

“1H23 exceeded expectations”

Share price performance



	1M	3M	12M
Absolute (%)	-5.2	9.0	8.1
Rel KLCI (%)	-8.0	7.6	13.4

	BUY	HOLD	SELL
Consensus	3	1	-

Source: Bloomberg

Stock Data

Sector	Oil and Gas
Issued shares (m)	644.8
Mkt cap (RMm)/(US\$m)	941.4/202.5
Avg daily vol - 6mth (m)	0.9
52-wk range (RM)	1.18-1.65
Est free float	49.8%
Stock Beta	0.88
Net cash/(debt)	15.97
ROE (2023E)	24.6%
Derivatives	Yes
Shariah Compliant	Yes
FTSE4Good Constituent	Yes
FBM Emas (Top 200)	Top 26-50%
ESG Rank	
ESG Risk Rating	22.7 (-6.8 yoy)

Key Shareholders

Palace Star	21.0%
Sun Lead	6.2%
AmanahRaya Trustee	5.5%

Source: Bloomberg, Affin Hwang, Bursa Malaysia, ESG Risk Rating Powered by Sustainalytics

Steven Chan

E steven.chan@affingroup.com

Kelington (KGRB MK)

BUY (maintain)

Up/Downside: +37%

Price Target: RM2.00

Previous Target (Rating): RM1.80 (BUY)

Earnings continue to remain strong

- Kelington's 1H23 earnings continue growth trajectory and exceed expectations
- Outstanding order book remains strong at RM1.8bn (YTD secured RM744m worth of new contracts) – providing earnings visibility for the next 1-2 years
- Maintain BUY with a higher TP of RM2.00. Stock is currently only trading at 13x forward P/E, which we feel is attractive especially compared to other locally-listed semiconductor-exposed names

Results exceeded expectations

1H23 core net profit of RM36m (+53% yoy) exceeded expectations, coming in at 60% and 56% of our and street estimates, respectively. This was mainly driven by stronger contribution from its ultra-high purity (UHP) construction and process engineering divisions. UHP construction still remains as the group's largest division, contributing to 64% of revenue. Meanwhile, 2Q23 core net profit of RM19m also came in stronger (+20% qoq; +35% yoy), similarly mainly due to stronger UHP construction contributions. We do also note that 1Q is seasonally the weakest quarter of the year given the festive period.

Strong order book, with further growth to come

YTD, Kelington has managed to secure RM744m worth of new contracts – bringing its latest outstanding orderbook to a high of RM1.8bn. We believe this should provide ample revenue visibility throughout FY23-24. Additionally, its second LCO2 plant in Kerteh is expected to commence in 4Q23, which would more than double the current production capacity of its industrial gas division.

Maintain BUY, higher TP of RM2.00

Post results, we raise our FY23/24/25E earnings by 8%/11%/10%. Our TP is also subsequently raised to **RM2.00** (from RM1.80 previously), pegged to an unchanged valuation of 18x P/E (roughly +0.5SD from its 5-year mean) on FY24E EPS. Maintain our **BUY** call. Overall, Kelington's earnings have shown signs of resiliency, continuing to post stronger numbers even despite a semiconductor industry downturn, with its current high order book to provide strong earnings visibility over the next 1-2 years. The stock is currently trading at only 13x forward P/E, which we feel is attractive, especially compared to other locally-listed semiconductor-exposed names. Risks to our call include (i) project execution risks – e.g., delays or cost overruns, (ii) recessionary or lockdown risks that may hamper semiconductor industry capex cycle, (iii) poorer-than-expected demand for its gas productions.

Earnings & Valuation Summary

FYE 31 Dec	2021	2022	2023E	2024E	2025E
Revenue (RM m)	517.7	1,269.5	1,400.0	1,490.0	1,560.0
EBITDA (RM m)	48.7	83.6	93.0	102.9	110.6
Pretax profit (RM m)	38.5	73.6	81.0	90.9	98.6
Net profit (RM m)	31.8	55.4	63.2	70.9	76.9
EPS (sen)	5.0	8.6	9.8	11.0	12.0
PER (x)	29.5	16.9	14.9	13.2	12.2
Core net profit (RM m)	34.5	55.4	63.2	70.9	76.9
Core EPS (sen)	5.4	8.6	9.8	11.0	12.0
Core EPS chg (%)	53.6	60.4	14.1	12.2	8.5
Core PER (x)	27.2	16.9	14.9	13.2	12.2
DPS (sen)	2.0	2.5	3.5	4.0	4.5
Dividend Yield (%)	1.4	1.7	2.4	2.7	3.1
EV/EBITDA (x)	18.2	11.0	9.2	7.7	7.3

Chg in EPS (%)		+7.9	+10.5	+9.8
Affin/Consensus (x)		1.0	1.1	1.0

Source: Company, Affin Hwang estimates

Fig 1: Results Comparison

FYE 31 Dec (RMm)	2Q22	1Q23	2Q23	QoQ % chg	YoY % chg	1H22	1H23	YoY % chg	Comments
Revenue	312.4	308.9	424.9	37.5	36.0	485.7	733.8	51.1	Higher revenue mainly driven by greater UHP and process engineering contributions.
Op costs	(291.8)	(283.0)	(395.0)	39.6	35.4	(451.6)	(677.9)	50.1	
EBITDA	20.6	26.0	30.0	15.4	45.2	34.1	55.9	63.8	
EBITDA margin (%)	6.6	8.4	7.1	-1.3ppt	0.4ppt	7.0	7.6	0.6ppt	Slight improvement in margins given better job mix.
Depn and amort	(1.3)	(1.6)	(1.7)	5.4	32.3	(2.5)	(3.4)	33.5	
EBIT	19.3	24.3	28.2	16.1	46.0	31.6	52.5	66.2	
EBIT margin (%)	6.2	7.9	6.6	-1.2ppt	0.5ppt	6.5	7.2	0.7ppt	
Int expense	(1.0)	(3.3)	(1.9)	(42.3)	89.7	(1.6)	(5.2)	225.5	
EI	(0.8)	0.0	(0.4)	N.M.	(53.6)	(1.4)	(0.4)	n.m	
Pretax profit	17.5	21.0	25.9	23.5	48.2	28.6	47.0	64.1	
Core pretax	18.3	21.0	26.3	25.3	43.7	30.0	47.3	57.7	
Tax	(3.6)	(4.4)	(5.6)	28.2	58.0	(6.2)	(10.0)	62.8	
Tax rate (%)	20.4	20.9	21.8	0.8ppt	1.3ppt	21.6	21.4	-0.2ppt	
MI	(0.4)	(0.4)	(1.2)	189.7	232.4	(0.6)	(1.7)	185.1	
Net profit/(loss)	13.6	16.2	19.1	17.8	40.6	21.9	35.3	61.3	
EPS (sen)	5.4	6.4	7.6	17.8	40.6	8.7	14.0	61.3	
Core net profit	14.4	16.2	19.4	20.1	35.2	23.3	35.6	53.2	Earnings exceeded expectations.

Source: Affin Hwang, Company



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Corporate Name: Daiwa Securities Co. Ltd.
 Financial instruments firm: chief of Kanto Local Finance Bureau (Kin-sho) No.108
 Memberships: Japan Securities Dealers Association, The Financial Futures Association of Japan, Japan Investment Advisers Association, Type II Financial Instruments Firms Association, Japan Security Token Offering Association

