

KELINGTON GROUP

Results Update

TRADING BUY

Current Price	RM 1.30
Target Price	RM 1.46
Consensus Price	RM 1.68

Stock Return Information

KLCI	1,449.94
Expected share price return (%)	12.3
Expected dividend return (%)	1.5
Expected total return (%)	13.8

Key Statistics

Shariah Compliant	YES
Bloomberg Ticker	KGRB MK
Masa Ticker / Stock Code	KGB/0151
Shares Issued (m)	643.0
Market Capitalisation (RM'm)	874
52 Week Hi/Lo Price (RM)	1.86/1.06
Avg Trading Volume (3-mth)	1,751,856
Est Free Float (%)	48.9
YTD Returns (%)	-20.9
Beta (x)	0.69

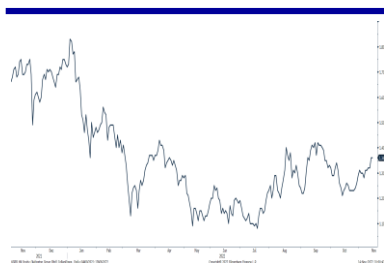
Share Price Performance (%)

Price change	Absolute	Relative
1 mth	5.69	0.81
3 mth	2.36	6.10
12 mth	-23.08	-17.77

Major Shareholders (%)

Palace Star	21.1
SUN Lead International Ltd	6.2

1-Year Share Price Performance



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Consecutive Record Quarter

We upgrade **Kelington** to **TRADING BUY** recommendation (from Neutral) with a higher TP of **RM1.46 (+RM0.22)**, pegged to a higher target PER of 20x (+0.5 STDEV to its 5-years FWD PER mean), from 17x. The upgrade is in light of the increasing likelihood of an interest hike slowdown in 1Q2023 that bolsters its prospects. We like KGB for its: 1) firm earnings growth potential, supported by increased job orders from the semiconductor industry, and 2) stable new income stream from its LCO2 operations which could also help to shore up its dividend prospects. Key downside risks include: 1) project delays, 2) trade receivables impairments, and 3) slower-than-expected contract wins.

Within expectation: 9MCY22 PATAMI came in at 72% and 78% of ours and consensus expectation. We deem the earnings to be within expectation as job progression gradually increases in 4QCY22.

Y-o-Y: 3QCY22 PATAMI increased by 97% to a new record of RM15.7m, driven by higher project progression in all segments, except for the process engineering segment. UHP contribution from Malaysia and Singapore rose by 379% Y-o-Y and 242% Y-o-Y respectively, due higher work recognition in the memory, IDMs and foundry end customers. Contributions from industrial gas grew 172%, thanks to increases in export sales and teething challenges experienced by its competitor.

Q-o-Q: 3QCY22 PATAMI rose by 37.6%, underpinned higher project recognition from all segments. 3QCY22 GP margin inched higher to 11.1%, from 10.4% in the 2QCY22, thanks to the bump up in the industrial gas segment, where GP margin for this segment is 30%. Effective tax rate was much lower this quarter at 13.3% vs. the preceding quarter of 20% due to lower tax rate in Singapore and tax exemption in China.

YTD: 9MCY22 PATAMI rose by 81% Y-o-Y, boosted by higher revenue recognition from all segments, mainly lifted by work progression in the UHP and general contracting segment, and robust demand of its LCO2 gases.

Earnings estimate We maintain our CY23 and CY24 earnings estimate.

Table 1: Financial highlights & earnings forecasts

FYE Dec (RM m)	CY19	CY20	CY21	CY22(F)	CY23(F)
Revenue	379.8	394.6	514.6	993.6	1,032.4
EBITDA	36.7	29.3	50.8	76.7	78.4
EBITDA Margin (%)	9.7	7.4	9.9	7.7	7.6
PATAMI	24.4	17.0	29.0	51.9	47.0
PATAMI Margin (%)	6.4	4.3	5.6	5.2	4.5
EPS (sen)	3.8	2.6	4.5	8.0	7.3
Earnings Growth (%)	30.9	(30.2)	69.9	79.4	(9.6)
PER (x)	35.9	51.5	30.3	16.9	18.7
DPS (sen)	2.0	0.5	1.5	2.0	2.0
Dividend Yield (%)	1.5	0.4	1.1	1.5	1.5
ROE (%)	20.3	12.5	18.5	28.7	23.0
Net Gearing Ratio (%)	NET CASH	NET CASH	NET CASH	80.6	76.8
Price/Book Ratio (x)	5.7	5.2	4.6	3.8	3.3

