

## KELINGTON GROUP

### RESULTS UPDATE

#### BUY

Closing Price	RM 3.22
Target Price	RM 3.72
Consensus Price	RM 4.09

#### Stock Return Information

KLCI	1,641.66
Expected share price return (%)	15.5
Expected dividend return (%)	1.2
Expected total return (%)	16.8

#### Key Statistics

Shariah Compliant	YES
Bloomberg Ticker	KGRB MK
Masa Ticker / Stock Code	KGB/0151
Shares Outstanding (m)	685.7
Market Capitalisation (RM'm)	2,208.0
52 Week Hi/Lo Price (RM)	3.71/1.46
Avg Trading Volume (3-mth)	1,903,923
Est Free Float (%)	69.5
YTD Returns (%)	48.4
Beta (x)	0.88

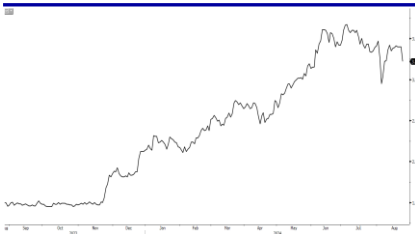
#### Share Price Performance (%)

Price change	Absolute	Relative
1 mth	-6.12	-6.86
3 mth	5.92	5.16
12 mth	114.67	100.67

#### Major Shareholders (%)

Palace Star	19.8
SUN Lead International Ltd	5.8

#### 1-Year Share Price Performance



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## Higher Earnings Growth Despite Weaker Revenue

KGB's 1HCY24 earnings were slightly below our expectations, mainly due to several major projects in Singapore nearing completion as well as slower progress in Malaysia-based projects. We adjusted downward our CY24/25 earnings estimates by 6.3%/2.8% respectively, taking into account slower project recognition. However, we keep our **BUY** call on KGB with lower **TP** of **RM 3.72 (-RM0.15)** by pegging an unchanged target PER of 20.0x to our CY25F EPS. 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.

**Slightly missed expectations.** KGB's 1HCY24 revenue and PATAMI slightly missed our expectations, making up only 43.3% and 46.7% of our full year forecast respectively.

**Y-o-Y.** Revenue decreased by 24.4% to RM321.2m, from RM424.9m in 2QCY23, mainly attributed to lower project recognition in the UHP segment that came in 25.0% lower. The processing engineering and general contracting segments also showed a significant decline in revenue of 31.9% and 37.2% respectively, due to slower progress in Malaysia-based projects. However, the industrial gas segment revenue jumped by 21.0% to RM35.4m, from RM29.2m in 2QCY23, which we reckon is from the commencement of a new plant that boosted the production capacity of LCO2 to cater for local and export markets. GP margin showed an improvement to 17.3% compared to 10.8% in 2QCY23, driven by changes in revenue composition, favourable product mix and the robust growth in revenue contribution from the industrial gas segment. As a result, PBT margin and PATAMI margins also rose to 10.8% and 8.3% respectively.

**Q-o-Q.** The topline decreased by 5.3% as most segments posted lower revenue contributions, with the UHP segment being the exception and it increased by 8.0%. Nevertheless, the bottom line showed a 7.4% increase. Group borrowings, meanwhile, increased by 17.6%, where the group drew down the loan for capital expenditure in the industrial gases segment.

**Dividend.** The group declared a second interim dividend of 2.0 sen vs. 1.5 sen declared in 2QCY23.

**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	1,430.0	1,520.0
EBITDA	43.6	86.2	154.5	158.5	182.0
EBITDA Margin (%)	8.5	6.7	9.6	11.1	12.0
PBT	35.7	74.4	133.9	135.9	155.7
PBT Margin (%)	6.9	5.8	8.3	9.5	10.2
PATAMI	29.0	55.8	104.1	105.6	121.3
PATAMI Margin (%)	5.6	4.4	6.5	7.4	8.0
EPS (sen)	4.4	8.5	16.0	16.2	18.6
Earnings Growth (%)	65.4	92.5	86.8	1.4	14.8
PER (x)	76.6	39.8	21.3	21.0	18.3
DPS (sen)	1.5	2.5	4.0	4.0	4.5
Dividend Yield (%)	0.4	0.7	1.2	1.2	1.3
ROE (%)	15.0	22.9	30.8	25.1	23.6
Net Gearing Ratio	Net Cash	Net Cash	Net Cash	Net Cash	Net Cash
P/B (x)	11.6	9.3	6.7	5.4	4.4

Source: Company, Inter-Pacific Research

**Forecast.** We revised downwardly both our CY24/25 revenue forecast by 6.2%/5.5% and earnings forecast by 6.3%/2.8% after taking into account the slower project progress.

**Outlook.** In 2QCY24, the group secured RM329.0m worth of new orders, bringing the total to RM564.0m for 1HCY24, with China continuing to dominate, largely from existing clients in the group's UHP segment. The outstanding orderbook now stands at RM1.29b, while the tender book amount to RM1.66b, with significant contributions from the Chinese and Singaporean markets as we believe the potential for high-end fabs in both markets exceed that of Malaysia. In the industrial gases segment, LCO2 Plant 1 and 2 is operating at an overall utilisation rate of 58%. The group is awaiting for the commencement of OSRAM's 10-year on-site gas supply scheme, where construction is expected to be completed soon. Additionally, the group is exploring opportunities in the industrial gas segment following the establishment of a company in India.

