

21 August 2023

# Kelington Group

## Work Progress Gains Momentum in China

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KGB's 1HFY23 results beat expectations on stronger-than-expected billings in China post economy reopening. Meanwhile, its ultra-high purity (UHP) gas delivery solution segment bucked the slowdown in the semiconductor industry while its LCO2 plant operated at peak capacity. We raise our FY23-24F net profit forecasts by 11% and 13%, respectively, lift our TP by 12% to RM2.15 (from RM1.92) and reiterate our OUTPERFORM call.

**Above expectations.** KGB's 1HFY23 results exceeded our expectation, delivering net profit of RM35.3m (+61% YoY) which accounted for 63% and 56% of our full-year forecast and the full-year consensus estimate, respectively. The variance against our forecast came largely from stronger-than-expected billings from China.

**Results' highlights.** YoY, 1HFY23 revenue exhibited a substantial 51% growth, driven by successful project deliveries across all operating markets. Notably, Malaysia (which contributes half of the group's revenue) recorded a 37% growth, while Singapore followed suit with a meaningful growth of 61%. More importantly, China's revenue saw a notable upswing of 57%, attributed to improved recognition from project completions in 2QFY23 which experienced an impressive rise (+72% QoQ). Zooming into segmental breakdown, its UHP gas delivery solutions (c.60% of group revenue) recorded a 56% expansion on the back of robust revenue recognition from the semiconductor sector. Furthermore, its industrial gases segment, which yields a lucrative gross profit margin of c.30% saw demand skyrocketing by 146% due to overwhelming demand from the F&B industry. As such, the group's LCO2 (liquid carbon dioxide) plant is currently running at close to 100% capacity.

**Strong visibility ahead.** In the face of a slowdown in the technology sector, KGB has demonstrated resilience and outstanding capacity in maintaining a steady stream of successful tenders with YTD job wins amounting to RM744m. With China reopening gradually taking place, we anticipate the group to be firing on all cylinders as it moves into 2HFY23. In addition, KGB is currently on track to complete its second LCO2 plant by October and commence operations by November where it will allow the group to accommodate the influx of demand from neighbouring countries.

**Forecasts.** We raise our FY23-24F net profit forecasts by 11% and 13%, respectively, largely to reflect the stronger billings in China and a higher FY23 order replenishment target of RM1.1b (from RM1b previously).

Consequently, we raise our TP by 12% to **RM2.15** (from RM1.92) based on a 21x rolled-forward FY24F PER, in line with peer's forward average. The sector's forward PER is the average of regional peers, namely PNC Process Systems, Air Liquide 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**.

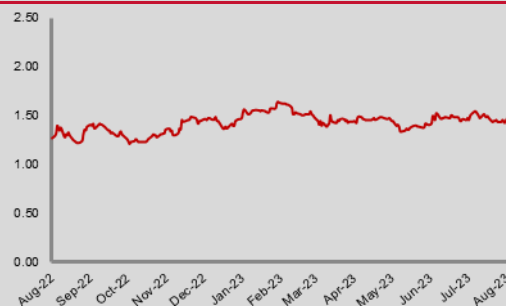
We like KGB for: (i) it being a direct proxy to the front-end wafer fab expansion, (ii) its strong earnings visibility underpinned by robust order-book and tender-book exceeding RM1b, and (iii) its strong footholds in multiple markets, i.e. Malaysia, Singapore and China.

**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: **RM1.46**  
Target Price: **RM2.15** ↑

### Share Price Performance



KLCI	1,446.1
YTD KLCI chg	-3.3%
YTD stock price chg	6.6%

### Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	KGRB MK Equity
Market Cap (RM m)	941.4
Shares Outstanding	643.0
52-week range (H)	1.65
52-week range (L)	1.18
3-mth avg daily vol:	684,018
Free Float	49.8%
Beta	0.9

