

22 May 2023

Kelington Group

1QFY23 Earnings Almost Double YoY

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KGB's 1QFY23 results met expectations. Its net profit almost doubled YoY on: (i) healthy project deliveries across all operating regions, (ii) strong contributions from its ultra-high purity (UHP) segment, and (iii) a 145% jump in sales for high-margin industrial gases on robust demand from the F&B sector, maxing out utilisation at its LCO2 plant. We maintain our forecasts, TP of RM1.92 and OUTPERFORM call.

Within expectations. KGB's 1QFY23 results were in line with our expectation, delivering net profit of RM16.2m (+95% YoY) which accounted for 29% and 27% of our full-year forecast and the full-year consensus estimate, respectively.

Results' highlights. YoY, 1QFY23 revenue jumped 78.2% on the back of robust project deliveries across all operating markets. Malaysia, which accounts for nearly half of the group's revenue, saw an 82.9% growth, followed by substantial contributions from Singapore (+67.2%) and China (+68.9%). Delving into its business segments, its UHP gas delivery solutions remain the group's anchor business (c.60% of group revenue) and recorded a 63.1% growth owing to strong demand from the semiconductor industry. Furthermore, its industrial gases segment, differentiated by its higher gross profit margin of c.30% compared to other segments at c.15%, has more than doubled in revenue and now constitute c.8% to the group's revenue. This was mainly driven by surging demand in the F&B industry which propelled the group's liquid carbon dioxide (LCO2) plant to operate near peak capacity. As a result, 1QFY23 net profit almost doubled YoY.

Order flows remain buoyant. Against the backdrop of a slowdown in the technology sector, KGB has exhibited resilience and exceptional capabilities in sustaining a steady flow of job wins. The group has secured RM596m worth of new jobs YTD, putting it on track to achieve RM1b replenishment for the year, supported by an elevated tender book of RM2b. Furthermore, we take comfort in the group's earnings visibility stemming from its strong outstanding order book of RM1.8b which will keep the group busy into FY24.

Forecasts. Maintained.

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.

We 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, namely 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). 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 LCO2 expansion.

OUTPERFORM ↔

Price: **RM1.34**
Target Price: **RM1.92** ↔

Share Price Performance



KLCI	1,428.5
YTD KLCI chg	-4.5%
YTD stock price chg	-2.2%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	KGRB MK Equity
Market Cap (RM m)	861.6
Shares Outstanding	643.0
52-week range (H)	1.65
52-week range (L)	1.06
3-mth avg daily vol:	1,048,548
Free Float	50.8%
Beta	0.9

Major Shareholders

Palace Star	21.1%
Sun Lead International Ltd	6.22%
Amanah Raya Trustees	5.5%

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
Core NP (CNP)	55.4	56.0	57.8
Consensus (NP)	-	59.1	61.9
Earnings Revision	-	-	-
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)	3.6	3.1	2.7
PER (x)	15.6	15.4	14.9
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 (%)	1.9	1.8	1.9

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Results Highlight								
	1Q	4Q	QoQ	1Q	YoY	3M	3M	YoY
FYE Dec (RM m)	FY23	FY22	Chg	FY22	Chg	FY23	FY22	Chg
Revenue	308.9	417.4	-26.0%	173.3	78.2%	308.9	173.3	78.2%
GP	37.9	43.5	-12.8%	23.7	59.9%	37.9	23.7	59.9%
EBIT	24.3	27.9	-13.0%	11.7	107.6%	24.3	11.7	107.6%
PBT	21.0	26.2	-19.7%	11.1	89.1%	21.0	11.1	89.1%
Taxation	-4.4	-6.8	35.4%	-2.6	-69.3%	-4.4	-2.6	-69.3%
Net Profit (NP)	16.2	17.8	-9.2%	8.3	95.0%	16.2	8.3	95.0%
Core NP	16.2	17.8	-9.2%	8.3	95.0%	16.2	8.3	95.0%
EPS (sen)	2.5	2.8	-9.2%	1.3	95.0%	2.5	1.3	95.0%
DPS (sen)	1.5	1.5		0.0		1.5	0.0	
		0					0	
GP margin	12.3%	10.4%		13.7%		12.3%	13.7%	
EBIT margin	7.9%	6.7%		6.8%		7.9%	6.8%	
Pretax margin	6.8%	6.3%		6.4%		6.8%	6.4%	
CNP margin	5.2%	4.3%		4.8%		5.2%	4.8%	
Effective tax rate	-20.9%	-26.0%		-23.4%		-20.9%	-23.4%	

Source: Kenanga Research

Geographical Breakdown								
	1Q	4Q	QoQ	1Q	YoY	3M	3M	YoY
FYE Dec (RM m)	FY23	FY22	Chg	FY22	Chg	FY23	FY22	Chg
Revenue	308.9	417.4	-26.0%	173.3	78.2%	308.9	173.3	78.2%
Malaysia	142.5	164.7	-13.5%	77.9	82.9%	142.5	77.9	82.9%
China	45.5	51.1	-10.9%	27.0	68.9%	45.5	27.0	68.9%
Taiwan	7.4	6.4	14.8%	4.9	52.1%	7.4	4.9	52.1%
Singapore	104.1	186.5	-44.2%	62.3	67.2%	104.1	62.3	67.2%
Others	9.4	8.6	8.7%	1.3	597.2%	9.4	1.3	597.2%
Malaysia	46%	39%		45%		46%	45%	
China	15%	12%		16%		15%	16%	
Taiwan	2%	2%		3%		2%	3%	
Singapore	34%	45%		36%		34%	36%	
Others	3%	2%		1%		3%	1%	

