

"Despite flat revenue, earnings grew strongly yoy, supported by record-high gross margin"

Share price performance



	1M	6M	12M
Absolute (%)	17.3	35.7	115.6
Rel KLCI (%)	17.8	27.7	93.3

	BUY	HOLD	SELL
Consensus	6	0	0

Source: Bloomberg

Stock Data

Sector	Technology
Issued shares (m)	871.9
MCap (RMm/US\$m)	6,391/1,617
Avg daily vol (m)	16.9
52-wk range (RM)	3.4-7.3
Est free float	90.0%
Stock Beta	1.25
Net cash/(debt)	276.06
ROE (CY26E)	30.5
Derivatives	Yes
Shariah Compliant	Yes
FTSE4Good	Yes
Constituent	
FBM EMAS (Top)	Top 25%
ESG Rank	

Key Shareholders

PALACE STAR	20.9%
SUN Lead	5.1%
Employees Provident	4.8%

Source: Bloomberg, Affin Hwang, Bursa Malaysia, ESG Risk Rating Powered by Sustainalytics
*Full ESG commentary inside

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Kelington (KGRB MK)

BUY (maintain)

Up/Downside: +21%

Price Target: RM8.88

Previous Target (Rating): RM6.65 (Buy)

Record orderbook reinforces growth visibility

- 1Q26 results was above expectations. We expect much stronger earnings in the remainder of FY26, supported by continued execution of its record orderbook
- Kelington secured RM790m of new orders in 1Q26, lifting its outstanding orderbook to a record RM1.92bn
- We raise our orderbook replenishment assumptions and reiterate BUY with a higher 12-month TP of RM8.88

Above expectations; seasonally softer quarter with startup cost drag

Kelington reported a solid 1Q26, with core profit of RM31.7m (+27% yoy, -49% qoq), accounting for 18% of our previous and 17% of consensus FY26 forecasts. We deem the results to be above expectations as we expect much stronger earnings in the remaining quarters of FY26, supported by the absence of startup costs incurred this quarter and continued execution of its record orderbook. The Group declared a higher dividend of 3.0 sen (vs 2.5 sen in 1Q25). Despite flat revenue, earnings grew strongly yoy, supported by a record-high gross margin, which we believe was driven by a more favourable project mix with higher contributions from Singapore projects and lower exposure to lower-margin China jobs, despite lower Industrial Gas contributions. Administrative expenses increased by RM7.8m (+62% yoy) due to higher staff costs to support expansion into India and Germany, with part of the increase likely attributable to one-off startup costs. Sequentially, earnings declined alongside lower revenue (-33% qoq), reflecting shorter working periods during the festive season and the additional startup costs.

Record high orderbook

Kelington secured RM790m of new orders in 1Q26 and lifted its outstanding orderbook to a record RM1.92bn. This accounts for 61% of our previous FY26 replenishment assumption of RM1.3bn. The replenishment included the US\$105m (c.RM414m) turnkey gas distribution system contract for a semiconductor wafer fabrication facility in Gujarat, India, further strengthening the Group's global footprint expansion. Looking ahead, we expect strong qoq and yoy earnings growth in 2Q26, driven by higher Engineering revenue recognition from longer working periods and continued project execution. Margins should also improve, supported by lower startup costs and lower contributions from lower-margin China projects.

Maintain BUY; TP raised to RM8.88

We raise our FY26–28E orderbook replenishment assumptions to RM1.6bn/1.8bn/2.0bn (from RM1.3bn/1.5bn/1.7bn previously), lifting FY26–28E earnings forecasts by 14-22%. In addition, we roll forward the valuation base year to FY27 and reiterate our **BUY** rating with a higher TP of **RM8.88** (from RM6.65), based on 33x FY27E PER. We remain positive on Kelington's long-term growth outlook, underpinned by deglobalisation, supply-chain reconfiguration and rising geopolitical frictions, which continue to drive global wafer-fab investments and onshoring activities. Key risks include project execution delays, semiconductor capex slowdown and weaker Industrial Gas demand.

