

“Stricter MCO measures to affect upcoming quarter’s operational productivity”

Share price performance



	1M	3M	12M
Absolute (%)	-12.6	-19.0	87.9
Rel KLCI (%)	-10.9	-18.8	71.1

	BUY	HOLD	SELL
Consensus	3	1	-

Source: Bloomberg

Stock Data

Sector	EMS
Issued shares (m)	321.4
Mkt cap (RMm)/(US\$m)	646/155.9
Avg daily vol - 6mth (m)	2.8
52-wk range (RM)	0.95-2.7
Est free float	57.6%
Stock Beta	1.19
Net cash/(debt)	12.7
ROE (CY21E)	14.4%
Derivatives	Nil
Shariah Compliant	Yes

Key Shareholders

Palace Star	21.1%
CIMB Group	7.8%
Aberdeen	5.9%

Source: Affin Hwang, Bloomberg

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Kelington (KGRB MK)

BUY (maintain)

Up/Downside: +16%

Price Target: RM2.34

Previous Target (Rating): RM2.30 (BUY)

Seasonally weaker quarter

- KGB recorded RM5m core profit, deemed a miss against forecasts due to stricter MCO measures affecting operational productivity
- Overall activities were slower in 1Q21 due to the shorter working days; higher LCO2 plant utilisation lifted industrial gas segment revenue
- Maintain BUY and lift our TP to RM2.34 (from RM2.30)

SMIC jobs to pick up from 2Q21 onwards

Stripping out forex gains, 1Q21 core profit came in at RM5m (+110% yoy) on the back of 24% yoy revenue growth, driven by higher order book replenishment and due to the low base in 1Q20 when China was impacted by the COVID outbreak. Malaysia revenue more than doubled yoy, making up 42% of total revenue (1Q20: 24%), while Singapore revenue fell 22% making up 37% of revenue (1Q20: 27%). China’s revenue has increased 47% yoy due to ongoing execution of SMIC jobs in hand, making up >30% of current order book.

2021 looks set to rebound after COVID19 delayed work progress in 2020

Sequential revenue and core profit fell by 19% and 49% due to the shorter working days during the quarter. 1Q21 also saw a bigger portion of revenue being derived from general contracting which garnered lower margins (-1ppt). The LCO2 plant saw an uptick in utilisation at 60% in 1Q21 vs 50% in 4Q20. With the stricter controls in Singapore and Malaysia entering another lock down, plant utilisation is understood to have declined to 30-45% in 2Q21. While the Singapore situation is not expected to be as severe as Malaysia, there is some worker shortage issue, but operational efficiency is still sustaining at around 80-90%.

Maintain Buy, raising TP to RM2.34

The stricter MCO measures implemented starting 25 May is expected to affect work progress in Malaysia. As such, we lower our 2021E core profit by 7% and raise that for 2022E by 4%, assuming a spill over. We also lower our LCO2 plant utilisation to 50% (from 60%) in 2021E, and to 75% (from 80%) in 2022E to factor in weaker export demand. We raise our TP to RM2.34 (from RM2.30) after rolling forward our valuation but lower our target 2022E PE multiple to 24x or +1.5SD above its 3-year mean (from 27x). Despite the short-term setback, we believe KGB’s earnings remain on track to reach a record-breaking year in 2021 mainly driven by its SMIC contracts in hand. We continue to like KGB for the growth opportunities in the UHP division and the scalability of its LCO2 plant. At 21x 2022E PER valuation, stock is still trading at a discount compared to its peers within the sector. Reiterate our Buy rating.

