24 November 2023

Outthink. Outperform.

AFFIN HWANG INVESTMENT BANK

Results Note | **RM1.58 @ 23 November 2023**

"We reiterate our BUY call, premised on its promising and resilient earnings growth, backed by its strong order book"

Share price performance

	1M	3M	12M
Absolute (%)	5.3	5.3	16.2
Rel KLCI (%)	4.2	4.4	15.4

	BUY	HOLD	SELL
Consensus	2	2	-

Source: Bloomberg

Stock Data

Sector	Oil and Gas
Issued shares (m)	644.8
Mkt cap (RMm)/(US$m)	1018.8/217.7
Avg daily vol - 6mth (m)	0.9
52-wk range (RM)	1.31-1.65
Est free float	49.8%
Stock Beta	0.90
Net cash/(debt)	(3.79)
ROE (2023E)	32.1%
Derivatives	Yes
Shariah Compliant	Yes
FTSE4Good Constituent	Yes
FBM Emas (Top 200) ESG Rank	Top 26-50%
ESG Risk Rating*	28.1 (+5.4 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
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Kelington Group (KGRB MK)

BUY (maintain)
Up/Downside: +52%

Price Target: RM2.40
Previous Target (Rating): RM2.00 (BUY)

Growing from strength to strength

- **Kelington posted a record 3Q23 quarter with its strong earnings exceeding expectations**
- **Outstanding order book remains strong at RM1.5bn (YTD secured RM858m worth of new contracts) – providing ample earnings visibility for the next 1-2 years**
- **Maintain BUY with a higher TP of RM2.40**

Record quarter exceeds earnings expectations

Kelington posted record 3Q23 results with a net profit of RM32m (+66% qoq / +102% yoy) - bringing 9M23 net profit to RM67m (+78% yoy) to firmly exceed our and consensus earnings expectations. The strong results were largely driven by (i) stronger contribution from its ultra-high purity (UHP) construction and process engineering divisions (UHP construction still remains the largest division, contributing to 59% of the group's revenue in 3Q23), and (ii) favourable project mix for its general contracting.

Strong order book fueling earnings growth

YTD, Kelington has managed to secure new contracts amounting to RM858m - bringing its total order book to RM1.5bn. We believe this should provide ample revenue visibility throughout FY23-24 and would continue to fuel earnings growth. 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 RM2.40

Post-results, we raised our FY23/24/25E earnings 31%/22%/30%. Our TP is also subsequently raised to **RM2.40** (from RM2.00 previously), pegged to an unchanged valuation of 18x P/E on FY24E EPS (roughly +0.5SD above its 5-year mean). We reiterate our **BUY** call on Kellington, premised on its promising and resilient earnings growth, backed by its strong order book despite a semiconductor industry downcycle. The stock is currently trading at only 12x 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 the semiconductor industry capex cycle, (iii) poorer-than-expected demand for its gas production.

Earnings & Valuation Summary

FYE 31 Dec	2021	2022	2023E	2024E	2025E
Revenue (RM m)	517.7	1,269.5	1,490.0	1,535.5	1,674.1
EBITDA (RM m)	48.7	83.6	124.3	129.8	146.4
Pretax profit (RM m)	38.5	73.6	105.8	111.3	127.9
Net profit (RM m)	31.8	55.4	82.5	86.8	99.8
EPS (sen)	4.9	8.6	12.8	13.5	15.5
PER (x)	32.0	18.4	12.3	11.7	10.2
Core net profit (RM m)	31.8	55.4	82.5	86.8	99.8
Core EPS (sen)	4.9	8.6	12.8	13.5	15.5
Core EPS chg (%)	41.1	74.1	49.0	5.2	14.9
Core PER (x)	32.0	18.4	12.3	11.7	10.2
DPS (sen)	2.0	2.5	3.5	4.0	4.5
Dividend Yield (%)	1.3	1.6	2.2	2.5	2.8
EV/EBITDA (x)	19.8	11.9	7.3	6.9	5.9
Chg in EPS (%)			+30.6	+22.4	+29.7
Affin/Consensus (x)			1.3	1.2	1.3

