

28 February 2023

Kelington Group

Propelled by Strong Project Deliveries

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KGB's FY22 results exceeded expectations. Core net profit grew 74% driven by the ultra-high purity (UHP) segment on strong demand from Singapore-based wafer fabs, and its general contracting segment was significantly boosted by a turnkey project in Kuching. An order book of RM1.7b will keep it busy over the next 20 months. Hence, we raise our FY23F earnings by 7%, TP also by 7% to RM1.92 (from RM1.80) and maintain our **OUTPERFORM** call.

Above expectations. KGB's FY22 earnings of RM55.4m (+74% YoY) exceeded our forecast and consensus estimate by 10% and 6%, respectively. The variance against our forecast was attributable to faster-than-expected progress for its key projects in 4QFY22.

Results' highlights. YoY, FY22 revenue soared 145.2%, propelled by higher project deliveries across all its business segments as the group benefited from the rapid floor space expansion amongst semiconductor players. Its UHP segment grew 135% thanks to higher orders from wafer fabs in Singapore and China. Meanwhile, the general contracting segment's revenue skyrocketed 355% owing to the turnkey project it undertook in Kuching for a memory chip company.

Armed with a strong order book. In spite of the general slowdown in the tech space, we are sanguine on KGB's earning resilience owing to its large order book. For FY22, the group has secured RM1.85b worth of new jobs while its outstanding order book stood at RM1.7b as at 31 December 2022. We are also anticipating a replenishment of another c.RM1b in FY23 which will keep the group busy well into FY24. In addition, the group is building a second liquid carbon dioxide (LCO2) plant which will commence operation in FY24. This will allow the group to cater for growing demand from the F&B sector.

Forecasts. We raise our FY23F net profit by 7% and introduce our FY24 numbers.

We like KGB for: (i) it being a direct proxy to the front-end wafer fab expansion, (ii) its strong earnings visibility underpinned by robust order-book and tender-book exceeding RM1b, and (iii) its strong footholds in multiple markets, i.e. Malaysia, Singapore and China.

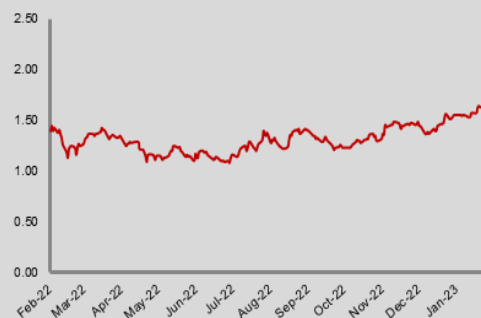
Maintain OUTPERFORM with a higher TP of RM1.92 (previously RM1.80) based on an unchanged 22x FY23F PER, in line with peer's forward average. The sector's forward PER is the average of regional peers, i.e. PNC Process Systems and Linde. There is no adjustment to our TP based on ESG given a 3-star rating as appraised by us (see Page 4).

Risks to our call include: (i) chip makers halting their expansion plans due to oversupply, (ii) worsening Sino-US chip war, and (iii) delays in LCO2 expansion.

OUTPERFORM ↔

Price: **RM1.52**
Target Price: **RM1.92** ↑

Share Price Performance



KLCI	1,455.5
YTD KLCI chg	-2.6%
YTD stock price chg	10.9%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	KGRB MK Equity
Market Cap (RM m)	977.4
Shares Outstanding	643.0
52-week range (H)	1.65
52-week range (L)	1.06
3-mth avg daily vol:	1,642,258
Free Float	48.9%
Beta	0.8

Major Shareholders

Palace Star	21.1%
CIMB Group Holdings Bhd	6.6%
Sun Lead International Ltd	6.2%

Summary Earnings Table

FYE Dec (RM m)	2022A	2023F	2024F
Turnover	1,269.5	1,040.6	1,069.6
EBITDA	85.7	93.8	99.3
PBT	73.6	74.5	76.8
Core NP (CNP)	55.4	56.0	57.8
Consensus (NP)	n.a	55.9	65.6
Earnings Revision	n.a	+7%	NEW
EPS (sen)	8.6	8.7	9.0
EPS growth (%)	74.1	1.2	3.2
NDPS (sen)	2.5	2.4	2.5
BVPS (RM)	0.37	0.43	0.50
Price/BV (x)	4.1	3.5	3.0
PER (x)	17.6	17.4	16.9
Net Gearing (x)	(0.2)	(0.2)	(0.3)
ROA (%)	5.2	5.4	5.3
ROE (%)	23.2	20.0	18.0
Dividend Yield (%)	1.6	1.6	1.6

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Result Highlight								
	4Q	3Q	QoQ	4Q	YoY	12M	12M	YoY
FYE Dec (RM m)	FY22	FY22	Chg	FY21	Chg	FY22	FY21	Chg
Revenue	417.4	366.4	13.9%	180.1	131.7%	1269.5	517.7	145.2%
GP	43.5	40.7	6.8%	31.0	40.2%	140.4	85.6	64.1%
EBIT	26.2	20.0	30.6%	13.8	89.2%	76.4	41.3	85.2%
PBT	26.2	18.8	38.9%	13.3	97.5%	73.6	38.5	91.3%
Taxation	-6.8	-2.5	-170.8%	-2.1	-227.4%	-15.5	-5.9	-161.1%
Net Profit (NP)	17.8	15.7	13.5%	11.0	62.6%	55.4	31.8	74.1%
Core NP	17.8	15.7	13.5%	11.0	62.6%	55.4	31.8	74.1%
EPS (sen)	2.8	2.4	13.5%	1.7	62.6%	8.6	4.9	74.1%
DPS (sen)	1.5	0.0		1.0		2.5	1.5	
GP margin	10.4%	11.1%		17.2%		11.1%	16.5%	
EBIT margin	6.3%	5.5%		7.7%		6.0%	8.0%	
Pretax margin	6.3%	5.1%		7.4%		5.8%	7.4%	
CNP margin	4.3%	4.3%		6.1%		4.4%	6.1%	
Effective tax rate	-26.0%	-13.3%		-15.7%		-21.0%	-15.4%	

