

## Kelington Group Bhd

### Record high orderbook replenishment

#### Summary

- Kelington Group Bhd (KGB) wholly owned subsidiary, Kelington Technologies Sdn Bhd, has received an award of contract from the world leader in semiconductor solutions to undertake the bulk and specialty gas system distribution works in Kulim, Kedah.
- The contract value is worth approximately RM330.0m. Works shall commence in September 2022 and are expected to be completed by September 2024.
- We gather that the aforementioned contract is the second largest single contract secured by KGB after bagging approximately RM420.0m of works at East Malaysia back in 2021. We believe that the aforementioned contract is expected to generate mid-to-high single digit EBITDA margins, which is line with historical average for historical UHP segment's works.
- Following the latest win, KGB's year-to-date orderbook replenishment now stood at approximately RM1.28bn; surpassing our initial projected orderbook replenishment target of RM1.00bn for FY22f as well as the previous record high FY21 orderbook replenishment of RM1.19bn. Consequently, we have raised our orderbook replenishment to RM1.50bn for FY22f, while keeping FY23f target unchanged at RM1.00bn.
- Moving forward, KGB will be equipped with an outstanding orderbook of approximately RM1.87bn, which represents an orderbook-to-cover ratio of 3.6x against FY21 revenue of RM517.7m to provide strong earnings visibility over the next 2 years. Meanwhile, KGB's tenderbook of close to RM2.00bn remains healthy, particularly within the semiconductor space.
- We gather that major semiconductor players remain committed to scale up their expansion plans in bid to meet the solid demand. New wafer fabrication expansions are expected to generate additional installed capacity by 8.7% in 2022, led by several household name players such as CR Micro, Silan, Texas Instruments, ST Microelectronics, Tower Semiconductor and Semiconductor Manufacturing International Corporation (SMIC).
- Back home, recall than Infineon Technologies has announced the construction of its third wafer fabrication (fab) module for RM8.00bn that is expected to be completed by 3Q24. At the same time, DNEX in a joint effort with Foxconn is planning to build a first of its kind new 12-inch wafer fabrication facility in Malaysia.
- Elsewhere, SMIC, whom KGB counts as one of their major clientele is investing USD7.50bn to develop a new wafer fabrication plant that will house 12-inch wafer production line. With expansions still at large, we believe that KGB remains in the prime position to tap into the semiconductor supply chain with chip shortages will likely to last beyond 2023.

#### Company Update

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#### BUY

Share price	RM1.24
Target price	RM1.70
Previous TP	RM1.61
Capital upside	37.1%
Dividend return	1.4%
Total return	38.5%

#### Company profile

Principally involved in the provision of engineering services, construction and general trading

#### Stock information

Bursa Code	0151
Bloomberg ticker	KGRB MK
Listing market	MAIN
Share issued (m)	645.2
Market Cap (m)	800.1
52W High/Low	1.88 / 1.06
Est. Free float	48.9
Beta	1.1
3-mth avg vol ('000)	1,294.5
Shariah compliant	Yes

#### Major shareholders

Palace Star	21.1
Sun Lead International Ltd	6.2
CIMB Group Holdings Bhd	5.0

#### Share price vs. KLCI (%)

Hist. return	1M	3M	12M
Absolute	-3.1	0.0	-8.3
Relative	-3.1	2.4	-4.8

#### Earnings snapshot

FYE (Dec)	FY21	FY22f	FY23f
PATMI (m)	29.0	48.7	54.7
EPS (sen)	4.5	7.5	8.5
P/E (x)	26.7	16.4	14.6

#### Relative performance chart



## Valuation & Recommendation

- Given that the orderbook replenishment has exceeded our expectations, we raised our earnings forecast by 0.6% and 10.6% to RM48.7m and RM54.7m in FY22f and FY23f respectively, taking into account of the upward revision in orderbook replenishment rate. We maintained our **BUY** recommendation on KGB with a higher target price of RM1.70.
- We derive our target price by assigning a targeted P/E multiple of 20.0x to FY23f EPS of 8.5 sen. The assigned targeted P/E multiple is in tandem with the valuations of the technology sector that is trading at 19.9x for 2023.
- Risks to our recommendation and target price include weaker-than-expected targeted orderbook replenishment of RM1.50bn for FY22f. Any decline in semiconductor sales may dampen the large scale UHP projects delivery to China and Singapore, given that the UHP segment plays a major part in total revenue contribution and earnings growth.

