

Stock Digest

Monday, 22 May, 2023

Kelington Group Bhd

All round improvement

Summary

- Kelington Group Bhd's (KGB) 1QFY23 core net profit jumped 95.0% YoY to RM16.2m, driven by higher contribution across all business segments. Revenue for the quarter added 78.2% YoY to RM308.9m.
- The reported net profit slightly exceeded our expectations, making up to 27.2% and 30.8% of ours and consensus forecast of RM55.8m and RM52.5m, respectively. The better-than-expected performance was mainly due to better margins from segmental mix, given that the reported revenue was largely in line at 24.3% of our expectations of RM1.27bn.
- We gather that orderbook replenishment stood at c.RM596.0m to-date (inclusive of the recent win at end-April 2023), accounts to 47.4% of our assumption of RM1.20bn. As at end-1Q23, KGB's outstanding orderbook of RM1.83bn that represents an orderbook to cover ratio of 1.4x against FY22 revenue of RM1.27bn will sustain earnings visibility over the next 2 years.
- Meanwhile, tenderbook remain relatively healthy at above RM1.00bn, supported mainly from the on-going wafer fabrication plants expansions of the semiconductor players. We reckon that the recent maiden win supply a fully customised chemical delivery system bodes well to mitigate the concentrated risk from the slowdown in the semiconductor industry.
- Still, western counterparts such as Soitec will invest SGD430.0m to double their wafer plant capacity, while Applied Materials will commit to invest SGD450.0m to construct a new plant in Singapore, which KGB will be able to leverage onto. Meanwhile, SMIC also brushed off the slowdown in the semiconductor industry and remain committed on their relatively massive expansion plan in China.
- Global semiconductor sales fell -8.7% QoQ in 1Q23 to USD119.5bn due to market cyclicity after flourishing in recent years. On a brighter note, sales in March 2023 (+0.3% MoM) advanced for the first time since May 2022; highlighting the down cycle may have bottomed. Despite a potential recovery is in store, we remain cautious over the rising risk of recession and global economic slowdown.

Quarterly performance								
FYE Dec (RM m)	1QFY22	4QFY22	1QFY23	QoQ (%)	YoY (%)	3MFY22	3MFY23	YoY (%)
Revenue	173.3	417.4	308.9	(26.0)	78.2	173.3	308.9	78.2
EBITDA	13.2	29.8	26.7	(10.6)	101.7	13.2	26.7	101.7
PBT	11.1	26.2	21.0	(19.7)	89.1	11.1	21.0	89.1
PAT	8.5	19.4	16.6	(14.2)	95.2	8.5	16.6	95.2
Core PATMI	8.3	19.4	16.2	(16.4)	95.0	8.3	16.2	95.0
Reported PATMI	8.3	19.4	16.2	(16.4)	95.0	8.3	16.2	95.0
Core EPS (sen)	1.3	3.0	2.5	(16.4)	95.0	1.3	2.5	95.0
EBITDA margin (%)	7.6	7.1	8.6			7.6	8.6	
PBT margin (%)	6.4	6.3	6.8			6.4	6.8	
Core PATMI margin (%)	4.8	4.6	5.2			4.8	5.2	

Results Note – 1QFY23

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

BUY

Share price	RM1.34
Target price	RM1.85
Previous TP	RM1.85
Capital upside	38.1%
Dividend return	1.5%
Total return	39.6%

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)	864.6
52W High/Low	1.65 / 1.06
Est. Free float	50.8
Beta	0.9
3-mth avg vol ('000)	1,767.8
Shariah compliant	Yes

Major shareholders

	%
Palace Star	21.1
Sun Lead International Ltd	6.2
Amanah Trustees Bhd	5.5

Share price vs. KLCI (%)