Source: Kenanga Research

Geographical Breakdown								
	4Q	3Q	QoQ	4Q	YoY	12M	12M	YoY
FYE Dec (RM m)	FY22	FY22	Chg	FY21	Chg	FY22	FY21	Chg
Revenue	417.4	366.4	13.9%	177.0	135.9%	1269.5	514.6	146.7%
Malaysia	164.7	173.2	-4.9%	81.4	102.3%	563.8	199.1	183.1%
China	51.1	51.0	0.2%	34.3	48.9%	180.7	129.2	39.8%
Taiwan	6.4	11.7	-45.0%	3.5	82.9%	29.6	13.4	121.9%
Singapore	186.5	125.0	49.2%	56.5	230.2%	478.4	169.5	182.3%
Others	8.6	5.5	57.7%	1.2	600.2%	17.0	3.4	397.8%
Malaysia	39%	47%		46%		44%	39%	
China	12%	14%		19%		14%	25%	
Taiwan	2%	3%		2%		2%	3%	
Singapore	45%	34%		32%		38%	33%	
Others	2%	1%		1%		1%	1%	

Source: Kenanga Research

Segmental Breakdown								
	4Q	3Q	QoQ	4Q	YoY	12M	12M	YoY
FYE Dec (RM m)	FY22	FY22	Chg	FY21	Chg	FY22	FY21	Chg
Revenue	417.4	366.4	13.9%	180.1	131.7%	1269.5	517.7	145.2%
UHP	296.2	210.2	41.0%	109.4	170.9%	811.7	345.4	135.0%
Process Engineering	13.4	14.1	-5.2%	22.8	-41.2%	51.0	62.0	-17.7%
General Contracting	87.4	121.6	-28.1%	37.4	133.7%	344.5	75.7	354.8%
Industrial Gasses	20.3	20.5	-0.7%	10.6	92.2%	62.3	34.5	80.5%
UHP	71%	57%		61%		64%	67%	
Process Engineering	3%	4%		13%		4%	12%	
General Contracting	21%	33%		21%		27%	15%	
Industrial Gasses	5%	6%		6%		5%	7%	

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	UP	4.44	3.51	-21%	5,495.2	Y	12/2023	10.3	14.0	31.6%	35.5%	42.9	31.7	5.8	14.0%	1.7	0.4%
GHL SYSTEMS BHD	OP	0.910	1.05	15%	1,038.8	Y	12/2023	3.0	3.4	21.3%	12.9%	30.3	26.9	1.9	6.5%	0.0	0.0%
INARI AMERTRON BHD	MP	2.42	2.60	7%	9,033.7	Y	06/2023	10.2	11.5	-3.2%	12.7%	23.7	21.0	3.6	15.0%	9.7	4.0%
JHM CONSOLIDATION BHD	MP	0.770	0.800	4%	463.6	Y	12/2023	5.3	5.9	40.0%	10.6%	14.5	13.1	1.3	9.8%	0.5	0.6%
KELINGTON GROUP BHD	OP	1.52	1.92	26%	977.4	Y	12/2023	8.7	9.5	1.3%	8.7%	17.4	16.0	3.5	21.4%	2.4	1.6%
KESM INDUSTRIES BHD	MP	8.30	6.60	-20%	357.0	Y	07/2023	2.8	8.6	500.0%	208.3%	297.8	97.5	1.0	0.3%	7.5	0.9%
LGMS BHD	OP	1.17	1.50	28%	533.5	Y	12/2022	2.7	3.5	20.4%	29.0%	43.0	33.2	6.3	22.0%	0.0	0.0%
MALAYSIAN PACIFIC INDUSTRIES BHD	UP	29.50	20.00	-32%	5,867.4	Y	06/2023	81.1	130.6	-51.0%	61.0%	36.4	22.6	2.8	7.9%	35.0	1.2%
NATIONGATE HOLDINGS BHD	OP	1.46	1.50	3%	3,027.9	Y	12/2023	5.5	6.5	32.2%	18.6%	26.7	22.6	8.8	39.6%	0.0	0.0%
P.I.E. INDUSTRIAL BHD	OP	3.39	4.05	19%	1,301.9	Y	12/2023	22.5	25.3	22.0%	12.5%	15.1	13.4	2.1	14.6%	7.0	2.1%
SKP RESOURCES BHD	UP	1.34	1.20	-10%	2,093.6	Y	03/2023	9.7	7.9	-11.1%	-17.9%	13.8	17.0	2.4	17.8%	4.8	3.6%
UNISEM (M) BHD	MP	3.02	3.10	3%	4,871.5	Y	12/2023	15.4	17.2	2.1%	11.4%	19.6	17.6	1.9	10.0%	6.0	2.0%
Simple Average										-6.7%	17.4%	25.0	21.3	3.4	14.9%		1.4%

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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