

## KELINGTON GROUP

### RESULTS UPDATE

#### BUY

Closing Price	RM 3.48
Target Price	RM 4.02
Consensus Price	RM 3.95

#### Stock Return Information

KLCI	1,611.50
Expected share price return (%)	15.5
Expected dividend return (%)	1.7
Expected total return (%)	17.2

#### Key Statistics

Sariah Compliant	YES
Bloomberg Ticker	KGRB MK
Masa Ticker / Stock Code	KGB/0151
Shares Outstanding (m)	692.2
Market Capitalisation (RM'm)	2,409.0
52 Week Hi/Lo Price (RM)	3.71/1.48
Avg Trading Volume (3-mth)	1,618,467
Est Free Float (%)	69.8
YTD Returns (%)	60.4
Beta (x)	0.84

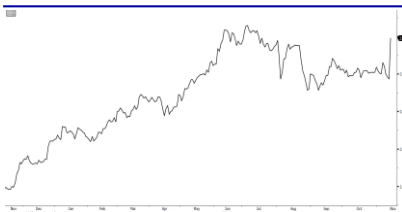
#### Share Price Performance (%)

Price change	Absolute	Relative
1 mth	12.99	14.52
3 mth	2.96	3.01
12 mth	132.00	120.99

#### Major Shareholders (%)

Palace Star	19.6
Abrdn plc	6.5

#### 1-Year Share Price Performance



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## Marching Into The Double-Digit Bottomline Margins Era

KGB's 9MCY24 earnings beat our expectations, mainly attributed to margin expansion from the UHP and industrial gases segments which recorded a double digit PATAMI margin during 3QCY24. We raised our CY24/25 earnings estimates by 6.3%/9.2% respectively. We maintain our **BUY** call with a higher **TP** of **RM4.02 (+RM0.30)** by pegging a higher target PER of 21.0x (a 13.9% discount to the average PER of its peers), from 20.0x, to our CY25F EPS. We lift our target PER upward after considering the higher-than-expected margin expansion, coupled with the firmer potential in securing projects from major fab players. We continue to like KGB for its: 1) firm earnings growth potential, supported by increased job orders from the semiconductor industry, 2) overseas expansion of its industrial gas segment, and 3) stable income stream from its LCO<sub>2</sub> 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 of its LCO<sub>2</sub> plant.

**Beat expectations.** Although KGB's 9MCY24 revenue slightly missed our expectations by making up only 67.7% of our full year forecast, its net profit beat our expectation by making up 81.8% of our full year forecast.

**Y-o-Y.** Revenue in 3QCY24 decreased by 23.5% to RM307.3m, mainly dragged by slower progress on several projects in Singapore under the UHP segment and the Malaysian market under the general contracting segment, which have transited out of their accelerated phases. Notably, the revenue contribution from both the UHP and general contracting segments decreased by 12.5% and 69.9% respectively in 3QCY24. The process engineering segment as well as the equipment and materials segment also showed a slowdown in revenue contribution by 36.4% and 60.8% respectively. On a positive note, the revenue contribution from the China market increased by 22.3% after recognition of several large scale UHP projects awarded in 2H2023 and 1H2024. With higher demand for LCO<sub>2</sub> and other gases, the industrial gas segment continues to post a 28.3% revenue growth to RM39.4m in 3QCY24, which we also reckon is the key driver of the group's margin expansion and contributing to the 3.9% increase in net profit to RM32.9m in 3QCY24.

**Q-o-Q.** Lower cost in the industrial gases segment lifted the bottomline by 23.4%, despite lower project recognition from the China market. As the Ringgit strengthened, the revaluation of forex balances and receivables led to an unrealised forex loss of RM6.0m. The group also recorded a higher net cash, due to debt repayments, project proceeds and funds generated from the exercise of warrants during 3QCY24.

**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	1,310.0	1,520.0
EBITDA	43.6	86.2	154.5	166.9	196.7
EBITDA Margin (%)	8.5	6.7	9.6	12.7	12.9
PBT	35.7	74.4	133.9	144.2	170.2
PBT Margin (%)	6.9	5.8	8.3	11.0	11.2
PATAMI	29.0	55.8	104.1	112.2	132.5
PATAMI Margin (%)	5.6	4.4	6.5	8.6	8.7
EPS (sen)	4.2	8.1	15.0	16.2	19.1
Earnings Growth (%)	65.4	92.5	86.8	7.8	18.0
PER (x)	83.2	43.2	23.1	21.5	18.2
DPS (sen)	1.5	2.5	4.0	6.0	6.0
Dividend Yield (%)	0.4	0.7	1.1	1.7	1.7
ROE (%)	15.0	22.9	30.8	26.4	25.1
Net Gearing Ratio	Net Cash	Net Cash	Net Cash	Net Cash	Net Cash
P/B (x)	12.6	10.1	7.2	5.8	4.6

Source: Company, Inter-Pacific Research

**Dividend.** The group declared a second interim dividend of 2.0 sen vs. no dividend declared in 3QCY23.

**Forecast.** We revised downward our CY24 revenue forecast by 8.4% but maintain CY25's revenue forecast. Nevertheless, we raised our earnings forecast for CY24/25 by 6.3%/9.2% after taking into account the higher margin assumptions.

