

Kelington Group

Mix Shift Paying Off

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

Post-2QFY25 briefing, we remain constructive on KGB. Its RM1.33b outstanding order book and strong RM5.4b tender book point to a stronger 2H intake and multi-year growth visibility. Management is prioritising quality with a focus on margin over scale while broadening its addressable markets. Industrial gases remain resilient, and decarbonisation initiatives (green hydrogen/CCUS) are advancing via state-level engagements, with updates expected in the coming months. We maintain our FY25–26F forecasts and reiterate OUTPERFORM with an unchanged TP of RM5.15.

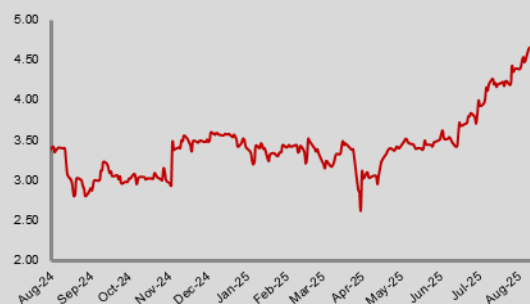
We came away from KGB's post-2QFY25 results briefing reassured of its promising outlook. The key takeaways are as follow:

- Robust outlook backed by strong order and tender books.** KGB secured RM549m of new wins in 1HFY25, with a RM1.33b outstanding order book as at 30 Jun 2025 (ex-the recently announced EU LOI of c.RM146m–RM244m). The outstanding order book is weighted mostly to Advanced Engineering (66%/RM882m), while General Contracting, Process Engineering, and Trading respectively form 18%/15%/1%. By market: Malaysia accounted for 36%, Singapore 32%, China 30%, Taiwan 1%, and Philippines <1%. It also recorded a RM5.4b tender book—skewed to Europe (45%), India (20%), and Singapore (14%)—underpinning multi-year growth and points to stronger order intake in 2HFY25.
- Focus on bottom-line expansion rather than top-line.** Management's guidance remains bottom-line led. They now steer toward sustaining c.20%–23% gross margin (vs an older 15% guide) and c.11% PAT margin over the coming quarters, underpinned by a richer project mix and order backlog. Regionally, Malaysia and China were weighed by project timing and China-specific constraints (sanctions, and intense local competition), while Singapore strengthened as new wins ramped up. The Group continues to expand its addressable market such as having a wholly-owned Japan subsidiary incorporated to pursue emerging opportunities; India tendering is active under the India Semiconductor Mission; and the US is being studied for a potential entry.
- Industrial Gases remains a steady earnings pillar** despite a softer revenue print. KGB highlighted stable LCO2 demand with utilisation at 64% and about 74% of output exported. Notably, LCO2 ASPs were raised by roughly 15–20% QoQ in 2Q, supporting margin resilience. Beyond LCO2, its wholly owned subsidiary - Ace Gases' capability set spans CO2 capture/purification/liquefaction for Carbon Capture, utilisation and Storage (CCUS) pathways and aligns with Malaysia's National Energy Transition (NETR) and Hydrogen Economy and Technology (HETR) roadmaps.
- Industrial decarbonisation.** KGB is advancing parallel green-hydrogen and CCUS initiatives. It is in ongoing discussions with the Sarawak and Selangor state authorities to deploy localised green H₂ production using excess run-of-river hydropower near demand nodes—reducing transport costs and aligning with government programmes such as Sarawak's KUTS plan for 55 hydrogen buses by 2027. Management, however, is unable to disclose further details for now but expects tangible progress in the coming months.

OUTPERFORM ↔

Price : RM4.83
Target Price : RM5.15 ↔

Share Price Performance



KLCI	1,597.47
YTD KLCI chg	-2.7%
YTD stock price chg	35.3%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	KGRB MK EQUITY
Market Cap (RM m)	3,663.4
Shares Outstanding	734.8
52-week range (H)	4.84
52-week range (L)	2.60
3-mth avg. daily vol.	2,282,454
Free Float	72%
Beta	0.8

Major Shareholders

Palace Star	17.9%
Aberdeen Group Plc	13.4%
SUN Lead International	5.2%

Summary Earnings Table

FYE Dec (RM m)	2024A	2025F	2026F
Turnover	1,272	1,427	1,651
EBIT	168	211	249
PBT	158	204	239
Net Profit	123	160	187
Consensus	-	151	179
Earnings Revision (%)	-	-	-
EPS (sen)	18.2	21.1	20.5
EPS Growth (%)	12.8	15.6	-2.7
NDPS (sen)	8.0	11.0	11.0
BV/Share (RM)	0.7	0.9	1.0
Core PER (x)	26.5	22.9	23.6
P/BV (x)	6.9	5.3	4.8
Gearing (x)	-0.5	-0.7	-0.8
Dvd Yield (%)	1.7%	2.3%	2.3%



Forecasts. We make no changes to our FY25-26F earnings forecast post the results briefing. While our gross margin expectation is broadly already reflective of management guidance, we have yet to give benefit at this juncture to the developments of its green-hydrogen and CCUS initiatives.