Source: Company, Affin Hwang estimates

Fig 1: Results Comparison

FYE 31 Dec (RMm)	3Q22	2Q23	3Q23	QoQ % chg	YoY % chg	9M22	9M23	YoY % chg	Comments
Revenue	366.4	424.9	401.8	*(5.4)*	*9.7*	852.1	1,135.7	*33.3*	Higher revenue mainly driven by greater UHP and process engineering contributions.
Op costs	(344.9)	(395.3)	(357.5)	*(9.6)*	*3.6*	(797.9)	(1,035.8)	*29.8*	
EBITDA	**21.4**	**29.6**	**44.3**	***49.9***	***106.8***	**54.2**	**99.9**	***84.3***	
EBITDA margin (%)	*5.9*	*7.0*	*11.0*	*4.1ppt*	*5.2ppt*	*6.4*	*8.8*	*2.4ppt*	Slight improvement in margins given better job mix.
Depn and amort	(1.4)	(1.7)	(2.4)	*37.5*	*69.9*	(3.9)	(5.8)	*46.5*	
EBIT	**20.0**	**27.8**	**42.0**	***50.7***	***109.4***	**50.3**	**94.1**	***87.3***	
EBIT margin (%)	5.5	6.6	10.4	*3.9ppt*	*5ppt*	5.9	8.3	*2.4ppt*	
Int expense	(1.2)	(1.9)	(2.8)	*48.3*	*136.0*	(2.8)	(8.0)	*187.2*	
EI	0.0	0.0	0.0	*N.A.*	*N.A.*	0.0	0.0	*N.A.*	
Pretax profit	**18.8**	**25.9**	**39.1**	***50.8***	***107.7***	**47.5**	**86.1**	***81.4***	
Core pretax	**18.8**	**25.9**	**39.1**	***50.8***	***107.7***	**47.5**	**86.1**	***81.4***	
Tax	(2.5)	(5.6)	(7.1)	*26.4*	*183.7*	(8.7)	(17.2)	*97.8*	
Tax rate (%)	13.3	21.8	18.2	*-3.5ppt*	*4.9ppt*	18.3	19.9	*1.7ppt*	
MI	(0.6)	(1.2)	(0.3)	*(72.5)*	*(45.8)*	(1.2)	(2.0)	*65.5*	
Net profit/(loss)	**15.7**	**19.1**	**31.7**	***66.1***	***101.6***	**37.6**	**66.9**	***78.1***	
EPS (sen)	2.4	3.0	4.9	*66.1*	*101.6*	5.8	10.4	*78.1*	
Core net profit	**15.7**	**19.1**	**31.7**	***66.1***	***101.6***	**37.6**	**66.9**	***78.1***	Earnings exceeded expectations.

Source: Affin Hwang, Company

Important Disclosures and Disclaimer

Equity Rating Structure and Definitions

BUY	Total return is expected to exceed +10% over a 12-month period
HOLD	Total return is expected to be between -5% and +10% over a 12-month period
SELL	Total return is expected to be below -5% over a 12-month period
NOT RATED	Affin Hwang Investment Bank Berhad does not provide research coverage or rating for this company. Report is intended as information only and not as a recommendation

The total expected return is defined as the percentage upside/downside to our target price plus the net dividend yield over the next 12 months.

OVERWEIGHT	Industry, as defined by the analyst's coverage universe, is expected to outperform the KLCI benchmark over the next 12 months
NEUTRAL	Industry, as defined by the analyst's coverage universe, is expected to perform inline with the KLCI benchmark over the next 12 months
UNDERWEIGHT	Industry, as defined by the analyst's coverage universe is expected to under-perform the KLCI benchmark over the next 12 months

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