

Kelington Group

Growth Engine in Motion

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We came away from KGB's post-1QFY25 results briefing encouraged by its solid outlook. The Group's RM1.43b order book and expanding RM5b tender pipeline - dominated by high-margin Advanced Engineering jobs - underscore strong demand from global wafer fab expansions. Advanced Engineering, contributing 74% of revenue, is set to benefit from rising semiconductor capex and improved margins (~19%). The Industrial Gas division remains stable, with steady LCO₂ demand and long-term growth prospects in Carbon Capture, Utilisation and Storage (CCUS), supported by government-led green initiatives. We maintain our FY25-26F forecasts and reiterate our OUTPERFORM call with an unchanged TP of RM4.33.

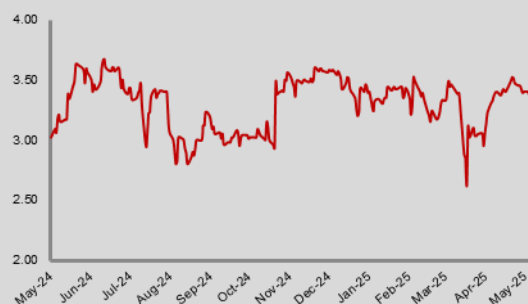
We came away from KGB's post-1QFY25 results briefing reassured of its promising outlook. The key takeaways are as follow:

- Robust outlook backed by record order and tender books.** As of 1QFY25, KGB's outstanding order book rose to RM1.43b, with Advanced Engineering (formerly UHP) making up 64.6% of the total. The Group secured RM390m in new contract wins during the quarter (+66% YoY), with more awards anticipated in 2HFY25. The tender book stood at RM4b as of end-April, with an additional RM1b submitted by mid-May, bringing the current tender pipeline to approximately RM5b. Notably, over 90% of these tenders are related to high-margin Advanced Engineering projects and we had factored in RM1.6b and RM1.8b new job wins for FY25 and FY26, respectively. Key geographical contributions include Europe (RM2.5b, mainly from ESMC in Germany), Singapore (RM950m), and China (RM788m), underscoring strong momentum from global wafer fab expansion.
- Advanced Engineering to remain core growth driver.** KGB's Advanced Engineering segment contributed 74% of revenue in 1QFY25, continuing to be the Group's key earnings contributor. Management guided that segment margins have strengthened to c.19% (from c.15%), underpinned by high demand from semiconductor fabs and limited competition. Looking ahead, the segment is poised to benefit from strong industry tailwinds. According to SEMI's World Fab Forecast, global foundry investments are projected to reach USD61b (+2%) in 2025, and USD72b in 2026, with 39 new fabs expected to come online between 2025 and 2030. Equipment spending is also forecasted to grow 18% YoY to USD124b in 2025. These industry dynamics, driven by AI, data centre demand, and global supply chain localisation, offer a robust pipeline of opportunities for KGB's high-margin Advanced Engineering services.
- Industrial Gas division maintains stability, eyes growth via CCUS.** While 1QFY25 revenue from the Industrial Gas segment declined 24% YoY due to reduced trading and project income, LCO₂ demand remained stable, with utilisation rate of 63%, and 74% of production exported. Separately, KGB is actively positioning to make inroads into long-term growth area in the CCUS space. Following the signing of an MoU with Masteel and UTAR, the Group is seeing rising industry interest, supported by the government's carbon tax roadmap and the National Energy Transition Roadmap (NETR), which is expected to attract over RM25b in investments. Leveraging its proven ability to capture and purify waste gas for industrial reuse, KGB is well-placed to capitalise on emerging CCUS opportunities and support emission reduction efforts across high-emitting industries.

OUTPERFORM ↔

Price : RM3.50
Target Price : RM4.33 ↔

Share Price Performance



KLCI 1,518.98
YTD KLCI chg -7.5%
YTD stock price chg -2.0%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	KGRB MK EQUITY
Market Cap (RM m)	2,571.7
Shares Outstanding	734.8
52-week range (H)	3.71
52-week range (L)	2.60
3-mth avg. daily vol.	1,617,651
Free Float	72%
Beta	0.8

Major Shareholders

Palace Star	18.4%
Aberdeen Group Plc	14.8%
Employees Provident	6.7%

Summary Earnings Table

FYE Dec (RM m)	2024A	2025F	2026F
Turnover	1,272	1,464	1,651
EBIT	168	198	225
PBT	158	198	224
Net Profit	123	154	175
Consensus	-	147	167
Earnings Revision (%)	-	-	-
EPS (sen)	18.2	20.36	19.5
EPS Growth (%)	12.8	11.6	-4.4
NDPS (sen)	8.0	10.5	11.0
BV/Share (RM)	0.7	0.9	1.0
Core PER (x)	19.2	17.2	18.0
P/BV (x)	5.0	3.9	3.5
Gearing (x)	-0.5	-0.7	-0.8
Dvd Yield (%)	2.3	3.0	3.1



30 May 2025

Forecasts. We make no changes to our FY25-26F earnings forecast post the results briefing.

