KELINGTON GROUP

(KGRB MK EQUITY, KELG.KL)

BUY

(MAINTAINED)

Price: RM5.21

Target Price (% return): RM6.70 (30%)

52-week High/Low: RM5.88/RM2.60

Technology

Rationale for report: Company Result

The gift that keeps on giving

We maintain BUY, at a higher TP of RM6.70/share. Kelington closed 2025 strongly, with core profit up 25% YoY to RM159m. The upside was margin-led, reflecting a favourable demand–supply backdrop and management's continued discipline in prioritising profitability over volume. We expect momentum to carry into 2026, with another year of double-digit earnings growth as the order book strengthens through the year. This is supported by a tender pickup in 2Q–3Q26 and new order wins guided at RM1.5–2.0bn (+20–60% YoY), underpinned by a continuing capex cycle (memory, power semis and supply-chain localisation).

- **BUY at TP of RM6.70/share (from RM6.45).** This is based on an unchanged target PE of 25x and CY27 EPS. While current valuations sit above historical norms, we believe a rerating is underway. The company has earned this premium through strengthened visibility, solid execution and expanding regional presence. We adjust earning by <3% after updating our model for actual order wins and recalibrating our margins.
- **Above expectations.** Kelington ended 2025 with a bang, as core profit rose +21% YoY to RM154mil. This beat expectations, at 105% of both Am's and consensus estimates.
- **Prioritising margins.** Against our estimates, the beat was due to margins, which rose 2.2pp YoY to 21% at a gross level. Management is guiding to sustain margins at current levels, supported by a favourable demand–supply backdrop. This reinforces a deliberate strategy to stay selective, prioritising profitability and margin quality rather than chasing revenue growth at any cost.
- **Tender book to pick up in 2Q-3Q26.** While the order book declined 16% QoQ to RM1.38bn and the tender book was flat at RM4.65bn, we are not overly concerned as management expects tender activity to pick up meaningfully in 2Q–3Q26. The group is targeting new order wins to grow 20–60% YoY to RM1.5–2.0bn, underpinned by continued momentum in core markets such as Singapore alongside deeper penetration into new geographies like India. Capex is being driven by a memory capacity build-out, power semiconductor expansion and geopolitics accelerating supply-chain localisation and diversification.

YE to December	FY25	FY26F	FY27F	FY28F
Revenue (RM mil)	1,273.6	1,684.5	1,989.3	2,073.6
Core net profit (RM mil)	153.8	193.0	230.0	242.0
FD Core EPS (sen)	18.5	22.5	26.8	28.2
FD Core EPS growth (%)	24.4	21.4	19.2	5.2
Consensus Net Profit (RM mil)	-	-	-	-
DPS (sen)	6.1	10.2	12.3	13.8
PE (x)	28.6	23.6	19.8	18.8
EV/EBITDA (x)	19.5	15.7	13.3	12.4
Div yield (%)	1.2	1.9	2.3	2.6
ROE (%)	27.8	25.1	23.4	21.8
Net Gearing (%)	0.0	nm	nm	nm

Source: Kelington Group , AmInvestment Bank Bhd.

Analyst (s)

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Key Changes

Target Price:	↑
EPS:	↑

Stock and Financial Data

Shares Outstanding (million)	784.7
Market Cap (RMmil)	4,088.4
Book Value (RM/Share)	0.72
P/BV (x)	6.63
ROE (%)	27.8
Net Gearing (%)	-
Free Float	73.4
Avg Daily Value (RMmil)	-

Major Shareholders

PALACE STAR	(17.3%)
EPF	(5.6%)
SUN Lead International	(5.1%)

Price performance	3mth	6mth	12mth
Absolute(%)	(0.8)	(18.5)	(7.5)
Relative(%)	(7.4)	(26.0)	(15.6)

Source: Kelington Group , AmInvestment Bank Bhd.

