

## KELINGTON GROUP

### RESULTS UPDATE

#### BUY

Closing Price	RM 2.56
Target Price	RM 3.16
Consensus Price	RM 3.09

#### Stock Return Information

KLCI	1,538.02
Expected share price return (%)	23.4
Expected dividend return (%)	1.6
Expected total return (%)	25.0

#### Key Statistics

Shariah Compliant	YES
Bloomberg Ticker	KGRB MK
Masa Ticker / Stock Code	KGB/0151
Shares Issued (m)	652.0
Market Capitalisation (RM'm)	1,669.1
52 Week Hi/Lo Price (RM)	2.62/1.31
Avg Trading Volume (3-mth)	2,705,641
Est Free Float (%)	50.3
YTD Returns (%)	18.0
Beta (x)	1.02

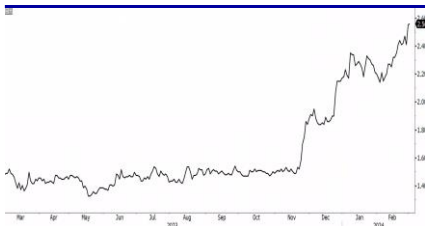
#### Share Price Performance (%)

Price change	Absolute	Relative
1 mth	17.97	16.56
3 mth	34.03	28.04
12 mth	68.42	62.61

#### Major Shareholders (%)

Palace Star	20.8
SUN Lead International Ltd	6.1

#### 1-Year Share Price Performance



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## Improving UHP and Industrial Gases Performance

Kelington's record-high earnings for CY23 came in above our expectations, mainly attributed to higher project recognition and overall growth in all of its business segments. We raised our CY24/25 earnings estimates by 18.7%/19.3%, taking into account the group's earnings prospects that are backed by its RM1.3b order book and global expansion of its LCO2 operation. We maintain our **BUY** recommendation on KGB with a higher **TP of RM 3.16 (+RM0.49)** by pegging an unchanged 15.0x target PER to our higher CY24F EPS. We like KGB for its: 1) firm earnings growth potential, supported by increased job orders from the semiconductor industry, and 2) stable income stream from its LCO2 operations which could also help to shore up its dividend payouts. Key downside risks include: 1) project delays, and 2) slower-than-expected contract wins.

**Exceeded expectations.** KGB's CY23 revenue and PATAMI exceeded our expectations, making up 106.2% and 118.7% of our full year forecast respectively. Its annual revenue grew 26.2% Y-o-Y to RM478.3m, while its PATAMI recorded an 84.1% Y-o-Y jump to RM35.7m, driven by its UHP, process engineering and industrial gas segments.

**Y-o-Y.** Revenue increased 14.6% to RM478.3m, from RM417.4m in 4QCY22, mainly attributed to a 45.5% jump in the general contracting segment from the Singapore market. The process engineering segment revenue rose 2.4x to RM32.4m, from RM13.3m a year ago with higher project recognition from the Malaysian market. Despite the revenue of the UHP segment sliding by 2.8%, it still continues to enhance KGB's revenue stream in 4QCY23 with continuous project recognition in Malaysia. The industrial gas segment revenue also rose 1.5x to RM30.9m, coupled with a 5.5x jump in its equipment and materials segment in 4QCY23. The PBT margin was not severely affected, despite the impairment of contract assets in China leading to a 4.7x jump in other expenses in 4QCY23.

**Q-o-Q.** Topline increased by 19.0%, mainly due to higher revenue contribution from the UHP and general contracting segments. Bottomline increased by 12.8%, despite higher tax incurred which dragged the PAT margin.

**Dividend.** The group declared a second interim dividend of 2.5 sen this quarter vs. 1.5 sen in 4QCY22, bringing the full year dividend to 4.0 sen for CY23, vs. 2.5 sen in CY22.

### Figure 1: Historical and Forecast Financial Performance

CYE Dec (RM m)	CY21	CY22	CY23(E)	CY24(F)	CY25(F)
Revenue	514.6	1,278.8	1,613.9	1,915.0	2,100.0
EBITDA	43.6	86.2	153.7	202.5	227.3
EBITDA Margin (%)	8.5	6.7	9.5	10.6	10.8
PBT	35.7	74.4	133.0	177.5	197.2
PBT Margin (%)	6.9	5.8	8.2	9.3	9.4
PATAMI	29.0	55.8	102.7	136.1	151.1
PATAMI Margin (%)	5.6	4.4	6.4	7.1	7.2
EPS (sen)	4.5	8.6	15.9	21.1	23.4
Earnings Growth (%)	65.4	92.5	84.3	32.4	11.0
PER (x)	56.8	29.5	16.0	12.1	10.9
DPS (sen)	1.5	2.5	4.0	4.0	4.0
Dividend Yield (%)	0.6	1.0	1.6	1.6	1.6
ROE (%)	15.0	22.9	30.3	30.4	26.5
Net Gearing Ratio	NET CASH	NET CASH	NET CASH	NET CASH	NET CASH
P/B (x)	8.6	6.9	5.0	3.8	3.0

Source: Company, Inter-Pacific Research

**Forecast.** We raised our CY24/25 revenue estimates by 4.6%/7.7% and earnings estimate by 18.7%/19.3% respectively, after taking into consideration higher project recognition assumptions and lower borrowings.