Valuations. TP maintained at RM4.33, based on an unchanged targeted FY25F PER of 21.2x, representing a c.10% discount to peers' 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) strong earnings visibility supported by an outstanding order book exceeding RM1.4b and a robust tender book of over RM5b, 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	1,464	1,651	Growth (%)					
EBITDA	87	156	183	214	242	Turnover	148.5	26.2	-21.2	15.1	12.7
Dep & Amor	7	11	15	16	17	EBITDA	97.6	79.2	17.1	17.4	12.9
Operating Profit	80	145	168	198	225	Operating Profit	108.2	81.5	15.9	18.1	13.6
Other Income	4	10	13	16	19	PBT	108.4	80.0	18.3	24.8	13.6
Interest Exp	-5	-11	-9	-9	-9	Adj Net Profit	92.5	86.8	18.2	25.2	13.6
PBT	74	134	158	198	224						
Taxation	-16	-28	-33	-44	-49	Profitability (%)					
Minority Interest	-3	-2	-2	0	0	EBITDA Margin	6.8	9.7	14.4	14.6	14.7
Net Profit	56	104	123	154	175	Operating Margin	6.2	9.0	13.2	13.5	13.6
Core Net Profit	56	104	123	154	175	PBT Margin	5.8	8.3	12.4	13.5	13.6
						Core Net Margin	4.4	6.5	9.7	10.5	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	22.6	21.2
						DuPont Analysis					
						Net Margin (%)	4.4%	6.5%	9.7%	10.5%	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	22.6	21.2
						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	453	677
						Net Debt/Equity (x)	-0.1	-0.3	-0.5	-0.7	-0.8
						Valuations					
						Core EPS (sen)	8.7	16.2	18.2	20.4	19.5
						DPS (sen)	2.5	4.0	8.0	10.5	11.0
						BVPS (RM)	0.37	0.52	0.70	0.90	1.00
						PER (x)	40.4	21.6	19.2	17.2	18.0
						Div. Yield (%)	0.7%	1.1%	2.3%	3.0%	3.1%
						P/BV (x)	9.4	6.8	5.0	3.9	3.5
						EV/EBITDA (x)	26.1	15.0	14.2	14.5	14.8
Balance Sheet											
FY Dec (RM m)	2022A	2023A	2024A	2025F	2026F						
Fixed Assets	107	169	209	232	264						
Intangible Assets	-	-	-	-	-						
Other FA	11	15	12	12	12						
Inventories	22	25	21	24	27						
Receivables	449	437	346	399	449						
Other CA	207	157	153	154	154						
Cash	260	269	413	629	854						
Total Assets	1,056	1,073	1,154	1,449	1,760						
Payables	201	216	176	203	228						
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	682	828						
Shr. Equity	73	74	184	321	389						
Reserves	166	259	290	361	438						
Total Equity	239	332	474	682	828						
Cashflow Statement											
FY Dec (RM m)	2022A	2023A	2024A	2025F	2026F						
Operating CF	34	177	200	201	303						
Investing CF	-43	-68	-69	-38	-50						
Financing CF	157	-107	-3	54	-29						

Source: Kenanga Research

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Malaysian Technology Peers Comparison

Name	Rating	Last Price @ 29 May (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	MP	1.34	1.18	-11.9%	1,660.9	Y	12/2025	4.0	5.3	24.8%	34.3%	33.7	25.1	1.7	5.3%	1.0	0.7%
INARI AMERTRON BHD	MP	1.91	2.00	4.7%	7,236.9	Y	06/2025	6.8	7.6	-17.2%	11.8%	28.2	25.3	2.6	6.1%	6.0	3.1%
KELINGTON GROUP BHD	OP	3.50	4.33	23.7%	2,571.7	Y	12/2025	20.4	19.5	25.2%	13.6%	17.2	18.0	3.9	26.7%	11.0	3.1%
LGMS BHD	MP	0.925	1.00	8.1%	421.8	Y	12/2025	2.9	3.3	7.3%	15.2%	32.0	27.8	4.2	13.5%	2.0	2.2%
M'SIAN PACIFIC INDUSTRIES BHD	MP	19.86	18.40	-7.4%	3,960.0	Y	06/2025	72.8	80.1	15.0%	10.0%	27.3	24.8	1.8	6.8%	35.0	1.8%
NATIONGATE HOLDINGS BHD	OP	1.44	2.21	53.5%	3,278.4	Y	12/2025	9.2	9.4	19.5%	2.3%	15.6	15.3	3.0	21.1%	2.0	1.4%
OPPSTAR BHD	MP	0.430	0.500	16.3%	275.5	Y	03/2026	1.4	1.7	-27.4%	21.1%	30.6	25.3	2.0	6.5%	1.0	2.3%
P.I.E. INDUSTRIAL BHD	MP	4.24	4.60	8.5%	1,628.3	Y	12/2025	17.8	21.3	28.4%	19.8%	23.9	19.9	2.3	10.2%	0.0	0.0%
SKP RESOURCES BHD	OP	0.980	1.24	26.5%	1,531.1	Y	03/2025	7.6	8.6	22.4%	13.9%	12.9	11.3	1.4	11.4%	0.0	0.0%
UNISEM (M) BHD	UP	2.05	1.05	-48.8%	3,306.8	Y	12/2025	4.5	5.3	19.8%	18.2%	45.5	38.5	1.5	3.3%	8.0	3.9%
Simple Average					25,871.5					11.4%	12.3%	23.6	21.1	2.4	11.1%		1.9%

Source: Kenanga Research

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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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