

24 May 2024

Kelington Group

Spotless Earnings Track Record

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KGB's 1QFY24 results met expectations. Its 1QFY24 net profit jumped 54% buoyed by high-margin UHP projects and maiden contribution from its second LCO2 plant. We foresee significant job wins in 2HCY24. We keep our forecasts but raise our TP by 21% to RM4.10 (from RM3.40) and reiterate our OUTPERFORM call. KGB remains one of our sector top picks.

KGB's 1QFY24 net profit of RM24.9m (+54% YoY) accounted for 24% of our full-year forecast and 21% of market consensus. We deem the results within expectation as 1Q is KGB's seasonally weakest quarter.

YoY, KGB's 1QFY24 revenue rose 9.8% on the back of robust project deliveries across all the operating markets. Geographically, revenue recognition from Malaysia (c.45% of group revenue) grew 6.4% while China (c.31% of group revenue) trended 128% higher as momentum picked up among China's wafer fab expansion. This helped to offset weaker showing from its Singapore operation (c.21% of group revenue) which fell 32%. Its net profit jumped by a sharper 54% due to: (i) higher proportion of UHP jobs delivered, and (ii) greater contribution from its industrial gas (yielding twice higher GP margins compared to other segments) as its second LCO2 plant came online, leading to higher net profit margin of 7.3% (vs. 5.2% in 1QFY23)

QoQ, its 1QFY24 revenue fell 29% while net profit shrank 30% as 1Q is seasonally its weakest quarter. It is worth noting that the top line of its industrial gas segment rose 17% due to the commencement of its second LCO2 plant which enjoyed a healthy take up rate.

Outlook. We expect sustained strong performance from KGB underpinned by substantial increase in higher-margin UHP jobs, representing >70% of its outstanding orders (vs. c.60% in FY23). The group has secured RM235m jobs up to 31 Mar 2024, bringing its total outstanding order book to RM1.25b. We are sanguine that the group will be able to secure at least RM1b worth of higher-margin orders in FY24 (vs. RM1.1b in FY23) backed by: (i) more wafer fab expansion in Singapore slated to take place from 3Q onwards, and (ii) China's ambitious plans to increase its semiconductor fabs by 60% in three years for domestic consumption and double the capacity in five years, according to *TendForce*.

Forecasts. Maintained

Valuations. We lift our TP by 21% to **RM4.10** (from RM3.40) based on an unchanged 21x PER pegged to a rolled-forward earnings base of FY25F (from FY24F). 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).

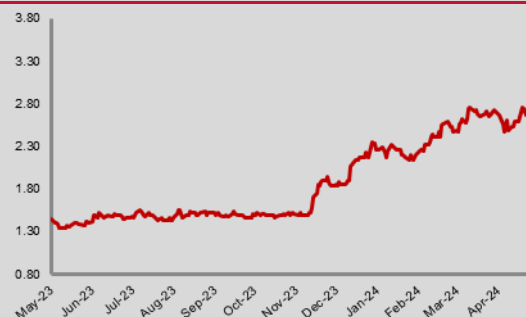
Investment case. We like KGB for: (i) it being a direct proxy to the front-end wafer fab expansion, (ii) its strong earnings visibility underpinned by robust order-book and tender-book exceeding RM1b, and (iii) its strong footholds in multiple markets, i.e. Malaysia, Singapore and China. Maintain **OUTPERFORM**.

Risks to our call include: (i) a slowdown in wafer fab investment, (ii) worsening Sino-US chip war, and (iii) low utilisation of its LCO2 plants.

OUTPERFORM ↔

Price: **RM3.04**
Target Price: **RM4.10** ↑

Share Price Performance



KLCI	1,629.2
YTD KLCI chg	12.0%
YTD stock price chg	40.1%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	KGRB MK Equity
Market Cap (RM m)	2,028.8
Shares Outstanding	643.0
52-week range (H)	3.03
52-week range (L)	1.31
3-mth avg. daily vol.	2,152,018
Free Float	58.9%
Beta	1.0

Major Shareholders

Palace Star	20.3%
Sun Lead International Ltd	5.9%
Public Mutual Bhd	4.5%

Summary Earnings Table

FYE Dec (RM m)	2023A	2024F	2025F
Turnover	1,613.9	1,563.9	1,673.7
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)	-	119.8	135.5
Earnings Revision	-	-	-
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)	5.9	4.8	3.9
PER (x)	19.0	18.9	15.6
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 (%)	1.5	1.5	1.8

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Results Highlight								
	1Q	4Q	QoQ	1Q	YoY	3M	3M	YoY
FYE Dec (RM m)	FY24	FY23	Chg	FY23	Chg	FY24	FY23	Chg
Revenue	339.3	478.3	-29.1%	308.9	9.8%	339.3	308.9	9.8%
GP	52.9	86.0	-38.5%	37.9	39.5%	52.9	37.9	39.5%
EBIT	35.2	49.9	-29.5%	24.3	44.9%	35.2	24.3	44.9%
Interest expense	-2.4	-3.0	21.4%	-3.3	27.2%	-2.4	-3.3	
EI	0.1	0.0		0.0		0.0	0.1	
PBT	32.7	46.9	-30.2%	21.0	55.7%	32.7	21.0	55.7%
Taxation	-7.1	-10.7	33.8%	-4.4	-60.9%	-7.1	-4.4	-60.9%
Net Profit (NP)	24.8	35.7	-30.5%	16.2	53.3%	24.8	16.2	53.3%
Core NP	24.9	35.7	-30.3%	16.2	53.9%	24.9	16.2	53.9%
EPS (sen)	3.9	5.6	-30.3%	2.5	53.9%	3.9	2.5	53.9%
DPS (sen)	2.0	0.0		0.0		2.0	0.0	
GP margin	15.6%	18.0%		12.3%		15.6%	12.3%	
EBIT margin	10.4%	10.4%		7.9%		10.4%	7.9%	
Pretax margin	9.6%	9.8%		6.8%		9.6%	6.8%	
CNP margin	7.3%	7.5%		5.2%		7.3%	5.2%	
Effective tax rate	-21.6%	-22.8%		-20.9%		-21.6%	-20.9%	

