

# Kelington Group

## New Replenishment Record of RM1.28b

By Samuel Tan | [samueltan@kenanga.com.my](mailto:samueltan@kenanga.com.my)

KGB surprised the market with a huge non-turnkey job win worth RM330m from a German customer for a new wafer fabrication plant in Kulim. The job entails the supply of ultra-high purity (UHP) gas delivery systems for both bulk gas and specialty gas. The new win brings KGB's order replenishment to a new high of RM1.28b, surpassing our expectation. We raise FY23F CNP by 5%, leading to a higher TP of RM1.70 (from RM1.60). **Maintain OUTPERFORM.**

Another commendable win to reach a new replenishment record.

1. Bucking gloomy headlines of slowing chip demand, KGB continues to surprise the market by landing another huge job win worth RM330m for the supply of UHP gas delivery systems. The contract was awarded by a German semiconductor company that is planning a new wafer fabrication facility in Kulim, Kedah. Given that this is a new wafer fab, the award will be a base build job that includes both bulk gas and specialty gas systems, commencing immediately until Sep 2024.
2. We believe this is one of the group's largest non-turnkey awards which typically yield better margins. We observed that although the size of UHP contracts awarded is growing, the manpower requirements do not increase linearly. This is attributable to the group's effort in fabricating its proprietary gas equipment two year ago which is starting to garner customer's favour, hence contributing to higher contract value with similar workforce size.
3. Including this RM330m job win, KGB has surpassed our replenishment forecast to mark a new record of RM1.28b (vs. FY21 of RM1.19b which includes a large turnkey project). We are pleasantly surprised by the achievement despite the absence of turnkey projects this year. The group's current orderbook has now swelled to RM1.87b which will provide very solid earnings visibility for FY22 and FY23.

**Forecasts.** Raised FY23F earnings by 5% to factor in the higher-than-expected order replenishment.

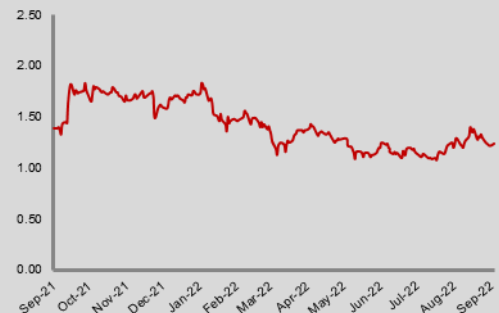
**Maintain our OUTPERFORM call with a higher target price of RM1.70** (previously RM1.60) on FY23F PER of 23x (in line with peers' forward average). We continue to like KGB for its: (i) unique proxy to the front-end semiconductor space, (ii) strong track record which continues to attract large MNC customers, and (iii) venture into the industrial gas segment which has high barriers to entry and yields very lucrative margins. There is no adjustment to our TP based on a 3-star ESG rating as appraised by us (see Page 4).

**Risks to our call include:** (i) slower revenue recognition due to Covid-19 resurgence, (ii) downturn in semiconductor sales, and (iii) delay in liquid CO2 ramp up.

# OUTPERFORM ↔

Price : **RM1.24**  
Target Price : **RM1.70** ↑

### Share Price Performance



KLCI	1,498.8
YTD KLCI chg	-5.0%
YTD stock price chg	-27.9%

### Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	KGRB MK Equity
Market Cap (RM m)	797.3
Shares Outstanding	643.0
52-week range (H)	1.88
52-week range (L)	1.06
3-mth avg daily vol:	1,294,045
Free Float	49%
Beta	1.1

### Major Shareholders

Palace Star	21.0%
CIMB Group Holdings Bhd	6.9%
Sun Lead International Ltd	6.2%

### Summary Earnings Table

FYE Dec (RM m)	2021A	2022F	2023F
Turnover	517.7	975.4	1,029.9
EBITDA	46.9	65.8	71.2
PBT	38.5	57.7	61.9
Net Profit (NP)	31.8	44.2	47.5
Consensus (NP)	n.a	45.5	47.8
Earning. Revision	n.a	0%	+5%
EPS (sen)	4.9	6.9	7.4
EPS growth (%)	78.8	38.9	7.4
NDPS (sen)	1.5	1.7	1.8
BVPS (RM)	0.30	0.35	0.41
Price/BV (x)	4.1	3.5	3.0
PER (x)	25.1	18.0	16.8
Gearing (x)	0.3	0.2	0.2
ROA (%)	7.8	8.7	8.5
ROE (%)	16.4	19.4	18.0
Dividend Yield (%)	1.2	1.4	1.5

