

27 May 2021

Kelington Group

A Good Start

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1QFY21 CNP came in within expectations at RM5.5m (+37% YoY; -44% QoQ), representing 18%/20% of our/street forecast. Revenue increased 24% YoY as operations in Malaysia doubled while China side grew 47%. Despite being a seasonally weaker quarter, EBIT margin improved 1.3ppt QoQ on better efficiencies, which will be further amplified in subsequent quarters with higher margin jobs like UHP and process engineering being delivered. The industrial gas segment showed promising signs with revenue of RM8.8m (+73% YoY; +28% QoQ), which we believe could potentially morph into a solid earnings driver. **Maintain OUTPERFORM and Target Price of RM2.60.**

Within expectation. Kelington Group Bhd (KGB)'s 1QFY21 CNP came in at RM5.5m (+37% YoY; -44% QoQ), representing 18% and 20% of our and consensus full-year estimates. We deem this to be in line with our expectations as we had priced in seasonality factors, especially for the first quarter with shorter working days. Nevertheless, it was a commendable achievement by KGB, having recorded its all-time high first quarter earnings.

Results' highlight. YoY, 1QFY21 CNP of RM5.5m (+37% YoY) was led by a 24% increase in revenue to RM104.8m as operations in Malaysia and Taiwan saw revenue doubled while China operations grew 47%. QoQ, 1QFY21 CNP declined 44% on a 19% dip in revenue as the first quarter is usually the weaker period. While GPM was 1.6ppt lower QoQ due to higher deliveries of general contracting work (+220% QoQ), it is worth noting that EBIT margin actually rose 1.3ppt on the back of better operational efficiencies. We believe the impact of such efficiencies will be further amplified in the following quarters when the higher margin jobs like ultra-high purity gas system (UHP) and process engineering are delivered.

Glimpse of huge potential was seen in the industrial gas segment as it chalked an impressive revenue growth of 73% YoY and 28% QoQ to RM8.8m with 60% utilisation rate. This was mainly attributable to the surge in demand for liquid CO2 from neighbouring countries which is used for various applications from food preservation and carbonated drinks to industrial use such as welding and even oil recovery by reducing its viscosity to improve flow rate. Having 24/7 uninterrupted supply of waste CO2 gas from Petronas, the group aims to be a dependable supplier of liquid CO2 (LCO2) in the region. In addition, KGB also distributes a variety gasses to the semiconductor players and is experiencing heightened demand due to the chip production scramble amidst the current shortage. With GPM of 30% (2x higher than other segments), we are optimistic for the industrial gas division to morph into a huge earnings driver.

Maintain FY21E/FY22E CNP of RM31.1m/RM35.5m, representing 43% and 14% growth, respectively.

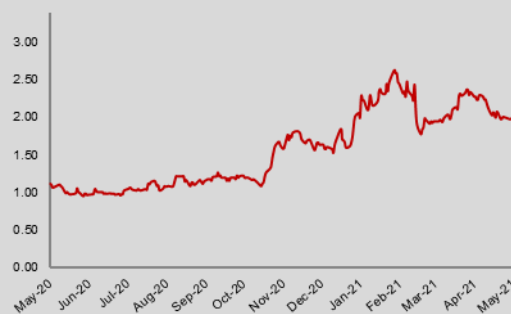
Maintain OUTPERFORM and Target Price of RM2.60 based on FY21E PER of 26x (+0.5SD to 3-year mean).

Risks to our call include: (i) slower revenue recognition due to Covid-19, (ii) downturn in semiconductor sales, and (iii) delay in LCO2 ramp-up.