Source: Kenanga Research

Geographical Breakdown								
	1Q	4Q	QoQ	1Q	YoY	3M	3M	YoY
FYE Dec (RM m)	FY24	FY23	Chg	FY23	Chg	FY24	FY23	Chg
Revenue	339.3	478.3	-29.1%	308.9	9.8%	339.3	308.9	9.8%
Malaysia	151.6	207.4	-26.9%	142.5	6.4%	151.6	142.5	6.4%
China	104.0	50.2	107.4%	45.5	128.4%	104.0	45.5	128.4%
Taiwan	3.3	4.0	-18.0%	7.4	-55.5%	3.3	7.4	-55.5%
Singapore	70.5	208.3	-66.2%	104.1	-32.3%	70.5	104.1	-32.3%
Others	9.8	8.4	17.1%	9.4	4.6%	9.8	9.4	4.6%
Malaysia	45%	43%		46%		45%	46%	
China	31%	10%		15%		31%	15%	
Taiwan	1%	1%		2%		1%	2%	
Singapore	21%	44%		34%		21%	34%	
Others	3%	2%		3%		3%	3%	

Source: Kenanga Research

Segmental Breakdown								
	1Q	4Q	QoQ	1Q	YoY	3M	3M	YoY
FYE: Dec (RM m)	FY24	FY23	Chg	FY23	Chg	FY24	FY23	Chg
Revenue	339.3	478.3	-29.1%	308.9	9.8%	339.3	308.9	9.8%
UHP	203.6	287.9	-29.3%	184.5	10.3%	203.6	184.5	10.3%
Process Engineering	21.4	32.4	-34.0%	35.7	-40.2%	21.4	35.7	-40.2%
General Contracting	78.4	127.2	-38.4%	64.5	21.4%	78.4	64.5	21.4%
Industrial Gasses	35.9	30.9	16.5%	24.1	48.9%	35.9	24.1	48.9%
UHP	60%	60%		60%		60%	60%	
Process Engineering	6%	7%		12%		6%	12%	
General Contracting	23%	27%		21%		23%	21%	
Industrial Gasses	11%	6%		8%		11%	8%	

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	3.70	3.60	-2.7%	4,581.7	Y	12/2024	8.5	12.0	133.7%	41.6%	43.7	30.9	4.6	10.8%	1.4	0.4%
GHL SYSTEMS BHD	OP	0.910	0.880	-3.3%	1,038.8	Y	12/2024	2.4	2.8	-3.5%	15.8%	38.1	33.0	1.9	5.2%	0.0	0.0%
INARI AMERTRON BHD	OP	3.23	4.00	23.8%	12,150.9	Y	06/2024	9.4	11.8	8.6%	25.8%	34.3	27.3	4.6	13.4%	8.9	2.8%
JHM CONSOLIDATION BHD	MP	0.720	0.700	-2.8%	436.3	Y	12/2024	4.7	5.2	94.5%	11.0%	15.5	14.0	1.3	8.5%	0.5	0.7%
KELINGTON GROUP BHD	OP	3.04	4.10	34.9%	2,028.8	Y	12/2024	16.1	19.4	1.0%	20.5%	18.8	15.6	4.8	27.7%	4.5	1.5%
KESM INDUSTRIES BHD	MP	6.54	7.06	8.0%	281.3	Y	07/2024	6.2	10.3	-46.2%	67.2%	105.8	63.2	0.8	0.7%	0.0	0.0%
LGMS BHD	OP	1.50	1.16	-22.7%	684.0	Y	12/2024	4.6	5.6	88.4%	21.8%	32.4	26.5	6.6	22.2%	0.9	0.6%
MSIAN PACIFIC INDUSTRIES BHD	OP	39.16	46.84	19.6%	7,790.1	Y	06/2024	74.5	138.0	141.8%	85.2%	52.5	28.4	3.7	7.2%	35.0	0.9%
NATIONGATE HOLDINGS BHD	OP	1.90	1.58	-16.8%	3,940.5	Y	12/2024	6.3	6.9	114.8%	9.6%	30.1	27.5	7.4	27.4%	1.0	0.5%
OPPSTAR BHD	OP	1.54	1.72	11.7%	986.0	Y	03/2024	3.4	5.7	3.3%	66.7%	44.8	26.8	6.4	15.1%	0.9	0.6%
P.I.E. INDUSTRIAL BHD	OP	6.08	6.75	11.0%	2,335.0	Y	12/2024	22.2	28.7	15.7%	29.3%	27.4	21.2	3.5	13.4%	7.0	1.2%
SKP RESOURCES BHD	MP	1.17	0.850	-27.4%	1,828.0	Y	03/2024	5.7	6.4	-38.4%	13.1%	20.5	18.3	2.1	10.3%	2.8	2.4%
UNISEM (M) BHD	MP	4.09	3.70	-9.5%	6,597.5	Y	12/2024	10.2	12.7	100.1%	24.9%	40.2	32.2	2.7	6.8%	6.0	1.5%
Simple Average										32.6%	31.3%	35.0	26.6	3.9	13.0%		1.0%

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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