Looking ahead, slower-than-expected projects progress may impact the group's revenue growth. However, we anticipate a stronger earnings in 2HCY24 due to: 1) a double-digit capacity growth among Chinese chipmakers is expected to be maintained, according to a SEMI report, 2) the growing demand of AI chips, and 3) the recent acquisition of the remaining stake in Ace Gases, enabling full consolidation of earnings.

**Table 2: Quarterly Results Comparison**

CYE Dec (RM m)	2QCY24	2QCY23	YoY	1QCY24	QoQ	6MCY24	6MCY23	YoY
			%		%			%
Revenue	321.2	424.9	(24.4)	339.3	(5.4)	660.5	733.8	(10.0)
Gross Profit	55.5	46.0	20.6	52.9	4.8	108.4	83.9	29.2
EBITDA	38.6	29.0	32.8	36.7	5.1	75.2	55.2	36.4
PBT	34.8	25.9	34.3	32.7	6.5	67.6	47.0	43.9
PATAMI	26.7	19.1	39.9	24.8	7.4	51.5	35.3	46.1
EPS (sen)	4.0	3.0	34.8	3.8	4.9	7.8	5.5	42.5
			<i>ppt</i>		<i>ppt</i>			<i>ppt</i>
GP Margin	17.3	10.8	6.4	15.6	1.7	16.4	11.4	5.0
EBITDA Margin	12.0	6.8	5.2	10.8	1.2	11.4	7.5	3.9
PBT Margin	10.8	6.1	4.7	9.6	1.2	10.2	6.4	3.8
PATAMI Margin	8.3	4.5	3.8	7.3	1.0	7.8	4.8	3.0

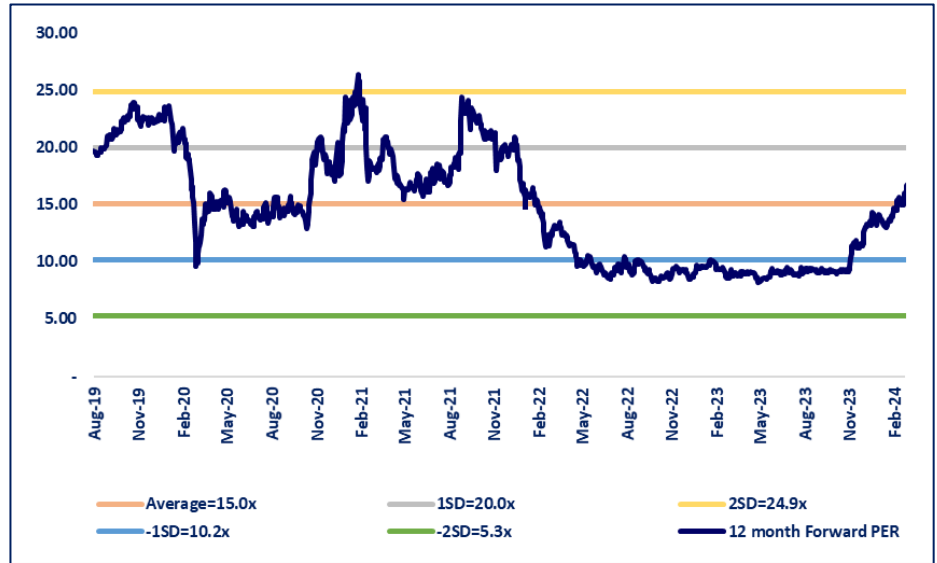
Source: Company, Inter-Pacific Research

**Table 3: Operating Division**

CYE Dec (RM m)	2QCY24	2QCY23	YoY	1QCY24	QoQ	6MCY24	6MCY23	YoY
			%		%			%
<b>Revenue</b>								
Ultra-high purity	222.1	296.0	(25.0)	205.5	8.0	427.6	480.0	(10.9)
Process engineering	17.4	25.6	(31.9)	21.4	(18.4)	38.8	61.3	(36.7)
General contracting	49.8	79.3	(37.2)	78.4	(36.4)	128.2	144.1	(11.0)
Industrial gas	35.4	29.2	21.0	35.9	(1.5)	71.3	53.6	32.9
Equipment and materials	14.9	16.1	(7.3)	16.2	(7.7)	31.1	20.7	49.8
Services	0.0	0.2	(100.0)	0.0	<i>n.a.</i>	0.0	0.3	(100.0)
Less: Consolidated Adjustments	(18.4)	(21.4)	-	(18.1)	-	(36.4)	(26.2)	-
<b>Total</b>	<b>321.2</b>	<b>424.9</b>	<b>(24.4)</b>	<b>339.3</b>	<b>(5.3)</b>	<b>660.5</b>	<b>733.8</b>	<b>(10.0)</b>

Source: Company, Inter-Pacific Research

**Figure 1: 12-Month Forward PER**



Source: Bloomberg, Inter-Pacific Research

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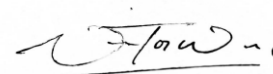
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Signed



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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