

Kelington Group

First Chemical Supply System Job

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KGB has secured a RM102m contract from a US client to supply a customised chemical delivery system for a new manufacturing facility in Singapore, marking its first customised chemical delivery system built and assembled in-house. This speaks for its value proposition in offering value-adding services to its customers. The latest contract has boosted its YTD job wins to RM596m, lifting its outstanding order book to RM2.23b that will keep it busy for the next two years. We maintain our forecasts, TP of RM1.92 and OUTPERFORM call.

KGB has clinched another ultra-high purity (UHP) delivery system award worth RM102m from a US client that is building a new manufacturing facility in Singapore worth USD100m. KGB is tasked with the supply of a fully customised chemical delivery system which will commence in April 2023 and to be completed by March 2024. The customer specialises in high-tech filtration solutions that are used in various industries such as semiconductor, biopharmaceutical, F&B and aerospace.

This contract is rather significant in terms of brand recognition as it marks KGB's first chemical delivery system and is fully built and assembled in-house from its subsidiary — KE Systems Integration (Chuzhou) Co., Ltd — in China which has its own cleanroom and fabrication facility. Having such in-house capability coupled with the validation of a prominent US client, this is expected to further elevate the group's value proposition in the industry.

Following the win of this recent award, the group's year-to-date order replenishment now stands at RM596m which is highly promising given that it is just 4 months into FY23. With a strong tender book of RM2b, we are sanguine that the group is on track to achieve RM1b replenishment for the year. Also, its current outstanding order book, which includes projects carried forward from the prior year, has grown to RM2.23b which provides solid earnings visibility for the next two years.

Forecasts. Maintained as we assume job wins of RM1b for FY23F.

We also keep our TP of RM1.92 based on an unchanged 22x FY23F PER, in line with its peers' 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 foothold 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 : **RM1.48**
Target Price : **RM1.92** ↔

Share Price Performance



KLCI	1,418.1
YTD KLCI chg	-5.2%
YTD stock price chg	8.0%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	KGRB MK Equity
Market Cap (RM m)	951.7
Shares Outstanding	643.0
52-week range (H)	1.65
52-week range (L)	1.06
3-mth avg daily vol:	1,160,070
Free Float	48.7%
Beta	0.9

Major Shareholders

Palace Star	21.0%
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
Net Profit	55.4	56.0	57.8
Consensus	n.a	59.2	62.3
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)	4.0	3.4	3.0
PER (x)	17.2	17.0	16.5
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 (%)	1.7	1.6	1.7

28 April 2023

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						
PBT	20.9	38.5	73.6	74.5	76.8	Profitability (%)					
Taxation	-3.4	-5.9	-15.5	-15.7	-16.2	EBITDA Margin	8.5	9.1	6.7	9.0	9.3
Minority Interest	0.1	0.7	2.8	2.8	2.9	Operating Margin	7.2	8.0	6.2	8.1	8.1
Net Profit	17.5	31.8	55.4	56.0	57.8	PBT Margin	5.3	7.4	5.8	7.2	7.2
Core 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
						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)	53.5	29.9	17.2	17.0	16.5
						Div. Yield (%)	0.5	1.0	1.7	1.6	1.7
						P/BV (x)	5.6	4.9	4.0	3.4	3.0
						EV/EBITDA (x)	25.6	19.1	10.7	9.6	8.7

Source: Kenanga Research

28 April 2023

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	4.08	3.51	-13.97%	5,050.1	Y	12/2023	10.3	14.0	31.6%	35.5%	39.5	29.1	5.3	14.0%	1.7	0.4%
GHL SYSTEMS BHD	OP	0.810	1.05	29.63%	924.6	Y	12/2023	3.0	3.4	21.3%	12.9%	27.0	24.0	1.7	6.5%	0.0	0.0%
INARI AMERTRON BHD	MP	2.27	2.60	14.54%	8,473.8	Y	06/2023	10.2	11.5	-3.2%	12.7%	22.3	19.7	3.3	15.0%	9.7	4.3%
JHM CONSOLIDATION BHD	MP	0.790	0.800	1.27%	475.7	Y	12/2023	5.3	5.9	40.0%	10.6%	14.9	13.5	1.4	9.8%	0.5	0.6%
KELINGTON GROUP BHD	OP	1.48	1.92	29.73%	951.7	Y	12/2023	8.7	9.0	1.1%	3.2%	17.0	16.5	3.4	21.3%	2.4	1.6%
KESM INDUSTRIES BHD	MP	7.65	8.24	7.71%	329.1	Y	07/2023	(10.0)	6.7	-2250.0%	-32.6%	N.A.	114.8	0.9	-1.2%	7.5	1.0%
LGMS BHD	OP	1.21	1.50	23.97%	551.8	Y	12/2023	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	28.28	20.00	-29.28%	5,624.8	Y	06/2023	81.1	130.6	-51.0%	61.0%	34.9	21.7	2.7	7.9%	35.0	1.2%
NATIONGATE HOLDINGS BHD	OP	1.32	1.50	13.64%	2,737.6	Y	12/2023	5.5	6.5	32.2%	18.6%	24.2	20.4	8.0	39.6%	0.0	0.0%
OPPSTAR BHD	UP	2.11	1.30	-38.39%	1,342.4	N	12/2023	3.1	4.0	18.1%	29.6%	68.5	52.9	46.6	90.7%	0.8	0.4%
P.I.E. INDUSTRIAL BHD	OP	3.65	4.05	10.96%	1,401.8	Y	12/2023	22.5	25.3	22.0%	12.5%	16.2	14.4	2.3	14.6%	7.0	1.9%
SKP RESOURCES BHD	UP	1.30	1.20	-7.69%	2,031.1	Y	03/2024	9.7	7.9	-11.1%	-17.9%	13.4	16.5	2.3	17.8%	4.8	3.7%
UNISEM (M) BHD	MP	2.92	2.75	-5.82%	4,710.2	Y	12/2023	8.9	13.8	-41.2%	55.7%	19.0	17.0	1.9	5.9%	6.0	2.1%
Simple Average										-13.6%	23.6%	26.3	21.3	6.6	19.9%		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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