## Financial Highlights

All items in (RM m) unless otherwise stated

Income Statement					Balance Sheet						
FYE Dec (RM m)	FY19	FY20	FY21	FY22f	FY23f	FYE Dec (RM m)	FY19	FY20	FY21	FY22f	FY23f
<b>Revenue</b>	379.8	394.6	514.6	909.2	993.0	Cash	85.2	132.0	106.5	81.2	94.1
EBITDA	35.0	27.8	43.4	70.5	79.4	Receivables	90.9	74.2	92.1	112.1	122.4
EBIT	31.9	22.7	37.7	64.4	72.6	Inventories	0.6	2.8	6.9	8.3	9.1
Net finance income/ (cost)	(0.3)	(1.7)	(2.1)	(2.6)	(2.9)	PPE	53.0	59.7	64.4	71.9	79.9
Associates & JV	-	-	-	-	-	Others	46.8	68.6	75.3	127.7	165.0
<b>Profit before tax</b>	<b>31.6</b>	<b>20.9</b>	<b>35.7</b>	<b>61.8</b>	<b>69.7</b>	<b>Assets</b>	<b>304.5</b>	<b>350.3</b>	<b>404.0</b>	<b>444.9</b>	<b>491.7</b>
Tax	(7.7)	(3.4)	(6.0)	(12.4)	(13.9)	Debts	38.8	58.5	56.4	60.3	61.8
<b>Net profit</b>	<b>23.9</b>	<b>17.6</b>	<b>29.7</b>	<b>49.4</b>	<b>55.7</b>	Payables	43.3	71.5	94.0	89.8	100.8
Minority interest	(0.5)	0.1	0.7	0.8	1.0	Others	66.9	52.0	60.8	64.7	57.1
<b>Core earnings</b>	<b>24.4</b>	<b>17.5</b>	<b>29.0</b>	<b>48.7</b>	<b>54.7</b>	<b>Liabilities</b>	<b>149.0</b>	<b>182.0</b>	<b>211.2</b>	<b>214.8</b>	<b>219.7</b>
<b>Diluted Core earnings</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>50.1</b>	<b>55.5</b>	Shareholder's equity	116.1	155.8	168.6	192.2	229.6
Exceptional items	-	-	-	-	-	Minority interest	0.3	0.3	1.1	1.1	1.1
Reported earnings	24.4	17.5	29.0	48.7	54.7	<b>Equity</b>	<b>155.5</b>	<b>168.3</b>	<b>192.7</b>	<b>230.1</b>	<b>272.0</b>
<b>Cash Flow Statement</b>					<b>Valuation &amp; Ratios</b>						
<b>FYE Dec (RM m)</b>	<b>FY19</b>	<b>FY20</b>	<b>FY21</b>	<b>FY22f</b>	<b>FY23f</b>	<b>FYE Dec (RM m)</b>	<b>FY19</b>	<b>FY20</b>	<b>FY21</b>	<b>FY22f</b>	<b>FY23f</b>
Profit before taxation	31.6	20.9	35.7	61.8	69.7	Core EPS (sen)	3.8	2.7	4.5	7.5	8.5
Depreciation & amortisation	3.1	5.1	5.7	6.1	6.8	Diluted Core EPS (sen)	-	-	-	5.8	6.5
Changes in working capital	(19.1)	18.6	96.0	77.6	36.6	P/E (x)	32.8	45.7	27.6	16.4	14.6
Share of JV profits	-	-	-	-	-	Diluted P/E (x)	-	-	-	21.3	19.2
Taxation	(7.9)	(5.1)	(5.3)	(12.4)	(13.9)	DPS (sen)	1.0	0.8	1.3	1.8	2.0
Others	0.8	5.2	4.4	2.6	2.9	Dividend yield	0.8%	0.6%	1.0%	1.4%	1.6%
<b>Operating cash flow</b>	<b>21.1</b>	<b>45.7</b>	<b>(3.9)</b>	<b>(0.4)</b>	<b>40.8</b>	BVPS (RM)	0.24	0.26	0.30	0.36	0.42
Net capex	(34.9)	(12.3)	(12.4)	(13.6)	(14.9)	P/B (x)	5.1	4.8	4.2	3.5	2.9
Others	(0.3)	0.3	-	-	-	EBITDA margin	9.2%	7.1%	8.4%	7.8%	8.0%
<b>Investing cash flow</b>	<b>(35.2)</b>	<b>(12.0)</b>	<b>(12.7)</b>	<b>(13.6)</b>	<b>(14.9)</b>	EBIT margin	8.4%	5.8%	7.3%	7.1%	7.3%
Changes in borrowings	21.7	19.7	(2.4)	4.2	1.5	PBT margin	8.3%	5.3%	6.9%	6.8%	7.0%
Issuance of shares	24.2	20.2	-	-	-	PAT margin	6.3%	4.5%	5.8%	5.4%	5.6%
Dividends paid	(3.7)	(8.1)	(4.8)	(6.4)	(11.3)	Core PAT margin	6.4%	4.4%	5.6%	5.4%	5.5%
Others	(8.1)	(4.8)	(6.4)	(11.3)	(12.9)	ROE	15.7%	10.4%	15.0%	21.1%	20.1%
<b>Financing cash flow</b>	<b>30.6</b>	<b>11.3</b>	<b>(14.2)</b>	<b>(11.3)</b>	<b>(12.9)</b>	ROA	8.0%	5.0%	7.2%	10.9%	11.1%
Net cash flow	16.5	45.0	(30.9)	(25.3)	13.0	Net gearing	Net Cash	Net Cash	Net Cash	Net Cash	Net Cash
Forex	(0.7)	0.8	2.1	-	-						
Others	-	-	-	-	-						
Beginning cash	52.2	68.0	113.8	85.0	59.7						
Ending cash	68.0	113.8	85.0	59.7	72.7						

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