

08 March 2023

Kelington Group

LCO2 Plant Hits 100% Run Rate

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In order to meet overwhelming demand for its LCO2 gas, KGB is doubling its capacity with a second plant (which will come online in 4QFY23). The new capacity will contribute to a c.60% YoY revenue growth in its industrial gas business. Meanwhile, its bread-and-butter contacting services are also poised for a solid performance in FY23 backed by a sizeable RM1.7b order book (and a tender book of RM2b). We maintain our forecasts, TP of RM1.92 and OUTPERFORM call.

The key takeaways from KGB's 4Q22 briefing yesterday are as follows:

1. KGB's liquid carbon dioxide (LCO2) plant in Kerteh, Terengganu was operating at 80% in FY22 and has recently maxed out its capacity of 50k tonnes/year. To cater for growing demand from the F&B industries in the Oceania region, KGB has started building its second LCO2 plant (RM45m capex with capacity of 70k tonnes/year) which would more than double its capacity. The second LCO2 plant will be situated beside its existing plant in Kerteh and is slated to commence operation by 4QFY23.
2. The group indicated that the 10-year on-site gas supply (of hydrogen, nitrogen, and oxygen) for an optoelectronic MNC in Kulim will be slightly delayed to 4QFY23. Nonetheless, recognition of revenue will begin in 3QFY23 as per the contractual agreement. This is expected to contribute positively to the group's effort in growing its recurring revenue stream. As such, KGB is anticipating its industrial gas business segment to achieve the RM100m revenue mark in FY23 which translates into a c.60% YoY growth.
3. Despite the cautious sentiment surrounding the semiconductor space, the group reiterated that it is confident of delivering another solid performance in FY23 owing to its large outstanding order book of RM1.71b as at Dec 2022. The group had since secured another RM170m job award in Jan 2023 with the expectation of achieving RM1b job replenishment in FY23. This is supported by its tender book which has ballooned to RM2b with China making up c.46%, followed by c.36% and c.18% from Singapore and Malaysia respectively.

Forecasts. Maintained

We also keep our TP of RM1.92 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).

Investment thesis. 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**.

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 its LCO2 plant expansion.

OUTPERFORM ↔

Price : RM1.55
Target Price : RM1.92 ↔

Share Price Performance



KLCI	1,459.3
YTD KLCI chg	-2.5%
YTD stock price chg	13.1%

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	21.0%
CIMB Group Holdings Bhd	6.7%
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
Net Profit	55.4	56.0	57.8
Consensus	n.a	56.4	62.7
Earning. Revision	n.a	0%	0%
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)	4.2	3.6	3.1
PER (x)	18.0	17.8	17.2
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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Income Statement						Financial Data & Ratios					
FY Dec (RM m)	2020A	2021A	2022A	2023F	2024F	FY Dec	2020A	2021A	2022A	2023F	2024F
Revenue	394.6	517.7	1,269.5	1,040.6	1,069.6	Growth (%)					
EBITDA	33.5	46.9	85.7	93.8	99.3	Turnover	3.9	31.2	145.2	-18.0	2.8
Depre & Amor	-5.1	-5.7	-7.5	-9.3	-12.5	EBITDA	-4.1	40.0	82.5	9.5	5.8
Operating Profit	28.4	41.3	78.2	84.4	86.8	Operating Profit	-13.6	45.3	89.5	8.0	2.8
Other Income	8.7	5.8	4.2	3.5	3.6	PBT	-33.7	83.8	91.3	1.2	3.2
Interest Exp	-2.5	-2.8	-4.5	-9.9	-9.9	Adj Net Profit	-28.3	81.8	74.1	1.2	3.2
Associate	-5.0	0.0	0.0	0.0	0.0	Profitability (%)					
PBT	20.9	38.5	73.6	74.5	76.8	EBITDA Margin	8.5	9.1	6.7	9.0	9.3
Taxation	-3.4	-5.9	-15.5	-15.7	-16.2	Operating Margin	7.2	8.0	6.2	8.1	8.1
Minority Interest	0.1	0.7	2.8	2.8	2.9	PBT Margin	5.3	7.4	5.8	7.2	7.2
Net Profit	17.5	31.8	55.4	56.0	57.8	Core Net Margin	4.4	6.1	4.4	5.4	5.4
Core Net Profit	17.5	31.8	55.4	56.0	57.8	Effective Tax Rate	16.0	15.4	21.0	21.0	21.0
						ROA	6.1	5.0	7.8	5.2	5.4
						ROE	10.4	16.4	23.2	20.0	18.0
						DuPont Analysis					
						Net Margin (%)	4.4	6.1	4.4	5.4	5.4
						Assets Turnover (x)	1.1	1.3	1.2	1.0	1.0
						Leverage Factor (x)	2.1	2.1	4.4	3.7	3.4
						ROE (%)	10.4	16.4	23.2	20.0	18.0
						Leverage					
						Debt/Asset (x)	0.2	0.1	0.2	0.2	0.2
						Debt/Equity (x)	0.3	0.3	0.9	0.8	0.7
						Net (Cash)/Debt	-76.5	-54.3	-36.6	-53.8	-88.6
						Net Debt/Equity (x)	-0.5	-0.3	-0.2	-0.2	-0.3
						Valuations					
						Core EPS (sen)	2.8	4.9	8.6	8.7	9.0
						DPS (sen)	0.8	1.5	2.5	2.4	2.5
						BVPS (RM)	0.3	0.3	0.4	0.4	0.5
						PER (x)	56.0	31.3	18.0	17.8	17.2
						Div. Yield (%)	0.5	1.0	1.6	1.6	1.6
						P/BV (x)	5.8	5.1	4.2	3.6	3.1
						EV/EBITDA (x)	27.0	20.1	11.2	10.1	9.2

