

KELINGTON GROUP

RESULTS UPDATE

BUY

Closing Price	RM 3.02
Target Price	RM 3.87
Consensus Price	RM 3.46

Stock Return Information

KLCI	1,619.40
Expected share price return (%)	28.1
Expected dividend return (%)	1.3
Expected total return (%)	29.5

Key Statistics

Shariah Compliant	YES
Bloomberg Ticker	KGRB MK
Masa Ticker / Stock Code	KGB/0151
Shares Outstanding (m)	668.4
Market Capitalisation (RM'm)	2,018.5
52 Week Hi/Lo Price (RM)	3.06/1.37
Avg Trading Volume (3-mth)	2,132,696
Est Free Float (%)	64.7
YTD Returns (%)	39.2
Beta (x)	1.01

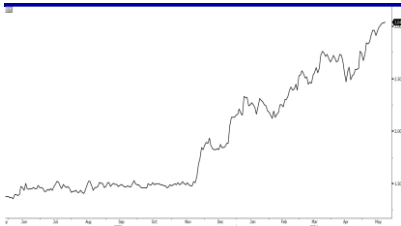
Share Price Performance (%)

Price change	Absolute	Relative
1 mth	16.15	13.35
3 mth	22.27	18.38
12 mth	118.84	103.41

Major Shareholders (%)

Palace Star	20.4
SUN Lead International Ltd	6.0

1-Year Share Price Performance



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Anticipating Strong Growth In Industrial Gas Segment

KGB's earnings for 1QCY24 are deemed to be within our expectations due to seasonal factors. Despite the group's earnings supported by its RM1.25b order book, we finetuned our CY24/25 earnings estimates downward by 17.2%/17.4% respectively, taking into account the potentially slower order book replenishment rate for CY24/25. Nevertheless, we reiterate our **BUY** recommendation on KGB to with a higher **TP** of **RM 3.87 (+RM0.71)** by pegging a higher target PER of 20.0x (+1SD from 15.0x) to our rolled-over CY25F EPS. We deemed the adjusted target PER as fair, taking into account its firmer growth prospects over the coming two years that is backed by the potential recovery of the E&E sector. We like KGB for its: 1) firm earnings growth potential, supported by increased job orders from the semiconductor industry, 2) global expansion of its industrial gas segment and 3) stable income stream from its LCO2 operations which could also help to shore up its dividend payouts. Key downside risks include: 1) project delays, 2) slower-than-expected contract wins, and 3) lower utilisation rate for LCO2 Plant.

Within expectations. KGB's 1QCY24 revenue and PATAMI are within our expectations taking into account the seasonal factors, making up 17.7% and 18.2% of our full year forecast respectively as revenue and earnings are typically lower due to the festive season.

Y-o-Y. Revenue increased 9.8% to RM339.3m, from RM308.9m in 1QCY23, mainly attributed to a 11.7% increase in the UHP segment from the Malaysian and China markets. The industrial gas segment jumped by 47.2%, mainly contributed by the Malaysia market. The equipment and materials segment popped 246.8% while the general contracting segment rose 21.0%, which is credited to the higher project recognition, offsetting the slower progress on nearly completion projects that was reflected in a 40.2% decrease in the process engineering segment. Despite a quieter quarter, PATAMI margin was boosted to 7.3% in 1QCY24, from 5.2% in 1QCY23, aided by lower borrowing costs.

Q-o-Q. Due to seasonal effects, 1QCY24's earnings reported a weaker quarter compared to 4QCY23. The topline was reduced by 29.1% and the bottomline decreased by 30.5%.

Dividend. The group declared first interim dividend of 2.0 sen vs. no dividend declared in 1QCY23.

Table 1: Historical and Forecast Financial Performance

CYE Dec (RM m)	CY21	CY22	CY23	CY24(F)	CY25(F)
Revenue	514.6	1,278.8	1,614.4	1,525.0	1,650.0
EBITDA	43.6	86.2	154.5	168.3	187.9
EBITDA Margin (%)	8.5	6.7	9.6	11.0	11.4
PBT	35.7	74.4	133.9	145.5	161.2
PBT Margin (%)	6.9	5.8	8.3	9.5	9.8
PATAMI	29.0	55.8	104.1	112.7	124.8
PATAMI Margin (%)	5.6	4.4	6.5	7.4	7.6
EPS (sen)	4.5	8.6	16.1	17.5	19.3
Earnings Growth (%)	65.4	92.5	86.8	8.2	10.8
PER (x)	67.3	35.0	18.7	17.3	15.6
DPS (sen)	1.5	2.5	4.0	4.0	4.5
Dividend Yield (%)	0.5	0.8	1.3	1.3	1.5
ROE (%)	15.0	22.9	30.8	26.4	23.8
Net Gearing Ratio	Net Cash	Net Cash	Net Cash	Net Cash	Net Cash
P/B (x)	10.2	8.1	5.9	4.7	3.8

Source: Company, Inter-Pacific Research

Forecast. We reduced our CY24/25 revenue forecasts by 20.4%/21.4% and earnings forecast by 17.2%/17.4% after adjusting our project recognition assumptions.