Source: Kenanga Research

Geographical Breakdown								
	1Q	4Q	QoQ	1Q	YoY	3M	3M	YoY
FYE Dec (RM m)	FY23	FY22	Chg	FY22	Chg	FY23	FY22	Chg
Revenue	308.9	417.4	-26.0%	173.3	78.2%	308.9	173.3	78.2%
Malaysia	142.5	164.7	-13.5%	77.9	82.9%	142.5	77.9	82.9%
China	45.5	51.1	-10.9%	27.0	68.9%	45.5	27.0	68.9%
Taiwan	7.4	6.4	14.8%	4.9	52.1%	7.4	4.9	52.1%
Singapore	104.1	186.5	-44.2%	62.3	67.2%	104.1	62.3	67.2%
Others	9.4	8.6	8.7%	1.3	597.2%	9.4	1.3	597.2%
Malaysia	46%	39%		45%		46%	45%	
China	15%	12%		16%		15%	16%	
Taiwan	2%	2%		3%		2%	3%	
Singapore	34%	45%		36%		34%	36%	
Others	3%	2%		1%		3%	1%	

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	3.90	3.51	-10.0%	4,827.4	Y	12/2023	10.3	14.0	31.6%	35.5%	37.7	27.8	5.1	14.0%	1.7	0.4%
GHL SYSTEMS BHD	OP	0.780	1.05	34.6%	890.4	Y	12/2023	3.0	3.4	21.3%	12.9%	26.0	23.1	1.6	6.5%	0.0	0.0%
INARI AMERTRON BHD	MP	2.21	2.60	17.6%	8,249.8	Y	06/2023	10.2	11.5	-3.2%	12.7%	21.7	19.2	3.2	15.0%	9.7	4.4%
JHM CONSOLIDATION BHD	MP	0.790	0.800	1.2%	478.7	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	1.34	1.92	43.2%	861.6	Y	12/2023	8.7	9.0	1.1%	3.2%	15.4	14.9	3.0	21.3%	2.4	1.8%
KESM INDUSTRIES BHD	MP	7.08	8.24	16.3%	304.5	Y	07/2023	(10.0)	6.7	-2250%	-32.6%	N.A.	106.3	0.9	-1.2%	7.5	1.1%
LGMS BHD	OP	1.16	1.50	29.3%	529.0	Y	12/2023	3.5	5.9	26.2%	69.8%	33.3	19.6	5.3	17.4%	0.0	0.0%
MALAYSIAN PACIFIC INDUSTRIES BHD	UP	25.70	15.26	-40.6%	5,111.6	Y	06/2023	41.8	105.8	-74.7%	153.3%	61.2	24.2	2.5	4.1%	35.0	1.4%
NATIONGATE HOLDINGS BHD	OP	1.24	1.50	20.9%	2,571.7	Y	12/2023	5.5	6.5	32.2%	18.6%	22.7	19.2	7.5	39.6%	0.0	0.0%
OPPSTAR BHD	UP	1.96	1.30	-33.6%	1,247.0	N	12/2023	3.1	4.0	18.1%	29.6%	63.6	49.1	43.3	90.7%	0.8	0.4%
P.I.E. INDUSTRIAL BHD	OP	3.46	4.05	17.05%	1,328.8	Y	12/2023	22.5	25.3	22.0%	12.5%	15.4	13.7	2.1	14.6%	7.0	2.0%
SKP RESOURCES BHD	UP	1.07	1.20	12.15%	1,671.7	Y	03/2023	9.7	7.9	-11.1%	-17.9%	11.0	13.5	1.9	17.8%	4.8	4.5%
UNISEM (M) BHD	MP	2.90	2.75	-5.17%	4,677.9	Y	12/2023	8.9	13.8	-41.2%	55.7%	18.8	16.9	1.9	5.9%	6.0	2.1%
Simple Average										-18.8%	27.4%	26.5	20.8	6.1	19.7%		1.4%

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Stock ESG Ratings:

	Criterion	Rating				
GENERAL	Earnings Sustainability & Quality	★	★	★	☆	
	Corporate Social Responsibility	★	★	★	☆	
	Management/Workforce Diversity	★	★	☆		
	Accessibility & Transparency	★	★	★		
	Corruption-Free Pledge	★	★	★		
	Carbon-Neutral Initiatives	★	★	★	★	
SPECIFIC	Foreign Worker Welfare	★	★	★		
	Supply Chain Auditing	★	★	★	☆	
	Waste Disposal / Pollution Control	★	★	★		
	Energy Efficiency	★	★	★		
	Work Site Safety	★	★	★		
	Digital Transformation	★	★	☆		
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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