Balance Sheet					
FY Dec (RM m)	2020A	2021A	2022A	2023F	2024F
Fixed Assets	59.7	64.2	102.4	136.6	144.1
Intangible Assets	6.4	5.5	6.8	6.8	6.8
Other FA	4.7	7.0	8.4	8.4	8.4
Inventories	2.8	6.9	21.3	17.1	17.5
Receivables	74.2	91.7	384.6	315.3	324.1
Other CA	70.6	128.7	276.6	276.6	276.6
Cash	132.0	106.3	259.5	276.7	311.4
Total Assets	350.3	410.3	1,059.5	1,037.4	1,088.8
Payables	89.1	118.5	263.9	211.1	216.3
ST Borrowings	28.3	26.9	202.8	202.8	202.8
Other ST Liability	35.1	40.6	311.2	317.0	321.4
LT Borrowings	27.2	25.1	20.1	20.1	20.1
Other LT Liability	2.4	3.6	3.6	3.6	3.6
Net Assets	168.3	195.6	258.1	282.8	324.7
Shr. Equity	168.0	194.6	238.6	279.7	321.5
Mnrt. Interest	0.3	1.0	3.8	3.2	3.2
Total Equity	168.3	195.6	242.4	282.8	324.7

Cashflow Statement					
FY Dec (RM m)	2020A	2021A	2022A	2023F	2024F
Operating CF	45.7	-6.2	28.4	103.7	67.7
Investing CF	-12.0	-13.3	-51.4	-43.6	-20.0
Financing CF	11.3	-10.9	163.8	-12.5	-13.0

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	UP	4.56	3.51	-23.03%	5,643.7	Y	12/2023	10.3	14.0	31.6%	35.5%	44.1	32.5	5.9	14.0%	1.7	0.4%
GHL SYSTEMS BHD	OP	0.920	1.05	14.13%	1,044.5	Y	12/2023	3.0	3.4	21.3%	12.9%	30.7	27.2	1.9	6.5%	0.0	0.0%
INARI AMERTRON BHD	MP	2.46	2.60	5.69%	9,183.0	Y	06/2023	10.2	11.5	-3.2%	12.7%	24.1	21.4	3.6	15.0%	9.7	3.9%
JHM CONSOLIDATION BHD	MP	0.840	0.800	-4.76%	509.0	Y	12/2023	5.3	5.9	40.0%	10.6%	15.8	14.3	1.4	9.8%	0.5	0.6%
KELINGTON GROUP BHD	OP	1.55	1.92	23.87%	996.7	Y	12/2023	8.7	9.0	1.1%	3.2%	17.8	17.2	3.5	21.3%	2.4	1.5%
KESM INDUSTRIES BHD	MP	8.00	6.60	-17.50%	344.1	Y	07/2023	2.8	8.6	500.0%	208.3%	287.0	94.0	1.0	0.3%	7.5	0.9%
LGMS BHD	OP	1.21	1.50	23.97%	551.8	Y	12/2022	3.5	5.9	26.2%	69.8%	34.8	20.4	5.6	17.4%	0.0	0.0%
MALAYSIAN PACIFIC INDUSTRIES BHD	UP	30.00	20.00	-33.33%	5,966.9	Y	06/2023	81.1	130.6	-51.0%	61.0%	37.0	23.0	2.9	7.9%	35.0	1.2%
NATIONGATE HOLDINGS BHD	OP	1.45	1.50	3.45%	3,007.2	Y	12/2023	5.5	6.5	32.2%	18.6%	26.6	22.4	8.8	39.6%	0.0	0.0%
P.I.E. INDUSTRIAL BHD	OP	3.49	4.05	16.05%	1,340.3	Y	12/2023	22.5	25.3	22.0%	12.5%	15.5	13.8	2.2	14.6%	7.0	2.0%
SKP RESOURCES BHD	UP	1.37	1.20	-12.41%	2,140.4	Y	03/2023	9.7	7.9	-11.1%	-17.9%	14.1	17.3	2.4	17.8%	4.8	3.5%
UNISEM (M) BHD	MP	3.02	3.10	2.65%	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										-6.6%	17.7%	25.3	21.5	3.4	14.5%		1.3%

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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