

Kelington Group Bhd

Stepping up UHP segment

Summary

- Kelington Group Bhd (KGB)'s wholly owned subsidiary, Kelington Engineering (Singapore) Pte Ltd has secured a Ultra High Purity (UHP) contract to design and build the chemical delivery system as well as to design and install of process utility main line and hookups in Singapore. The aforementioned contract was awarded by an undisclosed global leader in high-tech filtration, separation and purification.
- **Maiden contract** to supply a fully customised chemical delivery system. This is a testament to the group's capability to be able to deliver in-house fabricated equipment that is recognised and certified for the use in an advanced production facility.
- **On track to meet orderbook replenishment target.** The aforementioned contract value worth approximately RM102.0m, commencing in April 2023 and are expected to be completed by March 2024. This bumps up their orderbook replenishment to approximately RM569.0m; making up to 47.4% of our expectations of RM1.20bn. Similar with the historical UHP wins, we reckon that the contract will be able to generate high single-digit EBITDA margins.
- **Expansions of wafer production in Asia still on the cards.** We remain sanguine on KGB that is equipped with strong outstanding orderbook of approximately RM2.27bn. This which represents an orderbook-to-cover ratio of 1.8x against FY22 revenue of RM1.27bn that will provide strong earnings visibility over the next 2 years. Meanwhile, tenderbook stays healthy at approximately RM2.00bn that is skewed towards UHP-related projects. In Singapore, chipmakers and suppliers such as Soitec and Applied Materials have laid out massive CAPEXs to boost production capacity of their wafer plants to meet the growing demand. Back home, Foxconn, Infineon, LONGi and Melexis are also embarking onto similar moves.
- **Industrial gas segment to chart new heights.** With the liquid carbon dioxide (LCO2) running at full capacity, expansions are already underway to boost capacity to 70,000 tonnes/annum (from current 50,000 tonnes per annum) in 4QFY23. Also, we note that the commencement of 10-year supply scheme for an optoelectronics semiconductor player in Kulim, Kedah is expected to commence 3Q23. This is expected to boost topline contribution by additional RM18.0m per annum (26.6% of FY22 revenue from the industrial gas segment) over the next 10 years.

Valuation & Recommendation

- Given that the orderbook replenishment falls within our expectations of RM1.20bn for FY23f, we make no changes to our earnings forecast. Consequently, we maintained **BUY** recommendation on KGB with an unchanged target price of RM1.85.

Company Update

Kenneth Leong
kennethleong@msec.com.my
(603) 2201 2100

BUY

Share price	RM1.48
Target price	RM1.85
Previous TP	RM1.85
Capital upside	25.0%
Dividend return	1.4%
Total return	26.4%

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)	955.0
52W High/Low	1.65 / 1.06
Est. Free float	48.7
Beta	0.9
3-mth avg vol ('000)	1,160.1
Shariah compliant	Yes

Major shareholders

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

Share price vs. KLCI (%)

Hist. return	1M	3M	12M
Absolute	3.5	-4.1	5.5
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)	17.2	16.1	16.2

Relative performance chart



- Our target price is derived by assigning a targeted P/E multiple of 20.0x to the FY23f EPS of 9.2 sen. The assigned targeted P/E multiple is close to the valuations of the technology sector that is trading at 23.8x 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						Valuation & Ratios					
FYE Dec (RM m)	FY20	FY21	FY22	FY23f	FY24f	FYE Dec (RM m)	FY20	FY21	FY22	FY23f	FY24f
Profit before taxation	20.9	35.7	73.6	80.4	79.0	Core EPS (sen)	2.7	4.5	8.6	9.2	9.1
Depreciation & amortisation	5.1	5.7	7.5	8.2	10.6	Diluted Core EPS (sen)	-	-	6.5	7.0	6.9
Changes in working capital	18.6	96.0	561.9	16.4	(19.1)	P/E (x)	54.6	33.0	17.2	16.1	16.2
Share of JV profits	-	-	-	-	-	Diluted P/E (x)	-	-	22.7	21.1	21.6
Taxation	(5.1)	(5.3)	(10.2)	(16.1)	(15.8)	DPS (sen)	0.8	1.3	1.8	2.0	2.0
Others	5.2	4.4	13.3	3.5	3.5	Dividend yield	0.5%	0.8%	1.2%	1.4%	1.4%
Operating cash flow	45.7	(3.9)	28.4	27.0	51.4	BVPS (RM)	0.26	0.30	0.38	0.45	0.52
Net capex	(12.3)	(12.4)	(51.4)	(38.1)	(36.0)	P/B (x)	5.7	5.0	3.9	3.3	2.8
Others	0.3	-	-	-	-	EBITDA margin	7.1%	8.4%	6.7%	7.3%	7.8%
Investing cash flow	(12.0)	(12.7)	(51.4)	(38.1)	(36.0)	EBIT margin	5.8%	7.3%	6.1%	6.6%	6.9%
Changes in borrowings	19.7	(2.4)	187.7	(6.1)	(5.9)	PBT margin	5.3%	6.9%	5.8%	6.3%	6.6%
Issuance of shares	20.2	-	-	-	-	PAT margin	4.5%	5.8%	4.6%	5.1%	5.3%
Dividends paid	(8.1)	(4.8)	(6.4)	(12.9)	(12.9)	Core PAT margin	4.4%	5.6%	4.4%	4.7%	4.9%
Others	(4.8)	(6.4)	(12.9)	(12.9)	(12.9)	ROE	10.4%	15.0%	22.9%	20.6%	17.6%
Financing cash flow	11.3	(14.2)	163.8	7.1	7.1	ROA	5.0%	7.2%	5.2%	5.5%	5.3%
Net cash flow	45.0	(30.9)	140.8	(4.0)	22.5	Net gearing	Net Cash	Net Cash	Net Cash	Net Cash	Net Cash
Forex	0.8	2.1	3.2	-	-						
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						