

8 March 2023

Construction & Engineering | Industrial

# Kelington Group (KGRB MK)

**Neutral** (Maintained)

**Cautious Optimism; Keep NEUTRAL**

Target Price (Return): MYR1.59 (+3%)  
Price (Market Cap): MYR1.55 (USD223m)  
ESG score: 3.00 (out of 4)  
Avg Daily Turnover (MYR/USD) 2.12m/0.48m

- Maintain NEUTRAL and MYR1.59 TP, 3% upside with c.2% FY23F yield.** We expect Kelington Group to continue posting double-digit earnings growth in FY23, backed by an outstanding orderbook of MYR1.9bn and stronger contributions from the industrial gas segment. The larger mix of ultra-high purity segment (UHP) revenue should also drive an uptick in margins. The valuation of the stock is fair (at +1.5SD from the historical P/E mean), with its positive outlook already in the price.
- US-China chip sector tiff looks to be a blessing in disguise?** KGB's current tenderbook of MYR2bn comprises projects from China (46%), Singapore (35%) and Malaysia (15%). Management said the US chip sanctions are mainly on 14nm and lower technologies – this is not likely to hinder China's aggressive wafer fab capacity expansion, which is focused on 28nm-or-higher technologies. Following the MYR1.2bn and MYR1.8bn new orders secured in FY21 and FY22, we think the pace of contract wins could normalise in FY23F. According to [SEMI](#), total semiconductor manufacturing equipment sales are forecasted to decline, to USD91bn in 2023 from USD109bn in 2022, before rebounding in 2024 to USD107bn. KGB's MYR1.9bn in outstanding orders as at end-Jan 2023 (Dec 2021: MYR1.1bn) should keep the group busy over the next 12-15 months.
- Margins should widen in FY23.** KGB's GPM and NPM narrowed to 11.1% and 4.6% in FY22 (FY21: 16.6%/5.8%), due to the higher proportion of billings from the general contracting (GC) segment. We gather that c.MYR131m (of the MYR289m in outstanding GC orders as at 4Q22) is related to the lumpy Sarawak turnkey contract for a global hard drive maker. This contract will be fully recognised by end-2Q23. The GC segment makes up 17% of the outstanding orderbook (FY21: 39%). With some normalisation of margins on the higher proportion of UHP jobs (72% of orderbook), NPM is expected to improve to c.5% in FY23F.
- Industrial gas segment will drive a new leg of growth.** The liquid carbon dioxide (LCO2) plant has been running at full utilisation in recent months. With the new 10-year on-site gas supply agreement in Kedah to start in 3Q23, the industrial gas segment may enjoy a MYR18m pa revenue uplift. Management highlighted the Phase 2 LCO2 plant expansion (70,000 tonnes pa) is slated for completion, in 3Q23 with production to commence in the final quarter.
- We make minor changes to our earnings estimates** (-2% to +1.3%) after tweaking our assumptions for the industrial gas segment. Our TP remains at MYR1.59, pegged to 21x FY24F EPS (+1SD from the historical mean). This incorporates a 0% ESG premium, based on our proprietary scoring model.

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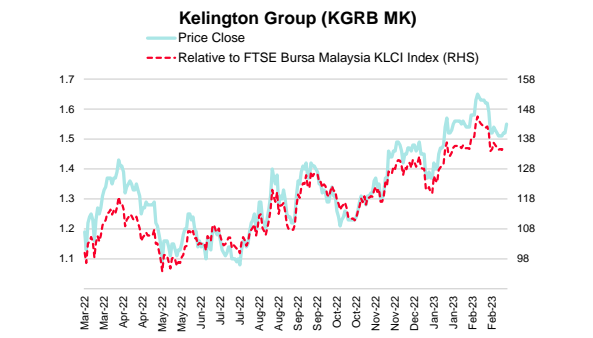


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**Share Performance (%)**

	YTD	1m	3m	6m	12m
Absolute	13.1	(1.9)	9.2	14.0	30.3
Relative	16.0	(0.3)	10.2	16.6	37.9
52-wk Price low/high (MYR)	1.08 – 1.65				



