

KELINGTON GROUP

Results Update

TRADING BUY

| | |
|-----------------|----------------|
| Current Price | RM 1.51 |
| Target Price | RM 1.64 |
| Consensus Price | RM 1.78 |

Stock Return Information

| | |
|---------------------------------|----------|
| KLCI | 1,455.50 |
| Expected share price return (%) | 8.6 |
| Expected dividend return (%) | 1.6 |
| Expected total return (%) | 10.3 |

Key Statistics

| | |
|------------------------------|-----------|
| Shariah Compliant | YES |
| Bloomberg Ticker | KGRB MK |
| Masa Ticker / Stock Code | KGB/0151 |
| Shares Issued (m) | 643.0 |
| Market Capitalisation (RM'm) | 971 |
| 52 Week Hi/Lo Price (RM) | 1.65/1.06 |
| Avg Trading Volume (3-mth) | 1,625,379 |
| Est Free Float (%) | 48.9 |
| YTD Returns (%) | 10.2 |
| Beta (x) | 0.90 |

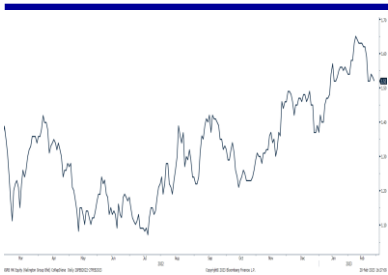
Share Price Performance (%)

| Price change | Absolute | Relative |
|--------------|----------|----------|
| 1 mth | -1.95 | 0.13 |
| 3 mth | 3.42 | 5.72 |
| 12 mth | 9.42 | 18.98 |

Major Shareholders (%)

| | |
|----------------------------|------|
| Palace Star | 21.1 |
| SUN Lead International Ltd | 6.2 |

1-Year Share Price Performance



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Earnings prospect bolster by huge orderbook

We upgrade KGB's recommendation to **TRADING BUY**, from NEUTRAL, and raise our target price to **RM1.64 (+RM0.04)** with a lower target PER of 18x (+0.5x STDEV above its 5 year average PER of 15x) pegged to its higher CY23 EPS, where KGB's earnings growth is supported by its commendable orderbook RM1.7b and GP margin increment from an increase in UHP projects and GP margin expansion of its LCO2 plant. However, we cut our target PER to reflect the softer spending in the semiconductor foundry segment. We like KGB for its: 1) firm earnings growth potential, supported by increased job orders from the semiconductor industry, and 2) stable income stream from its LCO2 operations which could also help to shore up its dividend prospects. Key downside risks include: 1) project delays, and 3) slower-than-expected contract wins.

Beating expectation: CY22 PATAMI came in 7.0% higher than expectations; CY22 earnings of RM55.4m was 91% Y-o-Y higher vs. CY21, driven by higher jobs completion in all division as well as from the gas division. The group made new records at both its top and bottom lines.

Notable areas: 4QCY22 PATAMI of RM17.8m came in at 120% Y-o-Y and 14% Q-o-Q higher respectively, mainly driven by higher UHP job completion in Singapore. GP margin, however, slipped to 10.4% in 4QCY22 vs. 15.7% in 4QCY21 due to change in revenue mix with more contribution from the general contracting segment. KGB declared a second interim dividend of 1.5 sen/share, bringing the total dividend of 2.5 sen per share.

Outlook. The group replenished RM1.85b worth of new contracts in CY22 vs. RM1.19b in CY21, and current orderbook of RM1.7b (1.3x of CY22 revenue) provide earnings visibility in a global economic slowdown environment. KGB is in the midst of building a new second LCO2 plant at Kereteh, Terengganu, which will add 70k tonnes of liquid LCO2 capacity to its existing 50k tonnes. The new plant is expected to commence in CY24 and provides an additional recurring income stream. The group has also commenced its second on site gas supply scheme in Kulim, supplying hydrogen, nitrogen and oxygen for an optoelectronics semiconductor company.

Bump up earnings estimate. We raised CY23 PATAMI by 24% to RM58.7m, from RM51.9m, due to larger-than-expected orderbook which uplifted earnings prospect. We also introduce our CY24 earnings forecast of RM60.6m.

Table 1: Financial highlights & earnings forecasts

| FYE Dec (RM m) | CY20 | CY21 | CY22 | CY23(F) | CY24(F) |
|-----------------------|----------|----------|--------|---------|---------|
| Revenue | 394.6 | 514.6 | 1269.5 | 1336.0 | 1279.0 |
| EBITDA | 29.3 | 50.8 | 87.2 | 101.7 | 104.7 |
| EBITDA Margin (%) | 7.4 | 9.9 | 6.9 | 7.6 | 8.2 |
| PATAMI | 17.0 | 29.0 | 55.4 | 58.7 | 60.6 |
| PATAMI Margin (%) | 4.3 | 5.6 | 4.4 | 4.4 | 4.7 |
| EPS (sen) | 2.6 | 4.5 | 8.6 | 9.1 | 9.4 |
| Earnings Growth (%) | (30.2) | 69.9 | 91.3 | 6.0 | 3.2 |
| PER (x) | 57.6 | 33.9 | 17.7 | 16.7 | 16.2 |
| DPS (sen) | 0.5 | 1.5 | 2.5 | 2.5 | 2.5 |
| Dividend Yield (%) | 0.3 | 1.0 | 1.6 | 1.6 | 1.6 |
| ROE (%) | 12.5 | 18.5 | 30.4 | 27.7 | 24.0 |
| Net Gearing Ratio (%) | NET CASH | NET CASH | 5.6 | 92.0 | 83.5 |
| Price/Book Ratio (x) | 5.8 | 5.1 | 4.1 | 3.4 | 2.8 |

