

KELINGTON GROUP

Results Update

BUY

Current Price	RM 2.00
Target Price	RM 2.22
Consensus Price	RM 2.24

Stock Return Information

KLCI	1,577.8
Expected share price return (%)	11
Expected dividend return (%)	1
Expected total return (%)	12

Key Statistics

Shariah Compliant	YES
Bloomberg Ticker	KGRB MK
Masa Ticker / Stock Code	KGB/0151
Shares Issued (m)	642.8
Market Capitalisation (RM'm)	733
52 Week Hi/Lo Price (RM)	2.70/0.95
Avg Trading Volume (3-mth)	2,386,651
Est Free Float (%)	57.6
YTD Returns (%)	18.9
Beta (x)	1.19

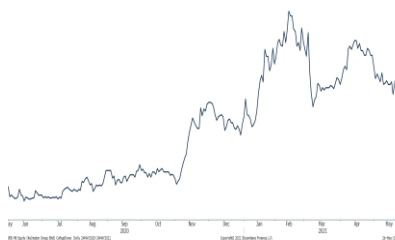
Share Price Performance (%)

Price change	Absolute	Relative
1 mth	-11.84	-9.03
3 mth	-14.83	-14.83
12 mth	87.85	78.03

Major Shareholders (%)

Palace Star	21.1
CIMB Principle Asset Managemen	7.8

1-Year Share Price Performance



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Earnings growth underpinned by growing orderbook

We upgrade Kelington's call to **BUY**, from **NEUTRAL**, with an unchanged TP of RM2.22, pegged to a target PER of 24x to our forecast CY22 EPS, after value has emerged following its recent share price dip. Investment merits include: 1) firmer earnings growth potential, supported by increased job orders from the semiconductor industry, and 2) stable new income stream from LCO2 operations which could also help to shore up dividend prospects. Key downside risks include: 1) slower-than-expected contract wins, 2) stricter working conditions or lack of labor, and 3) delay in customer expansion plans.

1QCY21 PATMI accounts 18.0% and 20.0% of ours and consensus CY21 earnings estimate

We reckon the softness in earnings is tied to lower operational activities in conjunction of the Lunar New Year, but we think earnings should catch up in the subsequent quarters.

Y-o-Y Revenue expanded 23.7% Y-o-Y, boosted by higher project completion in Malaysia (+119.0% Y-o-Y) and China (+47.0% Y-o-Y), as well as higher sales of LCO2. GP margin was relatively unchanged at 13.9%, while EBITDA margin improved to 8.1% in 1QCY21, from 7.6% in 1QCY20. PATAMI rose 36.7% Y-o-Y to RM5.5m, tracking the higher topline.

Q-o-Q PATAMI dipped 26.3% Q-o-Q mainly due to lower project completion, tied to lower working days during the Lunar New Year. Manufacturing of LCO2 and trading of equipment & material accounts for 9.2% of total revenue in 1QCY21 vs. 5.3% in 4QFY20. To recap, the management targets 30.0% revenue contribution from this division.

LCO2 plant The plant was running at 60.0% capacity in 1QCY21. Note that this operating segment has a lucrative GP margin of 30%, which is more-than-double its UHP, processing engineering and general contracting division's GP margin.

Table 1: Financial highlights & earnings forecasts

FYE 31st Dec (RM m)	CY18	CY19	CY20	CY21(F)	CY22(F)
Revenue	350.0	379.8	389.8	546.0	581.0
EBITDA	28.4	36.7	23.6	46.6	51.8
EBITDA Margin (%)	8.1	9.7	6.0	8.5	8.9
PATAMI	18.6	24.4	17.1	30.2	37.1
PATAMI Margin (%)	5.3	6.4	4.4	5.5	6.4
EPS (sen)	4.5	5.9	4.1	7.3	8.9
Earnings Growth (%)	65.3	30.9	(29.9)	76.5	22.9
PER (x)	44.6	34.0	48.6	27.5	22.4
DPS (sen)	1.8	2.0	0.5	2.0	2.0
Dividend Yield (%)	0.9	1.0	0.3	1.0	1.0
ROE (%)	21.5	20.3	11.9	21.2	27.2
ROA (%)	10.3	10.4	5.7	11.5	14.2
Net Gearing Ratio (%)	NET CASH	NET CASH	NET CASH	NET CASH	NET CASH
Price/Book Ratio (x)	7.2	5.4	5.0	4.4	4.5

Source: Company, Inter-Pacific

Outlook KGB's orderbook stands at RM364m at the end 1QCY21, up from RM358m from 4QCY20, and registered an orderbook replenishment of RM105m in 1QCY21, where the majority of the projects are from China, Singapore and Malaysia. KGB's project delivery timeline is about a year. We remain confident the group would be able to replenish last year record orderbook win of RM490m, mainly attributed by robust investment in semiconductor wafer plants in China and in the memory storage division.