### Major Shareholders

Palace Star	21.0%
Sun Lead International Ltd	6.2%
Amanah Raya Trustees	5.5%

### Summary Earnings Table

FYE Dec (RM m)	2022A	2023F	2024F
Turnover	1,269.5	1,317.4	1,375.6
EBITDA	85.7	102.2	109.4
PBT	73.6	82.9	87.0
<b>Core NP (CNP)</b>	55.4	62.4	65.4
Consensus (NP)	-	63.0	64.2
Earnings Revision	-	+11%	+13%
EPS (sen)	8.6	9.7	10.2
EPS growth (%)	74.1	12.6	4.9
NDPS (sen)	2.5	2.7	2.8
BVPS (RM)	0.37	0.44	0.52
Price/BV (x)	3.9	3.3	2.8
PER (x)	16.9	15.1	14.3
Net Gearing (x)	(0.2)	(0.0)	(0.1)
ROA (%)	5.2	5.7	5.7
ROE (%)	23.2	21.9	19.7
Dividend Yield (%)	1.7	1.8	1.9

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Results Highlight								
	2Q	1Q	QoQ	2Q	YoY	6M	6M	YoY
FYE Dec (RM m)	FY23	FY23	Chg	FY22	Chg	FY23	FY22	Chg
<b>Revenue</b>	<b>424.9</b>	<b>308.9</b>	<b>37.5%</b>	<b>312.4</b>	<b>36.0%</b>	<b>733.8</b>	<b>485.7</b>	<b>51.1%</b>
GP	46.0	37.9	21.2%	32.5	41.4%	83.9	56.3	49.2%
EBIT	29.7	24.3	22.4%	18.5	60.7%	54.1	30.2	78.9%
PBT	27.8	21.0	32.5%	17.5	59.1%	48.9	28.6	70.8%
Taxation	-5.6	-4.4	-28.2%	-3.6	-58.0%	-10.0	-6.2	-62.8%
Net Profit (NP)	19.1	16.2	17.8%	13.6	40.6%	35.3	21.9	61.3%
<b>Core NP</b>	<b>19.1</b>	<b>16.2</b>	<b>17.8%</b>	<b>13.6</b>	<b>40.6%</b>	<b>35.3</b>	<b>21.9</b>	<b>61.3%</b>
EPS (sen)	3.0	2.5	17.8%	2.1	40.6%	5.5	3.4	61.3%
DPS (sen)	1.5	1.5		1.0		3.0	2.0	
		0					0	
GP margin	10.8%	12.3%		10.4%		11.4%	11.6%	
EBIT margin	7.0%	7.9%		5.9%		7.4%	6.2%	
Pretax margin	6.6%	6.8%		5.6%		6.7%	5.9%	
CNP margin	4.5%	5.2%		4.3%		4.8%	4.5%	
Effective tax rate	-20.3%	-20.9%		-20.4%		-20.6%	-21.6%	

Source: Kenanga Research

Geographical Breakdown								
	2Q	1Q	QoQ	2Q	YoY	6M	6M	YoY
FYE Dec (RM m)	FY23	FY23	Chg	FY22	Chg	FY23	FY22	Chg
<b>Revenue</b>	<b>424.9</b>	<b>308.9</b>	<b>37.5%</b>	<b>485.7</b>	<b>-12.5%</b>	<b>733.8</b>	<b>485.7</b>	<b>51.1%</b>
Malaysia	165.8	142.5	16.3%	225.9	-26.6%	308.3	225.9	36.5%
China	78.1	45.5	71.5%	78.6	-0.6%	123.6	78.6	57.3%
Taiwan	8.1	7.4	9.4%	11.5	-29.6%	15.5	11.5	34.7%
Singapore	163.9	104.1	57.5%	166.9	-1.8%	268.1	166.9	60.6%
Others	9.0	9.4	-4.3%	2.9	214.2%	18.4	2.9	542.6%
Malaysia	39%	46%		46%		42%	46%	
China	18%	15%		16%		17%	16%	
Taiwan	2%	2%		2%		2%	2%	
Singapore	39%	34%		34%		37%	34%	
Others	2%	3%		1%		3%	1%	