06 September 2022

Income Statement						Financial Data & Ratios					
FY Dec (RM m)	2019A	2020A	2021A	2022F	2023F	FY Dec	2019A	2020A	2021A	2022F	2023F
Revenue	379.8	394.6	517.7	975.4	1,029.9	<b>Growth (%)</b>					
EBITDA	35.0	33.5	46.9	65.8	71.2	Turnover	8.5	3.9	31.2	88.4	5.6
Depre & Amor	-2.1	-5.1	-5.7	-5.9	-7.0	EBITDA	20.7	-4.1	40.0	40.3	8.1
Operating Profit	32.9	28.4	41.3	60.0	64.2	Operating Profit	26.9	-13.6	45.3	45.4	7.1
Other Income	5.3	8.7	5.8	3.9	4.1	PBT	26.3	-33.7	83.8	49.8	7.4
Interest Exp	-1.3	-2.5	-2.8	-2.3	-2.3	Adj Net Profit	30.9	-28.3	81.8	38.9	7.4
Associate	0.0	-5.0	0.0	0.0	0.0	<b>Profitability (%)</b>					
PBT	31.6	20.9	38.5	57.7	61.9	EBITDA Margin	9.2	8.5	9.1	6.8	6.9
Taxation	-7.7	-3.4	-5.9	-12.4	-13.4	Operating Margin	8.7	7.2	8.0	6.2	6.2
Minority Interest	-0.5	0.1	0.7	1.0	1.1	PBT Margin	8.3	5.3	7.4	5.9	6.0
PATAMI	24.4	17.5	31.8	44.2	47.5	Core Net Margin	6.4	4.4	6.1	4.5	4.6
Core PATAMI	24.4	17.5	31.8	44.2	47.5	Effective Tax Rate	24.3	16.0	15.4	21.6	21.6
						ROA	6.1	8.1	5.0	7.8	8.7
						ROE	15.7	10.4	16.4	19.4	18.0
						<b>DuPont Analysis</b>					
						Net Margin (%)	6.4	4.4	6.1	4.5	4.6
						Assets Turnover (x)	1.3	1.1	1.3	1.9	1.8
						Leverage Factor (x)	1.9	2.1	2.1	2.2	2.1
						ROE (%)	15.7	10.4	16.4	19.4	18.0
						<b>Leverage</b>					
						Debt/Asset (x)	0.1	0.2	0.1	0.1	0.1
						Debt/Equity (x)	0.2	0.3	0.3	0.2	0.2
						Net (Cash)/Debt	-49.7	-76.5	-54.3	-53.1	-80.8
						Net Debt/Equity (x)	-0.3	-0.5	-0.3	-0.2	-0.3
						<b>Valuations</b>					
						Core EPS (sen)	4.1	2.8	4.9	6.9	7.4
						DPS (sen)	1.0	0.8	1.5	1.7	1.8
						BVPS (RM)	0.3	0.3	0.3	0.4	0.4
						PER (x)	30.4	44.8	25.1	18.0	16.8
						Div. Yield (%)	0.8	0.6	1.2	1.4	1.5
						P/BV (x)	4.8	4.7	4.1	3.5	3.0
						EV/EBITDA (x)	19.8	21.1	15.8	11.3	10.1
Balance Sheet											
FY Dec (RM m)	2019A	2020A	2021A	2022F	2023F						
Fixed Assets	53.0	59.7	64.2	76.2	87.2						
Intangible Assets	6.4	6.4	5.5	5.5	5.5						
Other FA	4.3	4.7	7.0	7.0	7.0						
Inventories	0.6	2.8	6.9	13.2	14.0						
Receivables	90.9	74.2	91.7	172.8	182.5						
Other CA	62.9	70.6	128.7	128.7	128.7						
Cash	85.1	132.0	106.3	105.1	132.8						
<b>Total Assets</b>	<b>303.1</b>	<b>350.3</b>	<b>410.3</b>	<b>508.6</b>	<b>557.6</b>						
Payables	71.6	89.1	118.5	229.0	241.4						
ST Borrowings	12.1	28.3	26.9	26.9	26.9						
Other ST Liability	37.9	35.1	40.6	-5.4	-4.4						
LT Borrowings	23.3	27.2	25.1	25.1	25.1						
Other LT Liability	2.6	2.4	3.6	3.6	3.6						
<b>Net Assets</b>	<b>155.5</b>	<b>168.3</b>	<b>195.6</b>	<b>229.4</b>	<b>265.1</b>						
Shr. Equity	155.3	168.0	194.6	228.3	263.9						
Mnrt. Interest	0.3	0.3	1.0	1.1	1.2						
<b>Total Equity</b>	<b>155.5</b>	<b>168.3</b>	<b>195.6</b>	<b>229.4</b>	<b>265.1</b>						
Cashflow Statement											
FY Dec (RM m)	2019A	2020A	2021A	2022F	2023F						
Operating CF	20.0	45.7	-6.2	46.9	54.5						
Investing CF	-35.2	-12.0	-13.3	-17.9	-17.9						
Financing CF	31.7	11.3	-10.9	-8.0	-8.9						