Source: Company, Inter-Pacific

Table 2: Quarterly Income Statement and Comparison

| FYE Dec (RM m) | 4QCY22 | 4QCY21 | YoY chg (%) | 3QCY22 | QoQ chg (%) | CY22 | CY21 | YTD chg (%) |
|-------------------|--------|--------|-------------|--------|-------------|--------|-------|-------------|
| Revenue | 417.4 | 177.0 | 135.9 | 366.4 | 13.9 | 1269.5 | 508.4 | 149.7 |
| Gross Profit | 43.5 | 27.9 | 56.1 | 40.7 | 6.8 | 140.4 | 85.2 | 64.7 |
| GP margin | 10.4 | 15.7 | (33.8) | 11.1 | (6.2) | 11.1 | 16.8 | (34.0) |
| EBITDA | 26.2 | 11.3 | 130.9 | 18.8 | 39.3 | 51.6 | 30.2 | 71.0 |
| EBITDA margin (%) | 6.3 | 6.4 | (2.1) | 5.1 | 22.3 | 4.1 | 5.9 | (31.5) |
| PBT | 26.2 | 10.5 | 150.3 | 18.8 | 38.9 | 73.6 | 35.7 | 106.3 |
| PBT margin (%) | 6.3 | 5.9 | 6.1 | 5.1 | 21.9 | 5.8 | 7.0 | (17.4) |
| PATAMI | 17.8 | 8.1 | 120.0 | 15.7 | 13.5 | 55.4 | 28.9 | 91.9 |
| PATAMI margin (%) | 4.3 | 4.6 | (6.7) | 4.3 | (0.4) | 4.4 | 5.7 | (23.1) |
| EPS (sen) | 2.8 | 1.3 | 120.0 | 2.4 | 13.5 | 8.6 | 4.5 | 91.9 |

Source: Company

Table 3: Operating division

| FYE Dec (RM m) | 4QCY22 | 4QCY21 | YoY chg (%) | 3QCY22 | QoQ chg (%) | CY22 | CY21 | YTD chg (%) |
|-------------------------|--------|--------|-------------|--------|-------------|--------|-------|-------------|
| Ultra high purity | 295.4 | 108.1 | 173.2 | 206.6 | 43.0 | 806.4 | 339.8 | 137.3 |
| Process engineering | 13.4 | 22.8 | (41.2) | 14.1 | (5.2) | 51.0 | 62.0 | (17.7) |
| General contracting | 87.4 | 37.4 | 133.7 | 121.6 | (28.1) | 344.5 | 75.7 | 354.8 |
| Industrial gas | 20.5 | 10.6 | 93.6 | 20.5 | 0.0 | 62.4 | 34.5 | 80.6 |
| Manufacturing & Trading | 0.4 | 1.0 | (54.9) | 3.3 | (86.5) | 3.9 | 4.5 | (11.7) |
| Services | 0.4 | 0.3 | 58.3 | 0.3 | 32.8 | 1.4 | 1.1 | 19.8 |
| Total | 417.6 | 180.1 | 131.8 | 366.4 | 51.1 | 1269.5 | 514.6 | 146.7 |

Source: Company

Table 3: Geographical revenue

| FYE Dec (RM m) | 4QCY22 | 4QCY21 | YoY chg (%) | 3QCY22 | QoQ chg (%) | CY22 | CY21 | YTD chg (%) |
|----------------|--------|--------|-------------|--------|-------------|--------|-------|-------------|
| Malaysia | 164.7 | 81.3 | 102.6 | 173.2 | (4.9) | 563.8 | 199.0 | 183.3 |
| China | 51.1 | 34.3 | 48.9 | 51.0 | 0.2 | 180.7 | 129.2 | 39.8 |
| Taiwan | 6.4 | 6.8 | (5.2) | 11.7 | (45.0) | 29.6 | 16.6 | 78.2 |
| Singapore | 186.5 | 56.5 | 230.2 | 125.0 | 61.5 | 478.4 | 169.5 | 182.3 |
| Others | 4.1 | 0.9 | 337.9 | 2.9 | 1.3 | 14.9 | 4.6 | 220.5 |
| | 417.4 | 177.0 | 135.9 | 366.4 | 51.0 | 1269.5 | 514.6 | 146.7 |

Source: Company

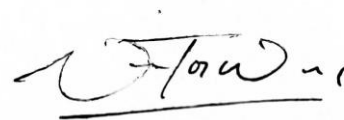
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Signed



Victor Wan Kum Seng
Head of Research
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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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