

Kelington Group Bhd

Scaling up to another peak

Summary

- Kelington Group Bhd's (KGB) 3QFY22 core net profit jumped 97.3% YoY to RM15.7m, driven by higher recognition of major general contracting work, execution from the higher UHP outstanding orderbook and higher demand for industrial gas segment. Revenue for the quarter surged 244.5% YoY to RM366.4m.
- Cumulative core net profit came in above expectations, expanding 80.1% YoY to RM37.6m in 9M22, make up to 77.3% and 78.1% of ours and consensus forecast of RM48.6m and RM48.1m, respectively. The variance is mainly due to the higher-than-expected contribution from the general contracting segment.
- Moving into final quarter of the year, we expect improvement in performances to remain supported by their execution of its robust orderbook replenishment in recent one-and-half years. Net gearing is expected remain to remain stable, staying below 0.5x (3QFY22 at 0.3x) with no major CAPEX on the cards.
- We gather that orderbook replenishment now stood at RM1.62bn, largely surpassing RM1.28bn recorded in FY21. Given that demand for from big data centers, electric vehicles, IoT and 5G applications are still in the picture, there is no slowdown in global wafer fabrication plant expansion plans. We believe that KGB is well positioned to ride onto the aforementioned growth and we made no changes to our orderbook replenishment assumption of RM1.20bn for FY23f.
- Meanwhile, tenderbook remains relatively healthy at around RM1.50bn, supported mainly from the on-going wafer fabrication plants expansions of semiconductor players. As of end-3QFY22, outstanding orderbook of RM1.60bn will provide strong earnings visibility over the next 2 years.
- We gather that the global semiconductor sales fell 3.0% YoY to USD141.0bn in 3Q2022, on slower demand from the Asia Pacific region. Moving forward, we believe that the semiconductor chip glut (mainly for consumer electronics) may persist as the inventory backlog may take a longer period to clear. Already, mega-tech players like Amazon (c. 10,000 employees), Meta (c. 11,000 employees), Twitter (c. 3,500 employees) and Microsoft (c. 1,000 employees) have announced plans to trim headcounts in recent months.

Quarterly performance

FYE Dec (RM m)	2QFY21	1QFY22	2QFY22	QoQ (%)	YoY (%)	6MFY21	6MFY22	YoY (%)
Revenue	126.4	173.3	312.4	80.2	147.2	231.2	485.7	110.1
EBITDA	11.6	13.2	20.2	52.5	74.0	20.0	33.4	67.1
PBT	9.7	11.1	17.5	57.5	80.0	16.5	28.6	73.8
PAT	7.5	8.5	13.9	63.6	85.2	13.2	22.4	69.6
Core PATMI	7.4	8.3	13.6	63.3	84.4	12.9	21.9	69.5
Reported PATMI	7.4	8.3	13.6	63.3	84.4	12.9	21.9	69.5
Core EPS (sen)	0.2	0.2	0.4	63.3	84.4	0.4	0.6	69.5
EBITDA margin (%)	9.2	7.6	6.5			8.6	6.9	
PBT margin (%)	7.7	6.4	5.6			7.1	5.9	
Core PATMI margin (%)	5.8	4.8	4.3			5.6	4.5	

Results Note – 3QFY22

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BUY

Share price	RM1.30
Target price	RM1.85
Previous TP	RM1.70
Capital upside	42.3%
Dividend return	1.3%
Total return	43.6%

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)	838.8
52W High/Low	1.86 / 1.06
Est. Free float	48.9
Beta	0.7
3-mth avg vol ('000)	1,572.0
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	3.2	-3.7	-21.8
Relative	-0.3	0.8	-19.1

Earnings snapshot

FYE (Dec)	FY21	FY22f	FY23f
PATMI (m)	29.0	53.1	59.4
EPS (sen)	4.5	8.2	9.2
P/E (x)	29.0	15.8	14.1