Hist. return	1M	3M	12M
Absolute	-8.8	-14.8	23.0
Relative	-8.4	-9.7	26.4

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)	15.5	14.5	14.7

Relative performance chart



Valuation & Recommendation

- Although the reported earnings came in slightly above expectations, we made no changes to our earnings forecast as we reckon that the rising cost of operations may bite into margins in subsequent quarters. Consequently, we maintained **BUY** recommendation on KGB with an unchanged target price of RM1.85.
- Our target price is derived by assigning a targeted P/E multiple of 20.0x to FY23f EPS of 9.2 sen. The assigned targeted P/E multiple is slightly below the valuations of the technology sector that is trading at 23.5x 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	1,278.8	1,270.3	1,200.5	Cash	132.0	106.5	260.0	251.4	274.0
EBITDA	27.8	43.4	86.5	92.1	93.0	Receivables	74.2	92.1	385.5	382.8	378.2
EBIT	22.7	37.7	79.3	83.6	82.1	Inventories	2.8	6.9	21.9	20.3	19.2
Net finance income/ (cost)	(1.7)	(2.1)	(4.9)	(3.6)	(3.6)	PPE	59.7	68.8	106.8	136.4	161.5
Associates & JV	-	-	-	-	-	Others	68.6	75.3	123.3	274.7	283.7
Profit before tax	20.9	35.7	74.4	79.9	78.6	Assets	350.3	404.0	1,055.6	1,081.4	1,108.1
Tax	(3.4)	(6.0)	(15.9)	(16.0)	(15.7)	Debts	58.5	56.4	245.0	246.6	245.6
Net profit	17.6	29.7	58.5	63.9	62.9	Payables	71.5	94.0	201.5	203.7	206.2
Minority interest	0.1	0.7	2.8	4.5	4.0	Others	52.0	60.8	366.0	341.4	320.5
Core earnings	17.5	29.0	55.8	59.4	58.9	Liabilities	182.0	211.2	812.5	791.7	772.2
Diluted Core earnings	-	-	56.5	60.2	58.9	Shareholder's equity	155.8	168.6	192.2	239.8	286.4
Exceptional items	-	-	-	-	-	Minority interest	0.3	1.1	3.8	3.9	4.0
Reported earnings	17.5	29.0	55.8	59.4	58.9	Equity	168.3	192.7	243.1	289.7	335.8
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	74.4	79.9	78.6	Core EPS (sen)	2.7	4.5	8.6	9.2	9.1
Depreciation & amortisation	5.1	5.7	7.2	8.5	10.9	Diluted Core EPS (sen)	-	-	6.6	7.0	6.8
Changes in working capital	18.6	96.0	575.5	2.9	(19.2)	P/E (x)	49.4	29.9	15.5	14.5	14.7
Share of JV profits	-	-	0.2	-	-	Diluted P/E (x)	-	-	20.4	19.1	19.6
Taxation	(5.1)	(5.3)	(13.6)	(16.0)	(15.7)	DPS (sen)	0.8	1.3	1.8	2.0	2.0
Others	5.2	4.4	15.6	3.6	3.6	Dividend yield	0.6%	0.9%	1.3%	1.5%	1.5%
Operating cash flow	45.7	(3.9)	34.3	22.4	51.5	BVPS (RM)	0.26	0.30	0.38	0.45	0.52
Net capex	(12.3)	(9.2)	(42.8)	(38.1)	(36.0)	P/B (x)	5.1	4.5	3.6	3.0	2.6
Others	0.3	-	-	-	-	EBITDA margin	7.1%	8.4%	6.8%	7.3%	7.8%
Investing cash flow	(12.0)	(9.4)	(42.8)	(38.1)	(36.0)	EBIT margin	5.8%	7.3%	6.2%	6.6%	6.8%
Changes in borrowings	19.7	1.3	185.3	(6.1)	(6.0)	PBT margin	5.3%	6.9%	5.8%	6.3%	6.5%
Issuance of shares	20.2	-	-	-	-	PAT margin	4.5%	5.8%	4.6%	5.0%	5.2%
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%	20.5%	17.5%
Financing cash flow	11.3	(17.5)	157.0	7.1	7.1	ROA	5.0%	7.2%	5.3%	5.5%	5.3%
Net cash flow	45.0	(30.9)	148.5	(8.6)	22.6	Net gearing	Net Cash	Net Cash	Net Cash	Net Cash	Net Cash
Forex	0.8	2.1	(2.9)	-	-						
Others	-	-	-	-	-						
Beginning cash	68.0	113.8	85.0	230.7	222.1						
Ending cash	113.8	85.0	230.7	222.1	244.7						

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