Table 2: Quarterly Income Statement and Comparison

FYE Dec (RM m)	1QCY21	1QCY20	YoY chg (%)	4QCY20	QoQ chg (%)
Revenue	104.8	84.7	23.7	129.5	(19.1)
Gross Profit	14.6	11.8	24.0	20.1	(27.3)
GP margin	13.9	13.9	0.2	15.5	(10.2)
EBITDA	8.5	6.5	31.3	7.9	6.7
EBITDA margin (%)	8.1	7.6	6.1	6.1	31.8
PBT	6.7	4.9	37.5	6.8	(0.9)
PBT margin (%)	6.4	5.8	11.1	5.2	22.4
PATAMI	5.5	4.1	36.7	7.5	(26.3)
PAT margin (%)	5.3	4.8	10.5	5.8	(9.0)
EPS (sen)	1.3	1.0	36.7	1.8	(26.3)

Source: Company

Table 3: Operating division

FYE Dec (RM m)	1QCY21	1QCY20	YoY chg (%)	4QCY20	QoQ chg (%)
Ultra high purity	68.9	63.4	8.7	81.8	(15.7)
Process engineering	9.6	10.9	(11.9)	18.5	(47.7)
General contracting	16.2	5.1	220.4	22.3	(27.3)
Manufacturing & Trading	9.7	5.1	88.4	6.9	2.8
Services	0.3	0.2	80.9	0.0	>100
Total	104.8	84.7	23.7	129.5	(24.7)

Source: Company

Table 4: Geographical segmental revenue

FYE Dec (RM m)	1QCY21	1QCY20	YoY chg (%)	4QCY20	QoQ chg (%)
Malaysia	43.9	20.0	119.7	48.0	(8.5)
China	19.0	12.9	47.0	44.7	(57.4)
Taiwan	3.1	1.2	149.2	3.7	(16.4)
Singapore	38.7	49.8	(22.2)	32.5	6.2
Others	0.1	0.8	(89.5)	0.7	(0.6)
	104.8	84.7	23.7	129.5	(24.7)

Source: Company

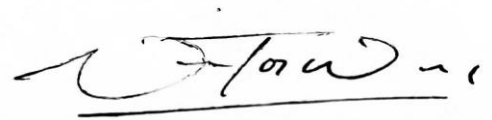
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Signed



Victor Wan Kum Seng
Head of Research
Inter-Pacific Research Sdn Bhd

Ratings System

Ratings:	Description:
BUY	Total return is expected to exceed 15% in the next 12 months
TRADING BUY	Total return is expected to exceed 10% in the next 3 months
NEUTRAL	Total return is expected to be between -15% to 15% in the next 12 months
SELL	Total return is expected to be below 15% in the next 12 months
TRADING SELL	Total return is expected to be below 10% in the next 3 months
NOT RATED	The stock is not within regular research coverage

Abbreviation

Abbreviation	Definition	Abbreviation	Definition
PER	Price Earnings Ratio	CAGR	Compounded Annual Growth Rate
PEG	PER to Growth	CAPEX	Capital Expenditure
EPS	Earnings per Share	DPS	Dividend per Share
FYE	Financial Year End	ROA	Return on Asset
FY	Financial Year	ROE	Return on Equity
CY	Calendar Year	PBT	Profit Before Tax
MoM	Month-on-Month	PAT	Profit After Tax
QoQ	Quarter-on-Quarter	EV	Enterprise Value
YoY	Year-on-Year	EBIT	Earnings Before Interest And Tax
YTD	Year-to-Date	EBITDA	EBIT Depreciation & Amortisation
p.a.	Per Annum	WACC	Weighted Average Cost of Capital
DCF	Discounted Cash Flow	NTA	Net Tangible Asset
FCF	Free Cash Flow	BV	Book Value
NAV	Net Asset Value		

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