Kelington Group

Christmas Came Early

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KGB's 9MFY23 results beat expectations on margin expansion stemming from account finalisation of a turnkey job and accelerated billings from high-margin ultra-high purity gas system projects. We raise our FY23-24F net profit forecasts by 45% and 53%, respectively, lift our TP by 53% to RM3.28 (from RM2.15) and reiterate our OUTPERFORM call.

Above expectations. KGB's 9MFY23 net profit of RM66.9m (+78% YoY) already surpassed our full-year forecast by 7% and was only 1% away from the full-year consensus estimate. The variance against our forecast came largely from stronger-than-expected billings from its projects in China.

Results' highlights. YoY, its 9MFY23 revenue recorded a 33.3% jump on the back of robust project deliveries across all the operating markets. Geographically, Malaysia (which accounts for 43% of group revenue) saw higher revenue by 23% while Singapore (c.35% of group revenue) grew 38%. Despite China undergoing a gradual recovery, KGB achieved a remarkable 45% growth in its Chinese operations, showcasing the group's adept business management capabilities. As such, 9MFY23 net profit leapt 78.1%, driven by significant margin expansion from favourable revenue mix.

QoQ, its 3QFY23 further illustrates the enhancement of net profit margin to 7.9% (from 4.5% in 2QFY23) as it concluded the lower margin turnkey job and focused more on ultra-high purity gas system's projects which commands better margin.

Strong momentum to continue into 4Q. With a favourable revenue mix, the group is poised for another robust quarter ahead, aligning with its seasonal trend. As at 3QFY24, the group has secured RM858m worth of new jobs and is on track to achieve our RM1b estimated replenishment target. With China reopening gradually taking place coupled with the consensus that the semiconductor industry has largely bottomed, we believe KGB is well prepared for another upcycle. Be it a smooth or bumpy recovery for the semiconductor sector, the group still has RM1.5b outstanding orders in its bag to navigate any obstacles that may come along, further solidifying its preparedness for the future.

Forecasts. We raise our FY23-24F net profit forecasts by 45% and 53%, respectively, as we reflect stronger project deliveries and margin expansion on improved revenue mix.

Consequently, we lift our TP by 53% to **RM3.28** (from RM2.15) based on an unchanged 21x FY24F PER. Our valuation represents a c.10% discount to peer's forward mean PER of 24x which includes global players such as Air Products, 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).

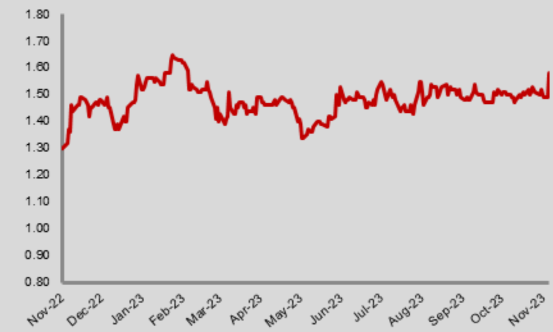
We like KGB for: (i) it being a direct proxy to the front-end wafer fab expansion, (ii) its strong earnings visibility underpinned by robust order-book and tender-book exceeding RM1b, and (iii) its strong footholds in multiple markets, i.e. Malaysia, Singapore and China. Maintain **OUTPERFORM**.

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:	**RM1.58**
Target Price:	**RM3.28** ↑

Share Price Performance



KLCI	1,453.3
YTD KLCI chg	-2.9%
YTD stock price chg	4.9%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	KGRB MK Equity
Market Cap (RM m)	1,018.1
Shares Outstanding	643.0
52-week range (H)	1.65
52-week range (L)	1.31
3-mth avg daily vol:	1,040,018
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	1,508.8	1,565.3
EBITDA	85.7	139.5	155.7
PBT	73.6	120.2	133.3
Core NP (CNP)	55.4	90.4	100.3
Consensus (NP)	-	67.9	70.1
Earnings Revision	-	+45%	+53%
EPS (sen)	8.6	14.1	15.6
EPS growth (%)	74.1	63.3	10.9
NDPS (sen)	2.5	3.9	4.3
BVPS (RM)	0.37	0.47	0.59
Price/BV (x)	4.3	3.3	2.7
PER (x)	18.3	11.2	10.1
Net Gearing (x)	(0.2)	0.0	(0.2)
ROA (%)	5.2	8.0	8.2
ROE (%)	23.2	29.7	26.6
Dividend Yield (%)	1.6	2.5	2.7

Results Highlight

FYE Dec (RM m)	3Q FY23	2Q FY23	QoQ Chg	3Q FY22	YoY Chg	9M FY23	9M FY22	YoY Chg
Revenue	**401.8**	**424.9**	**-5.4%**	**366.4**	**9.7%**	**1135.7**	**852.1**	**33.3%**
GP	59.3	46.0	29.0%	40.7	45.8%	143.3	97.0	47.8%
EBIT	42.0	29.7	41.1%	20.0	109.4%	96.0	50.3	91.1%
PBT	39.1	27.8	40.6%	18.8	107.7%	88.0	47.5	85.4%
Taxation	-7.1	-5.6	-26.4%	-2.5	-183.7%	-17.2	-8.7	-97.8%
Net Profit (NP)	31.7	19.1	66.1%	15.7	101.6%	66.9	37.6	78.1%
Core NP	**31.7**	**19.1**	**66.1%**	**15.7**	**101.6%**	**66.9**	**37.6**	**78.1%**
EPS (sen)	4.9	3.0	66.1%	2.4	101.6%	10.4	5.8	78.1%
DPS (sen)	0.0	1.5		0.0		1.5	1.0	
GP margin	14.8%	10.8%		11.1%		12.6%	11.4%	
EBIT margin	10.4%	7.0%		5.5%		8.5%	5.9%	
Pretax margin	9.7%	6.6%		5.1%		7.7%	5.6%	
CNP margin	7.9%	4.5%		4.3%		5.9%	4.4%	
Effective tax rate	-18.2%	-20.3%		-13.3%		-19.5%	-18.3%	

