14 November 2024

Kelington Group

Building Momentum in UHP & Gas

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KGB is well-positioned for growth, buoyed by high-margin UHP projects making up the majority of its RM1.45b order book, and a rising tender book supported by a strategic partnership for the market in Germany. In industrial gases, strong liquid CO₂ demand drives growth, with capacity expansion planned as utilisation nears 90% within 3-4 years. The addition of an industrial gas subsidiary and potential carbon capture partnerships enhance further growth potential. Hence, we have raised our FY24 and FY25 net profit forecasts by 8% and 15%, respectively, but maintain our TP at RM4.16, based on a 21x FY25 PER on an enlarged share capital, assuming a progressive c.25m warrant conversion per quarter.

We came away from KGB's post-3QFY24 briefing reassured of its promising outlook. The key takeaways from the meeting are as follow:

- 3QFY24 results insights. KGB reported an unrealised forex loss of RM6.9m in 3QFY24, which could potentially be reversed in 4Q if the MYR/USD exchange rate normalised around RM4.40/USD. The group achieved a strong GP margin of 22.8% in 3QFY24, mainly driven by high-margin Ultra High Purity (UHP) gas solution projects, a trend expected to continue with a solid pipeline of UHP projects.
- 2. Strategic focus on UHP projects. KGB has sharpened its focus on UHP gas solution projects, now representing 78% of its RM1.45b outstanding order book as of 9MFY24, up from 74% of RM1.3b in FY23. Its tender book has also expanded to RM2.62b, a notable increase from RM1.67b in 2Q, driven mainly by a strategic partnership with a leading Taiwanese semiconductor company to target UHP projects in Germany, leading us to revise our margin and order book assumptions. Management is optimistic about securing contracts from this new market in 1HFY25, supported by its strong track record and a strong partner. The group has secured RM1b in new job wins as of end 3QFY24. We are targeting KGB to secure RM1.2b in FY24 and RM1.6b in FY25.
- 3. Rising demand in Industrial Gas segment. KGB's industrial gas segment achieved solid growth, with turnover reaching RM113m (+26% YoY, with 71% from exports) in 9MFY24, fuelled by increased liquid carbon dioxide (LCO₂) sales amid regional shortages from decarbonisation-linked plant shutdowns. Operating at a 60% utilisation rate on its 120,000 MT annual capacity, KGB has secured adjacent land near its two LCO₂ plants and plans to expand capacity once utilisation reaches 90%, projected within 3-4 years. Additionally, KGB is going to complete the acquisition of the remaining 9% stake in its 91%-owned industrial gas subsidiary by 19 November 2024, expected to enhance group contributions. KGB also shared it has discontinued discussions on acquiring an Indonesian LCO2 business due to unmet conditions from the seller.
- 4. Exploring Carbon Capture opportunities. KGB is exploring local carbon capture initiatives via leveraging its experience with the Kerteh liquid carbon dioxide (LCO₂) plant. The Kerteh facility which captures CO₂ emissions and converts them into food-grade LCO₂, serves as a proven model for such projects. While specific details are currently limited, KGB anticipates announcing collaborations or partnerships in this area in the coming months.

Forecasts. We raised our FY24F/FY25F net profit by 8%/15%, respectively, driven by higher GP margin assumptions of 19% (vs. 16.5% previously) and increase FY25 new orders expectations by RM300m to RM1.6b.

