

13 November 2024

Kelington Group

UHP Power Play

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KGB's 9MFY24 results were above our expectation, thanks to stronger-than-expected margin expansion as a result of favourable segmental mix. With RM1.45b in order book, KGB is well-positioned for continued growth, supported by UHP's expansion and new fab projects in China. We are maintaining our forecast for now (but with upward revision bias), pending updates from the upcoming briefing. Target price remains at RM4.16 with an unchanged OUTPERFORM rating.

Considering expectation of a stronger 4QFY24, KGB's 9MFY24 net profit of RM84m (+26% YoY) is deemed as having exceeded our estimate but aligned with the street's projection, achieving 78% of our full-year forecast and 72% of the market consensus. This positive variance was largely driven by higher-than-expected margins, which we believe is mainly driven by its higher-margin Ultra High Purity (UHP) segment.

YoY, KGB's 9MFY24 revenue declined by 15%, primarily due to lower UHP contributions from Singapore and Malaysia as several major projects neared completion as well as lower-margin general contracting job contribution. However, this was partially offset by robust sales in China, fuelled by ongoing wafer fab expansions. Despite the revenue dip, GP increased by 25% YoY, with margins expanding by nearly 6ppts to 18.4%, thanks to a favourable segmental mix. The high-margin UHP segment now represents approximately 67% of group revenue for 9MFY24, up from 63% a year ago, and likely has surpassed the previously guided margin of 15%, contributing to the overall margin improvement and strong growth in net profit to RM84m.

QoQ, its 3QFY24 revenue declined by 4%, but net profit rose by 23% to RM33m, driven by an impressive GP margin expansion. Notably, the group's GP margin exceeded the 20% threshold, which we attribute to the strong performance of its UHP division. Its industrial gases division showcased steady improvement with 17% jump in turnover, driven by consistent demand for liquid carbon dioxide in both local and export markets. Its other expenses jumped to RM9.7m (vs. RM3m in 2Q), which we believe was mainly owing to unrealised forex losses and could be reversed in the 4Q if the MYR/USD exchange rate normalised.

Outlook. KGB is poised for continued robust performance, bolstered by a significant increase in higher-margin UHP projects, which now constitute about 70% of its sales in 3QFY24, up from c.63% in FY23. As of September 30, 2024, the group has secured RM1b in new contracts, elevating its total outstanding order book to RM1.45b (vs. RM1.29 in 2Q). We are targeting KGB to secure RM1.2b in new orders for FY24, surpassing the RM1.1b achieved in FY23. This confidence is underpinned by the rapid expansion of new fabrication facilities, particularly in China. Notably, the latest SEMI World Fab Forecast anticipates 103 new fabs coming online between 2023 and 2027, indicating a strong pipeline of opportunities.

Forecasts. Maintained but with upward revision bias, pending today's briefing.

Valuations. We maintained our TP at **RM4.16** based on an unchanged 21x PER FY25F. 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).

OUTPERFORM ↔

Price: **RM2.93**
Target Price: **RM4.16** ↔

Share Price Performance



KLCI	1,608.43
YTD KLCI chg	10.6%
YTD stock price chg	35.0%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	KGRB MK EQUITY
Market Cap (RM m)	2,028.2
Shares Outstanding	692.2
52-week range (H)	3.71
52-week range (L)	1.48
3-mth avg. daily vol.	1,438,851
Free Float	70%
Beta	0.8

Major Shareholders

Palace Star	19.6%
Abrdn Plc	6.5%
Sun Lead Internation	5.7%

Summary Earnings Table

FYE Dec (RM m)	2023A	2024F	2025F
Turnover	1,614	1,626	1,706
EBIT	145	153	176
PBT	134	143	166
Net Profit	104	108	127
Consensus	-	117	135
Earnings Revision	-	-	-
EPS (sen)	16.2	16.8	19.8
EPS Growth (%)	86.6	3.6	18.1
NDPS (sen)	4.0	8.5	10.0
BV/Share (RM)	0.5	0.6	0.7
Core PER (x)	18.1	17.5	14.8
P/BV (x)	5.7	5.0	4.3
Gearing (x)	-0.3	-0.7	-0.7
Dvd Yield (%)	1.4%	2.9%	3.4%

13 November 2024

Investment case. We like KGB for: (i) 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.

Results Highlight								
FYE Dec (RM m)	3Q24	2Q24	QoQ Chg	3Q23	YoY Chg	9M24	9M23	YoY Chg
Turnover	307.3	321.2	-4.3%	401.8	-23.5%	967.8	1,135.7	-14.8%
Gross Profit	70.1	55.5	26.4%	59.3	18.1%	178.5	143.3	24.6%
EBITDA	57.5	40.8	41.0%	44.3	29.8%	137.0	101.0	35.6%
EBIT	45.2	37.2	21.5%	42.0	7.8%	117.6	94.1	24.9%
PBT/(LPT)	42.8	34.8	22.9%	39.1	9.4%	110.4	86.1	28.2%
Taxation	(9.2)	(7.7)	20.3%	(7.1)	29.3%	(24.0)	(17.2)	39.6%
MI	(0.7)	(0.5)	NA	(0.3)	NA	(2.0)	(2.0)	NA
Net Profit	32.9	26.7	23.4%	31.7	3.9%	84.4	66.9	26.1%
Core EPS (sen)	4.8	4.0	21.1%	4.9	-1.6%	12.6	10.4	21.6%
DPS (sen)	2.0	2.0	0.0%	0.0	NM	6.0	1.5	300.0%
Gross Margin	22.8%	17.3%		14.8%		18.4%	12.6%	
EBITDA Margin	18.7%	12.7%		11.0%		14.2%	8.9%	
EBIT Margin	14.7%	11.6%		10.4%		12.1%	8.3%	
PBT Margin	13.9%	10.8%		9.7%		11.4%	7.6%	
NP Margin	10.7%	8.3%		7.9%		8.7%	5.9%	
Tax Rate	-21.5%	-22.0%		-18.2%		-21.7%	-19.9%	