Source: Bloomberg

Forecasts and Valuation	Dec-21	Dec-22	Dec-23F	Dec-24F	Dec-25F
Total turnover (MYRm)	515	1,270	1,216	1,263	1,304
Recurring net profit (MYRm)	29	56	63	65	69
Recurring net profit growth (%)	89.7	90.9	12.9	3.9	6.3
Recurring P/E (x)	45.71	23.95	21.21	20.41	19.20
P/B (x)	7.0	5.6	5.1	4.4	3.9
P/CF (x)	na	46.97	4.59	18.46	17.58
Dividend Yield (%)	1.0	1.6	1.9	2.0	2.1
EV/EBITDA (x)	26.59	15.32	10.55	9.91	9.05
Return on average equity (%)	16.1	25.7	25.1	23.2	21.6
Net debt to equity (%)	net cash	net cash	net cash	net cash	net cash

Source: Company data, RHB

**Overall ESG Score: 3.00 (out of 4)**

**E: GOOD**

KGB is committed to preserving the environment through various practices such as reducing electricity and water consumption. It is also managing the usage of materials to reduce waste. There is, however, a lack of environmental statistics on pollution and waste management.

**S: GOOD**

Apart from up-to-standard health & safety policies, we see active community engagement and efforts to uplift employee relations. KGB is focused on attracting and retaining talent, and helping employees develop their skills to drive further success

**G: GOOD**

KGB's Chairman is also the Group CEO. The board does not utilize independent sources to identify the appointment of directors, which could limit operational checks and balances. A third-party investor relations unit facilitates communication with the investment community, with periodic meetings convened

**Note:**

Small cap stocks are defined as companies with a market capitalization of less than USD0.5bn.

## Financial Exhibits

Asia	Financial summary (MYR)	Dec-21	Dec-22	Dec-23F	Dec-24F	Dec-25F
Malaysia	Recurring EPS	0.03	0.06	0.07	0.08	0.08
Construction & Engineering	DPS	0.02	0.03	0.03	0.03	0.03
<b>Kelington Group</b>	BVPS	0.22	0.28	0.30	0.35	0.40
KGRB MK	Return on average equity (%)	16.1	25.7	25.1	23.2	21.6
Neutral						
	Valuation metrics	Dec-21	Dec-22	Dec-23F	Dec-24F	Dec-25F
	Recurring P/E (x)	45.71	23.95	21.21	20.41	19.20
	P/B (x)	7.0	5.6	5.1	4.4	3.9
	FCF Yield (%)	(1.0)	(1.1)	21.4	5.0	5.3
	Dividend Yield (%)	1.0	1.6	1.9	2.0	2.1
	EV/EBITDA (x)	26.59	15.32	10.55	9.91	9.05
	EV/EBIT (x)	30.15	16.79	11.22	10.52	9.57
	Income statement (MYRm)	Dec-21	Dec-22	Dec-23F	Dec-24F	Dec-25F
	Total turnover	515	1,270	1,216	1,263	1,304
	Gross profit	85	140	155	170	186
	EBITDA	48	86	99	101	107
	Depreciation and amortisation	(6)	(8)	(6)	(6)	(6)
	Operating profit	42	78	93	96	101
	Net interest	(3)	(5)	(11)	(11)	(11)
	Pre-tax profit	36	74	82	85	90
	Taxation	(6)	(15)	(16)	(17)	(18)
	Reported net profit	29	55	63	65	69
	Recurring net profit	29	56	63	65	69
	Cash flow (MYRm)	Dec-21	Dec-22	Dec-23F	Dec-24F	Dec-25F
	Change in working capital	(45)	(56)	219	(2)	(2)
	Cash flow from operations	(4)	28	290	72	76
	Capex	(10)	(44)	(5)	(5)	(5)
	Cash flow from investing activities	(13)	(51)	(11)	(5)	(5)
	Dividends paid	(6)	(13)	0	(25)	(26)
	Cash flow from financing activities	(10)	164	(25)	(25)	(26)
	Cash at beginning of period	132	106	259	505	547
	Net change in cash	(26)	141	254	42	45
	Ending balance cash	108	250	513	547	592
	Balance sheet (MYRm)	Dec-21	Dec-22	Dec-23F	Dec-24F	Dec-25F
	Total cash and equivalents	106	259	505	547	592
	Tangible fixed assets	64	102	101	101	100
	Total assets	404	1,060	1,127	1,177	1,229
	Short-term debt	29	203	203	203	203
	Total long-term debt	23	33	8	8	8
	Total liabilities	211	817	860	868	875
	Total equity	193	242	268	310	354
	Total liabilities & equity	404	1,060	1,127	1,177	1,229
	Key metrics	Dec-21	Dec-22	Dec-23F	Dec-24F	Dec-25F
	Revenue growth (%)	30.4	146.7	(4.2)	3.9	3.2
	Recurrent EPS growth (%)	89.7	90.9	12.9	3.9	6.3
	Gross margin (%)	16.6	11.1	12.7	13.4	14.2
	Operating EBITDA margin (%)	9.4	6.7	8.1	8.0	8.2
	Net profit margin (%)	5.6	4.4	5.2	5.2	5.3
	Dividend payout ratio (%)	44.5	38.8	40.0	40.0	40.0
	Capex/sales (%)	1.9	3.4	0.4	0.4	0.4
	Interest cover (x)	16.1	17.2	8.3	9.1	9.5