OUTPERFORM

IVI ←

Price : Target Price :

RM3.48

RM4.16 ↔

Y I D Stock price cng	60.4%
Stock Information	
Shariah Compliant	Yes
Bloomberg Ticker	KGRB MK EQUITY
Market Cap (RM m)	2,409.0
Shares Outstanding	692.2
52-week range (H)	3.71

 Market Cap (RM m)
 2,409.0

 Shares Outstanding
 692.2

 52-week range (H)
 3.71

 52-week range (L)
 1.48

 3-mth avg. daily vol.
 1,618,467

 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	1,336	1,533
EBIT	145	163	197
PBT	134	154	188
Net Profit	104	117	147
Consensus	-	117	135
Earnings Revision (%)	-	+8	+15
EPS (sen)	16.2	17.1	19.6
EPS Growth (%)	86.6	5.5	14.6
NDPS (sen)	4.0	8.5	10.0
BV/Share (RM)	0.5	0.6	0.8
Core PER (x)	21.5	20.4	17.8
P/BV (x)	6.7	5.6	4.1
Gearing (x)	-0.3	-0.8	-1.0
Dvd Yield (%)	1.1	2.4	2.9

Valuations. We have factored the 174m outstanding convertible warrants (expires on 24 July 2026 with an exercise price of RM1.38) progressively into our share base calculations, expecting investors to convert the warrants to benefit from KGB's long-term growth prospects rather than short-term trading. The enlarged share based resulted in our TP being maintained at RM4.16 based on an unchanged 21x FY25 PER. 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).

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 foothold 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.

Income Statemen	Financial Data & Ratios										
FY Dec (RM m)	2021A	2022A	2023A	2024F	2025F	FY Dec	2021A	2022A	2023A	2024F	2025F
Revenue	515	1,279	1,614	1,336	1,533	Growth (%)					
EBITDA	44	87	155	195	248	Turnover	30.4	148.5	26.2	-17.2	14.7
Dep & Amor	6	7	11	32	51	EBITDA	54.1	97.6	78.3	25.7	27.2
Operating Profit	38	80	145	163	197	Operating Profit	63.7	108.2	81.5	12.6	20.8
Other Income	6	4	10	8	10	PBT	70.4	108.4	80.0	14.7	22.3
Interest Exp	-3	-5	-11	-10	-9	Adj Net Profit	65.4	92.5	84.1	13.6	25.7
PBT	36	74	134	154	188						
Taxation	-6	-16	-28	-34	-41	Profitability (%)					
Minority Interest	-1	-3	-2	-3	0	EBITDA Margin	8.6	6.8	9.6	14.6	16.2
Net Profit	29	56	104	117	147	Operating Margin	7.4	6.2	9.0	12.2	12.9
Core Net Profit	29	56	103	117	147	PBT Margin	6.9	5.8	8.3	11.5	12.3
						Core Net Margin	5.6	4.4	6.4	8.7	9.6
						Effective Tax Rate	-16.8	-21.4	-20.8	-22.4	-22.0
Balance Sheet						ROA	7.1	5.3	9.6	9.3	9.3
FY Dec (RM m)	2021A	2022A	2023A	2024F	2025F	ROE	14.8	22.9	30.3	26.8	22.8
Fixed Assets	64	107	169	186	181						
Intangible Assets	-	-	-	-	-	DuPont Analysis					
Other FA	12	11	15	15	15	Net Margin (%)	5.6%	4.4%	6.4%	8.7%	9.6%
						Assets Turnover					
Inventories	7	22	25	20	23	(x)	1.3x	1.2x	1.5x	1.1x	1.0x
Dagainablas						Leverage Factor					
Receivables Other CA	105	449	437	362	415	(x)	2.1x	4.3x	3.2x	2.9x	2.5x
	115	207	157	158	158	ROE (%)	14.8	22.9	30.3	26.8	22.8
Cash	106	260	269	516	784	Lavanana					
Total Assets	410	1,056	1,073	1,257	1,576	Leverage	0.4	0.0	2.2	0.4	0.4
Davishlas	00	004	040	470	400	Debt/Asset (x)	0.1	0.2	0.2	0.1	0.1
Payables ST Parrowings	89	201	216	170	192	Debt/Equity (x)	0.3	1.0	0.5	0.4	0.3
ST Borrowings	34	286	252	252	252	Net Cash/(Debt) Net Debt/Equity	54	21	92	339	607
Other ST Liability	63	287	193	196	138	(x)	-0.3	-0.1	-0.3	-0.8	-1.0
LT Borrowings	28	33	63	63	63	(*)	0.5	0.1	0.0	0.0	1.0
Other LT Liability	1	5	10	142	289	Valuations					
MI	1	4	6	9	9	Core EPS (sen)	6.0	8.7	16.2	17.1	19.6
Net Assets	195	239	332	426	632	DPS (sen)	1.5	2.5	4.0	8.5	10.0
	100	200	002	720	002	BVPS (RM)	0.40	0.37	0.52	0.62	0.84
Shr. Equity	73	73	74	108	245	PER (x)	57.9	40.1	21.5	20.4	17.8
Reserves	121	166	259	318	387	Div. Yield (%)	0.4%	0.7%	1.1%	2.4%	2.9%
Total Equity	195	239	332	426	632	P/BV (x)	8.6	9.4	6.7	5.6	4.1
	100	200	002	720	002	EV/EBITDA (x)	39.3	25.9	15.0	13.9	13.0
Cashflow Statem	ent					_,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,	00.0	20.0	10.0	10.0	10.0
FY Dec (RM m)	2021A	2022A	2023A	2024F	2025F						
Operating CF	-4	34	168	319	254						
Investing CF	-13	-43	-64	-49	-46						
Financing CF	-14	157	-101	-23	60						
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Source: Kenanga	a Researc	:h									

