

25 May 2022

Kelington Group

All-time High First Quarter Earnings

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1QFY22 CNP of RM8.3m (+49.7% YoY; -24.3% QoQ) is the group's best first quarter results ever which came in within expectations, representing 19% each of both our and consensus estimates. Revenue rose to RM173m (+65% YoY; -3.8% QoQ) while the UHP segment managed to even grow 3.5% QoQ despite a seasonally low quarter, clearly dismissing rumours of work halting in China due to lockdowns. KGB outpaced its job replenishment rate by 17% YoY, growing its order-book to RM1.2b, while tender-book stands at RM1.4b. Reiterate our OUTPERFORM call and TP of RM1.90.

Within expectation. Kelington Group Bhd's (KGB)'s 1QFY22 CNP of RM8.3m (+49.7% YoY; -24.3% QoQ) is the group's best first quarter results ever which came in within expectations, representing 19% each of both our and consensus estimates.

Results' highlight. QoQ, despite noises of China lockdowns, insufficient labor and material shortage, 1QFY22 revenue held up very well at RM173.3m (-3.8% QoQ) on the back of aggressive expansions in the semiconductor space. Interestingly, revenue from the UHP segment even recorded a 3.5% QoQ growth which clearly dismissed the rumour that work in China has been halted due to the on-going lockdown. 1QFY22 CNP of RM8.3m (-24.3% QoQ) was understandably lower as (i) the group came off its seasonally stronger quarter, and (ii) commencement of the turnkey project in Sarawak which has modest margins.

YoY, 1QFY22 revenue leapt 65.4% while CNP rose 49.7% as the semiconductor industry continued to invest in new facilities to address the chip crunch. Revenue contribution from Malaysia (+77%), Singapore (+61%) and China (+42%) recorded significant YoY growth in spite of an already high base in FY21.

Overwhelming orders. KGB managed to secure RM347m new order during the reporting quarter, which outpaced FY21 average quarterly replenishment rate (which was already a high base) by a solid 17%. This further reinforces our investment thesis on KGB being a unique proxy in Malaysia to the global front-end semiconductor space which is still seeing a healthy expansion pipeline. After recognising an all-time high 1QFY22 revenue, the group's order-book further grew to RM1.2b (vs. RM1.1b in 4QFY21) while tender-book remains elevated at RM1.4b.

Job delivery remains on track. While headlines continue to report on sporadic lockdowns in China, we take comfort that management has instituted necessary precautions to ensure works on the ground progress according to schedule across all provinces, as well as the turnkey project in Malaysia and other UHP jobs in Singapore.

Maintain FY22E CNP and FY23E CNP of RM44.2m and RM45.0m respectively.

Maintain OUTPERFORM and Target Price of RM1.90 based on 27x FY22E PER (+1SD to 5-year peers' 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: RM1.13
Target Price: RM1.90 ↔

Share Price Performance



KLCI 1,531.3
YTD KLCI chg -2.3%
YTD stock price chg -34.3%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	KGRB MK Equity
Market Cap (RM m)	726.6
Shares Outstanding	643.0
52-week range (H)	1.88
52-week range (L)	0.95
3-mth avg daily vol:	1,819,045
Free Float	47%
Beta	0.6

Major Shareholders

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

Summary Earnings Table

FYE Dec (RM m)	2021A	2022E	2023E
Turnover	517.7	826.0	840.3
EBITDA	46.9	67.0	69.2
PBT	38.5	58.8	59.9
Core NP (CNP)	31.8	44.2	45.0
Consensus (NP)	n.a	42.6	44.1
Earnings Revision	n.a	0%	0%
EPS (sen)	4.9	6.9	7.0
EPS growth (%)	78.8	38.9	1.8
NDPS (sen)	1.5	1.7	1.7
BVPS (RM)	0.30	0.35	0.41
Price/BV (x)	3.7	3.2	2.8
PER (x)	22.8	16.4	16.1
Gearing (x)	0.3	0.2	0.2
ROA (%)	7.8	9.2	8.7
ROE (%)	16.4	19.4	17.2
Dividend Yield (%)	1.3	1.5	1.5

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Result Highlight								
	1Q	4Q	QoQ	1Q	YoY	3M	3M	YoY
FYE: Dec (RM m)	FY22	FY21	Chg	FY21	Chg	FY22	FY21	Chg
Revenue	173.3	180.1	-3.8%	104.8	65.4%	173.3	104.8	65.4%
GP	23.7	31.0	-23.5%	14.6	62.4%	23.7	14.6	62.4%
EBIT	11.7	13.8	-15.4%	7.5	56.3%	11.7	7.5	56.3%
PBT	11.1	13.3	-16.2%	6.7	64.9%	11.1	6.7	64.9%
Taxation	-2.6	-2.1	-25.0%	-1.0	-152.6%	-2.6	-1.0	-152.6%
Net Profit (NP)	8.3	11.0	-24.3%	5.5	49.7%	8.3	5.5	49.7%
Core NP	8.3	11.0	-24.3%	5.5	49.7%	8.3	5.5	49.7%
EPS (sen)	1.3	1.7	-24.3%	0.9	49.7%	1.3	0.9	49.7%
DPS (sen)	0.0	1.0		0.0		0.0	0.0	
		0						
GP margin	13.7%	17.2%		13.9%		13.7%	13.9%	
EBIT margin	6.8%	7.7%		7.1%		6.8%	7.1%	
Pretax margin	6.4%	7.4%		6.4%		6.4%	6.4%	
CNP margin	4.8%	6.1%		5.3%		4.8%	5.3%	
Effective tax rate	-23.4%	-15.7%		-15.3%		-23.4%	-15.3%	

