

## Kelington Group Bhd

### First major win in 2023

#### Summary

- Kelington Group Bhd (KGB)'s wholly owned subsidiary, Kelington Technologies Sdn Bhd has received an award of contract from a global supplier of micro-electronic semiconductor solutions to undertake the construction work that includes architectural and structural works, civil works, mechanical and electrical works, and other process utility work with respect to an integrated chip manufacturing facility at Sama Jaya Free Industrial Zone in Kuching.
- The aforementioned contract is valued at approximately RM170.0m, subject to the actual amount of work carried out, depending on variation orders, scope options and value engineering. Construction work will commence in January 2023 and is expected to be completed by March 2024. This makes up to 14.2% of our orderbook replenishment target of RM1.20bn for FY23f.
- We expect the contract will be able to produce a high single-digit EBITDA margins, which is in line with similar works performed by the group historically. With KGB starting off the year on a high gear, we expect further contracts to come by for the remainder of FY23f.
- We continue to favour KGB that is supported by a relatively solid outstanding orderbook of approximately RM2.27bn. This which represents an orderbook-to-cover ratio of 4.4x against FY21 revenue of RM517.7m that will provide strong earnings visibility over the next 2 years. Meanwhile, tenderbook stays healthy at approximately RM1.50bn that is skewed towards UHP-related projects.
- We expect KGB to leverage onto their expertise as a UHP specialist to ride onto the strong global wafer fabrication plant expansion plans. Although the World Semiconductor Trade Statistics Organization (WSTS) industry expects global semiconductor industry sales to contract -4.1% YoY in 2023, we expect demand will be supported by big data centers, electric vehicles, IoT and 5G applications.
- Meanwhile, the industrial gas segment will be boosted by the commencement of 10-year supply scheme for an optoelectronics semiconductor player in Kulim, Kedah in 1Q23. Still, we expect the industrial gas segment's contribution to remain below 10.0% for FY23f, given that majority of the contracts secured in recent years are skewed towards UHP-related works.

#### Valuation & Recommendation

- Given that the orderbook replenishment falls within our expectations, we make no changes to our earnings forecast. Consequently, we maintained **BUY** recommendation on KGB with an unchanged target price of RM1.85.
- Our target price is derived by assigning a targeted P/E multiple of 20.0x to the

#### Company Update

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#### BUY

Share price	RM1.47
Target price	RM1.85
Previous TP	RM1.85
Capital upside	25.9%
Dividend return	1.2%
Total return	27.1%

#### 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)	948.5
52W High/Low	1.78 / 1.06
Est. Free float	48.9
Beta	0.8
3-mth avg vol ('000)	1,386.9
Shariah compliant	Yes

#### Major shareholders

	%
Palace Star	21.1
CIMB Group Holdings Bhd	6.7
Sun Lead International Ltd	6.2

#### Share price vs. KLCI (%)

	1M	3M	12M
Hist. return	1.4	12.2	-10.0
Absolute	0.8	6.2	-7.6
Relative			

#### 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)	32.8	17.9	16.0

#### Relative performance chart



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
<b>Profit before tax</b>	<b>31.6</b>	<b>20.9</b>	<b>35.7</b>	<b>68.6</b>	<b>76.7</b>	<b>Assets</b>	<b>304.5</b>	<b>350.3</b>	<b>404.0</b>	<b>505.6</b>	<b>592.7</b>
Tax	(7.7)	(3.4)	(6.0)	(13.7)	(15.3)	Debts	38.8	58.5	56.4	108.2	130.9
<b>Net profit</b>	<b>23.9</b>	<b>17.6</b>	<b>29.7</b>	<b>54.9</b>	<b>61.4</b>	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
<b>Core earnings</b>	<b>24.4</b>	<b>17.5</b>	<b>29.0</b>	<b>53.1</b>	<b>59.4</b>	<b>Liabilities</b>	<b>149.0</b>	<b>182.0</b>	<b>211.2</b>	<b>271.0</b>	<b>311.4</b>
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	<b>Equity</b>	<b>155.5</b>	<b>168.3</b>	<b>192.7</b>	<b>234.5</b>	<b>281.1</b>
<b>Cash Flow Statement</b>						<b>Valuation &amp; Ratios</b>					
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)	38.8	54.2	32.8	17.9	16.0
Share of JV profits	-	-	-	-	-	Diluted P/E (x)	-	-	-	23.2	21.0
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	0.7%	0.5%	0.9%	1.2%	1.4%
<b>Operating cash flow</b>	<b>21.1</b>	<b>45.7</b>	<b>(3.9)</b>	<b>(87.1)</b>	<b>(54.1)</b>	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)	6.1	5.6	4.9	4.0	3.4
Others	(0.3)	0.3	-	-	-	EBITDA margin	9.2%	7.1%	8.4%	7.0%	7.2%
<b>Investing cash flow</b>	<b>(35.2)</b>	<b>(12.0)</b>	<b>(12.7)</b>	<b>(16.7)</b>	<b>(18.3)</b>	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%
<b>Financing cash flow</b>	<b>30.6</b>	<b>11.3</b>	<b>(14.2)</b>	<b>68.7</b>	<b>72.1</b>	ROA	8.0%	5.0%	7.2%	10.5%	10.0%
Net cash flow	16.5	45.0	(30.9)	(35.1)	(0.4)	<b>Net gearing</b>	<b>Net Cash</b>	<b>Net Cash</b>	<b>Net Cash</b>	<b>15.7%</b>	<b>21.3%</b>
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						