Price Chart

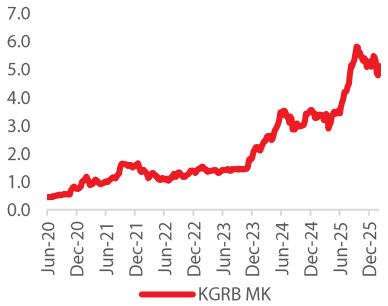


EXHIBIT 1. 4Q25 Earnings Summary

FYE Dec	4Q25	4Q24	% YoY	3Q25	% QoQ	2025	2024	% YoY
Revenue	405	304	**33.0**	316	**28.0**	1,274	1,272	**0.1**
EBITDA	**59**	**47**	**23.5**	**56**	**4.3**	**198**	**180**	**10.0**
Depreciation and amortisation	6	-2	nm	-4	nm	-6	-15	59.1
EBIT	**64**	**45**	**43.2**	**52**	**23.5**	**192**	**165**	**16.1**
Finance income	2	3	-9.8	2	7.5	9	6	44.1
Finance cost	-2	-2	18.0	-2	4.3	-8	-9	14.4
EI	-3	3	nm	0	-1111.9	-2	-3	24.1
Profit before tax	**62**	**48**	**28.6**	**52**	**19.1**	**190**	**159**	**19.8**
Tax	-12	-8	-45.7	-11	-5.6	-39	-32	-21.3
MI	0	0	80.9	0	nm	0	-2	97.1
Net profit	**51**	**40**	**25.2**	**41**	**22.8**	**151**	**127**	**19.4**
Core net profit	**53**	**37**	**43.8**	**41**	**28.6**	**154**	**128**	**20.5**
EPS (sen)	6.5	5.7	13.8	5.4	19.9	20.2	18.4	9.9
DPS (sen)	4.0	2.0	100.0	4.0	0.0	13.0	8.0	62.5
Profitability ratios (%)								
Ebitda margin	14.5	15.6	-1.1	17.7	-3.3	15.6	14.2	1.4
Ebit margin	15.9	14.8	1.1	16.5	-0.6	15.1	13.0	2.1
Pbt margin	15.4	15.9	-0.5	16.5	-1.1	14.9	12.5	2.5
Tax rate	18.8	16.6	2.2	21.2	-2.4	20.4	20.2	0.3
Net profit margin	13.1	12.1	1.0	13.1	0.1	12.1	10.0	2.0

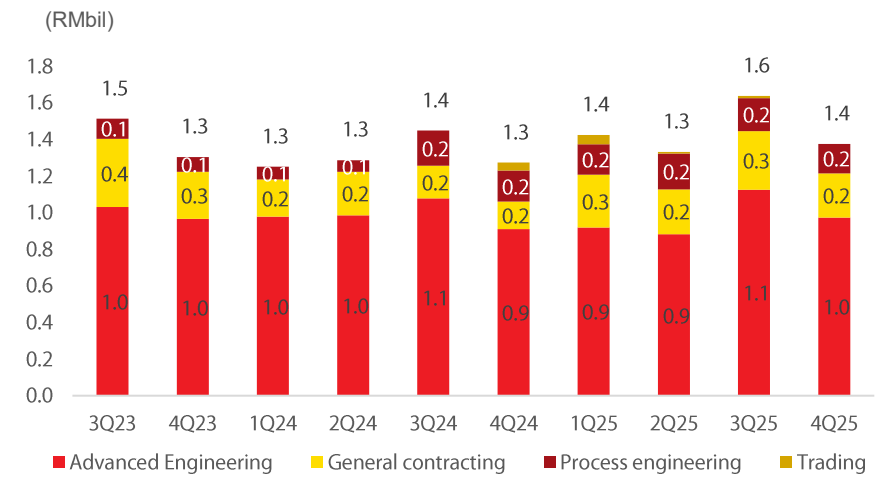
Source: Kelington, AmInvestment Bank Bhd.

