

*"We reiterate our BUY call, premised on its strong earnings growth prospects"*

### Share price performance



	1M	3M	12M
Absolute (%)	19.7	26.1	121.9
Rel KLCI (%)	14.6	19.7	93.3

	BUY	HOLD	SELL
Consensus	4	-	-

Source: Bloomberg

### Stock Data

Sector	Oil and Gas
Issued shares (m)	667.4
Mkt cap (RMm)/(US\$m)	2028.8/430.7
Avg daily vol - 6mth (m)	2.6
52-wk range (RM)	1.33-3.06
Est free float	59.0%
Stock Beta	1.01
Net cash/(debt)	85.48
ROE (2024E)	48%
Derivatives	Yes
Shariah Compliant	Yes
FTSE4Good Constituent	Yes
FBM Emas (Top 200)	Top 25%
ESG Rank	27.4 (+4.7 yoy)

### Key Shareholders

Palace Star	20.8%
Sun Lead	6.1%
Public Mutual Bhd	4.5%

Source: Bloomberg, Affin Hwang, Bursa Malaysia

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## Kelington (KGRB MK)

### BUY (maintain)

Up/Downside: +48%

### Price Target: RM4.50

Previous Target (Rating): RM3.25 (BUY)

### Strong 1Q24 sets tone for the year

- Kelington posted a strong 1Q24, with net profit jumping 53% yoy – beating estimates
- We like Kelington as a beneficiary of regional wafer fab equipment spending, backed by its current outstanding order book of ~RM1.3bn
- Maintain BUY with a higher TP of RM4.50

### Strong 1Q24 beat expectations

Kelington's 1Q24 net profit of RM25m accounted for 21% of our and consensus full-year earnings forecasts. We deem this to be above expectations, considering that 1Q is typically a seasonally weak quarter – eg, 1Q22 and 1Q23 contributed to 15% and 16% of its full-year profits, respectively. Overall, the quarter saw its net profit jump +53% yoy, given margin expansion on the back of more favourable job mix, especially from its increasing mix in ultra-high purity (UHP) jobs. However, on a qoq basis, net profit dropped 31% qoq due to slower jobs recognition. Nonetheless, we are not too overly concerned on this, given that 1Q is a seasonally weaker quarter, as aforementioned.

### Growing from strength to strength

Kelington's current outstanding order book stands at ~RM1.3bn (flattish qoq), inclusive of new job wins of RM235m YTD. Going forward, we believe further new contract wins for the next 2-3 years will be fueled mainly by its UHP segment, which will benefit greatly from regional wafer fab equipment spending. Additionally, its second LCO2 plant in Kerteh has just commenced operations in late-1Q24, which would more than double its current production capacity of its industrial gas division.

### Maintain BUY, with a higher TP of RM4.50

Post-results, we raise our FY24/25/26E earnings by +25%/+22%/+20%. **Our TP is also raised to RM4.50** (from RM3.25 previously), as we raise our ascribed valuation to 23x P/E (from 18x previously), in-line with +1SD from mean, in tandem with the current global semiconductor upcycle, while also rolling forward our valuation base year to FY25E. Note that our valuation has also factored in full warrants conversion. **We reiterate our strong BUY on Kelington**, premised on its strong earnings growth prospects, being a beneficiary of regional semiconductor fab equipment spending. Risks to our call include (i) project execution risks – eg, delays or cost overruns, (ii) recessionary or lockdown risks that may hamper the semiconductor industry capex cycle, and (iii) poorer-than-expected demand for its gas production.

### Earnings & Valuation Summary

FYE 31 Dec	2022	2023	2024E	2025E	2025E
Revenue (RM m)	1,278.8	1,613.9	1,856.0	2,060.2	2,286.8
EBITDA (RM m)	87.0	155.1	205.3	233.9	265.7
Pretax profit (RM m)	74.4	133.0	186.8	215.4	247.2
Net profit (RM m)	55.8	102.7	145.7	168.0	192.8
EPS (sen)	6.5	11.9	17.0	19.6	22.4
PER (x)	46.8	25.4	17.9	15.5	13.5
Core net profit (RM m)	55.8	102.7	145.7	168.0	192.8
Core EPS (sen)	6.5	11.9	17.0	19.6	22.4
Core EPS chg (%)	75.2	84.1	42.0	15.3	14.7
Core PER (x)	46.8	25.4	17.9	15.5	13.5
DPS (sen)	2.5	4.0	4.2	4.9	5.6
Dividend Yield (%)	0.8	1.3	1.4	1.6	1.8
EV/EBITDA (x)	29.8	16.1	12.1	10.5	8.9
Chg in EPS (%)			+24.8	+22.1	+19.7
Affin/Consensus (x)			1.2	1.2	1.3

Source: Company, Affin Hwang estimates

Fig 1: Results Comparison

FYE 31 Dec (RMm)	1Q23	4Q23	1Q24	QoQ % chg	YoY % chg	Comments
Revenue	308.9	478.3	339.3	-29.1	9.8	Higher revenue mainly driven by stronger UHP segment
Op costs	(283.0)	(424.2)	(300.6)	-29.1	6.2	
<b>EBITDA</b>	<b>26.0</b>	<b>54.1</b>	<b>38.7</b>	-28.5	49.0	
<i>EBITDA margin (%)</i>	<i>8.4</i>	<i>11.3</i>	<i>11.4</i>	<i>0.3ppt</i>	<i>3.9ppt</i>	Margin improvement from better margin mix from UHP jobs
Depn and amort	(1.6)	(4.1)	(3.6)	-14.2	116.0	
<b>EBIT</b>	<b>24.3</b>	<b>49.9</b>	<b>35.1</b>	-29.7	44.5	
<i>EBIT margin (%)</i>	<i>7.9</i>	<i>10.4</i>	<i>10.4</i>	<i>0ppt</i>	<i>3.5ppt</i>	
Int expense	(3.3)	(3.0)	(2.4)	-21.4	(27.2)	
EI	0.0	0.0	0.0	N/A	N/A	
<b>Pretax profit</b>	<b>21.0</b>	<b>46.9</b>	<b>32.7</b>	-30.2	55.7	
<b>Core pretax</b>	<b>21.0</b>	<b>46.9</b>	<b>32.7</b>	-30.2	55.7	
Tax	(4.4)	(10.7)	(7.1)	-33.8	60.9	
<i>Tax rate (%)</i>	<i>20.9</i>	<i>22.8</i>	<i>21.6</i>	<i>4.6ppt</i>	<i>-3.9ppt</i>	
MI	(0.4)	(0.5)	(0.8)	73.6	91.8	
<b>Net profit/(loss)</b>	<b>16.2</b>	<b>35.7</b>	<b>24.8</b>	-30.5	53.3	
EPS (sen)	1.9	4.2	2.9	-30.5	53.3	
<b>Core net profit</b>	<b>16.2</b>	<b>35.7</b>	<b>24.8</b>	-30.5	53.3	Earnings exceeded expectations

Source: Affin Hwang, Company



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