

29 February 2024

Kelington Group

Defying Gravity

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KGB's FY23 results beat expectations on robust project deliveries across all markets. It is poised for further margin expansion as it rides the next semiconductor uptrend. We raise our FY24F net profit forecast by 4%, lift our TP by 4% to RM3.40 (from RM3.28) and reiterate our OUTPERFORM call. KGB remains one of our tech-related top picks.

KGB's FY23 net profit of RM102.7m (+26% YoY) beat our forecast and the market consensus by 14% and 15%, respectively. The variance against our forecast came largely from better-than-expected project billings in Singapore.

YoY, KGB's FY23 revenue rose 26.2% on the back of robust project deliveries across all the operating markets. Geographically, revenue recognition from Malaysia (c.43% of group revenue) grew 22% while Singapore (c.35% of group revenue) trended 27.8% higher. In spite of China's general economy facing a sluggish recovery, KGB still managed to record a commendable 33% growth in its China operation, showcasing the group's adept business management capabilities. As such, FY23 net profit leapt 84.1% on the back of a favourable revenue mix which boosted its net profit margin by 2ppts to 6.4%.

QoQ, in line with its seasonal upcycle, its 4QFY23 net profit climbed 12.8% on a 19% increase in revenue, thanks to stronger-than-expected billings from its Singapore operation (+55%).

Poised for the next semiconductor upcycle. With the lower-margin turnkey job in Sarawak now behind it, the group has witnessed a rebound in its net profit margin over the past two quarters with more room for improvement. This positive trend is driven by a substantial increase in higher-margin UHP jobs, representing c.74% of its outstanding orders (vs. c.60% in FY23). In FY23, the group secured RM1.1b worth of new jobs and we are conservatively expecting the group to repeat its RM1b replenishment in FY24. With China's recovery gradually taking shape coupled with the gradual uptick in the semiconductor industry, we believe KGB is poised for the next upcycle. Irrespective of the pace of the recovery in the semiconductor sector, the group has RM1.3b outstanding orders in its bag to drive its earnings.

Forecasts. We raise our FY24F net profit forecast by 4% and introduce our FY25F numbers.

Valuations. Correspondingly, we lift our TP by 4% to **RM3.40** (from RM3.28) 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).

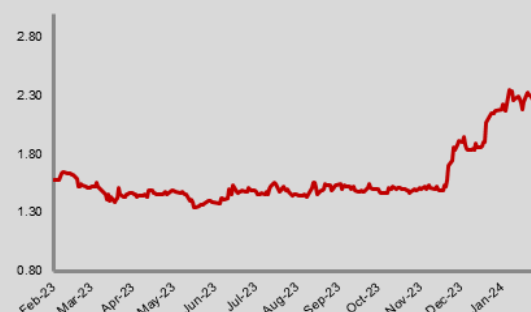
Investment case. We like KGB for: (i) it being a direct proxy to the front-end wafer fab expansion, (ii) its strong earnings visibility underpinned by robust order-book and tender-book exceeding RM1b, and (iii) its strong footholds in multiple markets, i.e. Malaysia, Singapore and China. Maintain **OUTPERFORM**.

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: **RM2.40**
Target Price: **RM3.40** ↑

Share Price Performance



KLCI	1,545.6
YTD KLCI chg	6.3%
YTD stock price chg	10.6%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	KGRB MK Equity
Market Cap (RM m)	1,567.4
Shares Outstanding	643.0
52-week range (H)	2.37
52-week range (L)	1.31
3-mth avg. daily vol.	2,907,018
Free Float	50.1%
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)	2023A	2024F	2025F
Turnover	1,613.9	1,563.9	1,785.8
EBITDA	155.1	156.3	184.4
PBT	133.0	134.3	162.0
Core NP (CNP)	102.7	103.7	125.0
Consensus (NP)	-	102.0	114.3
Earnings Revision	-	+4%	NEW
EPS (sen)	16.0	16.1	19.4
EPS Growth (%)	85.3	1.0	20.6
NDPS (sen)	4.4	4.5	5.4
BVPS (RM)	0.52	0.63	0.78
Price/BV (x)	4.6	3.8	3.1
PER (x)	15.0	14.9	12.3
Net Gearing (x)	(0.4)	(0.4)	(0.6)
ROA (%)	9.6	9.4	9.9
ROE (%)	30.9	25.4	25.1
Dividend Yield (%)	1.8	1.9	2.2

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Results Highlight								
	4Q	3Q	QoQ	4Q	YoY	12M	12M	YoY
FYE Dec (RM m)	FY23	FY23	Chg	FY22	Chg	FY23	FY22	Chg
Revenue	478.9	401.8	19.2%	426.7	12.2%	1613.9	1278.8	26.2%
GP	86.0	59.3	45.0%	51.2	68.1%	229.3	148.1	54.8%
EBIT	49.9	42.0	19.0%	29.6	69.0%	146.0	79.8	82.9%
PBT	46.9	39.1	19.8%	26.9	74.2%	134.9	74.4	81.3%
Taxation	-10.7	-7.1	-49.9%	-7.2	-48.5%	-27.9	-15.9	-75.4%
Net Profit (NP)	35.7	31.7	12.8%	18.2	96.5%	102.7	55.8	84.1%
Core NP	35.7	31.7	12.8%	18.2	96.5%	102.7	55.8	84.1%
EPS (sen)	5.6	4.9	12.8%	2.8	96.5%	16.0	8.7	84.1%
DPS (sen)	0.0	0.0		1.5		1.5	2.5	
GP margin	18.0%	14.8%		12.0%		14.2%	11.6%	
EBIT margin	10.4%	10.4%		6.9%		9.0%	6.2%	
Pretax margin	9.8%	9.7%		6.3%		8.4%	5.8%	
CNP margin	7.5%	7.9%		4.3%		6.4%	4.4%	
Effective tax rate	-22.8%	-18.2%		-26.7%		-20.7%	-21.4%	