Source: Company data, RHB

## Recommendation Chart

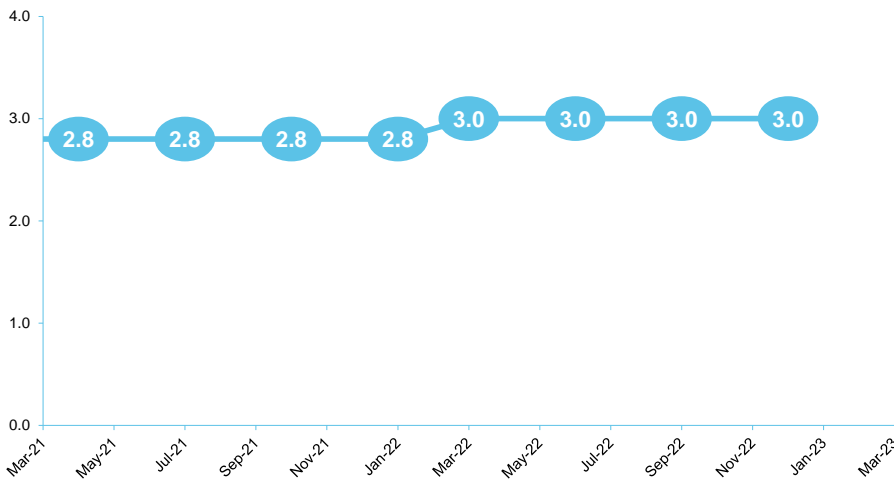


Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2023-02-28	Neutral	1.59	1.51
2022-12-22	Neutral	1.53	1.45
2022-11-21	Buy	1.53	1.32
2022-09-08	Buy	1.71	1.35
2022-07-28	Buy	1.69	1.22
2022-06-03	Buy	1.60	1.25
2022-05-25	Buy	1.50	1.11
2022-03-09	Buy	1.70	1.22
2022-02-28	Buy	1.70	1.38
2022-02-09	Neutral	1.60	1.56
2021-12-01	Neutral	1.75	1.62
2021-10-07	Neutral	1.76	1.77
2021-09-15	Neutral	1.45	1.66
2021-08-25	Neutral	1.16	1.27
2021-06-15	Neutral	2.02	1.10

Source: RHB, Bloomberg

## ESG Rating History



Source: RHB

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(1) they do not have any financial interest in the securities or other capital market products of the subject companies mentioned in this report, except for:

Analyst	Company
-	-

(2) no part of his or her compensation was, is or will be directly or indirectly related to the specific recommendations or views expressed in this report.



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