

"Outlook remains positive with higher new contract wins in 3Q24"

Share price performance



	1M	3M	12M
Absolute (%)	-3.0	-14.3	94.0
Rel KLCI (%)	-1.5	-14.4	74.3

	BUY	HOLD	SELL
Consensus	4	-	-

Source: Bloomberg

Stock Data

Sector	Technology
Issued shares (m)	692.2
Mkt cap (RMm)/(US\$m)	2,028.2/457
Avg daily vol - 6mth (m)	1.6
52-wk range (RM)	1.48-3.71
Est free float	69.8%
Stock Beta	0.84
Net cash/(debt)	136.36
ROE (2024E)	32.1%
Derivatives	Yes
Shariah Compliant	Yes
FTSE4Good Constituent	Yes
FBM Emas (Top 200)	Top 25%
ESG Rank	N/A

Key Shareholders

Palace Star	19.6%
Abrdn plc	6.5%
Sun Lead	5.7%

Source: Bloomberg, Affin Hwang, Bursa Malaysia, ESG Risk Rating Powered by Sustainalytics

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Kelington Group (KGRB MK)

BUY (maintain)

Up/Downside: +38%

Price Target: RM4.03

Previous Target (Rating): RM4.03 (BUY)

Securing higher new contract wins

- 3Q24 net profit continued to grow on the back of the favorable project mix and higher-margin industrial gas division
- 9M24 results within expectations, with higher new contract wins
- Maintain BUY and 12-month TP of RM4.03

Results within expectations

Kelington's 3Q24 net profit grew 23% qoq and 4% yoy to RM33m, despite lower revenue (-4% qoq, -24% yoy), given the i) favorable project mix as the group shifts its focus from general contracting to UHP projects, which are typically smaller in contract size but command higher margins, as well as ii) contribution from higher-margin industrial gas division. Geographically, Malaysia remains the largest revenue contributor, contributing 40% of total revenue in 3Q24, followed by Singapore (29%) and China (26%). Revenue from the industrial gas division grew 11% qoq and 31% yoy to RM39m in 3Q24, driven by higher demand for LCO2 in both local and export markets and the commencement of its second LCO2 plant at end-1Q24. 9M24 net profit of RM84m came in at 69.4% and 72.1% of our and consensus' full-year earnings forecasts, respectively. This is within our expectations as we expect a stronger 4Q24 given the growing contract wins and pick-up in tender activities. *This report marks a transfer of coverage.*

Rising new contract wins

Kelington has secured notably higher new contract wins of RM435m in 3Q24 (2Q24: RM329m, 3Q23: RM114m), bringing the total YTD contract wins to RM999m (9M23: RM858m). This represents 83% of the group's full-year target of RM1.2bn. The group's current outstanding order book rose 12% qoq to RM1.45bn, though declined 4% yoy as last year's outstanding orderbook was supported by large-sized general contracting contracts which as mentioned above command lower margins as compared to UHP projects. In addition, the group has secured land adjacent to its two existing LCO2 plants, which allows it to expand capacity as demand grows.

Maintain BUY and TP of RM4.03

We maintain our earnings forecasts and BUY call on Kelington with an unchanged TP of RM4.03 (pegged to 23x P/E on 2025E). Our valuation has factored in full warrants conversion. We continue to like the name as we believe the group is well-positioned as a beneficiary from regional semiconductor fab equipment spending as more new fabs launch by end-2024 and into 2025 on the back of rising demand for AI processing and cloud computing. Key risks include project execution risks, recessionary risks that may hamper semiconductor industry capex cycle and soft demand for its gas production.