Kelington Group Bhd

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Malaysian Technology Peers Name			Target Price (RM)	Upside	Mkt Cap (RM m)	Shariah Compliant	Current FYE	Core EF	PS (sen)	Core El	PS Growth) – Core lings	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	Υ	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	Υ	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	3.48	4.16	19.5%	2,409.0	Υ	12/2024	17.1	19.6	13.5%	25.6%	21.6	17.9	5.6	30.8%	9.0	2.9%
LGMS BHD	OP	1.38	1.53	10.9%	629.3	Υ	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	25.68	38.80	51.1%	4,851.2	Υ	06/2025	118.4	149.0	87.1%	25.9%	34.4	18.6	2.3	10.8%	35.0	1.3%
NATIONGATE HOLDINGS BHD	OP	2.23	2.30	3.1%	5,077.0	Υ	12/2024	5.1	9.2	84.2%	86.6%	38.9	24.3	5.3	16.9%	1.0	0.6%
OPPSTAR BHD	MP	0.815	0.820	0.6%	522.1	Υ	03/2025	2.2	3.3	-11.0%	52.2%	14.4	12.4	3.3	9.0%	1.0	1.2%
P.I.E. INDUSTRIAL BHD	OP	5.80	6.85	18.1%	2,227.4	Υ	12/2024	17.4	29.1	-10.1%	67.5%	26.1	20.2	3.4	10.6%	7.0	0.0%
SKP RESOURCES BHD	OP	1.06	1.35	27.4%	1,656.1	Υ	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	2.99	3.23	8.0%	4,823.1	Υ	12/2024	5.7	11.1	12.7%	94.8%	29.4	23.6	2.1	3.9%	8.0	2.5%
Simple Average					36,175.7					32.1%	39.5%	29.8	21.4	3.7	13.2%		1.2%

Source: Kenanga Research

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Stock ESG Ratings:

	Criterion			Rating	I	
Ι.	Earnings Sustainability & Quality	*	*	*	☆	
GENERAL	Community Investment	*	*	*	☆	
监	Workers Safety & Wellbeing	*	*	*		
	Corporate Governance	*	*	*		
Q	Anti-Corruption Policy	*	*	*		
	Emissions Management	*	*	*	*	
	Technology & Innovation	*	*	☆		
SPECIFIC	Supply Chain Management	*	*	*	☆	
1 5	Energy Efficiency	*	*	*		
й	Effluent/Water Management	*	*	*		
R	Waste Management	*	*	*		
	Ethical Practices	*	*	*		
,	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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Published by:

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