

21 JUL, 2025

Kelington in a sweet spot to ride semiconductor up cycle

The Edge, Malaysia

Kelington in a sweet spot to ride semiconductor up cycle

BY CHERYL POO

As a regional engineering specialist, Kelington Group Bhd's (KL:KGB) efforts to widen its base and become a global player are paying off. The group's "modest but strategic" job in Germany last year has led to about RM2.5 billion worth of tenders being submitted to major players there.

In an interview at Kelington's headquarters in Kuala Lumpur, founding executive chairman and CEO Raymond Gan Hung Keng and chief operating officer Steven Ong Weng Leong tell *The Edge* that the outcome of the tenders is expected in the late third quarter or early fourth quarter of this year, depending on the close of the tenders.

"We can reasonably expect about a 30% success rate on the RM2.5 billion worth of jobs we are bidding for from two major semiconductor players in Germany. With a 30% win rate, this could add about RM700 million to RM800 million to our order book," says Ong.

"We have started to send our equipment to our existing base in Germany. The initial project team [for the new jobs] will be from Malaysia and Singapore, and we will hire from Germany too."

Kelington has had a healthy replenishment of its order book, which stood at RM1.43 billion as at March 31, 2025.

For context on the semiconductor up cycle globally, SEMI said in its World Fab Forecast for 4Q2024 that the semiconductor industry was expected to start 18 fab construction projects in 2025, the majority of which are slated to begin operations in 2026 and 2027.

Driven by the European Chips Act, several fabs are being planned in Europe. These include European Semiconductor Manufacturing Co's (ESMC) fab in Dresden and Intel Corp's fab in Magdeburg, both in Germany. ESMC is a joint venture between Taiwan Semiconductor Manufacturing Co Ltd (TSMC), Bosch, Infineon Technologies AG and NXP.

Meanwhile, India, in looking to enhance its self-reliance as part of its India Semiconductor Mission, has announced its first US\$11 billion commercial semiconductor wafer fabrication foundry. To this end, Kelington has begun to bid for jobs in India.

As at April 30, the group's tender book stood at RM4 billion. It included bids worth RM950 million in Singapore, RM788 million in China and Hong Kong, and smaller amounts in India, Taiwan and Malaysia. Its tender book has since grown to include the new bids in Germany.

Kelington has two main business segments: engineering services (comprising the subsegments of advanced engineering, process engineering, general contracting, and equipment and materials), which collectively contributed 90% to group revenue in 1QFY2025, and industrial gases, which contributed the remaining 10%.

The group's ultra high purity segment, which has been renamed advanced engineering, is its largest revenue contributor, accounting for 73.8% of its total revenue in 1QFY2025.

Strengthening position in CCS supply chain

Kelington's industrial gas segment — which is involved in the manufacturing of liquefied carbon dioxide and the trading of speciality gases such as oxygen, nitrogen, argon, helium and hydrogen — is expected

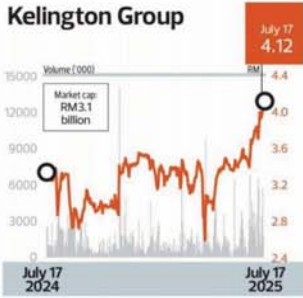


By working with Petronas on the study, we'd like to eventually work with local companies to capture waste carbon and also transport it from the customer's place to the storage terminal." — Gan



We can reasonably expect about a 30% success rate on the RM2.5 billion worth of jobs we are bidding for from two major semiconductor players in Germany." — Ong

Kelington Group



Kelington's profitability



to account for 30% to 50% of group revenue in the next four years or so. The group has two liquid carbon dioxide plants in Kerteh, Terengganu, one with an annual production capacity of 50,000 tonnes and the other at 70,000 tonnes.

A fast-growing segment, the industrial gas division brings in recurring income, thanks to long-term supply contracts with customers. In fact, since its first plant commenced operations in October 2019, the division's revenue had grown from RM22.1 million in FY2020 to RM145 million in FY2024, representing a compound annual growth rate of 60%.

"The plan is to ramp up capacity in the next two to three years to bring in more product sales," says Ong.

To tap into the environmental, social and corporate governance (ESG) space via carbon capture, Kelington in May signed on to do a feasibility study with Malaysia Steel Works (KL) Bhd (KL:MASTEEL) and Universiti Tunku Abdul Rahman. The aim of the study is for Masteel to minimise its carbon footprint and meet industry demand for sustainable steel.

panies to capture waste carbon and also transport it from the customer's place to the storage [terminal]," says Gan.

"Many industries all over Malaysia will require such services. We can offer our CCS services to these industries, especially steel mills. We will eventually invest in specialised fleets to transport liquefied carbon dioxide as we are keen on the logistical side of the operations," adds Ong.

Kelington's net profit for the first quarter ended March 31, stood at RM26.6 million, 7.3% higher than the RM24.8 million in the previous corresponding period, on 20% lower revenue of RM270.3 million. Its financial performance on an annual basis demonstrates a similar trend, with FY2024 revenue dipping 20% to RM1.27 billion from RM1.6 billion, yet registering a 19.5% growth in profit after tax to RM126.7 million (see chart).

"The numbers were due to changes in the semiconductor and artificial intelligence trends in the market. The semiconductor industry has been enjoying strong growth since last year and this will easily continue beyond 2026," says Ong.

"Thus, Kelington has been receiving a higher proportion of advanced engineering jobs than general contracting. Advanced engineering commands better margins. Therefore, because of this demand, we can be more selective in our job bids. With the tender book growth, we are again aiming for double-digit growth in our bottom line this year."

Asked about the impact from the ongoing trade tensions on Kelington's business, Gan and Ong note that the tariff war has actually been helpful in creating demand for the group's offerings in the light of the upcoming wafer fabrication foundries in several countries.

As at March 31, Kelington had a net cash position of RM101.8 million and retained earnings of RM252 million.

"There are no firm plans now, but should the opportunity requiring a capital investment in the industrial gas segment arise, we want to be ready for it," says Ong.

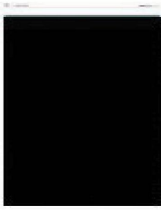
Kelington has a dividend policy of paying out at least 25% of its profit after tax and minority interests. It paid out 1.5 sen per share in FY2020 and FY2021, 2.5 sen per share in FY2022 and 4 sen per share in FY2023 before doubling it to 8 sen per share in FY2024.

Its share price was at a record high of RM4.12 last Thursday, having climbed 16.9% year to date, valuing the company at RM3.1 billion. Bloomberg data shows that all five analysts covering the stock have "buy" calls, with a consensus target price of RM4.42.

AmInvestment Bank Bhd head of equity research Paul Yap, who has the highest target price (RM4.70 per share based on a target price-earnings ratio of 21 times and FY2026 earnings per share) among the analysts, tells *The Edge* that Kelington's valuation premium over its traditional construction peers is due to its "niche position as a high tech provider of UHP systems, which is a critical enabler in semiconductor infrastructure. While it is not a pure play semiconductor company, its exposure to structural semiconductor growth justified a higher multiple."



Scan/click
ASK EDGE
12 Things You Must Know About Any Stock



21 JUL, 2025

Kelington in a sweet spot to ride semiconductor up cycle

The Edge, Malaysia

SUMMARIES

A regional engineering specialist, Kelington Group Bhd's (KL:KGB) efforts to widen its base and become a global player are paying off. The group's "modest but strategic" job in Germany last year has led to about RM2.5 billion worth of tenders being submitted to major players there.