

Kelington Group

Starting the Year with a RM170m Job Win

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KGB has secured its first job win of the year, a RM170m contract to build a semiconductor facility in Sarawak, for a Belgium-based company which produces microelectronic semiconductors for a wide range of applications in the automotive industry. The new facility is part of a collaboration with the Sarawak government to enhance the industrial ecosystem and create high-skilled jobs in the area. We expect a replenishment of c.RM1b in FY23 in addition to its current outstanding order book of RM2.27b. We maintain our forecasts, TP of RM1.80 and OUTPERFORM call.

- Kelington Group (KGB) starts the year with a RM170m contract win from a Belgium-based client which supplies microelectronic semiconductor solutions that is being used in a wide range of applications in the automotive industry. The job encompasses a wide range of responsibilities, including architectural and structural design, civil engineering, mechanical and electrical systems, and various process utilities work, all in support of the construction of an integrated chip manufacturing facility located at the Sama Jaya Free Industrial Zone in the city of Kuching in the state of Sarawak.
- The scope of this job which falls under the general contract businesses segment will commence immediately with an expected completion date of March 2024. We gather that the customer's expansion is in collaboration with the Sarawak Education, Innovation and Talent Development Ministry to create high-skilled jobs and enhance Sarawak industrial ecosystem. The Sarawak government also hopes for this partnership to extend into the technical institution and universities in Sarawak to establish new curriculum focused on the field of semiconductor technology for both undergraduate and graduate students
- This contract marks the first win of the job for KGB as we estimate order replenishment for FY23 to be at c.RM1b. The group's current outstanding order book stands at RM2.27b (before recognising 4QFY22 revenue) which provides for a strong earnings visibility.

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.

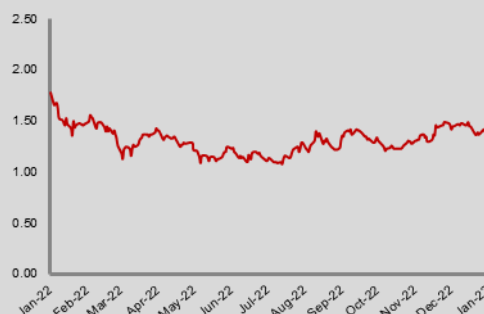
Maintain our OUTPERFORM call with an unchanged target price of RM1.80 on FY23F PER of 22x (in line with its peers' forward average). There is no adjustment to our TP based on ESG given a 3-star rating as appraised by us (see Page 4).

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 : **RM1.47**
Target Price : **RM1.80** ↔

Share Price Performance



KLCI 1,485.1
YTD KLCI chg -7.3%
YTD stock price chg -0.7%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	KGRB MK Equity
Market Cap (RM m)	945.2
Shares Outstanding	643.0
52-week range (H)	1.78
52-week range (L)	1.06
3-mth avg daily vol:	1,386,548
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	31.8	50.2	52.2
Consensus	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 (%)	1.0	1.3	1.4



