

Kelington Group

Charging Ahead at Full Speed

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KGB has made good progress on its projects across different geographical markets, paving the way for another strong quarter ahead. Its order book now stands at RM1.6b with 74% coming from the ultra-high purity gas segment that will underpin margin expansion in FY23. More so, its low-margin job in Sarawak is completing by 1QFY23. We maintain our forecasts, TP of RM1.80 and OUTPERFORM call.

We came away from KGB's analyst briefing yesterday feeling reassured of its near-term prospects. The key takeaways are as follows:

1. It is upbeat on the coming quarter thanks to strong progress billings across all three geographical areas (i.e. Malaysia, Singapore and China) it operates in. The group remains confident that its China operation (9MFY22 revenue +37% YoY) will continue to do well as it is less susceptible to the supply-chain disruptions (such as the shortage of components) from the lockdowns, given the relatively simpler nature of its work process.
2. As at end-3QFY22, its outstanding order book stood at RM1.6b consisting of 74% ultra-high purity (UHP) gas systems, 22% general contracting and 4% process engineering. Having a lion's share of outstanding orders coming from the UHP segment means it will see margin expansion going into FY23. More so, it will be completing, by 1QFY23, a low-margin turnkey job in Sarawak (largely general contracting). KGB remains aggressive in bidding for new projects with its tender book staying elevated at RM1.7b. It is keeping a close eye on the expansion plans of semiconductor wafer fab in China and Singapore.
3. In terms of sustainability, KGB has been able to maintain zero accidents among its employees despite a significant increase in jobs. In addition, the group continues to exhibit YoY reduction in its CO2 emission (-46%), electricity usage (-23%) and water usage (-23%). As a result of effective oversight on ESG practices, the group was recently awarded as the "most improved company over three years" by *The Edge ESG Awards 2022*.

Forecasts. Maintained.

Investment thesis. We continue to like KGB for its: (i) unique proxy position 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 entry barriers and yields very lucrative margins.

Maintain our OUTPERFORM call with an unchanged target price of RM1.80 on FY23F PER of 22x (in line with its peers' forward average). There is no adjustment to our TP based on ESG given a 3-star rating as appraised by us (see Page 4).

Risks to our call include: (i) slower revenue recognition due to on-going Covid-19 lockdowns in China, (ii) further cut in semiconductor capex, and (iii) delays in liquid CO2 ramp up.

OUTPERFORM ↔

Price : RM1.45
Target Price : RM1.80 ↔

Share Price Performance



KLCI	1,465.9
YTD KLCI chg	-6.4%
YTD stock price chg	-17.4%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	KGRB MK Equity
Market Cap (RM m)	874.5
Shares Outstanding	643.0
52-week range (H)	1.86
52-week range (L)	1.06
3-mth avg daily vol:	1,698,015
Free Float	49%
Beta	0.8

Major Shareholders

Palace Star	21.0%
CIMB Group Holdings Bhd	6.7%
Sun Lead International Ltd	6.2%

Summary Earnings Table

FYE Dec (RM m)	2021A	2022F	2023F
Turnover	517.7	1,199.5	1,041.3
EBITDA	46.9	76.7	83.3
PBT	38.5	65.5	68.1
Net Profit (NP)	31.8	50.2	52.2
Consensus (NP)	n.a	51.7	56.0
Earning. Revision	n.a	0%	0%
EPS (sen)	4.9	7.8	8.1
EPS growth (%)	78.8	57.9	3.8
NDPS (sen)	1.5	2.0	2.0
BVPS (RM)	0.30	0.36	0.42
Price/BV (x)	4.9	4.1	3.5
PER (x)	29.7	18.8	18.1
Net gearing (x)	(0.3)	0.3	0.3
ROA (%)	7.8	7.0	7.1
ROE (%)	16.4	21.6	19.2
Dividend Yield (%)	1.1	1.4	1.4