Source: Company, Inter-Pacific

Outlook KGB has replenished RM1.36b worth of new contracts this year, surpassing last year's record of RM1.19b. Total outstanding orderbook rose to RM2.4b in 3QCY22, from RM1.9b in 2QCY22, with an orderbook-to-cover ratio of 2.4x against our CY22 revenue estimate of RM993m. The robust orderbook will provide strong earnings visibility in CY23-CY24, weathering a possible slowdown from its memory segment end customers. In 3QCY22, KGB won a UHP contract in China, where we reiterate China's continuing rollout of foundry capacity throughout 2022-2025 and the expansion in IDM's capacity in the automotive & 5G industry that could mitigate the near-term weakness on the consumer electronics industry.

Table 2: Quarterly Income Statement and Comparison

FYE Dec (RM m)	3QCY22	3QCY21	YoY chg (%)	2QCY22	QoQ chg (%)	9MCY22	9MCY21	YTD chg (%)
Revenue	366.4	106.4	244.5	312.4	17.3	852.1	337.6	152.4
Gross Profit	40.7	20.4	99.2	32.5	25.1	97.0	54.6	77.7
GP margin	11.1	19.2	(42.2)	10.4	6.7	11.4	16.2	(29.6)
EBITDA	18.8	10.1	85.5	19.9	(5.5)	51.6	30.2	71.0
EBITDA margin (%)	5.1	9.5	(46.2)	6.4	(19.4)	6.1	8.9	(32.2)
PBT	18.8	8.8	114.9	17.5	7.7	47.5	25.2	88.1
PBT margin (%)	5.1	8.2	(37.6)	5.6	(8.2)	5.6	7.5	(25.5)
PATAMI	15.7	8.0	97.3	13.6	15.8	37.6	20.8	81.0
PAT margin (%)	4.3	7.5	(42.7)	4.3	(1.2)	4.4	6.1	(28.3)
EPS (sen)	2.4	1.2	97.3	2.1	15.8	5.8	3.2	81.0

Source: Company

Table 3: Operating divisions

FYE Dec (RM m)	3QCY22	3QCY21	YoY chg (%)	2QCY22	QoQ chg (%)	9MCY22	9MCY21	YTD chg (%)
Ultra high purity (UHP)	206.6	70.6	192.5	191.8	7.7	511.0	231.7	120.5
Process engineering	14.1	17.1	(17.1)	11.5	22.6	37.6	39.2	(4.1)
General contracting	121.6	9.8	>500	97.1	25.2	257.1	38.3	570.5
Industrial gas	20.5	7.5	172.3	11.7	75.9	42.0	23.9	75.4
Manufacturing & Trading	3.3	1.1	193.8	0.0	>500	3.5	3.5	0.4
Services	0.3	0.3	11.2	0.3	(1.2)	0.9	0.9	7.9
Total	366.4	106.4	244.5	312.4	54.0	852.1	337.6	152.4

Source: Company

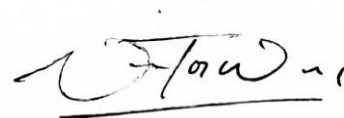
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Signed



Victor Wan Kum Seng
Head of Research
Inter-Pacific Research Sdn Bhd

Ratings System

Ratings:	Description:
BUY	Total return is expected to exceed 15% in the next 12 months
TRADING BUY	Total return is expected to exceed 10% in the next 3 months
NEUTRAL	Total return is expected to be between -15% to 15% in the next 12 months
SELL	Total return is expected to be below 15% in the next 12 months
TRADING SELL	Total return is expected to be below 10% in the next 3 months
NOT RATED	The stock is not within regular research coverage

Abbreviation

Abbreviation	Definition	Abbreviation	Definition
PER	Price Earnings Ratio	CAGR	Compounded Annual Growth Rate
PEG	PER to Growth	CAPEX	Capital Expenditure
EPS	Earnings per Share	DPS	Dividend per Share
FYE	Financial Year End	ROA	Return on Asset
FY	Financial Year	ROE	Return on Equity
CY	Calendar Year	PBT	Profit Before Tax
MoM	Month-on-Month	PAT	Profit After Tax
QoQ	Quarter-on-Quarter	EV	Enterprise Value
YoY	Year-on-Year	EBIT	Earnings Before Interest And Tax
YTD	Year-to-Date	EBITDA	EBIT Depreciation & Amortisation
p.a.	Per Annum	WACC	Weighted Average Cost of Capital
DCF	Discounted Cash Flow	NTA	Net Tangible Asset
FCF	Free Cash Flow	BV	Book Value
NAV	Net Asset Value		

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