Earnings & Valuation Summary

FYE 31 Dec	2022	2023	2024E	2025E	2026E
Revenue (RM m)	1,278.8	1,614.4	1,464.0	1,805.5	2,065.9
EBITDA (RM m)	86.5	153.5	179.2	214.6	245.3
Pretax profit (RM m)	74.4	133.9	158.1	195.7	228.3
Net profit (RM m)	55.8	104.1	121.6	151.8	177.0
EPS (sen)	6.4	12.0	14.0	17.5	20.4
PER (x)	45.5	24.4	20.9	16.7	14.3
Core net profit (RM m)	55.8	104.1	121.6	151.8	177.0
Core EPS (sen)	6.4	12.0	14.0	17.5	20.4
Core EPS chg (%)	92.5	86.8	16.7	24.8	16.6
Core PER (x)	45.5	24.4	20.9	16.7	14.3
DPS (sen)	1.9	3.0	3.5	4.4	5.1
Dividend Yield (%)	0.6	1.0	1.2	1.5	1.7
EV/EBITDA (x)	29.1	15.9	13.1	10.6	8.9

Chg in EPS (%)

Affin/Consensus (x)

-
-
1.0 1.1 1.1

Source: Company, Affin Hwang estimates

Fig 1: Results Comparison

FYE 31 Dec (RMm)	3Q23	2Q24	3Q24	QoQ % chg	YoY % chg	9MFY23	9MFY24	YoY % chg	Comments
Revenue	401.8	321.2	307.3	-4.3	-23.5	1,135.7	967.8	(14.8)	
Op costs	(357.5)	(280.3)	(257.0)	-8.3	-28.1	(1,035.7)	(837.9)	(19.1)	
EBITDA	44.3	40.9	50.3	23.0	13.5	99.9	129.9	30.0	
<i>EBITDA margin (%)</i>	11.0	12.7	16.4	3.6ppt	5.3ppt	8.8	13.4	4.6ppt	Higher margin underpinned by favorable project mix and higher-margin industrial gas contribution
Depn and amort	(2.4)	(3.7)	(5.1)	38.1	113.3	(5.8)	(12.3)	113.8	
EBIT	42.0	37.2	45.2	21.5	7.8	94.2	117.6	24.8	
<i>EBIT margin (%)</i>	10.4	11.6	14.7	3.1ppt	4.3ppt	8.3	12.1	3.9ppt	
Int expense	(2.8)	(2.4)	(2.4)	1.3	-14.5	(8.0)	(7.2)	(10.3)	
EI	0.0	0.0	0.0	N.M.	N.M.	0.0	0.0	N.M.	
Pretax profit	39.1	34.8	42.8	22.9	9.4	86.2	110.4	28.1	
Core pretax	39.1	34.8	42.8	22.9	9.4	86.2	110.4	28.1	
Tax	(7.1)	(7.7)	(9.2)	20.3	29.3	(17.2)	(24.0)	39.6	
<i>Tax rate (%)</i>	18.2	22.0	21.5	-0.5ppt	3.3ppt	19.9	21.7	1.8ppt	
MI	(0.3)	(0.5)	(0.7)	34.7	98.2	(2.0)	(2.0)	(0.5)	
Net profit/(loss)	31.7	26.7	32.9	23.4	3.9	67.0	84.4	26.0	
EPS (sen)	3.7	3.1	3.8	23.4	3.9	7.7	9.7	26.0	
Core net profit	31.7	26.7	32.9	23.4	3.9	67.0	84.4	26.0	9M24 results within expectations

Source: Affin Hwang, Company



Important Disclosures and Disclaimer

Equity Rating Structure and Definitions

BUY	Total return is expected to exceed +10% over a 12-month period
HOLD	Total return is expected to be between -5% and +10% over a 12-month period
SELL	Total return is expected to be below -5% over a 12-month period
NOT RATED	Affin Hwang Investment Bank Berhad does not provide research coverage or rating for this company. Report is intended as information only and not as a recommendation

The total expected return is defined as the percentage upside/downside to our target price plus the net dividend yield over the next 12 months.

OVERWEIGHT	Industry, as defined by the analyst's coverage universe, is expected to outperform the KLCI benchmark over the next 12 months
NEUTRAL	Industry, as defined by the analyst's coverage universe, is expected to perform inline with the KLCI benchmark over the next 12 months
UNDERWEIGHT	Industry, as defined by the analyst's coverage universe is expected to under-perform the KLCI benchmark over the next 12 months

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