b> |

Source: Affin Hwang, Company data

Fig 3: KGB 1 year forward PER



Source: Bloomberg



## Important Disclosures and Disclaimer

### Equity Rating Structure and Definitions

|                  |  |
|------------------|--|
| <b>BUY</b>       | Total return is expected to exceed +10% over a 12-month period   |
| <b>HOLD</b>      | Total return is expected to be between -5% and +10% over a 12-month period   |
| <b>SELL</b>      | Total return is expected to be below -5% over a 12-month period  |
| <b>NOT RATED</b> | 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.*

|                    |  |
|--------------------|--|
| <b>OVERWEIGHT</b>  | Industry, as defined by the analyst's coverage universe, is expected to outperform the KLCI benchmark over the next 12 months          |
| <b>NEUTRAL</b>     | Industry, as defined by the analyst's coverage universe, is expected to perform inline with the KLCI benchmark over the next 12 months |
| <b>UNDERWEIGHT</b> | 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 and is not to be taken in substitution for the exercise of your judgment. You should obtain independent financial, legal, tax or such other professional advice, when making your independent appraisal, assessment, review and evaluation of the company/entity covered in this report, and the extent of the risk involved in doing so, before investing or participating in any of the securities or investment strategies or transactions discussed in this report. However, such sources have not been independently verified by the Company, and as such the Company does not give any guarantee, representation or warranty (expressed or implied) as to the adequacy, accuracy, reliability or completeness of the information and/or opinion provided or rendered in this report. Facts, information, estimates, 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 and the same are subject to change without notice. Reports issued by the Company, are prepared in accordance with the Company's policies for managing conflicts of interest. Under no circumstances shall the Company, 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. 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 its directors, its employees and their respective associates may have positions or financial interest in the securities mentioned therein. The Company, its directors, its employees and their respective associates may further act as market maker, may have assumed an underwriting commitment, deal with such securities, may also perform or seek to perform investment banking services, advisory and other services relating to the subject company/entity, and may also make investment decisions or take proprietary positions that are inconsistent with the recommendations or views in this report. The Company, its directors, its employees and their respective associates, may provide, or have provided in the past 12 months investment banking, corporate finance or other services and may receive, or may have received compensation for the services provided from the subject company/entity covered in this report. No part of the research analyst's compensation or benefit was, is or will be, directly or indirectly, related to the specific recommendations or views expressed in this report. Employees of the Company may serve as a board member of the subject company/entity covered 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.

This report, or any portion thereof may not be reprinted, sold or redistributed without the written consent of the Company.

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 2142 3700  
 F : + 603 2146 7630  
 research@affinhwang.com

www.affinhwang.com