Source: Kenanga Research

06 September 2022

### Malaysian Technology Peers Comparison

Name	Rating	Last Price (RM)	Target Price (RM)	Upside (%)	Mkt Cap (RM'm)	Shariah Compliant	Current FYE	Core EPS (sen)		Core EPS Growth		PER (x) – Core Earnings		PBV (x)	ROE (%)	Net Div. (sen)	Net Div. Yld (%)
								1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.
D&O GREEN TECHNOLOGIES BHD	OP	3.90	4.45	14.1%	4,825.1	Y	12/2022	11.3	14.4	27.1%	26.6%	34.4	27.2	5.3	16.3%	1.9	0.5%
GHL SYSTEMS BHD	MP	1.03	1.10	6.8%	1,175.7	Y	12/2022	2.1	2.7	-16.4%	30.2%	50.0	38.4	2.2	4.5%	0.0	0.0%
INARI AMERTRON BHD	OP	2.66	3.45	29.7%	9,871.5	Y	06/2023	11.0	12.1	4.2%	9.8%	24.2	22.1	3.9	16.2%	10.4	3.9%
JHM CONSOLIDATION BHD	MP	1.12	1.30	16.0%	624.5	Y	12/2022	5.8	7.4	19.0%	27.4%	19.2	15.1	2.1	11.9%	0.5	0.4%
KELINGTON GROUP BHD	OP	1.24	1.70	37.1%	797.3	Y	12/2022	6.9	7.4	38.9%	7.4%	18.0	16.8	3.5	18.0%	1.7	1.4%
KESM INDUSTRIES BHD	MP	7.20	7.50	4.1%	309.7	Y	07/2022	4.2	16.7	-55.0%	300.0%	169.1	42.9	0.9	0.5%	9.0	1.3%
MALAYSIAN PACIFIC INDUSTRIES BHD	MP	29.04	34.50	18.8%	5,776.0	Y	06/2023	173.0	182.5	4.1%	5.5%	16.8	15.9	2.5	16.0%	35.0	1.2%
P.I.E. INDUSTRIAL BHD	OP	3.00	3.70	23.3%	1,152.1	Y	12/2022	17.2	20.3	8.6%	18.4%	17.4	14.8	2.0	12.0%	7.0	2.3%
SKP RESOURCES BHD	OP	1.65	2.10	27.2%	2,577.9	Y	03/2024	11.6	12.4	6.3%	7.7%	14.2	13.3	2.9	21.1%	5.8	3.5%
UNISEM (M) BHD	MP	2.55	3.35	31.3%	4,113.4	Y	12/2022	15.0	16.7	22.1%	11.3%	17.0	15.3	1.8	10.8%	6.0	2.4%
Simple Average								25.8	29.3	5.9%	44.4%	38.0	22.2	2.7	13.0%		1.7%

Source: Kenanga Research

**Stock ESG Ratings:**

	Criterion	Rating				
<b>GENERAL</b>	Earnings Sustainability & Quality	★	★	★	☆	
	Corporate Social Responsibility	★	★	★	☆	
	Management/Workforce Diversity	★	★	☆		
	Accessibility & Transparency	★	★	★		
	Corruption-Free Pledge	★	★	★		
	Carbon-Neutral Initiatives	★	★	★	★	
<b>SPECIFIC</b>	Foreign Worker Welfare	★	★	★		
	Supply Chain Auditing	★	★	★	☆	
	Waste Disposal / Pollution Control	★	★	★		
	Energy Efficiency	★	★	★		
	Work Site Safety	★	★	★		
	Digital Transformation	★	★	☆		
<b>OVERALL</b>		★	★	★		

☆ denotes half-star  
 ★ -10% discount to TP  
 ★★ -5% discount to TP  
 ★★★ TP unchanged  
 ★★★★ +5% premium to TP  
 ★★★★★ +10% premium to TP

**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.**

This document has been prepared for general circulation based on information obtained from sources believed to be reliable but we do not make any representations as to its accuracy or completeness. Any recommendation contained in this document does not have regard to the specific investment objectives, financial situation and the particular needs of any specific person who may read this document. This document is for the information of addressees only and is not to be taken in substitution for the exercise of judgement by addressees. Kenanga Investment Bank Berhad accepts no liability whatsoever for any direct or consequential loss arising from any use of this document or any solicitations of an offer to buy or sell any securities. Kenanga Investment Bank Berhad and its associates, their directors, and/or employees may have positions in, and may effect transactions in securities mentioned herein from time to time in the open market or otherwise, and may receive brokerage fees or act as principal or agent in dealings with respect to these companies.

Published and printed by:

**KENANGA INVESTMENT BANK BERHAD (15678-H)**  
 Level 17, Kenanga Tower, 237, Jalan Tun Razak, 50400 Kuala Lumpur, Malaysia  
 Telephone: (603) 2172 0880 Website: [www.kenanga.com.my](http://www.kenanga.com.my) E-mail: [research@kenanga.com.my](mailto:research@kenanga.com.my)