Source: Kenanga Research

Geographical Breakdown								
FYE Dec (RM m)	3Q24	2Q24	QoQ Chg	3Q23	YoY Chg	9M24	9M23	YoY Chg
Malaysia	273.3	124.1	120.3%	326.1	-16.2%	397.32	491.9	-19.2%
China	182.8	101.1	80.9%	110.0	66.2%	283.91	188.1	51.0%
Singapore	158.6	82.7	91.8%	238.2	-33.4%	241.31	402.2	-40.0%
Others	31.9	13.4	138.7%	36.4	-12.5%	45.25	53.5	-15.5%
TOTAL REV.	646.6	321.2	101.3%	710.7	-9.0%	967.8	1,135.7	-14.8%
Malaysia	42%	39%		46%		41%	43%	
China	28%	31%		15%		29%	17%	
Singapore	25%	26%		34%		25%	35%	
Others	5%	4%		5%		5%	5%	

Source: Kenanga Research

Segmental Breakdown								
FYE: Dec (RM m)	3Q24	2Q24	QoQ Chg	3Q23	YoY Chg	9M24	9M23	YoY Chg
UHP	216.2	222.1	-2.6%	230.3	-6.1%	643.8	710.3	-9.4%
Process Engineering	19.2	17.4	10.4%	30.3	-36.4%	58.0	91.5	-36.6%
General Contracting	30.5	46.5	-34.3%	110.7	-72.4%	153.1	244.4	-37.3%
Industrial Gasses	41.4	35.3	17.3%	30.5	35.7%	112.9	89.4	26.2%
TOTAL REV.	307.3	321.2	-4.3%	401.8	-23.5%	967.8	1135.7	-14.8%
UHP	70%	69%		57%		67%	63%	
Process Engineering	6%	5%		8%		6%	8%	
General Contracting	10%	14%		28%		16%	22%	
Industrial Gasses	13%	11%		8%		12%	8%	

Source: Kenanga Research

13 November 2024

Malaysian Technology Peers Comparison

Name	Rating	Last Price @ 12 Nov (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	OP	2.11	2.64	25.1%	2,615.3	Y	12/2024	5.8	9.8	64.2%	67.4%	24.9	17.6	2.7	7.9%	1.0	0.5%	
INARI AMERTRON BHD	OP	3.00	4.05	35.0%	11,365.2	Y	06/2025	10.0	12.1	22.0%	21.3%	31.9	25.3	3.9	13.2%	8.0	2.7%	
KELINGTON GROUP BHD	OP	2.93	4.16	42.0%	2,028.2	Y	12/2024	16.8	19.8	5.1%	18.1%	18.2	15.1	4.9	30.1%	9.0	2.9%	
LGMS BHD	OP	1.38	1.53	10.9%	629.3	Y	12/2024	3.6	5.1	46.4%	41.5%	29.8	21.8	6.4	17.7%	1.0	0.8%	
M'SIAN PACIFIC INDUSTRIES BHD	OP	25.40	38.80	52.8%	4,798.4	Y	06/2025	118.4	149.0	87.1%	25.9%	34.1	18.4	2.2	10.8%	35.0	1.3%	
NATIONGATE HOLDINGS BHD	OP	2.24	2.30	2.7%	5,099.8	Y	12/2024	5.1	9.2	84.2%	86.6%	39.0	24.4	5.4	16.9%	1.0	0.6%	
OPPSTAR BHD	MP	0.805	0.820	1.9%	515.7	Y	03/2025	2.2	3.3	-11.0%	52.2%	14.2	12.3	3.3	9.0%	1.0	1.2%	
P.I.E. INDUSTRIAL BHD	OP	5.77	6.85	18.7%	2,215.9	Y	12/2024	17.4	29.1	-10.1%	67.5%	26.0	20.1	3.4	10.6%	7.0	0.0%	
SKP RESOURCES BHD	OP	1.06	1.35	27.4%	1,656.1	Y	03/2025	7.4	8.4	18.8%	14.5%	14.5	12.5	1.5	11.0%	0.0	0.0%	
UNISEM (M) BHD	MP	3.00	3.23	7.7%	4,839.2	Y	12/2024	5.7	11.1	12.7%	94.8%	29.5	23.6	2.1	3.9%	8.0	2.5%	
Simple Average					35,763.1							31.1%	38.9%	29.7	21.4	3.6	13.1%	1.2%

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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