09 December 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	1,199.5	1,041.3	Growth (%)					
EBITDA	35.0	33.5	46.9	76.7	83.3	Turnover	8.5	3.9	31.2	131.7	-13.2
Depre & Amor	-2.1	-5.1	-5.7	-5.9	-7.0	EBITDA	20.7	-4.1	40.0	63.4	8.6
Operating Profit	32.9	28.4	41.3	70.8	76.3	Operating Profit	26.9	-13.6	45.3	71.7	7.7
Other Income	5.3	8.7	5.8	4.8	4.2	PBT	26.3	-33.7	83.8	70.3	3.8
Interest Exp	-1.3	-2.5	-2.8	-5.3	-8.3	Adj Net Profit	30.9	-28.3	81.8	57.9	3.8
Associate	0.0	-5.0	0.0	0.0	0.0	Profitability (%)					
PBT	31.6	20.9	38.5	65.5	68.1	EBITDA Margin	9.2	8.5	9.1	6.4	8.0
Taxation	-7.7	-3.4	-5.9	-14.1	-14.7	Operating Margin	8.7	7.2	8.0	5.9	7.3
Minority Interest	-0.5	0.1	0.7	1.2	1.2	PBT Margin	8.3	5.3	7.4	5.5	6.5
PATAMI	24.4	17.5	31.8	50.2	52.2	Core Net Margin	6.4	4.4	6.1	4.2	5.0
Core PATAMI	24.4	17.5	31.8	50.2	52.2	Effective Tax Rate	24.3	16.0	15.4	21.6	21.6
Balance Sheet						ROA	6.1	8.1	5.0	7.8	7.0
FY Dec (RM m)	2019A	2020A	2021A	2022F	2023F	ROE	15.7	10.4	16.4	21.6	19.2
Fixed Assets	53.0	59.7	64.2	76.2	127.2	DuPont Analysis					
Intangible Assets	6.4	6.4	5.5	5.5	5.5	Net Margin (%)	6.4	4.4	6.1	4.2	5.0
Other FA	4.3	4.7	7.0	7.0	7.0	Assets Turnover (x)	1.3	1.1	1.3	1.7	1.4
Inventories	0.6	2.8	6.9	16.4	14.0	Leverage Factor (x)	1.9	2.1	2.1	3.1	2.7
Receivables	90.9	74.2	91.7	212.5	184.5	ROE (%)	15.7	10.4	16.4	21.6	19.2
Other CA	62.9	70.6	128.7	296.0	296.0	Leverage					
Cash	85.1	132.0	106.3	107.4	98.9	Debt/Asset (x)	0.1	0.2	0.1	0.3	0.3
Total Assets	303.1	350.3	410.3	721.0	733.1	Debt/Equity (x)	0.2	0.3	0.3	0.8	0.7
Payables	71.6	89.1	118.5	282.7	241.2	Net (Cash)/Debt	-49.7	-76.5	-54.3	77.6	86.1
ST Borrowings	12.1	28.3	26.9	164.9	164.9	Net Debt/Equity (x)	-0.3	-0.5	-0.3	0.3	0.3
Other ST Liability	37.9	35.1	40.6	15.7	30.0	Valuations					
LT Borrowings	23.3	27.2	25.1	20.1	20.1	Core EPS (sen)	4.1	2.8	4.9	7.8	8.1
Other LT Liability	2.6	2.4	3.6	3.6	3.6	DPS (sen)	1.0	0.8	1.5	2.0	2.0
Net Assets	155.5	168.3	195.6	234.1	273.2	BVPS (RM)	0.3	0.3	0.3	0.4	0.4
Shr. Equity	155.3	168.0	194.6	232.8	271.9	PER (x)	36.0	53.1	29.7	18.8	18.1
Mnrt. Interest	0.3	0.3	1.0	1.3	1.3	Div. Yield (%)	0.7	0.5	1.0	1.3	1.4
Total Equity	155.5	168.3	195.6	234.1	273.2	P/BV (x)	5.7	5.5	4.9	4.1	3.5
Cashflow Statement						EV/EBITDA (x)	22.9	24.5	18.3	12.9	12.0
FY Dec (RM m)	2019A	2020A	2021A	2022F	2023F						
Operating CF	20.0	45.7	-6.2	50.8	59.5						
Investing CF	-35.2	-12.0	-13.3	-17.9	-57.9						
Financing CF	31.7	11.3	-10.9	-9.6	-10.0						

Source: Kenanga Research

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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	MP	4.26	3.51	-17.6%	5,270.7	Y	12/2022	8.8	11.3	-1.9%	28.5%	48.6	37.8	6.0	12.8%	1.5	0.4%
GHL SYSTEMS BHD	MP	0.900	0.800	-11.1%	1,027.4	Y	12/2022	2.1	2.7	-16.4%	30.2%	43.7	33.6	1.9	4.5%	0.0	0.0%
INARI AMERTRON BHD	MP	2.70	2.85	5.6%	10,078.6	Y	06/2023	10.2	11.5	-3.2%	12.7%	26.5	23.5	4.0	15.0%	9.7	3.6%
JHM CONSOLIDATION BHD	MP	0.830	0.900	8.4%	460.0	Y	12/2022	3.1	6.7	-37.7%	118.8%	27.2	12.4	1.6	9.8%	0.5	0.6%
KELINGTON GROUP BHD	OP	1.45	1.80	24.1%	932.4	Y	12/2022	7.8	8.1	57.9%	4.0%	18.6	17.9	4.0	23.4%	2.0	1.2%
KESM INDUSTRIES BHD	MP	7.48	6.60	-11.8%	321.7	Y	07/2023	2.8	8.6	500.0%	208.3%	268.4	87.9	0.9	0.3%	7.5	1.0%
LGMS BHD	OP	1.25	1.50	20.0%	570.0	Y	12/2022	2.7	3.5	20.4%	29.0%	46.0	35.5	6.8	22.0%	0.0	0.0%
MALAYSIAN PACIFIC INDUSTRIES BHD	MP	29.00	25.00	-13.8%	5,768.0	Y	06/2023	118.5	146.4	-28.7%	23.5%	24.5	19.8	2.7	11.3%	35.0	1.2%
P.I.E. INDUSTRIAL BHD	OP	2.59	3.15	21.6%	994.7	Y	12/2022	16.6	19.7	6.0%	18.5%	15.6	13.1	1.7	11.6%	7.0	2.7%
SKP RESOURCES BHD	OP	1.64	2.10	28.0%	2,562.3	Y	03/2023	11.6	12.4	6.3%	7.7%	14.1	13.2	2.8	21.1%	5.8	3.5%
UNISEM (M) BHD	MP	2.78	2.75	-1.1%	4,484.4	Y	12/2022	14.4	15.3	17.7%	6.2%	19.3	18.1	1.9	10.4%	6.0	2.2%
Simple Average								18.0	22.4	47.3%	44.3%	50.2	28.4	3.1	12.9%		1.5%

Source: Kenanga Research

Stock ESG Ratings:

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

☆ 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.**

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Published by:

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