11 January 2023

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
Net Profit	24.4	17.5	31.8	50.2	52.2	Core Net Margin	6.4	4.4	6.1	4.2	5.0
Core Net Profit	24.4	17.5	31.8	50.2	52.2	Effective Tax Rate	24.3	16.0	15.4	21.6	21.6
						ROA	6.1	8.1	5.0	7.8	7.0
						ROE	15.7	10.4	16.4	21.6	19.2
						DuPont Analysis					
						Net Margin (%)	6.4	4.4	6.1	4.2	5.0
						Assets Turnover (x)	1.3	1.1	1.3	1.7	1.4
						Leverage Factor (x)	1.9	2.1	2.1	3.1	2.7
						ROE (%)	15.7	10.4	16.4	21.6	19.2
						Leverage					
						Debt/Asset (x)	0.1	0.2	0.1	0.3	0.3
						Debt/Equity (x)	0.2	0.3	0.3	0.8	0.7
						Net (Cash)/Debt	-49.7	-76.5	-54.3	77.6	86.1
						Net Debt/Equity (x)	-0.3	-0.5	-0.3	0.3	0.3
						Valuations					
						Core EPS (sen)	4.1	2.8	4.9	7.8	8.1
						DPS (sen)	1.0	0.8	1.5	2.0	2.0
						BVPS (RM)	0.3	0.3	0.3	0.4	0.4
						PER (x)	36.0	53.1	29.7	18.8	18.1
						Div. Yield (%)	0.7	0.5	1.0	1.3	1.4
						P/BV (x)	5.7	5.5	4.9	4.1	3.5
						EV/EBITDA (x)	22.9	24.5	18.3	12.9	12.0
Balance Sheet											
FY Dec (RM m)	2019A	2020A	2021A	2022F	2023F						
Fixed Assets	53.0	59.7	64.2	76.2	127.2						
Intangible Assets	6.4	6.4	5.5	5.5	5.5						
Other FA	4.3	4.7	7.0	7.0	7.0						
Inventories	0.6	2.8	6.9	16.4	14.0						
Receivables	90.9	74.2	91.7	212.5	184.5						
Other CA	62.9	70.6	128.7	296.0	296.0						
Cash	85.1	132.0	106.3	107.4	98.9						
Total Assets	303.1	350.3	410.3	721.0	733.1						
Payables	71.6	89.1	118.5	282.7	241.2						
ST Borrowings	12.1	28.3	26.9	164.9	164.9						
Other ST Liability	37.9	35.1	40.6	15.7	30.0						
LT Borrowings	23.3	27.2	25.1	20.1	20.1						
Other LT Liability	2.6	2.4	3.6	3.6	3.6						
Net Assets	155.5	168.3	195.6	234.1	273.2						
Shr. Equity	155.3	168.0	194.6	232.8	271.9						
Mnrt. Interest	0.3	0.3	1.0	1.3	1.3						
Total Equity	155.5	168.3	195.6	234.1	273.2						
Cashflow Statement											
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	4.38	3.51	-19.86%	5,419.6	Y	12/2022	8.8	11.3	-1.9%	28.5%	49.9	38.9	6.2	12.8%	1.5	0.3%
GHL SYSTEMS BHD	MP	0.90	0.80	-11.11%	1,021.6	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	2.64	2.60	7.95%	9,854.6	Y	06/2023	10.2	11.5	-3.2%	12.7%	25.9	23.0	3.9	15.0%	9.7	3.7%
JHM CONSOLIDATION BHD	MP	0.78	0.90	15.38%	469.7	Y	12/2022	3.1	6.7	-37.7%	118.8%	25.6	11.7	1.5	9.8%	0.5	0.6%
KELINGTON GROUP BHD	OP	1.47	1.80	22.45%	945.2	Y	12/2022	7.8	8.1	57.9%	4.0%	18.8	18.1	4.0	23.4%	2.0	1.2%
KESM INDUSTRIES BHD	MP	6.72	6.60	-1.79%	289.1	Y	07/2023	2.8	8.6	500.0%	208.3%	241.1	79.0	0.8	0.3%	7.5	1.1%
LGMS BHD	OP	1.09	1.50	37.61%	497.0	Y	12/2022	2.7	3.5	20.4%	29.0%	40.1	31.0	5.9	22.0%	0.0	0.0%
MALAYSIAN PACIFIC INDUSTRIES BHD	MP	31.22	25.00	-19.92%	6,209.5	Y	06/2023	118.5	146.4	-28.7%	23.5%	26.3	21.3	2.9	11.3%	35.0	1.1%
P.I.E. INDUSTRIAL BHD	OP	2.64	3.15	19.32%	1,013.9	Y	12/2022	16.6	19.7	6.0%	18.5%	15.9	13.4	1.7	11.6%	7.0	2.7%
SKP RESOURCES BHD	OP	1.66	2.10	26.51%	2,593.5	Y	03/2023	11.6	12.4	6.3%	7.7%	14.3	13.4	2.9	21.1%	5.8	3.5%
UNISEM (M) BHD	MP	2.80	2.75	-1.79%	4,516.6	Y	12/2022	14.4	15.3	17.7%	6.2%	19.4	18.3	2.0	10.4%	6.0	2.1%
Sector Aggregate								18.0	22.4	47.3%	44.3%	47.4	27.4	3.1	12.9%		1.5%

Source: Kenanga Research

Stock ESG Ratings:

	Criterion	Rating				
GENERAL	Earnings Sustainability & Quality	★	★	★	☆	
	Community Investment	★	★	★	☆	
	Workers Safety & Wellbeing	★	★	★		
	Corporate Governance	★	★	★		
	Anti-Corruption Policy	★	★	★		
	Emissions Management	★	★	★	★	
SPECIFIC	Technology & Innovation	★	★	☆		
	Supply Chain Management	★	★	★	☆	
	Energy Efficiency	★	★	★		
	Effluent/Water Management	★	★	★		
	Waste Management	★	★	★		
	Ethical Practices	★	★	★		
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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