EXHIBIT 2. 4Q25 Revenue Breakdown

FYE Dec	4Q25	4Q24	% YoY	3Q25	% QoQ	2025	2024	% YoY
Revenue								
UHP/Advanced Engineering	258	209	23.6	205	26.2	848	853	-0.6
Process engineering	42	27	51.7	26	60.7	93	86	9.3
General contracting	70	24	>100	54	30.1	202	185	9.5
Industrial gases	30	34	-12.4	34	-10.4	126	145	-12.9
Equipment and materials	13	27	-53.7	8	67.5	33	70	-52.6
Geography								
Malaysia	144	107	34.9	119	21.3	452	504	-10.3
China	67	94	-29.0	59	13.5	284	378	-24.8
Singapore	155	90	71.9	118	31.1	448	331	35.3
Taiwan	9	4	>100	9	-1.3	30	23	29.3
Others	30	9	>100	11	>100	59	35	66.0
Orderbook (bil)	1.38	1.27	8.7	1.64	-15.9	1.38	1.27	8.7
Tenderbook (bil)	4.65	4.20	10.6	4.65	5.1	4.65	4.20	10.6

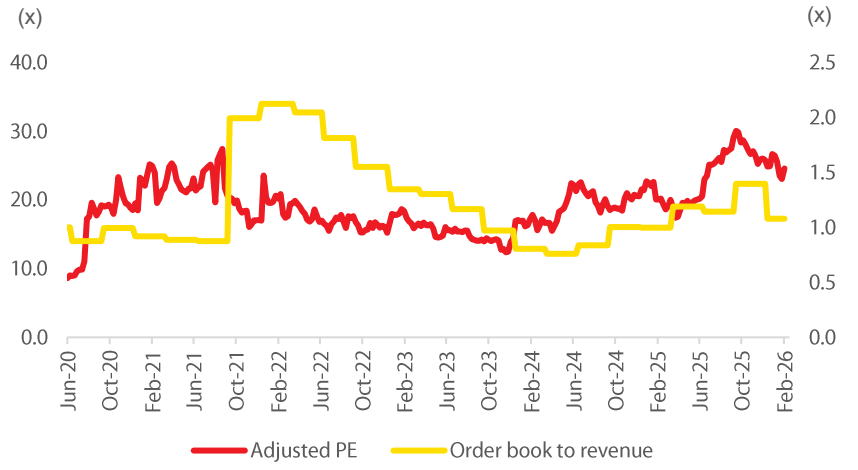
Source: Kelington, AmInvestment Bank Bhd.

EXHIBIT 3. Orderbook breakdown



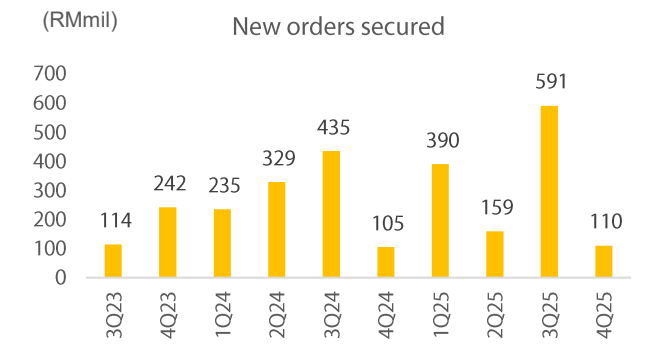
Source: Kelington, AmInvestment Bank Bhd.