OUTPERFORM ↔

Price : RM2.01
Target Price : RM2.60 ↔

Share Price Performance



KLCI	1,577.82
YTD KLCI chg	-3.0%
YTD stock price chg	18.9%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	KGRB MK Equity
Market Cap (RM m)	646.0
Shares Outstanding	321.4
52-week range (H)	2.70
52-week range (L)	0.59
3-mth avg daily vol:	2,015,998
Free Float	53%
Beta	1.2

Major Shareholders

Palace Star	21.4%
CIMB Group Holdings Bhd	7.83%
Sun Lead International Ltd	6.2%

Summary Earnings Table

FYE Dec (RM m)	2020A	2021E	2022E
Turnover	389.8	426.8	483.0
EBITDA	32.5	44.5	51.9
PBT	24.8	36.5	41.6
Core NP (CNP)	21.8	31.1	35.5
Consensus (NP)	N.A.	28.0	30.6
Earnings Revision	N.A.	0%	0%
EPS (sen)	6.8	9.7	11.1
EPS growth (%)	-16.5	42.6	14.1
NDPS (sen)	1.7	2.4	2.8
BVPS (RM)	0.52	0.60	0.68
Price/BV (x)	3.8	3.4	2.9
PER (x)	29.5	20.7	18.1
Gearing (x)	0.3	0.3	0.3
ROA (%)	6.2	8.5	8.8
ROE (%)	13.0	16.2	16.3
Dividend Yield (%)	0.8	1.2	1.4

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Result Highlight								
	1Q	4Q	QoQ	1Q	YoY	3M	3M	YoY
FYE: Dec (RM m)	FY21	FY20	Chg	FY20	Chg	FY21	FY20	Chg
Revenue	104.8	129.5	-19.1%	84.7	23.7%	104.8	84.7	23.7%
GP	14.6	20.1	-27.3%	11.8	24.0%	14.6	11.8	24.0%
EBIT	7.5	7.5	0.5%	5.6	33.9%	7.5	5.6	33.9%
PBT	6.7	6.8	-0.9%	4.9	37.5%	6.7	4.9	37.5%
Taxation	-1.0	0.8	-231.8%	-0.9	-17.1%	-1.0	-0.9	-17.1%
Net Profit (NP)	5.5	7.5	-26.3%	4.1	36.7%	5.5	4.1	36.7%
Core NP	5.5	9.8	-43.6%	4.1	36.7%	5.5	4.1	36.7%
EPS (sen)	1.7	3.1	-44.6%	1.3	32.0%	1.7	1.3	32.0%
DPS (sen)	0.0	0.0		0.0		0.0	0.0	
GP margin	13.9%	15.5%		13.9%		13.9%	13.9%	
EBIT margin	7.1%	5.8%		6.6%		7.1%	6.6%	
Pretax margin	6.4%	5.2%		5.8%		6.4%	5.8%	
CNP margin	5.3%	7.6%		4.8%		5.3%	4.8%	
Effective tax rate	-15.3%	11.5%		-17.9%		-15.3%	-17.9%	

Source: Kenanga Research

Geographical Breakdown								
	1Q	4Q	QoQ	1Q	YoY	3M	3M	YoY
FYE: Dec (RM m)	FY21	FY20	Chg	FY20	Chg	FY21	FY20	Chg
Revenue	104.8	129.5	-19.1%	84.7	23.7%	104.8	84.7	23.7%
Malaysia	43.9	48.0	-8.5%	20.0	119.7%	43.9	20.0	119.7%
China	19.0	44.7	-57.4%	12.9	47.0%	19.0	12.9	47.0%
Taiwan	3.1	3.7	-16.4%	1.2	149.2%	3.1	1.2	149.2%
Singapore	38.7	32.5	19.2%	49.8	-22.2%	38.7	49.8	-22.2%
Others	0.1	0.6	-86.9%	0.8	-89.3%	0.1	0.8	-89.3%
Malaysia	42%	37%		24%		42%	24%	
China	18%	34%		15%		18%	15%	
Taiwan	3%	3%		1%		3%	1%	
Singapore	37%	25%		59%		37%	59%	
Others	0%	1%		1%		0%	1%	