Source: Kenanga Research

Geographical Breakdown								
	4Q	3Q	QoQ	4Q	YoY	12M	12M	YoY
FYE Dec (RM m)	FY23	FY23	Chg	FY22	Chg	FY23	FY22	Chg
Revenue	478.3	401.8	19.0%	426.7	12.1%	1613.9	1278.8	26.2%
Malaysia	207.4	183.6	13.0%	172.5	20.2%	699.2	571.6	22.3%
China	50.2	64.5	-22.2%	49.4	1.5%	238.2	179.0	33.1%
Taiwan	4.0	10.8	-62.8%	10.4	-61.4%	30.3	33.6	-9.9%
Singapore	208.3	134.1	55.3%	185.7	12.2%	610.5	477.6	27.8%
Others	8.4	8.9	-5.4%	8.6	-2.9%	35.7	17.0	109.9%
Malaysia	43%	46%		40%		43%	45%	
China	10%	16%		12%		15%	14%	
Taiwan	1%	3%		2%		2%	3%	
Singapore	44%	33%		44%		38%	37%	
Others	2%	2%		2%		2%	1%	

Source: Kenanga Research

Segmental Breakdown								
	4Q	3Q	QoQ	4Q	YoY	12M	12M	YoY
FYE: Dec (RM m)	FY23	FY23	Chg	FY22	Chg	FY23	FY22	Chg
Revenue	478.3	401.8	19.0%	426.7	12.1%	1613.9	1278.8	26.2%
UHP	287.9	239.5	20.2%	295.0	-2.4%	1004.7	810.4	24.0%
Process Engineering	32.4	30.3	6.9%	13.3	142.5%	123.9	51.0	143.1%
General Contracting	127.2	102.0	24.7%	98.0	29.8%	371.6	355.1	4.7%
Industrial Gasses	30.9	30.1	2.6%	20.4	51.2%	113.8	62.4	82.3%
UHP	64%	60%		71%		63%	64%	
Process Engineering	6%	8%		3%		7%	4%	
General Contracting	24%	25%		21%		22%	27%	
Industrial Gasses	6%	7%		5%		7%	5%	

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	MP	3.50	3.60	2.9%	4,334.0	Y	12/2024	8.5	12.0
GHL SYSTEMS BHD	OP	0.680	0.880	29.4%	770.5	Y	12/2024	2.4	2.8	-3.5%	15.8%	28.5	24.6	1.4	5.2%	0.0	0.0%
INARI AMERTRON BHD	OP	3.09	4.05	31.1%	11,600.8	Y	06/2024	9.9	12.1	14.0%	22.1%	31.3	25.6	4.4	14.1%	9.3	3.0%
JHM CONSOLIDATION BHD	MP	0.700	0.700	0.0%	421.2	Y	12/2024	4.7	5.2	94.5%	11.0%	15.0	13.6	1.2	8.5%	0.5	0.7%
KELINGTON GROUP BHD	OP	2.41	3.40	41.1%	1,567.4	Y	12/2024	16.1	19.4	1.0%	20.5%	14.9	12.4	3.8	27.7%	4.5	1.9%
KESM INDUSTRIES BHD	MP	6.60	7.06	7.0%	283.9	Y	07/2024	6.3	10.2	-44.9%	63.0%	106.7	63.8	0.8	0.8%	0.0	0.0%
LGMS BHD	OP	1.01	1.16	14.9%	460.6	Y	12/2024	4.6	5.6	88.4%	21.8%	21.8	17.9	4.5	22.2%	0.9	0.9%
MSIAN PACIFIC INDUSTRIES BHD	MP	28.42	24.30	-14.5%	5,653.6	Y	06/2024	59.6	118.3	93.5%	98.3%	47.6	24.0	2.7	5.8%	35.0	1.2%
NATIONGATE HOLDINGS BHD	OP	1.33	1.70	27.8%	2,758.3	Y	12/2024	3.4	6.8	-16.6%	97.5%	38.7	19.6	9.3	27.2%	0.3	0.2%
OPPSTAR BHD	OP	1.17	1.72	47.0%	748.7	Y	03/2024	3.4	5.7	3.3%	66.7%	34.0	20.4	4.9	15.1%	0.9	0.8%
P.I.E. INDUSTRIAL BHD	OP	3.39	4.00	18.0%	1,301.9	Y	12/2023	22.2	26.1	15.7%	17.4%	15.3	13.0	2.0	13.4%	7.0	2.1%
SKP RESOURCES BHD	MP	0.760	0.850	11.8%	1,179.6	Y	03/2024	5.7	6.4	-38.4%	13.1%	13.3	11.9	1.4	10.3%	2.8	3.7%
UNISEM (M) BHD	MP	3.33	2.95	-11.4%	5,371.6	Y	12/2024	10.2	12.7	100.1%	24.9%	32.8	26.2	2.2	6.8%	6.0	1.8%
Simple Average										22.1%	35.5%	30.2	22.3	3.3	12.9%		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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