

KELINGTON GROUP

Company Update

TRADING BUY

Current Price	RM 1.48
Target Price	RM 1.64
Consensus Price	RM 1.78

Stock Return Information

KLCI	1,431.04
Expected share price return (%)	10.8
Expected dividend return (%)	1.7
Expected total return (%)	12.5

Key Statistics

Shariah Compliant	YES
Bloomberg Ticker	KGRB MK
Masa Ticker / Stock Code	KGB/0151
Shares Issued (m)	643.0
Market Capitalisation (RM'm)	952
52 Week Hi/Lo Price (RM)	1.65/1.06
Avg Trading Volume (3-mth)	1,159,150
Est Free Float (%)	48.7
YTD Returns (%)	8.0
Beta (x)	0.90

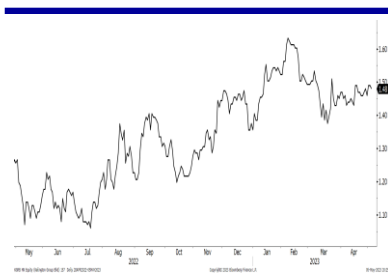
Share Price Performance (%)

Price change	Absolute	Relative
1 mth	1.37	1.09
3 mth	-6.33	-3.63
12 mth	14.73	23.25

Major Shareholders (%)

Palace Star	21.1
SUN Lead International Ltd	6.2

1-Year Share Price Performance



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Climbing Up The Value Chain

We maintain our **TRADING BUY** recommendation and TP of RM1.64, based on unchanged CY23 EPS pegged a PER of 18x (+0.5x STDEV above its 5 years average PER of 15x). We like KGB for its: 1) firm earnings growth potential, supported by increased job orders from the semiconductor industry, and 2) stable income stream from its LCO2 operations which could also help to shore up its dividend prospects. Key downside risks include: 1) project delays, and 3) slower-than-expected contract wins.

KGB clinched a RM102m contract for the design, building and installation of a chemical delivery system for a process utility main line and hookup in Singapore. The customer is from United States and is a global supplier of high-tech filtration, separation, and purification products that are applied in a wide range of industries. The contract work will commence in April 2023 and is expected to be completed by March 2024.

With the above contract, the group has secured RM568m worth of new orders in the first 4 months of FY23, nearing 50% of our orderbook replenishment target of RM1.2b for 2023. The group is currently tendering for RM2.0b of jobs, mostly in the UHP segment. A noteworthy point is that this is the first fully customised chemical delivery system contract where the UHP equipment will be fabricated and supplied by the group's wholly-owned China subsidiary, KE System Integration (Chuzhou) Co., Ltd. We reckon GP margins would be higher than the guided 15% and could be above 20% as it also includes design work. The contract win demonstrates the group's innovation and customisation expertise which will elevate the group's value chain. Overall, we are positive with the contract win and optimistic of the group's replenishment targets, backed by capacity expansion of China's wafer foundries and chipmakers in Singapore and Malaysia.

Table 1: Financial highlights & earnings forecasts

FYE Dec (RM m)	CY20	CY21	CY22	CY23(F)	CY24(F)
Revenue	394.6	514.6	1269.5	1336.0	1279.0
EBITDA	29.3	50.8	87.2	101.7	104.7
EBITDA Margin (%)	7.4	9.9	6.9	7.6	8.2
PATAMI	17.0	29.0	55.4	58.7	60.6
PATAMI Margin (%)	4.3	5.6	4.4	4.4	4.7
EPS (sen)	2.6	4.5	8.6	9.1	9.4
Earnings Growth (%)	(30.2)	69.9	91.3	6.0	3.2
PER (x)	56.0	33.0	17.2	16.3	15.7
DPS (sen)	0.5	1.5	2.5	2.5	2.5
Dividend Yield (%)	0.3	1.0	1.7	1.7	1.7
ROE (%)	12.5	18.5	30.4	27.7	24.0
Net Gearing Ratio (%)	NET CASH	NET CASH	5.6	92.0	83.5
Price/Book Ratio (x)	5.7	5.0	4.0	3.3	2.8

Source: Company, Inter-Pacific

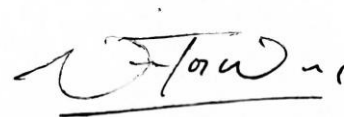
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(ii) As May 8, 2023, the analyst(s) who prepared this report, and the associate(s), has / have an interest in the securities (which may include but not limited to shares, warrants, call warrants and/or any other derivatives) in the following company or companies covered or recommended in this report: (a) Lai Yoon Hui: nil.

Signed



Victor Wan Kum Seng
Head of Research
Inter-Pacific Research Sdn Bhd

Ratings System

Ratings:	Description:
BUY	Total return is expected to exceed 15% in the next 12 months
TRADING BUY	Total return is expected to exceed 10% in the next 3 months
NEUTRAL	Total return is expected to be between –15% to 15% in the next 12 months
SELL	Total return is expected to be below 15% in the next 12 months
TRADING SELL	Total return is expected to be below 10% in the next 3 months
NOT RATED	The stock is not within regular research coverage

Abbreviation

Abbreviation	Definition	Abbreviation	Definition
PER	Price Earnings Ratio	CAGR	Compounded Annual Growth Rate
PEG	PER to Growth	CAPEX	Capital Expenditure
EPS	Earnings per Share	DPS	Dividend per Share
FYE	Financial Year End	ROA	Return on Asset
FY	Financial Year	ROE	Return on Equity
CY	Calendar Year	PBT	Profit Before Tax
MoM	Month-on-Month	PAT	Profit After Tax
QoQ	Quarter-on-Quarter	EV	Enterprise Value
YoY	Year-on-Year	EBIT	Earnings Before Interest And Tax
YTD	Year-to-Date	EBITDA	EBIT Depreciation & Amortisation
p.a.	Per Annum	WACC	Weighted Average Cost of Capital
DCF	Discounted Cash Flow	NTA	Net Tangible Asset
FCF	Free Cash Flow	BV	Book Value
NAV	Net Asset Value		

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