

Kelington Group Bhd

Scaling new peak

Summary

- Kelington Group Bhd's (KGB) 4QFY22 core net profit jumped 139.1% YoY to record high of RM19.4m, driven by higher contribution in the industrial gasses, ultra-high purity (UHP) and general contracting segments. Revenue for the quarter soared 135.9% YoY to RM417.4m. A second interim dividend of 1.5 sen per share, payable on 21st April 2023 was declared.
- Cumulative core net profit in FY22 came in within expectations, making up to 102.3% and 105.4% of ours and consensus forecast of RM54.2m and RM52.5m, respectively. As at end-FY22, KGB remained in the net cash position at RM15.6m.
- Moving into 2023, we expect further improvement in performances. This will be backed by their execution of its robust orderbook replenishment in recent two years. We reckon that margins may at mid-single digit level in subsequent years.
- We gather that orderbook replenishment for FY22 stood at record high of RM1.85bn. Going into 2023, we expect orderbook replenishment to come in approximately RM1.20bn, mainly from UHP-related projects. Already, year-to-date orderbook replenishment stood at RM170.0m. For now, KGB's outstanding orderbook of RM1.71bn that represents and orderbook to cover ratio of 1.3x against FY22 revenue of RM1.27bn will sustain earnings visibility over the next 2 years.
- Meanwhile, tenderbook stayed relatively healthy at c.RM1.50bn, supported mainly from the on-going wafer fabrication plants expansions of semiconductor players. Also, we reckon that the new LCO2 plant that will bring additional capacity by 70,000 tonnes/pa which is expected to complete by this year will boost the contribution from the industrial gas segment from 4.0% in 2022 to c.5.0% in 2023.
- Despite the slowdown in 2H22, global semiconductor sales raked in +3.2% YoY improvement to USD573.2bn in 2022. However, the global semiconductor sales are expected to decrease -4.1% YoY in 2023, based on the World Semiconductor Trade Statistics Organization (WSTS) industry forecast. Albeit that, we believe that KGB will be able to withstand any headwind, premised to the group's strong foothold in the regional market that may see recovery in demand from the China's market.

Quarterly performance

FYE Dec (RM m)	4QFY21	3QFY22	4QFY22	QoQ (%)	YoY (%)	12MFY21	12MFY22	YoY (%)
Revenue	177.0	366.4	417.4	13.9	135.9	514.6	1,269.5	146.7
EBITDA	12.2	21.6	29.8	38.0	145.1	43.0	84.8	97.3
PBT	10.5	18.8	26.2	38.9	150.3	35.7	73.6	106.3
PAT	8.3	16.4	19.4	18.4	132.8	29.7	58.2	95.8
Core PATMI	8.1	15.7	19.4	23.3	139.1	29.0	55.4	91.3
Reported PATMI	8.1	15.7	19.4	23.3	139.1	29.0	55.4	91.3
Core EPS (sen)	1.3	2.4	3.0	23.3	139.1	4.5	8.6	91.3
EBITDA margin (%)	6.9	5.9	7.1			8.4	6.7	
PBT margin (%)	5.9	5.1	6.3			6.9	5.8	
Core PATMI margin (%)	4.6	4.3	4.6			5.6	4.4	

Results Note – 4QFY22

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BUY

Share price	RM1.52
Target price	RM1.85
Previous TP	RM1.85
Capital upside	21.7%
Dividend return	1.3%
Total return	23.0%

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)	980.8
52W High/Low	1.65 / 1.06
Est. Free float	48.9
Beta	0.9
3-mth avg vol ('000)	1,696.7
Shariah compliant	Yes

Major shareholders

Palace Star	21.1
CIMB Group Holdings Bhd	6.4
Sun Lead International Ltd	6.2

Share price vs. KLCI (%)

Hist. return	1M	3M	12M
Absolute	-2.6	4.1	3.7
Relative	-0.6	8.0	17.5

Earnings snapshot

FYE (Dec)	FY22	FY23f	FY24f
PATMI (m)	55.4	59.4	58.9
EPS (sen)	8.6	9.2	9.1
P/E (x)	6.5	7.0	6.9