EXHIBIT 4. PE driven by earnings visibility



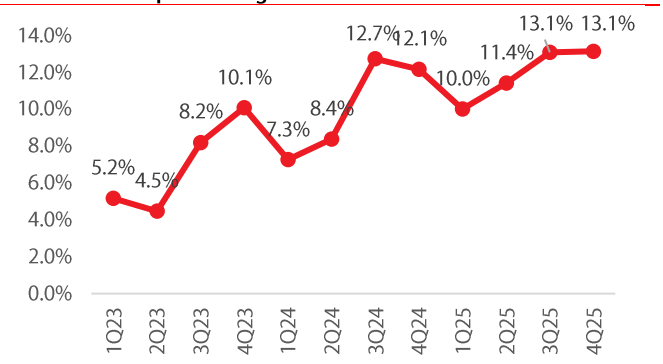
Source: Kelington, AmInvestment Bank Bhd.

EXHIBIT 5. New orders secured



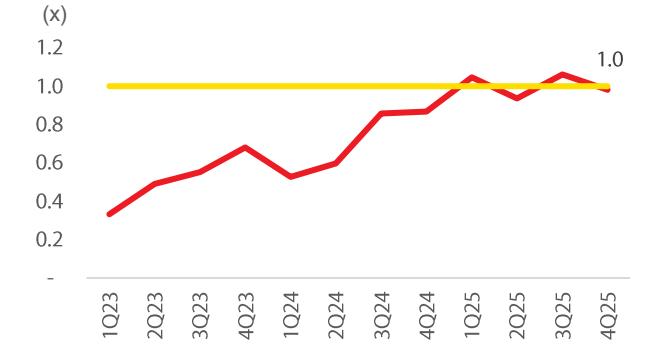
Source: Kelington, AmInvestment Bank Bhd.

EXHIBIT 6. Net profit margin



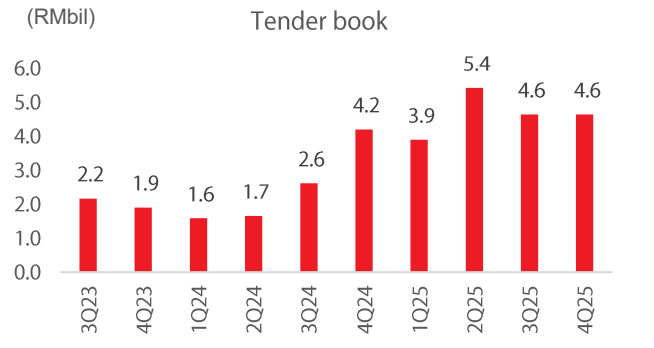
Source: Kelington, AmInvestment Bank Bhd.

EXHIBIT 7. Book-to-bill ratio



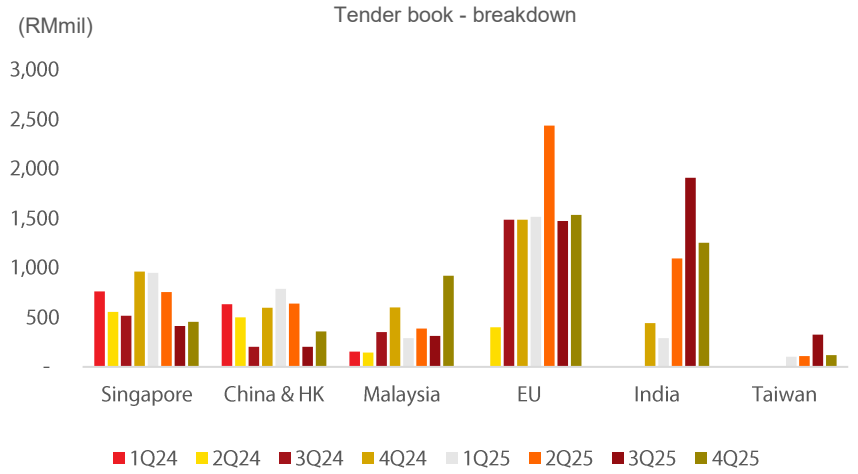
Source: Kelington, AmInvestment Bank Bhd.

EXHIBIT 8. Tenderbook



Source: Kelington, AmInvestment Bank Bhd.

EXHIBIT 9. Tenderbook breakdown



Source: Company, AmInvestment Bank Bhd.

