

Kelington Group Bhd

Above expectations

Summary

- Kelington Group Bhd's (KGB) 2QFY23 core net profit added 40.6% YoY to RM19.1m, boosted by higher contribution from the Ultra High Purity (UHP) and industrial gas segments. Revenue for the quarter climbed 36.0% YoY to RM424.9m. A first interim dividend of 1.5 sen per share, payable on 2nd October 2023 was declared.
- For 6MFY23, core net profit at RM35.3m came above our and consensus expectations of RM59.4m and RM63.0m respectively. The better-than-expected performance was mainly driven by the better margins from segmental mix, coupled with the strong recognition of on-going UHP segment. In 2QFY23, KGB maintained a healthy balance sheet with a low net gearing of 0.02x.
- During the quarter, bulk of the revenue (68.1%) were derived from the UHP segment, followed by the general contracting (18.3%), industrial gas (6.8%), process engineering (6.0%), equipment & materials (0.8%) and services segment (0.1%). Moving forward, we expect the UHP segment to remain as the biggest contributor, given that their current outstanding orderbook is skewed towards the UHP segment.
- We gather that orderbook replenishment stood at RM744.0m in 1H23 accounts to 62.0% of our assumption of RM1.20bn. As at end-2Q23, KGB's outstanding orderbook of RM1.77bn 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, with key semiconductor players in the ASEAN region remain on course in their expansionary plans. We expect the industrial gas segment to generate higher contribution from the 10-year industrial gas supply contract to a prominent optoelectronics semiconductor player valued RM180.0m that commenced in 1Q23. Looking ahead, the second LCO2 plant is largely on track for commercial production in 4Q23 will also boost the aforementioned segment.
- Global semiconductor saw mild recovery following the recent downturn with sales in 2Q23 rose 4.7% QoQ to USD124.5bn. This highlights that demand has gradually improved. While the likelihood of recovery is in place, we remain cautious following the stickiness of inflationary pressure resulting in high interest rates environment may impact demand and economic recovery.

Quarterly performance								
FYE Dec (RM m)	2QFY22	1QFY23	2QFY23	QoQ (%)	YoY (%)	6MFY22	6MFY23	YoY (%)
Revenue	312.4	308.9	424.9	37.5	36.0	485.7	733.8	51.7
EBITDA	20.2	26.7	29.6	11.1	46.9	33.4	56.3	68.6
PBT	17.5	21.0	25.9	23.5	48.2	28.6	47.0	64.1
PAT	13.9	16.6	20.3	22.2	45.9	22.4	36.9	64.6
Core PATMI	13.6	16.2	19.1	17.8	40.6	21.9	35.3	61.3
Reported PATMI	13.6	16.2	19.1	17.8	40.6	21.9	35.3	61.3
Core EPS (sen)	2.1	2.5	3.0	17.8	40.6	3.4	5.5	61.3
EBITDA margin (%)	6.5	8.6	7.0			6.9	7.7	
PBT margin (%)	5.6	6.8	6.1			5.9	6.4	
Core PATMI margin (%)	4.3	5.2	4.5			4.5	4.8	

Ceasing Coverage Note

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

BUY

Share price	RM1.46
Target price	-
Previous TP	RM1.85
Capital upside	26.7%
Dividend return	1.4%
Total return	28.1%

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)	942.1
52W High/Low	1.65 / 1.18
Est. Free float	49.8
Beta	0.9
3-mth avg vol ('000)	692.4
Shariah compliant	Yes

Major shareholders

Palace Star	21.0
Sun Lead International Ltd	6.2
Amanah Trustees Bhd	5.5

Share price vs. KLCI (%)

Hist. return	1M	3M	12M
Absolute	-2.7	9.0	-0.4
Relative	-4.9	7.6	10.1

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)	16.9	15.9	16.0

Relative performance chart



Valuation & Recommendation

- While the reported earnings came above expectations and outlook remains upbeat that is supported by their solid orderbook, we are ceasing coverage on KGB due to the relocation of internal resources. Our last recommendation was **BUY** with a fair value 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.

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)	53.8	32.5	16.9	15.9	16.0
Share of JV profits	-	-	0.2	-	-	Diluted P/E (x)	-	-	22.2	20.9	21.3
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	0.5%	0.9%	1.2%	1.4%	1.4%
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)	5.6	4.9	3.9	3.3	2.8
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						

Disclaimer

Research analyst(s) of MSSB whom produced this report hereby certifies that the views expressed in this report accurately reflect his/her personal opinions about all of the subject corporation(s) and securities in this report. He/She does not carry out, whether for himself/herself or on behalf of MSSB or any other persons did not receive and will not receive any compensation that is directly or indirectly related or linked to the recommendations or views expressed in this report or to any sales, trading, dealing or corporate finance advisory services or transaction in respect of the securities in this report. As of the report date, the analyst whom prepared this report does not have any interest in the following securities covered in this report, unless otherwise stated.

As of **Monday, 21 Aug, 2023**, the analyst(s), Kenneth Leong, whose name(s) appears on the front page, who prepared this report, has interest in the following securities covered in this report:

(a) nil.

Stock recommendation guide

BUY	The share price is expected to appreciate more than 10% over the next 12 months
HOLD	The stock price is expected to range between -10% and +10% over the next 12 months
SELL	The share price is expected to fall more than 10% over the next 12 months
TRADING BUY	The share price is projected to rise more than 10% over the next three (3) months due to an ongoing or impending corporate development. The stock price is also expected to be volatile over the next three months
TRADING SELL	The stock price is expected to fall more than 10% over the next three months due to an ongoing or impending corporate developments. The stock price is also expected to be volatile over the next three months
NOT RATED	No recommendation is assigned
