

“Earnings prospects look promising with high RM1.9bn orderbook”

Share price performance



	1M	3M	12M
Absolute (%)	4.8	-5.1	-23.1
Rel KLCI (%)	0.3	-0.6	-19.1

	BUY	HOLD	SELL
Consensus	3	1	-

Source: Bloomberg

Stock Data

Sector	Oil and Gas
Issued shares (m)	643.0
Mkt cap (RMm)/(US\$m)	835.9/183.6
Avg daily vol - 6mth (m)	1.4
52-wk range (RM)	1.06-1.86
Est free float	48.9%
Stock Beta	0.69
Net cash/(debt) (RMm)	(63.9)
ROE (CY22E)	26.1%
Derivatives	Nil
Shariah Compliant	Yes
FTSE4Good Constituent	No
FBM Emas (Top 200)	Bottom 25%
ESG Rank	

Key Shareholders

Palace Star	21.1%
CIMB	6.7%
Sun Lead	6.2%

Source: Affin Hwang, Bloomberg

Tan Jianyuan, FCCA

T (603) 2146 7538

E jianyuan.tan@affinhwang.com

Kelington (KGRB MK)

BUY (maintain)

Up/Downside: +54%

Price Target: RM2.00

Previous Target (Rating): RM1.88 (BUY)

Record profit also a strong beat

- KGB reported a solid set of numbers. 9M22 core profit of RM41m (+108% yoy) made up 85% of both our/consensus forecasts
- Result was above expectation on higher-than-expected revenue and lower tax rate benefits arising from China R&D incentive
- We raise earnings forecasts by 7-14%. Maintain BUY with higher target price of RM2.00

Stronger revenue recognition

3Q22 revenue rose 17% qoq driven mainly by higher Ultra High Purity (+8%) and General Contracting (+25%) contract recognition. Revenue across key regions increased, including Malaysia (+17%) and Singapore (+19%). Despite the flattish EBITDA margin qoq, we think this is commendable given the higher proportion of contracting work performed this quarter (33% vs 31% in 2Q22) which commands a lower margin. The Sarawak turnkey construction work is on track to be completed by Apr23. KGB recorded a record high core net profit of RM18m (+25% yoy) on the back of higher revenue and a lower effective tax rate of 13%, benefiting from a R&D tax incentive received from the China government.

Earnings visibility and growth prospects look promising

KGB's solid track record of securing new contracts led to its strong revenue and core profit growth of 152% and 108% yoy in 9M22. The lower EBITDA margin (-2ppts yoy) is due entirely to revenue mix whereby more contracting work was executed. We expect earnings prospects over the next 12 months to remain positive as it focuses on delivering the jobs in hand. Despite the global slowdown, KGB has secured a total of RM1.6bn new contracts to-date and has a second carbon dioxide gas recovery plant expansion underway, which should provide better earnings visibility. Its 10-year onsite gas supply contract is expected to commence operation by early 2023.

Maintain BUY and raise TP to RM2.00

We raise our 2022-23 earnings forecasts by 7-14% to reflect a faster order book burn rate. We subsequently raise our target price to RM2.00 (from RM1.88), based on an unchanged 22x 2023E PE multiple. KGB's RM1.9bn order book provides good earnings visibility in the coming years. Tender book at RM1.6bn continues to present good opportunities for further contract replenishments. Reaffirm our BUY rating. Downside risks include delays in clients' expansion plans, project execution delays, lower-than-expected LCO2 plant demand and project cost overruns.

Earnings & Valuation Summary

FYE 31 Dec	2020	2021	2022E	2023E	2024E
Revenue (RMm)	394.6	517.7	1,119.7	1,125.1	1,122.3
EBITDA (RMm)	32.4	48.7	78.3	83.5	89.9
Pretax profit (RMm)	20.9	38.5	68.8	74.6	81.5
Net profit (RMm)	17.5	31.8	54.3	58.6	63.9
EPS (sen)	2.7	5.0	8.4	9.1	9.9
PER (x)	47.7	26.3	15.4	14.3	13.1
Core net profit (RMm)	22.5	34.5	54.3	58.6	63.9
Core EPS (sen)	3.5	5.4	8.4	9.1	9.9
Core EPS growth (%)	(12.9)	53.6	57.2	7.9	9.1
Core PER (x)	37.2	24.2	15.4	14.3	13.1
Net DPS (sen)	1.0	2.0	3.0	3.5	4.0
Dividend Yield (%)	0.8	1.5	2.3	2.7	3.1
EV/EBITDA (x)	23.5	16.3	9.6	8.6	7.6