**Outlook.** Riding on the recovery trend of the semiconductor industry, the group has successfully secured new orders worth RM1.1b in CY23. As of 4QCY23, the group's orderbook stands at RM1.3b, primarily comprising of hook-up projects for its UHP segment. Additionally, the group secured another RM200.0m worth of new orders from existing Chinese clients in January and February 2024. Meanwhile, the current tender book, valued at RM1.9b as of 4QCY23, is predominantly from markets in China and Singapore. The imposition of U.S. sanctions has compelled Chinese chipmakers to strengthen their capabilities by building their own fabs, which could potentially benefit the group as it continues to explore more opportunities with its existing or new clients in China.

The construction of LCO2 Plant 2, with a production capacity of 70k MT, has been completed and is expected to commence operations in mid-March 2024. The group plans to prioritise running the Plant 2 at a 100% utilisation rate, while the previous LCO2 Plant 1, with a production capacity of 50k MT, will be utilised to support demand surges as needed, mainly due to the higher production capacity of Plant 2 in meeting the demand for LCO2 gases. On the other hand, the group is exploring opportunities to establish LCO2 gas manufacturing facilities in new countries, including Indonesia and New Zealand, due to the strong potential for industrial gases in both regions.

We expect KGB's gearing ratio to decrease in CY24 as one of the contracts from general contracting segment is nearing completion, thus reducing the need for high working capital to support its operations. With the aforementioned outlook and business expansions, we expect KGB to continue enhancing its global footprint and maintaining a healthy order book replenishment rate in CY24.

**Figure 2: Quarterly Results Comparison**

CYE Dec (RM m)	4QCY23	4QCY22	YoY	3QCY23	QoQ	CY23	CY22	YoY
			%		%			%
Revenue	478.3	426.7	12.1	401.8	19.0	1613.9	1278.8	26.2
Gross Profit	86.0	43.5	97.8	59.3	45.0	229.3	148.1	54.8
EBITDA	46.9	29.4	59.3	43.1	8.8	98.3	86.2	14.0
PBT	46.9	26.2	79.1	39.1	19.8	133.0	74.4	78.8
PATAMI	35.7	17.8	100.4	31.7	12.8	102.7	55.8	84.1
EPS (sen)	5.5	2.8	100.4	4.9	12.8	15.9	8.6	84.1
			<i>ppt</i>		<i>ppt</i>			<i>ppt</i>
GP Margin (%)	18.0	10.2	7.8	14.8	3.2	14.2	11.6	2.6
EBITDA Margin (%)	9.8	6.9	2.9	10.7	(0.9)	6.1	6.7	(0.7)
PBT Margin (%)	9.8	6.1	3.7	9.7	0.1	8.2	5.8	2.4
PATAMI Margin (%)	7.5	4.2	3.3	7.9	(0.4)	6.4	4.4	2.0

Source: Company, Inter-Pacific Research

**Figure 3: Operating Division**

CYE Dec (RM m)	4QCY23	4QCY22	YoY	3QCY23	QoQ	CY23	CY22	YoY
<b>Revenue</b>			%		%			%
Ultra high purity	295.9	304.5	(2.8)	239.0	23.8	1023.0	816.2	25.3
Process engineering	32.4	13.3	142.5	30.3	6.9	123.9	51.0	142.8
General contracting	127.2	98.0	29.8	102.0	24.7	380.2	355.4	7.0
Industrial gas	30.9	20.4	51.2	30.1	2.6	114.0	62.9	81.3
Equipment and materials	43.0	7.8	451.3	0.1	>100	93.4	24.7	278.3
Services	0.4	0.4	0.9	0.3	30.6	2.2	1.5	45.0
Less: Consolidated Adjustments	(51.4)	(17.7)	-	-	-	(122.7)	(32.9)	-
<b>Total</b>	<b>478.3</b>	<b>426.7</b>	<b>12.1</b>	<b>401.8</b>	<b>76.4</b>	<b>1613.9</b>	<b>1278.8</b>	<b>26.2</b>

Source: Company, Inter-Pacific Research

**Figure 4: 12-Month Forward PER**



Source: Bloomberg, Inter-Pacific Research

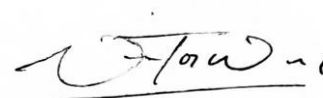
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Signed



Victor Wan Kum Seng  
Head of Research  
Inter-Pacific Research Sdn Bhd

## Rating Systems

Ratings:	Description:
BUY	Total return is expected to exceed 15% in the next 12 months
TRADING BUY	Total return is expected to exceed 10% in the next 3 months
NEUTRAL	Total return is expected to be between -15% to 15% in the next 12 months
SELL	Total return is expected to be below -15% in the next 12 months
TRADING SELL	Total return is expected to be below -10% in the next 3 months
NOT RATED	The stock is not within regular research coverage

## Abbreviation

Abbreviation	Definition	Abbreviation	Definition
PER	Price Earnings Ratio	CAGR	Compounded Annual Growth Rate
PEG	PER to Growth	CAPEX	Capital Expenditure
EPS	Earnings per Share	DPS	Dividend per Share
FYE	Financial Year End	ROA	Return on Asset
FY	Financial Year	ROE	Return on Equity
CY	Calendar Year	PBT	Profit Before Tax
MoM	Month-on-Month	PAT	Profit After Tax
QoQ	Quarter-on-Quarter	EV	Enterprise Value
YoY	Year-on-Year	EBIT	Earnings Before Interest & Tax
YTD	Year-to-Date	EBITDA	EBIT Depreciation & Amortisation
p.a.	Per Annum	WACC	Weighted Average Cost of Capital
DCF	Discounted Cash Flow	NTA	Net Tangible Asset
FCF	Free Cash Flow	BV	Book Value
NAV	Net Asset Value		

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