25 November 2020

Outthink. Outperform.

AFFIN HWANG CAPITAL

Results Note | **RM1.70 @ 24 November 2020**

"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

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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 a 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 % chg	YoY % chg	9M19	9M20	YoY % 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

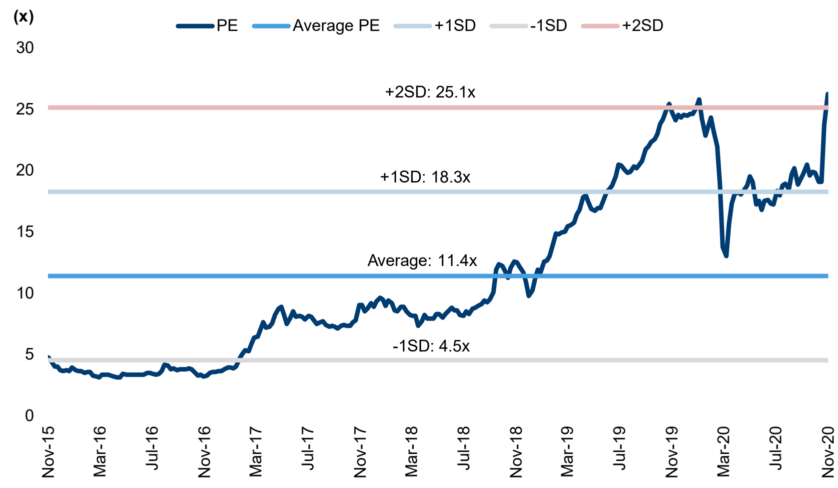
Fig 2: Segmental and geographical revenue breakdown (RMm)

	1Q19	2Q19	3Q19	4Q19	1Q20	2Q20	3Q20	*qoq % chg*	*yoy % chg*	9M19	9M20	*yoy % 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*
TOTAL	**76.4**	**95.1**	**97.0**	**111.3**	**84.7**	**77.3**	**98.3**	**27.1**	**1.3**	**268.5**	**260.3**	**(3.1)**

	1Q19	2Q19	3Q19	4Q19	1Q20	2Q20	3Q20	*qoq % chg*	*yoy % chg*	9M19	9M20	*yoy % 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*
TOTAL	**76.4**	**95.1**	**97.0**	**111.3**	**84.7**	**77.3**	**98.3**	**27.1**	**1.3**	**268.5**	**260.3**	**(3.1)**

Source: Affin Hwang, Company data

Fig 3: KGB 1 year forward PER



Source: Bloomberg

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

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