Chg in EPS (%)	+14.3	+6.6	+0.1
Affin/Consensus (%)	1.1	1.1	1.0

Source: Company, Affin Hwang estimates

Fig 1: Results Comparison

FYE 31 Dec (RMm)	3Q21	2Q22	3Q22	QoQ % chg	YoY % chg	9M21	9M22	YoY % chg	Comments
Revenue	106.4	312.4	366.4	17.3	244.5	337.6	852.1	152.4	Driven by increase in new contracts
Op costs	(95.8)	(291.8)	(342.7)	17.5	257.7	(307.7)	(794.3)	158.2	
EBITDA	10.6	20.6	23.7	14.8	124.4	29.9	57.8	93.2	
<i>EBITDA margin (%)</i>	9.9	6.6	6.5	-0.1ppt	-3.5ppt	8.9	6.8	-2.1ppt	Higher contracting work
Depn and amort	(1.2)	(1.3)	(1.4)	7.1	21.2	(3.5)	(3.9)	11.2	
EBIT	9.4	19.3	22.3	15.4	137.1	26.4	53.9	104.1	
<i>EBIT margin (%)</i>	8.8	6.2	6.1	-0.1ppt	-2.8ppt	7.8	6.3	-1.5ppt	
Int expense	(0.7)	(1.0)	(1.2)	19.2	68.3	(2.2)	(2.8)	27.2	
EI	0.1	(0.8)	(2.3)	n.m	n.m	1.0	(3.6)	n.m	Impairments
Pretax profit	8.8	17.5	18.8	7.7	114.9	25.2	47.5	88.1	
Core pretax	8.7	18.3	21.1	15.2	142.7	24.2	51.1	111.1	
Tax	(0.6)	(3.6)	(2.5)	n.m	303.5	(3.8)	(8.7)	125.4	
<i>Tax rate (%)</i>	7.1	20.4	13.3	-7.1ppt	6.2ppt	15.3	18.3	3ppt	
MI	(0.2)	(0.3)	(0.6)	n.m	n.m	(0.5)	(1.2)	131.7	
Net profit	8.0	13.6	15.7	15.8	97.3	20.9	37.6	80.1	
EPS (sen)	3.2	5.4	6.3	15.8	97.3	8.3	15.0	80.1	
Core net profit	7.9	14.4	18.0	24.9	127.8	19.8	41.2	107.8	Above our forecasts

Source: Affin Hwang, Company

Fig 2: Segmental Breakdown

	3Q21	4Q21	1Q22	2Q22	3Q22	qoq % chg	yoy % chg	9M21	9M22	yoy % chg
Ultra High Purity	70.6	108.1	112.6	191.8	206.6	7.7	192.5	232.9	511.0	119.4
Process Engineering	17.1	22.8	12.0	11.5	14.1	22.5	(17.1)	39.2	37.6	(4.1)
General Contracting	9.8	37.4	38.4	97.1	121.6	25.2	1,145.0	38.3	257.1	570.5
Industrial Gases	8.9	11.8	10.4	12.0	24.0	100.4	168.9	27.1	46.4	71.0
TOTAL	106.4	180.1	173.3	312.4	366.3	17.3	244.4	337.6	852.1	152.4

	3Q21	4Q21	1Q22	2Q22	3Q22	qoq % chg	yoy % chg	9M21	9M22	yoy % chg
Malaysia	36.2	81.3	77.9	148.0	173.2	17.1	379.0	117.7	399.1	239.1
Singapore	36.5	56.5	62.3	104.7	125.0	19.4	242.6	113.0	291.9	158.4
China	29.3	34.3	27.0	51.6	51.0	(1.2)	74.2	94.9	129.6	36.5
Taiwan	3.5	6.8	4.9	6.6	11.7	76.6	234.0	9.8	23.2	135.8
Philippines	-	-	-	-	4.5	>100	>100	0.0	4.5	>100
Others	0.9	1.2	1.3	1.5	0.9	(37.8)	(0.2)	2.2	3.8	74.7
TOTAL	106.4	180.1	173.3	312.4	366.4	17.3	244.5	337.6	852.1	152.4



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Affin Hwang may from time to time have an individual employed by or associated with it serves as an officer of any of the companies under its research coverage.

Affin Hwang market making

Affin Hwang may from time to time make a market in securities covered by this research.

Additional information may be available upon request.

Japan - additional notification items pursuant to Article 37 of the Financial Instruments and Exchange Law

(This Notification is only applicable where report is distributed by Daiwa Securities Co. Ltd.)

If you decide to enter into a business arrangement with us based on the information described in materials presented along with this document, we ask you to pay close attention to the following items.

- In addition to the purchase price of a financial instrument, we will collect a trading commission* for each transaction as agreed beforehand with you. Since commissions may be included in the purchase price or may not be charged for certain transactions, we recommend that you confirm the commission for each transaction.
 - In some cases, we may also charge a maximum of ¥ 2 million (including tax) per year as a standing proxy fee for our deposit of your securities, if you are a non-resident of Japan.
 - For derivative and margin transactions etc., we may require collateral or margin requirements in accordance with an agreement made beforehand with you. Ordinarily in such cases, the amount of the transaction will be in excess of the required collateral or margin requirements.
 - There is a risk that you will incur losses on your transactions due to changes in the market price of financial instruments based on fluctuations in interest rates, exchange rates, stock prices, real estate prices, commodity prices, and others. In addition, depending on the content of the transaction, the loss could exceed the amount of the collateral or margin requirements.
 - There may be a difference between bid price etc. and ask price etc. of OTC derivatives handled by us.
 - Before engaging in any trading, please thoroughly confirm accounting and tax treatments regarding your trading in financial instruments with such experts as certified public accountants.
- *The amount of the trading commission cannot be stated here in advance because it will be determined between our company and you based on current market conditions and the content of each transaction etc.

When making an actual transaction, please be sure to carefully read the materials presented to you prior to the execution of agreement, and to take responsibility for your own decisions regarding the signing of the agreement with us.

Corporate Name: Daiwa Securities Co. Ltd.
Financial instruments firm: chief of Kanto Local Finance Bureau (Kin-sho) No.108
Memberships: Japan Securities Dealers Association, The Financial Futures Association of Japan,
Japan Investment Advisers Association, Type II Financial Instruments Firms Association,
Japan Security Token Offering Association

