

28 February 2025

Kelington Group

Tender Book Booms – More to Come

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KGB's order book surged to RM1.5b, with UHP projects now commanding 76%, while its tender book expanded sharply to RM4.2b, backed by exciting new opportunities in Germany and India. The Group is aggressively scaling up its Industrial Gas segment and capitalising on CCUS growth, leveraging its Kerteh LCO₂ plant. With strong deal momentum, we expect KGB to secure RM1.6b and RM1.8b in new job wins for FY25 and FY26 (FY24: RM1.1b), respectively. Riding on sustained margin expansion, we raise our FY25 net profit by 5.4% to RM154m and lift our TP to RM4.33 (from RM4.16). Reiterate **OUTPERFORM** rating.

We came away from KGB's post-4QFY24 briefing reassured of its promising outlook. The key takeaways are as follow:

- Record-high earnings in FY24.** KGB achieved its highest-ever net profit of RM123m (+18% YoY) in FY24, with a NP margin of 9.7%. This was driven by a strategic shift in revenue composition, where the higher-margin Ultra High Purity (UHP) segment contributed 67% of total revenue, up from 63% a year ago. Moving forward, with continued strong UHP revenue contribution, the Group expects its net profit margin to remain within the 10%-13% range, in line with the margins recorded in 4QFY24 and FY24.
- Strengthening focus on UHP Projects.** KGB continues to prioritise Ultra High Purity (UHP) gas solution projects, which now account for 76% of its RM1.5b outstanding order book as of mid-February 2025, up from 74% of RM1.3b in FY23. Its tender book has also expanded significantly to RM4.2b (from RM2.62b in 3QFY24), driven by a strategic partnership with a leading Taiwanese semiconductor company to explore UHP opportunities in Germany and India. Management is optimistic about securing contracts in these new markets by 2Q-3QFY25, supported by its strong track record and reputable partner. As of mid-February, KGB has secured RM230m in new job wins. We expect KGB to secure RM1.6b and RM1.8b new contracts for FY25 and FY26, respectively.
- Scaling up for Industrial Gas (IG) segment.** With power shortage concerns now resolved, KGB is actively pursuing new IG contracts to optimise its plant utilisation rate, which has remained stagnant at 60% since 1QFY23. Of its total 120,000 MT annual capacity, 71% of sales are exported outside Malaysia. The Group anticipates reaching full utilisation within 3 years, driven by regional liquid carbon dioxide (LCO₂) shortages due to decarbonisation-related plant shutdowns. To support future growth, KGB has secured additional land near its two LCO₂ plants and plans to expand capacity once utilisation exceeds 90%.
- Exploring carbon capture, utilisation and storage (CCUS) opportunities.** KGB is exploring local CCUS initiatives, leveraging its expertise from the Kerteh liquid carbon dioxide (LCO₂) plant, which captures CO₂ emissions and converts them into food-grade LCO₂. This facility serves as a proven model for future projects. The upcoming CCUS regulatory framework bill, expected to be tabled in Parliament in early March 2025, could accelerate industry adoption. As one of the six key decarbonisation levers under the National Energy Transition Roadmap (NETR), CCUS is projected to attract over RM25b in investments over the next 30 years. KGB is currently in discussions with a leading local O&G player and expects to reach initial conclusions on potential opportunities in 1HFY25.

OUTPERFORM ↔

Price : **RM3.52**
Target Price : **RM4.33** ↑

Share Price Performance



KLCI	1,586.60
YTD KLCI chg	-3.4%
YTD stock price chg	-1.4%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	KGRB MK EQUITY
Market Cap (RM m)	2,536.5
Shares Outstanding	720.6
52-week range (H)	3.71
52-week range (L)	2.34
3-mth avg. daily vol.	1,292,083
Free Float	71%
Beta	0.6

Major Shareholders

Palace Star	19.6%
Sun Lead International Ltd	6.5%
Public Mutual Bhd	5.7%

Summary Earnings Table

FYE Dec (RM m)	2024A	2025F	2026F
Turnover	1,272	1,459	1,645
EBIT	168	208	234
PBT	158	198	225
Net Profit	123	154	175
Consensus	-	140	170
Earnings Revision (%)	-	+5	NEW
EPS (sen)	18.2	20.4	19.9
EPS Growth (%)	12.8	11.9	-2.5
NDPS (sen)	8.0	10.0	11.0
BV/Share (RM)	0.7	0.9	1.0
Core PER (x)	19.3	17.3	17.7
P/BV (x)	5.0	3.9	3.5
Gearing (x)	-0.5	-0.6	-0.8
Dvd Yield (%)	2.3%	2.8%	3.1%



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Forecasts. We have raised our FY25 net profit forecast by 5.4% to RM154m, implying a net profit margin of 10.6%. This revision reflects an upward adjustment in our gross profit margin assumption to 20.3% (from 19% previously), driven by the ongoing margin expansion trend amid a higher contribution from UHP segment.