Earnings and Valuation Summary

FYE 31 Dec (RMm)	FY24A	FY25A	FY26E	FY27E	FY28E
Revenue (RMm)	1,272.2	1,274.9	1,905.3	2,144.3	2,152.2
EBITDA (RMm)	179.1	215.2	275.8	317.1	324.3
Pretax profit (RMm)	158.8	190.1	257.6	301.1	309.4
Net profit (RMm)	124.3	150.9	200.7	234.6	241.1
EPS (sen)	17.4	19.4	23.3	27.3	28.0
PER (x)	42.2	37.8	31.4	26.9	26.2
Core net profit	126.5	160.7	200.7	234.6	241.1
Core EPS (sen)	17.7	20.7	23.3	27.3	28.0
Core EPS growth (%)	20.1	27.1	24.9	16.9	2.8
Core PER (x)	41.5	35.5	31.4	26.9	26.2
Net DPS (sen)	8.0	13.0	13.0	15.0	15.0
Dividend yield (%)	1.1	1.8	1.8	2.0	2.0
EV/EBITDA (x)	34.4	28.7	22.2	19.1	18.4
Chg in EPS (%)			14.2	21.6	15.2
Affin/Consensus (x)			1.1	1.1	1.1

Source: Company, Bloomberg, Affin Hwang forecasts

Fig 1: Results Comparison

FYE Dec (RMm)	1Q25	4Q25	1Q26	QoQ % chg	YoY % chg	Comments
Revenue	270.3	404.9	270.4	-33.2	0.1	Weaker 1Q26 qoq due to shorter working periods during the festive season
Op costs	(233.6)	(327.2)	(225.3)	-31.1	-3.6	
EBITDA	36.7	77.7	45.2	-41.9	23.2	
<i>EBITDA margin (%)</i>	<i>13.6</i>	<i>19.2</i>	<i>16.7</i>	<i>-2.5ppt</i>	<i>3.1ppt</i>	
Depn and amort	(3.9)	(4.2)	(4.6)	9.5	17.4	
EBIT	32.7	73.5	40.5	-44.9	23.9	
<i>EBIT margin (%)</i>	<i>12.1</i>	<i>18.2</i>	<i>15.0</i>	<i>-3.2ppt</i>	<i>2.9ppt</i>	
Int expense	(2.2)	(1.8)	(1.9)	6.4	-10.0	
Int and other inc	2.0	2.4	2.1	-11.6	7.8	
El	1.7	(11.9)	(1.3)	-88.7	-180.9	4Q25 El includes RM9.1m provision of warranty
PBT	34.2	62.2	39.4	-36.7	15.1	
Tax	(7.6)	(11.7)	(9.0)	-23.3	18.7	
<i>Tax rate (%)</i>	<i>22.1</i>	<i>18.8</i>	<i>22.8</i>	<i>4ppt</i>	<i>0.7ppt</i>	
MI	0.0	(0.1)	(0.0)	-96.2	-175.0	
Net profit	26.6	50.4	30.4	-39.7	14.0	
EPS (sen)	3.7	6.5	3.9	-40.5	4.5	
Core net profit	25.0	62.3	31.7	-49.1	27.0	Above expectations

Source: Affin Hwang, Company

Important Disclosures and Disclaimer

Equity Rating Structure and Definitions

BUY	Total return is expected to exceed +10% over a 12-month period
HOLD	Total return is expected to be between -5% and +10% over a 12-month period
SELL	Total return is expected to be below -5% over a 12-month period
NOT RATED	Affin Hwang Investment Bank Berhad does not provide research coverage or rating for this company. Report is intended as information only and not as a recommendation

The total expected return is defined as the percentage upside/downside to our target price plus the net dividend yield over the next 12 months.

OVERWEIGHT	Industry, as defined by the analyst's coverage universe, is expected to outperform the KLCI benchmark over the next 12 months
NEUTRAL	Industry, as defined by the analyst's coverage universe, is expected to perform inline with the KLCI benchmark over the next 12 months
UNDERWEIGHT	Industry, as defined by the analyst's coverage universe is expected to under-perform the KLCI benchmark over the next 12 months

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