Source: Kenanga Research

Segmental Breakdown								
	1Q	4Q	QoQ	1Q	YoY	3M	3M	YoY
FYE: Dec (RM m)	FY21	FY20	Chg	FY20	Chg	FY21	FY20	Chg
Revenue	104.8	129.5	-19.1%	84.7	23.7%	104.8	84.7	23.7%
UHP	70.1	81.8	-14.3%	63.6	10.2%	70.1	63.6	10.2%
Process Engineering	9.6	18.5	-47.7%	10.9	-11.9%	9.6	10.9	-11.9%
General Contracting	16.2	22.3	-27.3%	5.1	220.4%	16.2	5.1	220.4%
Industrial Gasses	8.8	6.9	28.0%	5.1	73.4%	8.8	5.1	73.4%
UHP	67%	63%		75%		67%	75%	
Process Engineering	9%	14%		13%		9%	13%	
General Contracting	16%	17%		6%		16%	6%	
Industrial Gasses	8%	5%		6%		8%	6%	

Source: Kenanga Research

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Malaysian Technology Peers Comparison

Name	Last Price (RM)	Mkt Cap (RM'm)	Shariah Compliant	Current FYE	Revenue Growth		Core Earnings Growth		PER (x) - Core Earnings			PBV (x)		ROE (%)	Net Div Yld (%)	Target Price (RM)	Rating
					1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	Hist.	1-Yr. Fwd.	2-Yr. Fwd.	Hist.	1-Yr. Fwd.	1-Yr. Fwd.			
D&O GREEN TECHNOLOGIES BHD	4.40	5,189.0	Y	12/2019	76.6%	10.8%	165%	11.0%	101.6	38.4	34.6	12.2	10.6	26.3%	0.9%	5.50	OP
INARI AMERTRON BHD	3.24	10,836.6	Y	06/2020	37.4%	24.9%	80.1%	15.8%	62.7	34.8	30.1	8.1	7.8	23.3	3.2%	4.00	OP
JHM CONSOLIDATION BHD	1.62	903.3	Y	12/2020	44.8%	13.3%	102.4%	13.9%	60.4	25.9	22.8	5.9	4.7	18.1%	0.6%	2.35	MP
KELINGTON GROUP BHD	2.01	646.0	Y	12/2020	9.5%	13.3%	42.7%	14.1%	29.5	20.7	18.1	3.2	2.9	16.2%	1.2%	2.60	OP
KESM INDUSTRIES BHD	12.18	523.9	Y	07/2020	-3.0%	18.7%	10633%	113%	5959	55.5	26.1	1.6	1.6	2.8%	0.7%	14.20	MP
MALAYSIAN PACIFIC INDUSTRIES BHD	37.68	7,494.4	Y	06/2020	20.0%	12.0%	56.6%	13.2%	49.2	31.4	27.8	6.6	5.9	15.3%	0.7%	47.00	OP
P.I.E. INDUSTRIAL BHD	2.90	1,113.7	Y	12/2020	59.9%	7.5%	60.0%	15.8%	21.2	13.3	11.4	1.8	1.6	13.1%	3.6%	4.00	OP
SKP RESOURCES BHD	1.53	2,390.4	Y	03/2020	23.7%	2.4%	67.3%	32.2%	40.8	24.4	18.5	4.9	4.4	18.0%	2.7%	3.00	OP
UNISEM (M) BHD	7.18	5,770.1	Y	12/2020	18.5%	7.0%	64.3%	8.5%	45.7	27.8	25.6	3.7	3.4	7.8%	0.7%	10.00	OP

Source: Kenanga Research

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Stock Ratings are defined as follows:**Stock Recommendations**

OUTPERFORM	: A particular stock's Expected Total Return is MORE than 10%
MARKET PERFORM	: A particular stock's Expected Total Return is WITHIN the range of -5% to 10%
UNDERPERFORM	: A particular stock's Expected Total Return is LESS than -5%

Sector Recommendations***

OVERWEIGHT	: A particular sector's Expected Total Return is MORE than 10%
NEUTRAL	: A particular sector's Expected Total Return is WITHIN the range of -5% to 10%
UNDERWEIGHT	: A particular sector's Expected Total Return is LESS than -5%

*****Sector recommendations are defined based on market capitalisation weighted average expected total return for stocks under our coverage.**

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Published and printed by:

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