Relative performance chart



Valuation & Recommendation

- Given that the reported earnings came slightly above our expectations, we tweaked our core net profit higher by 9.2% and 8.7% to RM53.1m and RM59.4m for FY22f and FY23f respectively, on the back of higher contribution from the general contracting segment. Consequently, we maintained **BUY** recommendation on KGB with a higher target price of RM1.85.
- Our target price is derived by assigning a targeted P/E multiple of 20.0x to the revised FY23f EPS of 9.2 sen. The assigned targeted P/E multiple is in tandem with the valuations of the technology sector that is trading at 19.3x for 2023.
- Risks to our recommendation and target price include weaker-than-expected targeted orderbook replenishment of RM1.20bn for FY23f. Any further 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
Revenue	379.8	394.6	514.6	1,114.7	1,222.3	Cash	85.2	132.0	106.5	71.4	71.0
EBITDA	35.0	27.8	43.4	77.5	87.4	Receivables	90.9	74.2	92.1	152.7	167.4
EBIT	31.9	22.7	37.7	71.4	80.3	Inventories	0.6	2.8	6.9	10.2	11.2
Net finance income/ (cost)	(0.3)	(1.7)	(2.1)	(2.8)	(3.5)	PPE	53.0	59.7	64.4	75.0	86.2
Associates & JV	-	-	-	-	-	Others	46.8	68.6	75.3	127.7	189.9
Profit before tax	31.6	20.9	35.7	68.6	76.7	Assets	304.5	350.3	404.0	505.6	592.7
Tax	(7.7)	(3.4)	(6.0)	(13.7)	(15.3)	Debts	38.8	58.5	56.4	108.2	130.9
Net profit	23.9	17.6	29.7	54.9	61.4	Payables	43.3	71.5	94.0	133.4	146.7
Minority interest	(0.5)	0.1	0.7	1.8	2.0	Others	66.9	52.0	60.8	29.5	33.9
Core earnings	24.4	17.5	29.0	53.1	59.4	Liabilities	149.0	182.0	211.2	271.0	311.4
Diluted Core earnings	-	-	-	54.5	60.1	Shareholder's equity	116.1	155.8	168.6	192.2	234.0
Exceptional items	-	-	-	-	-	Minority interest	0.3	0.3	1.1	1.1	1.1
Reported earnings	24.4	17.5	29.0	53.1	59.4	Equity	155.5	168.3	192.7	234.5	281.1
Cash Flow Statement						Valuation & Ratios					
FYE Dec (RM m)	FY19	FY20	FY21	FY22f	FY23f	FYE Dec (RM m)	FY19	FY20	FY21	FY22f	FY23f
Profit before taxation	31.6	20.9	35.7	68.6	76.7	Core EPS (sen)	3.8	2.7	4.5	8.2	9.2
Depreciation & amortisation	3.1	5.1	5.7	6.1	7.1	Diluted Core EPS (sen)	-	-	-	6.3	7.0
Changes in working capital	(19.1)	18.6	96.0	171.0	90.4	P/E (x)	34.4	47.9	29.0	15.8	14.1
Share of JV profits	-	-	-	-	-	Diluted P/E (x)	-	-	-	20.5	18.6
Taxation	(7.9)	(5.1)	(5.3)	(13.7)	(15.3)	DPS (sen)	1.0	0.8	1.3	1.8	2.0
Others	0.8	5.2	4.4	2.8	3.5	Dividend yield	0.8%	0.6%	1.0%	1.3%	1.5%
Operating cash flow	21.1	45.7	(3.9)	(87.1)	(54.1)	BVPS (RM)	0.24	0.26	0.30	0.36	0.44
Net capex	(34.9)	(12.3)	(12.4)	(16.7)	(18.3)	P/B (x)	5.4	5.0	4.4	3.6	3.0
Others	(0.3)	0.3	-	-	-	EBITDA margin	9.2%	7.1%	8.4%	7.0%	7.2%
Investing cash flow	(35.2)	(12.0)	(12.7)	(16.7)	(18.3)	EBIT margin	8.4%	5.8%	7.3%	6.4%	6.6%
Changes in borrowings	21.7	19.7	(2.4)	50.0	20.0	PBT margin	8.3%	5.3%	6.9%	6.2%	6.3%
Issuance of shares	24.2	20.2	-	-	-	PAT margin	6.3%	4.5%	5.8%	4.9%	5.0%
Dividends paid	(3.7)	(8.1)	(4.8)	(6.4)	(11.3)	Core PAT margin	6.4%	4.4%	5.6%	4.8%	4.9%
Others	(8.1)	(4.8)	(6.4)	(11.3)	(12.9)	ROE	15.7%	10.4%	15.0%	22.6%	21.1%
Financing cash flow	30.6	11.3	(14.2)	68.7	72.1	ROA	8.0%	5.0%	7.2%	10.5%	10.0%
Net cash flow	16.5	45.0	(30.9)	(35.1)	(0.4)	Net gearing	Net Cash	Net Cash	Net Cash	15.7%	21.3%
Forex	(0.7)	0.8	2.1	-	-						
Others	-	-	-	-	-						
Beginning cash	52.2	68.0	113.8	85.0	50.0						
Ending cash	68.0	113.8	85.0	50.0	49.6						

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