Source: Kenanga Research

Geographical Breakdown								
	1Q	4Q	QoQ	1Q	YoY	3M	3M	YoY
FYE: Dec (RM m)	FY22	FY21	Chg	FY21	Chg	FY22	FY21	Chg
Revenue	173.3	180.1	-3.8%	104.8	65.4%	173.3	104.8	65.4%
Malaysia	77.9	81.3	-4.2%	43.9	77.4%	77.9	43.9	77.4%
China	27.0	34.3	-21.4%	19.0	41.7%	27.0	19.0	41.7%
Taiwan	4.9	6.8	-28.5%	3.1	58.2%	4.9	3.1	58.2%
Singapore	62.3	56.5	10.2%	38.7	60.8%	62.3	38.7	60.8%
Others	1.3	1.2	9.1%	0.1	1485.9%	1.3	0.1	1485.9%
Malaysia	45%	45%		42%		45%	42%	
China	16%	19%		18%		16%	18%	
Taiwan	3%	4%		3%		3%	3%	
Singapore	36%	31%		37%		36%	37%	
Others	1%	1%		0%		1%	0%	

Source: Kenanga Research

Segmental Breakdown								
	1Q	4Q	QoQ	1Q	YoY	3M	3M	YoY
FYE: Dec (RM m)	FY22	FY21	Chg	FY21	Chg	FY22	FY21	Chg
Revenue	173.3	180.1	-3.8%	104.8	65.4%	173.3	104.8	65.4%
UHP	113.2	109.4	3.5%	70.1	61.4%	113.2	70.1	61.4%
Process Engineering	12.0	22.8	-47.5%	9.6	23.9%	12.0	9.6	23.9%
General Contracting	38.4	37.4	2.6%	16.2	136.1%	38.4	16.2	136.1%
Industrial Gasses	9.9	10.6	-6.9%	8.8	12.0%	9.9	8.8	12.0%
UHP	65%	61%		67%		65%	67%	
Process Engineering	7%	13%		9%		7%	9%	
General Contracting	22%	21%		16%		22%	16%	
Industrial Gasses	6%	6%		8%		6%	8%	

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	3.70	4,577.4	Y	12/2022	28.0%	15.3%	34.0%	15.5%	41.4	30.9	26.8	6.0	5.1	17.1%	0.5%	5.40	OP
GHL SYSTEMS BHD	1.55	1,769.3	Y	12/2022	31.9%	6.8%	67.5%	12.3%	58.8	35.1	31.3	3.3	3.0	8.4%	0.0%	1.90	OP
INARI AMERTRON BHD	2.48	9,192.6	Y	06/2022	22.5%	14.6%	11.3%	14.7%	32.2	29.7	25.9	7.7	8.1	28.2%	3.6%	4.60	OP
JHM CONSOLIDATION BHD	1.20	669.1	Y	12/2022	10.7%	15.2%	38.6%	15.8%	30.4	21.9	18.9	0.4	05	12.5%	0.3%	1.80	MP
KELINGTON GROUP BHD	1.13	726.6	Y	12/2022	59.6%	1.7%	38.9%	1.8%	22.8	16.4	16.1	3.7	3.2	19.4%	1.5%	1.90	OP
KESM INDUSTRIES BHD	7.70	331.2	Y	07/2022	4.9%	6.4%	4072%	250%	131.0	37.4	25.0	1.5	1.4	3.8%	0.7%	11.40	MP
MALAYSIAN PACIFIC INDUSTRIES BHD	30.04	5,974.8	Y	06/2022	10.0%	10.0%	11.3%	10.0%	26.2	23.6	24.4	7.1	8.0	15.6%	0.8%	48.10	OP
P.I.E. INDUSTRIAL BHD	2.90	1,113.7	Y	12/2022	18.3%	11.9%	28.2%	11.7%	17.2	13.4	12.0	1.3	1.5	13.5%	1.8%	3.70	OP
SKP RESOURCES BHD	1.46	2,281.0	Y	03/2022	12.3%	12.4%	21.7%	12.4%	18.3	15.0	13.4	3.4	3.1	21.0%	3.3%	1.90	OP
UNISEM (M) BHD	2.86	4,613.4	Y	12/2022	14.0%	10.0%	22.1%	11.3%	23.9	19.6	176	2.2	2.0	10.4%	2.0%	3.75	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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