Earnings & Valuation Summary

FYE 31 Dec	2019	2020	2021E	2022E	2023E
Revenue (RMm)	379.9	389.8	429.9	509.8	519.9
EBITDA (RMm)	35.3	30.6	42.2	49.7	52.2
Pretax profit (RMm)	31.4	20.1	33.4	41.1	43.7
Net profit (RMm)	24.0	17.0	25.5	31.3	33.2
EPS (sen)	7.5	5.3	7.9	9.7	10.3
PER (x)	26.9	37.9	25.3	20.6	19.4
Core net profit (RMm)	23.4	20.2	25.5	31.3	33.2
Core EPS (sen)	7.3	6.3	7.9	9.7	10.3
Core EPS growth (%)	13.7	(13.7)	26.1	22.7	6.2
Core PER (x)	27.6	31.9	25.3	20.6	19.4
Net DPS (sen)	2.5	1.0	2.0	2.0	2.0
Dividend Yield (%)	1.3	0.5	1.0	1.0	1.0
EV/EBITDA (x)	16.9	19.8	13.4	11.1	10.2

Chg in EPS (%)	-7.0	+4.2	0.0
Affin/Consensus (%)	0.9	1.0	1.0

Source: Company, Affin Hwang estimates

Key risks to our Buy call

Downside risks could arise in the event of another countrywide 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)	1Q20	4Q20	1Q21	QoQ % chg	YoY % chg	Comments
Revenue	84.7	129.5	104.8	(19.1)	23.7	Decline qoq due to shorter working days in 1Q21
Op costs	(79.5)	(119.4)	(96.7)	(18.5)	21.7	
EBITDA	5.2	10.1	8.1	(25.1)	54.2	
<i>EBITDA margin (%)</i>	6.2	7.8	7.7	-0.6ppt	1.5ppt	Lower margin qoq due to heavier revenue mix towards general contracting work
Depn and amort	(1.2)	(0.9)	(1.1)	19.8	(13.0)	
EBIT	4.0	9.2	7.0	(29.0)	74.5	
<i>EBIT margin (%)</i>	4.8	7.1	6.7	-0.9ppt	2ppt	
Int expense	(0.7)	(0.7)	(0.8)	14.6	8.5	
EI	1.6	(1.7)	0.5	n.m	n.m	Forex gain
Pretax profit	4.9	6.8	6.7	(0.9)	37.5	
Core pre tax	3.3	8.5	6.3	(32.1)	88.2	
Tax	(0.9)	0.8	(1.0)	n.m	17.1	
<i>Tax rate (%)</i>	17.9	(11.5)	15.3	26.8ppt	-2.7ppt	
MI	(0.0)	(0.1)	(0.2)	n.m	n.m	
Net profit	4.0	7.5	5.5	(26.3)	38.9	
EPS (sen)	1.6	3.0	2.2	(26.3)	38.9	
Core net profit	2.4	9.3	5.1	(49.1)	109.7	Deemed result to be a miss due to stricter measures surrounding MCO3.1

Source: Affin Hwang, Company

Fig 2: Segmental and geographical revenue breakdown (RMm)

	1Q20	2Q20	3Q20	4Q20	1Q21	qoq % chg	yoy % chg
Ultra High Purity	63.5	62.7	70.1	81.8	70.1	(14.3)	10.5
Process Engineering	11.1	6.2	9.3	18.5	9.6	(47.7)	(12.8)
General Contracting	5.2	5.3	11.6	22.3	16.2	(27.3)	210.5
Industrial Gases	5.0	3.1	7.2	6.9	8.8	28.0	77.3
TOTAL	84.7	77.3	98.3	129.5	104.8	(19.1)	23.7

	1Q20	2Q20	3Q20	4Q20	1Q21	qoq % chg	yoy % chg
Malaysia	20.0	18.7	31.5	48.0	43.9	(8.5)	119.7
Singapore	49.8	21.1	24.1	32.5	38.7	19.2	(22.2)
China	12.9	32.1	35.0	44.7	19.0	(57.4)	47.0
Taiwan	1.2	4.5	5.4	3.7	3.1	(16.4)	149.2
Indonesia	0.0	0.3	0.1	0.3	-	(100.0)	(100.0)
Others	0.8	0.6	2.3	0.3	0.1	(69.6)	(89.3)
TOTAL	84.7	77.3	98.3	129.5	104.8	(19.1)	23.7

Source: Affin Hwang, Company data



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