Outlook. At the end of 1QCY24, the group secured new orders totaling RM235.0m, primarily from existing China clients in the UHP segment, and another RM140.0m worth of orders in April and May 2024. The current order book stands at RM1.25b while the tenderbook stands at RM1.59b, with the UHP segment and China market dominating both. On the other hand, KGB is viewing its planned business expansion into Indonesia (under industrial gas segment) favourably, considering the robust demand for LCO2 in Indonesia. KGB is also looking opportunities in other Asian and African markets for its industrial gases supply business expansion.

Despite a weaker quarter with fewer new orders secured, we remain optimistic about KGB in securing more contracts in 2HCY24, supported by: 1) strong growth in the Chinese chip manufacturer market, and 2) aggressive global business expansion with robust overseas demand for LCO2 in its industrial gas segment.

Table 2: Quarterly Results Comparison

CYE Dec (RM m)	1QCY24	1QCY23	YoY	4QCY23	QoQ
			%		%
Revenue	339.3	308.9	9.8	478.3	(29.1)
Gross Profit	52.9	37.9	39.5	86.0	(38.5)
EBITDA	36.7	26.1	40.5	50.8	(27.8)
PBT	32.7	21.0	55.7	46.9	(30.2)
PATAMI	24.8	16.2	53.3	35.7	(30.5)
EPS (sen)	3.8	2.5	53.3	5.5	(30.5)
			<i>ppt</i>		<i>ppt</i>
GP Margin	15.6	12.3	3.3	18.0	(2.4)
EBITDA Margin	10.8	8.5	2.4	10.6	0.2
PBT Margin	9.6	6.8	2.8	9.8	(0.2)
PATAMI Margin	7.3	5.2	2.1	7.5	(0.2)

Source: Company, Inter-Pacific Research

Table 3: Operating Division

CYE Dec (RM m)	1QCY24	1QCY23	YoY	4QCY23	QoQ
<u>Revenue</u>			%		%
Ultra high purity	205.5	184.0	11.7	295.9	(30.5)
Process engineering	21.4	35.7	(40.2)	32.4	(34.0)
General contracting	78.4	64.8	21.0	127.2	(38.4)
Industrial gas	35.9	24.4	47.2	30.9	16.5
Equipment and materials	16.2	4.7	246.8	43.0	(62.4)
Services	0.0	0.2	(100.0)	0.3	(100.0)
Less: Consolidated Adjustments	(18.1)	(4.7)	-	(51.4)	-
Total	339.3	308.9	9.8	478.3	(29.1)

Source: Company, Inter-Pacific Research

Table 4: Peer Comparison

Companies	Air Liquide S.A.	Air Products and Chemicals, Inc.	Linde Plc	Nippon Sanso Holdings	Average
Country	French	U.S.A	U.S.A	Japan	
FYE	Dec	Sept	Dec	Mar	
Share price (RM) @ 24/5/2024	931.4	1,246.8	2,052.4	135.4	
Market Cap (RM b) @ 24/5/2024	488.2	277.2	986.5	58.7	
1-year forward P/E (x)	26.2	21.7	28.3	18.8	23.8
2-year forward P/E (x)	23.7	19.8	26.1	18.0	21.9
1-year forward ROE (%)	14.2	17.8	18.2	5.5	13.9
2-year forward ROE (%)	14.4	18.1	18.9	5.2	14.2
1-year forward Dividend Yield (%)	1.9	2.7	1.3	1.1	1.7
2-year forward Dividend Yield (%)	2.0	2.8	1.4	20.5	6.7
1-year forward Earnings Growth (%)	12.8	10.1	9.9	(8.2)	6.2
2-year forward Earnings Growth (%)	11.4	10.6	7.1	4.1	8.3

Source: Bloomberg, Inter-Pacific Research

Figure 1: 12-Month Forward PER



Source: Bloomberg, Inter-Pacific Research

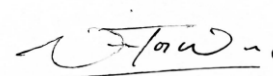
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Signed



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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