Relative performance chart



Valuation & Recommendation

- Given that the reported earnings came within expectations, we made 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 FY23f EPS of 9.2 sen. The assigned targeted P/E multiple is slightly below the valuations of the technology sector that is trading at 24.0x 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)	FY20	FY21	FY22	FY23f	FY24f	FYE Dec (RM m)	FY20	FY21	FY22	FY23f	FY24f
Revenue	394.6	514.6	1,269.5	1,270.3	1,200.5	Cash	132.0	106.5	259.5	255.5	278.0
EBITDA	27.8	43.4	85.2	92.1	93.0	Receivables	74.2	92.1	384.6	382.8	378.2
EBIT	22.7	37.7	77.7	83.9	82.5	Inventories	2.8	6.9	21.3	20.3	19.2
Net finance income/ (cost)	(1.7)	(2.1)	(4.1)	(3.5)	(3.5)	PPE	59.7	64.4	102.4	132.3	157.7
Associates & JV	-	-	-	-	-	Others	68.6	75.3	127.7	284.9	287.8
Profit before tax	20.9	35.7	73.6	80.4	79.0	Assets	350.3	404.0	1,059.5	1,085.6	1,112.5
Tax	(3.4)	(6.0)	(15.5)	(16.1)	(15.8)	Debts	58.5	56.4	243.9	253.4	250.2
Net profit	17.6	29.7	58.2	64.3	63.2	Payables	71.5	94.0	190.1	203.6	206.2
Minority interest	0.1	0.7	2.8	4.9	4.3	Others	52.0	60.8	383.1	339.6	321.0
Core earnings	17.5	29.0	55.4	59.4	58.9	Liabilities	182.0	211.2	817.2	796.6	777.3
Diluted Core earnings	-	-	56.2	60.2	58.9	Shareholder's equity	155.8	168.6	192.2	239.1	285.6
Exceptional items	-	-	-	-	-	Minority interest	0.3	1.1	3.8	3.9	4.0
Reported earnings	17.5	29.0	55.4	59.4	58.9	Equity	168.3	192.7	242.4	289.0	335.1
Cash Flow Statement	FYE Dec (RM m)	FY20	FY21	FY22	FY23f	FY24f	Valuation & Ratios				
Profit before taxation	20.9	35.7	73.6	80.4	79.0	FYE Dec (RM m)	FY20	FY21	FY22	FY23f	FY24f
Depreciation & amortisation	5.1	5.7	7.5	8.2	10.6	Core EPS (sen)	2.7	4.5	8.6	9.2	9.1
Changes in working capital	18.6	96.0	561.9	16.4	(19.1)	Diluted Core EPS (sen)	-	-	6.5	7.0	6.9
Share of JV profits	-	-	-	-	-	P/E (x)	56.0	33.9	17.7	16.5	16.7
Taxation	(5.1)	(5.3)	(10.2)	(16.1)	(15.8)	Diluted P/E (x)	-	-	23.3	21.7	22.2
Others	5.2	4.4	13.3	3.5	3.5	DPS (sen)	0.8	1.3	1.8	2.0	2.0
Operating cash flow	45.7	(3.9)	28.4	27.0	51.4	Dividend yield	0.5%	0.8%	1.2%	1.3%	1.3%
Net capex	(12.3)	(12.4)	(51.4)	(38.1)	(36.0)	BVPS (RM)	0.26	0.30	0.38	0.45	0.52
Others	0.3	-	-	-	-	P/B (x)	5.8	5.1	4.0	3.4	2.9
Investing cash flow	(12.0)	(12.7)	(51.4)	(38.1)	(36.0)	EBITDA margin	7.1%	8.4%	6.7%	7.3%	7.8%
Changes in borrowings	19.7	(2.4)	187.7	(6.1)	(5.9)	EBIT margin	5.8%	7.3%	6.1%	6.6%	6.9%
Issuance of shares	20.2	-	-	-	-	PBT margin	5.3%	6.9%	5.8%	6.3%	6.6%
Dividends paid	(8.1)	(4.8)	(6.4)	(12.9)	(12.9)	PAT margin	4.5%	5.8%	4.6%	5.1%	5.3%
Others	(4.8)	(6.4)	(12.9)	(12.9)	(12.9)	Core PAT margin	4.4%	5.6%	4.4%	4.7%	4.9%
Financing cash flow	11.3	(14.2)	163.8	7.1	7.1	ROE	10.4%	15.0%	22.9%	20.6%	17.6%
Net cash flow	45.0	(30.9)	140.8	(4.0)	22.5	ROA	5.0%	7.2%	5.2%	5.5%	5.3%
Forex	0.8	2.1	3.2	-	-	Net gearing	Net Cash	Net Cash	Net Cash	Net Cash	Net Cash
Others	-	-	-	-	-						
Beginning cash	68.0	113.8	85.0	229.0	225.1						
Ending cash	113.8	85.0	229.0	225.1	247.6						

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