**Outlook.** The group secured RM435.0m in new orders in 3QCY24, bringing the total to RM999.0m for 9MCY24. Additionally, the group secured approximately RM60.0m in contracts from both of its existing customers in October 2024. As of 9MCY24, the UHP segment continues to dominate its RM1.45b outstanding order book, with contributions split almost equally across the Malaysian, Singaporean, and Chinese markets. The group anticipates a slowdown in UHP project tenders from the Chinese market but sees potential for order book growth in the German market as German projects now represent over 35.0% of the RM2.62b tender book as of 9MCY24.

In the industrial gases segment, LCO<sub>2</sub> Plants 1 and 2 are operating at an overall utilisation rate of 60.0% due to power limitations. A higher utilisation rate could be achievable once this issue is resolved by 4QCY24. Full consolidation of earnings from the acquisition of the remaining 9.29% shares in Ace Gases, expected to be completed by November 2024, should drive a further 10.0% growth in bottom-line results from December 2024 onwards. Besides, the group secured a piece of land adjacent to both plants, enabling future expansion to meet growing LCO<sub>2</sub> demand. This segment is also set to benefit from opportunities in carbon capture, utilisation, and storage (CCUS), as the group has been implementing carbon capture in its existing plants and is currently in discussions with several major players in the LNG industry.

Given these above positive factors, we are confident of KGB's outlook, considering: 1) it is tendering for U.S. fabs projects that are based in Germany and Singapore, 2) more business opportunities driven by CCUS initiatives, and 3) leveraging its mechanical construction capabilities to tender for data centre projects.

**Table 2: Quarterly Results Comparison**

CYE Dec (RM m)	3QCY24	3QCY23	YoY	2QCY24	QoQ	9MCY24	9MCY23	YoY
			%		%			%
Revenue	307.3	401.8	(23.5)	321.2	(4.3)	967.8	1,135.7	(14.8)
Gross Profit	70.1	59.3	18.1	55.5	26.4	178.5	143.3	24.6
EBITDA	47.8	43.1	10.8	38.6	23.9	123.0	98.3	25.2
PBT	42.8	39.1	9.4	34.8	22.9	110.4	86.1	28.2
PATAMI	32.9	31.7	3.9	26.7	23.4	84.4	66.9	26.1
EPS (sen)	4.8	4.9	(1.6)	4.0	21.1	12.7	10.4	21.8
			<i>ppt</i>		<i>ppt</i>			<i>ppt</i>
GP Margin	22.8	14.8	8.0	17.3	5.5	18.4	12.6	5.8
EBITDA Margin	15.5	10.7	4.8	12.0	3.5	12.7	8.7	4.1
PBT Margin	13.9	9.7	4.2	10.8	3.1	11.4	7.6	3.8
PATAMI Margin	10.7	7.9	2.8	8.3	2.4	8.7	5.9	2.8

Source: Company, Inter-Pacific Research

**Table 3: Operating Division**

CYE Dec (RM m)	3QCY24	3QCY23	YoY	2QCY24	QoQ	9MCY24	9MCY23	YoY
<b>Revenue</b>			%		%			%
Ultra-high purity	216.2	247.1	(12.5)	222.1	(2.6)	643.8	727.1	(11.5)
Process engineering	19.2	30.3	(36.4)	17.4	10.4	58.0	91.5	(36.6)
General contracting	32.8	108.9	(69.9)	49.8	(34.2)	161.0	253.0	(36.4)
Industrial gas	39.4	30.7	28.3	35.4	11.3	110.7	84.3	31.3
Equipment and materials	11.7	29.8	(60.8)	14.9	(21.7)	42.7	50.5	(15.4)
Services	-	0.2	(100.0)	-	n.m.	-	0.5	(100.0)
Less: Consolidated Adjustments	(12.0)	(45.2)	-	(18.4)	-	(48.4)	(71.3)	-
<b>Total</b>	<b>307.3</b>	<b>401.8</b>	<b>(23.5)</b>	<b>321.2</b>	<b>(4.3)</b>	<b>967.8</b>	<b>1,135.7</b>	<b>(14.8)</b>

Source: Company, Inter-Pacific Research

**Table 4: Peers Comparison**

Companies	Air Liquide S.A.	Air Products and Chemicals, Inc.	Linde Plc	Nippon Sanso Holdings	Average
Country	French	U.S.	U.S.	Japan	
FYE	Dec	Sept	Dec	Mar	
Share price (RM) @ 13/11/2024	756.8	1,391.7	2,029.4	133.8	
Market Cap (RM b) @ 13/11/2024	437.6	309.4	966.3	57.9	
1-year forward P/E (x)	25.6	24.0	29.9	18.2	24.4
2-year forward P/E (x)	23.2	22.1	27.3	16.8	22.4
1-year forward ROE (%)	14.1	16.4	17.8	11.4	14.9
2-year forward ROE (%)	14.4	16.5	18.8	11.4	15.3
1-year forward Dividend Yield (%)	2.0	2.3	1.2	1.1	1.7
2-year forward Dividend Yield (%)	2.2	2.5	1.3	19.6	6.4
1-year forward Earnings Growth (%)	2.5	0.2	2.7	(6.7)	(0.3)
2-year forward Earnings Growth (%)	10.2	9.3	6.9	8.5	8.7

Source: Bloomberg

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



Source: Bloomberg, Inter-Pacific Research

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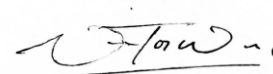
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Signed



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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