Valuations. TP maintained at RM5.15, based on an unchanged targeted FY26F PER of 25x, in line with its global peers, 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 RM1.3b 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					
FY Dec (RM m)	2022A	2023A	2024A	2025F	2026F
Revenue	1,279	1,614	1,272	1,427	1,651
EBITDA	87	156	183	227	266
Dep & Amor	7	11	15	16	17
Operating Profit	80	145	168	211	249
Other Income	4	10	13	16	19
Interest Exp	-5	-11	-9	-9	-10
PBT	74	134	158	204	239
Taxation	-16	-28	-33	-44	-53
Minority Interest	-3	-2	-2	0	0
Net Profit	56	104	123	160	187
Core Net Profit	56	104	123	160	187
Balance Sheet					
FY Dec (RM m)	2022A	2023A	2024A	2025F	2026F
Fixed Assets	107	169	209	225	258
Intangible Assets	-	-	-	-	-
Other FA	11	15	12	12	12
Inventories	22	25	21	23	26
Receivables	449	437	346	388	449
Other CA	207	157	153	154	154
Cash	260	269	413	641	878
Total Assets	1,056	1,073	1,154	1,443	1,778
Payables	201	216	176	194	224
ST Borrowings	286	252	231	231	231
Other ST Liability	287	193	181	117	121
LT Borrowings	33	63	78	78	78
Other LT Liability	5	10	15	139	285
MI	4	6	0	0	0
Net Assets	239	332	474	684	840
Shr. Equity	73	74	184	321	389
Reserves	166	259	290	363	451
Total Equity	239	332	474	684	840
Cashflow Statement					
FY Dec (RM m)	2022A	2023A	2024A	2025F	2026F
Operating CF	34	177	200	209	318
Investing CF	-43	-68	-69	-32	-50
Financing CF	157	-107	-3	51	-30

Source: Kenanga Research

25 August 2025

Malaysian Technology Peers Comparison

Name	Rating	Last Price @ 22 Aug (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	0.995	1.18	18.6%	1,233.3	Y	12/2025	4.0	5.3	24.8%	34.3%	25.0	18.6	1.3	5.3%	1.0	1.0%
INARI AMERTRON BHD	MP	1.92	2.00	4.2%	7,274.8	Y	06/2025	6.8	7.6	-17.2%	11.8%	28.4	25.4	2.6	6.1%	6.0	3.1%
KELINGTON GROUP BHD	OP	4.83	5.15	6.6%	3,663.4	Y	12/2025	21.1	20.5	29.6%	17.1%	22.9	23.6	5.3	27.5%	11.0	2.3%
LGMS BHD	MP	0.690	0.860	24.6%	314.6	Y	12/2025	2.3	2.9	-15.4%	25.0%	30.3	24.2	3.2	10.8%	2.0	2.9%
M'SIAN PACIFIC INDUSTRIES BHD	MP	25.02	24.50	-2.1%	4,988.9	Y	06/2026	88.1	100.3	14.0%	13.8%	28.4	25.0	2.3	8.2%	35.0	1.4%
NATIONGATE HOLDINGS BHD	OP	1.20	2.21	84.2%	2,732.6	Y	12/2025	9.2	9.4	19.5%	2.3%	13.0	12.7	2.5	21.1%	2.0	1.7%
OPPSTAR BHD	MP	0.465	0.500	7.5%	298.2	Y	03/2026	1.4	1.7	-27.4%	21.1%	33.1	27.3	2.1	6.5%	1.0	2.2%
P.I.E. INDUSTRIAL BHD	MP	3.41	3.85	12.9%	1,309.6	Y	12/2025	14.1	17.8	1.7%	26.9%	24.2	19.1	1.9	8.2%	0.0	0.0%
SKP RESOURCES BHD	OP	0.910	1.24	36.3%	1,421.8	Y	03/2026	8.6	9.2	13.9%	6.3%	10.5	9.9	1.2	12.0%	0.0	0.0%
UNISEM (M) BHD	UP	2.62	1.23	-53.1%	4,226.3	Y	12/2025	3.8	5.3	2.0%	38.8%	68.3	49.2	1.9	2.8%	8.0	3.1%
Simple Average					27,463.6					8.5%	13.8%	24.5	21.6	2.4	10.9%		1.8%

Source: Kenanga Research

25 August 2025

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.**

This document has been prepared for general circulation based on information obtained from sources believed to be reliable but we do not make any representations as to its accuracy or completeness. Any recommendation contained in this document does not have regard to the specific investment objectives, financial situation and the particular needs of any specific person who may read this document. This document is for the information of addressees only and is not to be taken in substitution for the exercise of judgement by addressees. Kenanga Investment Bank Berhad accepts no liability whatsoever for any direct or consequential loss arising from any use of this document or any solicitations of an offer to buy or sell any securities. Kenanga Investment Bank Berhad and its associates, their directors, and/or employees may have positions in, and may effect transactions in securities mentioned herein from time to time in the open market or otherwise, and may receive brokerage fees or act as principal or agent in dealings with respect to these companies. Kenanga Investment Bank Berhad being a full-service investment bank offers investment banking products and services and acts as issuer and liquidity provider with respect to a security that may also fall under its research coverage.

Published by:

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