Source: Kenanga Research

Geographical Breakdown

FYE Dec (RM m)	3Q FY23	2Q FY23	QoQ Chg	3Q FY22	YoY Chg	9M FY23	9M FY22	YoY Chg
Revenue	**401.8**	**424.9**	**-5.4%**	**366.4**	**9.7%**	**1135.7**	**852.1**	**33.3%**
Malaysia	183.6	165.8	10.7%	173.2	6.0%	491.9	399.1	23.3%
China	64.5	78.1	-17.5%	51.0	26.4%	188.1	129.6	45.1%
Taiwan	10.8	8.1	33.2%	11.7	-8.0%	26.3	23.2	13.2%
Singapore	134.1	163.9	-18.2%	125.0	7.3%	402.2	291.9	37.8%
Others	8.9	9.0	-1.3%	5.5	61.9%	27.3	8.3	226.8%
Malaysia	46%	39%		47%		43%	47%	
China	16%	18%		14%		17%	15%	
Taiwan	3%	2%		3%		2%	3%	
Singapore	33%	39%		34%		35%	34%	
Others	2%	2%		1%		2%	1%	

Source: Kenanga Research

Segmental Breakdown

FYE: Dec (RM m)	3Q FY23	2Q FY23	QoQ Chg	3Q FY22	YoY Chg	9M FY23	9M FY22	YoY Chg
Revenue	**401.8**	**424.9**	**-5.4%**	**366.4**	**9.7%**	**1135.7**	**852.1**	**33.3%**
UHP	239.5	292.8	-18.2%	210.2	13.9%	716.8	515.4	39.1%
Process Engineering	30.3	25.6	18.3%	14.1	114.1%	91.5	37.6	143.3%
General Contracting	102.0	77.8	31.1%	121.6	-16.1%	244.4	257.1	-4.9%
Industrial Gasses	30.1	28.7	4.8%	20.5	46.8%	82.9	42.0	97.5%
UHP	60%	69%		57%		63%	60%	
Process Engineering	8%	6%		4%		8%	4%	
General Contracting	25%	18%		33%		22%	30%	
Industrial Gasses	7%	7%		6%		7%	5%	

Source: Kenanga Research

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	3.55	2.30	-35.2%	4,395.9	Y	12/2023	5.2	9.2	-33.7%	77.1%	68.1	38.5	4.9	7.3%	0.9	0.3%
GHL SYSTEMS BHD	OP	0.750	0.980	30.7%	856.1	Y	12/2023	2.7	3.0	8.9%	13.4%	27.9	24.6	1.6	5.8%	0.0	0.0%
INARI AMERTRON BHD	OP	2.90	4.17	43.8%	10,859.9	Y	06/2024	10.4	12.4	20.5%	18.8%	27.8	23.4	4.1	14.9%	9.9	3.4%
JHM CONSOLIDATION BHD	MP	0.740	0.700	-5.4%	448.4	Y	12/2023	3.1	4.6	-17.8%	48.7%	23.6	15.9	1.3	5.9%	0.5	0.7%
KELINGTON GROUP BHD	OP	1.58	3.28	107.6%	1,018.8	Y	12/2023	14.1	15.6	63.2%	11.0%	11.2	10.1	3.3	32.8%	3.9	2.5%
KESM INDUSTRIES BHD	MP	6.88	7.06	2.6%	295.9	Y	07/2024	6.3	10.2	-44.9%	63.0%	111.3	66.5	0.8	0.8%	0.0	0.0%
LGMS BHD	OP	1.02	1.32	29.4%	465.1	Y	12/2023	3.1	5.3	12.7%	70.4%	32.8	19.2	4.8	15.7%	0.0	0.0%
MSIAN PACIFIC INDUSTRIES BHD	MP	26.94	27.20	1.0%	5,358.3	Y	06/2024	80.9	118.2	162.5%	46.1%	33.3	22.8	2.5	7.8%	35.0	1.3%
NATIONGATE HOLDINGS BHD	OP	1.37	1.70	24.1%	2,841.3	Y	12/2023	3.4	6.8	-16.6%	97.5%	39.8	20.1	9.6	27.2%	0.3	0.2%
OPPSTAR BHD	MP	1.58	1.82	15.2%	1,005.2	N	12/2023	4.5	6.1	34.0%	36.3%	35.4	26.0	6.4	19.3%	1.1	0.7%
P.I.E. INDUSTRIAL BHD	OP	3.26	3.80	16.6%	1,252.0	Y	12/2023	17.7	21.1	-4.2%	19.5%	18.4	15.5	2.1	11.7%	7.0	2.1%
SKP RESOURCES BHD	MP	0.830	0.950	14.5%	1,288.9	Y	03/2024	6.3	7.1	-31.6%	12.5%	13.2	11.7	1.5	11.4%	3.2	3.9%
UNISEM (M) BHD	UP	3.29	2.00	-39.2%	5,307.0	Y	12/2023	4.7	10.0	-68.6%	111.6%	69.5	32.8	2.2	3.2%	6.0	1.8%
Simple Average										-4.0%	37.9%	31.7	23.0	3.5	12.6%		1.3%

Source: Kenanga Research

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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