EXHIBIT 10. Change in earnings

	FY26F			FY27F		
RMmil	Old	New	Change	Old	New	Change
Revenue	2,030	1,684	-17%	2,336	1,989	-15%
Earnings	195	193	-1%	230	242	+3%
Gross profit margin	18.5%	21.7%	+3.2ppt	18.3%	21.6%	+3.3ppt
Net profit margin	9.6%	11.5%	+1.8ppt	9.6%	11.6%	2.0ppt

Source: AmInvestment Bank Bhd.

EXHIBIT 11. Valuations

Target PE (x)	25.0x
CY27 EPS (sen)	26.80
Target price	RM6.70 (from RM6.45)

Source: AmInvestment Bank Bhd.

Company profile

Kelington specialises in ultra-high purity (UHP) gas systems, which serves as "plumbing" for high tech industries like semiconductors, electronics and solar. These systems operate in mission critical environments, where even microscopic contaminations can ruin a batch of wafers.

The group was founded in 1999, by a team of engineers led by Ir. Gan Hung Keng, many whom had previously worked at Malaysia Oxygen Berhad (MOX), the country's largest industrial gas supplier. This experience provided a solid technical foundation, particularly in the UHP gas handling segment, which is a niche but high barrier segment. The group initially served Malaysian fabs, before expanding into Singapore, China and Taiwan.

Investment thesis and catalysts

Benefiting from Semiconductor Sovereignty Push. Tender book has grown amid global chip independence efforts. Expansion into Europe, Hong Kong, and India positions the group to win major contracts, leveraging its track record and partnerships.

Strong Product Mix Driving Margins. Sustainable Patami margins are supported by high-margin UHP and industrial gas segments. UHP makes up 65% of the order book, while industrial gas revenue grew from 2% to 11% over five years.

Robust Cash Reserves Enable Strategic Moves. With net cash and further proceeds from warrants conversion, the group has flexibility. Dividend payout doubled to 50%, with potential for more or investment in CCUS, where it has CO_2 expertise.

Valuation

We value Kelington based on a target PE of 25x and CY27 EPS. Our target PE is pegged to 1sd above its 5-year average, which is underpinned by expectations of a fund flow driven rerating. The group's strong earnings visibility stands out amid a scarcity of high quality investment options within the sector.

Risk factors

Delays and execution risks. Delay in project award or delivery can impact revenue timing, resulting to downside in our earnings forecasts. Its expansion into new geographies also presents execution risks, if it is not able to deliver its projects on time, within budget or to specification.

Lumpy project awards. A large part of revenues is non-recurring in nature. If it is unable to secure replacement contracts in a timely manner, it may face periods of low revenue and profitability. This can occur, if existing customers do not expand their facilities and/or if the group fails to secure new customers.

Financial Summary

Income Statement (RMmil)

YE to December	FY24	FY25	FY26F	FY27F	FY28F
Revenue	1,272.2	1,273.6	1,684.5	1,989.3	2,073.6
EBITDA	180.3	213.4	249.3	291.2	304.7
Depreciation/Amortisation	(14.7)	(16.1)	(12.2)	(13.4)	(14.8)
Operating income (EBIT)	165.6	197.2	237.0	277.7	289.9
Other income & associates	(3.6)	(7.9)	-	-	-
Net interest	(3.4)	0.7	4.2	9.8	12.5
Exceptional items	(3.6)	(7.9)	-	-	-
Pretax profit	**158.6**	**190.0**	**241.3**	**287.5**	**302.5**
Taxation	(32.0)	(38.8)	(48.3)	(57.5)	(60.5)
Minorities/pref dividends	(2.4)	(0.1)	-	-	-
Net profit	**124.2**	**151.1**	**193.0**	**230.0**	**242.0**
Core net profit	127.8	159.0	193.0	230.0	242.0

Balance Sheet (RMmil)