Valuations. Correspondingly, our TP is raised to RM4.33 (from RM4.16 previously) based on an unchanged targeted FY25F PER of 21.2x, representing 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) it 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 Statement						Financial Data & Ratios					
FY Dec (RM m)	2022A	2023A	2024A	2025F	2026F	FY Dec	2022A	2023A	2024A	2025F	2026F
Revenue	1,279	1,614	1,272	1,459	1,645	Growth (%)					
EBITDA	87	156	183	218	245	Turnover	148.5	26.2	-21.2	14.7	12.7
Dep & Amor	7	11	15	10	10	EBITDA	97.6	79.2	17.1	19.3	12.4
Operating Profit	80	145	168	208	234	Operating Profit	108.2	81.5	15.9	23.8	12.8
Other Income	4	10	13	18	20	PBT	108.4	80.0	18.3	25.0	13.4
Interest Exp	-5	-11	-9	-10	-10	Adj Net Profit	92.5	86.8	18.2	25.5	13.4
PBT	74	134	158	198	225						
Taxation	-16	-28	-33	-44	-49	Profitability (%)					
Minority Interest	-3	-2	-2	0	0	EBITDA Margin	6.8	9.7	14.4	14.9	14.9
Net Profit	56	104	123	154	175	Operating Margin	6.2	9.0	13.2	14.2	14.2
Core Net Profit	56	104	123	154	175	PBT Margin	5.8	8.3	12.4	13.6	13.6
						Core Net Margin	4.4	6.5	9.7	10.6	10.6
						Effective Tax Rate	-21.4	-20.8	-20.7	-22.0	-22.0
						ROA	5.3	9.7	10.7	10.6	9.9
						ROE	22.9	30.8	26.0	22.5	21.0
						DuPont Analysis					
						Net Margin (%)	4.4%	6.5%	9.7%	10.6%	10.6%
						Assets Turnover (x)	1.2x	1.5x	1.1x	1.0x	0.9x
						Leverage Factor (x)	4.3x	3.2x	2.4x	2.1x	2.1x
						ROE (%)	22.9	30.8	26.0	22.5	21.0
						Leverage					
						Debt/Asset (x)	0.2	0.2	0.2	0.1	0.1
						Debt/Equity (x)	1.0	0.5	0.4	0.3	0.2
						Net Cash/(Debt)	21	92	237	445	666
						Net Debt/Equity (x)	-0.1	-0.3	-0.5	-0.6	-0.8
						Valuations					
						Core EPS (sen)	8.7	16.2	18.2	20.4	19.9
						DPS (sen)	2.5	4.0	8.0	10.0	11.0
						BVPS (RM)	0.37	0.52	0.70	0.91	1.00
						PER (x)	40.6	21.8	19.3	17.3	17.7
						Div. Yield (%)	0.7%	1.1%	2.3%	2.8%	3.1%
						P/BV (x)	9.5	6.8	5.0	3.9	3.5
						EV/EBITDA (x)	26.2	15.1	14.3	14.3	14.7
Balance Sheet											
FY Dec (RM m)	2022A	2023A	2024A	2025F	2026F						
Fixed Assets	107	169	209	243	282						
Intangible Assets	-	-	-	-	-						
Other FA	11	15	12	12	12						
Inventories	22	25	21	24	27						
Receivables	449	437	346	397	448						
Other CA	207	157	153	154	154						
Cash	260	269	413	621	842						
Total Assets	1,056	1,073	1,154	1,451	1,764						
Payables	201	216	176	199	225						
ST Borrowings	286	252	231	231	231						
Other ST Liability	287	193	181	117	119						
LT Borrowings	33	63	78	78	78						
Other LT Liability	5	10	15	139	277						
MI	4	6	0	0	0						
Net Assets	239	332	474	687	835						
Shr. Equity	73	74	184	321	389						
Reserves	166	259	290	366	445						
Total Equity	239	332	474	687	835						
Cashflow Statement											
FY Dec (RM m)	2022A	2023A	2024A	2025F	2026F						
Operating CF	34	177	200	194	297						
Investing CF	-43	-68	-69	-44	-49						
Financing CF	157	-107	-3	58	-27						

Source: Kenanga Research

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Malaysian Technology Peers Comparison

Name	Rating	Last Price @ 27 Feb. (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	1.40	2.03	45.0%	1,735.3	Y	12/2025	8.9	9.0	178.7%	1.0%	16.5	11.7	1.7	11.5%	1.0	0.5%	
INARI AMERTRON BHD	MP	2.19	2.80	27.9%	8,297.8	Y	06/2025	7.4	9.0	-9.7%	21.9%	23.3	18.5	3.0	7.1%	8.0	2.7%	
KELINGTON GROUP BHD	OP	3.52	4.33	23.0%	2,536.5	Y	12/2025	20.4	19.9	25.4%	13.4%	21.8	18.1	3.9	26.6%	10.0	2.9%	
LGMS BHD	MP	1.05	1.00	-4.8%	478.8	Y	12/2025	3.3	3.8	22.8%	13.2%	22.7	16.6	4.7	15.3%	2.0	0.8%	
M'SIAN PACIFIC INDUSTRIES BHD	OP	18.90	26.75	41.5%	3,768.6	Y	06/2025	83.6	99.1	32.0%	18.6%	25.4	13.7	1.7	7.8%	35.0	1.3%	
NATIONGATE HOLDINGS BHD	MP	1.99	2.15	8.0%	4,530.6	Y	12/2025	9.0	5.5	16.0%	-38.1%	34.7	21.7	4.2	20.5%	2.0	0.6%	
OPPSTAR BHD	UP	0.515	0.390	-24.3%	329.9	Y	03/2025	(1.0)	1.5	-141.3%	53.1%	9.1	7.9	2.3	-4.4%	0.0	1.2%	
P.I.E. INDUSTRIAL BHD	OP	4.20	6.28	49.5%	1,613.0	Y	12/2024	17.4	29.1	-10.1%	67.5%	18.9	14.6	2.5	10.6%	7.0	0.0%	
SKP RESOURCES BHD	OP	0.995	1.24	24.6%	1,554.5	Y	03/2025	7.6	8.6	22.4%	13.9%	13.6	11.7	1.4	11.4%	0.0	0.0%	
UNISEM (M) BHD	MP	2.30	3.00	30.4%	3,710.1	Y	12/2024	5.7	11.1	12.7%	94.8%	22.6	18.1	1.6	3.9%	8.0	2.5%	
Simple Average					28,555.2							13.9%	16.9%	23.8	20.4	2.7	11.0%	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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