

Kelington Group

Building Momentum in UHP & Gas

By *Cheow Ming Liang* | cheowml@kenanga.com.my

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:

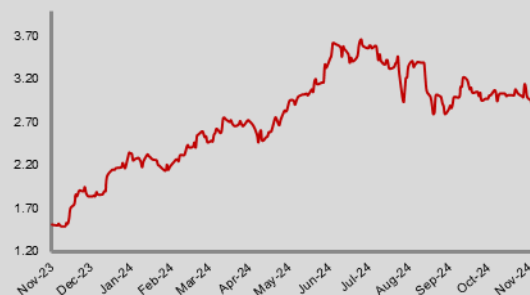
- 3QFY24 results insights.** KGB reported an unrealised forex loss of RM6.9m in 3QFY24, which could potentially be reversed in 4Q if the MYR/USD exchange rate normalised around RM4.40/USD. The group achieved a strong GP margin of 22.8% in 3QFY24, mainly driven by high-margin Ultra High Purity (UHP) gas solution projects, a trend expected to continue with a solid pipeline of UHP projects.
- 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.
- 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.
- 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 ↔

Price : **RM3.48**
Target Price : **RM4.16** ↔

Share Price Performance



KLCI	1,611.50
YTD KLCI chg	10.8%
YTD stock price chg	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
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



14 November 2024

Malaysian Technology Peers Comparison

Name	Rating	Last Price @ 13 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	3.48	4.16	19.5%	2,409.0	Y	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	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	25.68	38.80	51.1%	4,851.2	Y	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	Y	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	Y	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	Y	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	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	2.99	3.23	8.0%	4,823.1	Y	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

Stock ESG Ratings:

	Criterion	Rating				
GENERAL	Earnings Sustainability & Quality	★	★	★	☆	
	Community Investment	★	★	★	☆	
	Workers Safety & Wellbeing	★	★	★		
	Corporate Governance	★	★	★		
	Anti-Corruption Policy	★	★	★		
	Emissions Management	★	★	★	★	
SPECIFIC	Technology & Innovation	★	★	☆		
	Supply Chain Management	★	★	★	☆	
	Energy Efficiency	★	★	★		
	Effluent/Water Management	★	★	★		
	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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KENANGA INVESTMENT BANK BERHAD (15678-H)

Level 17, Kenanga Tower, 237, Jalan Tun Razak, 50400 Kuala Lumpur, Malaysia
 Telephone: (603) 2172 0880 Website: www.kenanga.com.my E-mail: research@kenanga.com.my