YE to December	FY24	FY25	FY26F	FY27F	FY28F
Fixed assets	214.1	235.6	257.1	283.4	310.1
Intangible assets	6.8	6.6	6.6	6.6	6.6
Other long-term assets	2.3	1.7	1.7	1.7	1.7
Total non-current assets	**223.2**	**243.8**	**265.3**	**291.7**	**318.3**
Cash & equivalent	203.0	203.5	335.7	343.9	405.3
Stock	19.8	14.8	19.6	23.1	24.1
Trade debtors	341.4	468.2	619.2	731.3	762.3
Other current assets	362.8	470.2	470.2	470.2	470.2
Total current assets	**927.0**	**1,156.7**	**1,444.7**	**1,568.5**	**1,661.9**
Trade creditors	245.8	320.9	424.4	501.2	522.5
Short-term borrowings	104.9	130.1	64.7	32.2	16.0
Other current liabilities	234.9	245.5	245.5	245.5	245.5
Total current liabilities	**585.6**	**696.5**	**734.6**	**778.9**	**784.0**
Long-term borrowings	76.3	73.6	36.4	18.0	9.0
Other long-term liabilities	15.0	16.8	16.8	16.8	16.8
Total long-term liabilities	**91.3**	**90.4**	**53.2**	**34.8**	**25.7**
Shareholders' funds	**473.3**	**613.4**	**922.1**	**1,046.3**	**1,170.3**
Minority interests	0.1	0.1	0.1	0.1	0.1
BV/share (RM)	0.61	0.72	1.08	1.22	1.36

Cash Flow (RMmil)

YE to December	FY24	FY25	FY26F	FY27F	FY28F
Pretax profit	158.6	190.0	241.3	287.5	302.5
Depreciation/Amortisation	14.7	16.1	12.2	13.4	14.8
Net change in working capital	19.9	(127.9)	31.2	86.6	128.2
Others	(24.5)	(21.6)	(136.0)	(192.7)	(212.0)
Cash flow from operations	**168.7**	**56.6**	**148.7**	**194.9**	**233.5**
Capital expenditure	(48.5)	(31.5)	(33.7)	(39.8)	(41.5)
Net investments & sale of fixed assets	-	0.6	-	-	-
Others	(24.0)	(53.2)	-	-	-
Cash flow from investing	**(72.5)**	**(84.1)**	**(33.7)**	**(39.8)**	**(41.5)**
Debt raised/(repaid)	(1.3)	17.9	(102.7)	(50.9)	(25.2)
Equity raised/(repaid)	83.8	80.9	203.0	-	-
Dividends paid	(58.2)	(52.5)	(87.4)	(105.8)	(118.0)
Others	(15.5)	5.2	4.2	9.8	12.5
Cash flow from financing	**8.8**	**51.4**	**17.2**	**(146.8)**	**(130.7)**
Net cash flow	**105.0**	**23.9**	**132.2**	**8.2**	**61.3**
Net cash/(debt) b/f	**237.3**	**357.4**	-	-	-
Net cash/(debt) c/f	**357.6**	**379.1**	**132.2**	**8.2**	**61.3**

Key Ratios

YE to December	FY24	FY25	FY26F	FY27F	FY28F
Revenue growth (%)	(21.2)	0.1	32.3	18.1	4.2
EBITDA growth (%)	17.4	18.3	16.8	16.8	4.7
Pretax margin (%)	12.5	14.9	14.3	14.5	14.6
Net profit margin (%)	9.8	11.9	11.5	11.6	11.7
Interest cover (x)	49.1	nm	nm	nm	nm
Effective tax rate (%)	20.2	20.4	20.0	20.0	20.0
Dividend payout (%)	46.8	34.8	45.3	46.0	48.8
Debtors turnover (days)	111	116	118	124	131
Stock turnover (days)	6	5	4	4	4
Creditors turnover (days)	75	81	81	85	90

Source: Kelington, AmInvestment Bank Bhd.

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