Source: Kenanga Research

Segmental Breakdown								
	2Q	1Q	QoQ	2Q	YoY	6M	6M	YoY
FYE: Dec (RM m)	FY23	FY23	Chg	FY22	Chg	FY23	FY22	Chg
<b>Revenue</b>	<b>424.9</b>	<b>308.9</b>	<b>37.5%</b>	<b>312.4</b>	<b>36.0%</b>	<b>733.8</b>	<b>485.7</b>	<b>51.1%</b>
UHP	292.8	184.5	58.7%	192.1	52.4%	477.3	305.3	56.4%
Process Engineering	25.6	35.7	-28.4%	11.5	121.7%	61.3	23.5	160.9%
General Contracting	77.8	64.5	20.6%	97.1	-19.9%	142.4	135.5	5.1%
Industrial Gasses	28.7	24.1	18.9%	11.7	146.4%	52.9	21.5	145.7%
UHP	69%	60%		61%		65%	63%	
Process Engineering	6%	12%		4%		8%	5%	
General Contracting	18%	21%		31%		19%	28%	
Industrial Gasses	7%	8%		4%		7%	4%	

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	3.78	2.68	-29.1%	4,680.3	Y	12/2023	7.8	10.7
GHL SYSTEMS BHD	OP	0.790	1.05	32.9%	901.8	Y	12/2023	3.0	3.4	21.3%	12.9%	26.3	23.4	1.7	6.5%	0.0	0.0%
INARI AMERTRON BHD	MP	3.01	2.46	-18.3%	11,243.0	Y	06/2023	9.0	10.2	-14.1%	13.1%	33.5	29.6	4.5	13.3%	8.6	2.9%
JHM CONSOLIDATION BHD	MP	0.780	0.750	-3.8%	469.7	Y	12/2023	3.5	5.0	-8.3%	43.6%	22.4	15.6	1.4	6.5%	0.5	0.6%
KELINGTON GROUP BHD	OP	1.46	2.15	47.3%	941.4	Y	12/2023	9.7	10.2	12.6%	4.8%	15.1	14.3	3.3	23.5%	2.7	1.8%
KESM INDUSTRIES BHD	MP	7.35	6.91	-6.0%	316.2	Y	07/2023	(15.8)	1.2	-3500.0%	-92.6%	N.A.	593.2	0.9	-1.9%	7.5	1.0%
LGMS BHD	OP	1.15	1.32	14.8%	524.4	Y	12/2023	3.1	5.3	12.7%	70.4%	37.0	21.7	5.4	15.7%	0.0	0.0%
MSIAN PACIFIC INDUSTRIES BHD	UP	26.78	15.26	-43.0%	5,326.4	Y	06/2023	41.8	105.8	-74.7%	153.3%	63.8	25.3	2.6	4.1%	35.0	1.3%
NATIONGATE HOLDINGS BHD	OP	1.53	1.40	-8.5%	3,173.1	Y	12/2023	5.0	6.1	20.4%	22.8%	30.8	25.0	9.7	37.1%	0.3	0.2%
OPPSTAR BHD	MP	1.69	1.82	7.7%	1,075.2	N	12/2023	4.5	6.1	34.0%	36.3%	37.9	27.8	6.8	19.3%	1.1	0.7%
P.I.E. INDUSTRIAL BHD	OP	2.78	3.61	29.9%	1,067.6	Y	12/2023	17.7	20.0	-4.2%	13.4%	15.7	13.9	1.8	11.7%	7.0	2.5%
SKP RESOURCES BHD	UP	0.950	0.950	0.0%	1,476.4	Y	03/2024	6.3	7.1	-31.6%	12.5%	15.1	13.4	1.7	11.4%	3.2	3.4%
UNISEM (M) BHD	UP	3.20	2.65	-17.2%	5,161.9	Y	12/2023	7.5	13.3	-50.2%	76.8%	42.5	24.1	2.1	5.0%	6.0	1.9%
Simple Average										-29.4%	36.8%	34.3	25.1	3.6	12.5%		1.3%

Source: Kenanga Research

**Stock ESG Ratings:**

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

☆ 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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