

KELINGTON GROUP

(KGRB MK EQUITY, KELG.KL)

BUY

(MAINTAINED)

Price: RM7.32

Target Price (% return): RM8.50 (+18%)

52-week High/Low: RM7.45/RM3.29

Technology

Rationale for report: Company Result

Strengthening pipeline

With the tender pipeline almost doubling to RM9bil and increasingly anchored by repeat customers, the market is beginning to price the group less as a cyclical semiconductor subcontractor and more as a structurally advantaged beneficiary of the global capex and semiconductor sovereignty cycle. As earnings visibility improves, geographical diversification deepens and margins remain disciplined, we believe the group is entering a stronger and potentially longer rerating phase.

- **BUY with a higher TP of RM8.50/share (from RM6.70).** Our valuation is based on a higher target PE of 27x (from 25x), while rolling forward our earnings base to blended CY27/28 EPS. Although our target PE remains at 1SD above its rolling 5-year average, the absolute multiple has shifted higher as the group's valuation band continues to re-rate. We believe this is fundamentally supported by stronger earnings visibility, a meaningfully expanded tender pipeline and a broader semiconductor capex upcycle.
- **Tender pipeline expanded sharply.** The key highlight was tender book increasing from RM5bil last quarter to RM9bil as at mid-May 2026. Importantly, a large portion of these new tenders are from existing customers, which we believe improves the group's chances of securing them. As such, we raise our FY27F and FY28F earnings forecasts by 17% and 28% respectively to reflect the stronger replenishment outlook.
- **Geographical diversification bearing fruit.** Order book surged +39% QoQ to RM1.9bil (as at end Mar 26), supported by RM790mil of new orders secured during the quarter. This included a RM414mil wafer fab order from India. New markets such as India and Germany now account for 28% and 8% of the outstanding order book respectively, reinforcing the group as a beneficiary of rising semiconductor sovereignty and supply chain diversification trends.
- **On track for record year.** 1Q26 core profit rose +17% YoY to RM32m. As the first quarter is typically seasonally softer, we deem this broadly in line, forming 17% of both Am's and consensus estimates. Despite flat revenues, higher earnings were driven by PATAMI margins expanding 2pp YoY to 12%. This reflects a favourable demand-supply environment as management prioritises profitability over volume.

Analyst (s)

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Key Changes

Target Price:

EPS:

Stock and Financial Data

Shares Outstanding (million)	784.7
Market Cap (RMmil)	5,752.1
Book Value (RM/Share)	0.72
P/BV (x)	10.2
ROE (%)	27.8
Net Gearing (%)	-
Free Float	73.4
Avg Daily Value (RMmil)	22.1

Major Shareholders

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

Price performance	3mth	6mth	12mth
Absolute(%)	43.6	36.6	116.9
Relative(%)	46.9	28.8	94.9

Source: Kelington Group, AmInvestment Bank Bhd.

YE to December	FY25	FY26F	FY27F	FY28F
Revenue (RM mil)	1,273.6	1,684.5	2,382.9	2,779.8
Core net profit (RM mil)	159.0	193.0	269.6	312.4
FD Core EPS (sen)	18.5	22.5	31.4	36.4
FD Core EPS growth (%)	24.4	21.4	39.7	15.9
Consensus Net Profit (RM mil)	-	-	-	-
DPS (sen)	6.1	10.2	13.5	17.0
PE (x)	39.5	32.6	23.3	20.1
EV/EBITDA (x)	27.0	22.1	16.1	13.7
Div yield (%)	1.2	1.9	2.5	3.2
ROE (%)	27.8	25.1	27.0	26.9
Net Gearing (%)	0.0	nm	nm	nm

Source: Kelington Group, AmInvestment Bank Bhd.

Price Chart

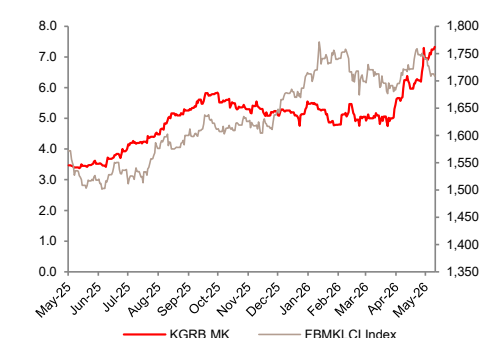


EXHIBIT 1. 1Q26 Earnings Summary

FYE Dec	1Q26	1Q25	% YoY	4Q25	% QoQ
Revenue	270	270	0.1	405	-33.2
EBITDA	45	39	16.7	72	-37.1
Depreciation and amortisation	-5	-4	-17.4	-7	38.3
EBIT	41	35	16.6	64	-37.0
Finance income	2	2	7.8	2	-11.6
Finance cost	-2	-2	10.0	-2	-6.4
EI	-1	0	-245.0	-3	49.8
Profit before tax	39	34	15.1	62	-36.7
Tax	-9	-8	-18.7	-12	23.3
MI	0	0	nm	0	96.2
Net profit	30	27	14.1	51	-39.8
Core net profit	32	27	17.4	53	-40.3
EPS (sen)	3.9	3.7	4.6	6.5	-40.4
DPS (sen)	3.0	2.5	20.0	4.0	-25.0

Profitability ratios (%)

Ebitda margin	16.7	14.3	2.4	17.7	-1.0
Ebit margin	15.0	12.9	2.1	15.9	-0.9
Pbt margin	14.6	12.7	1.9	15.4	-0.8
Tax rate	22.8	22.1	0.7	18.8	4.0
Net profit margin	11.7	10.0	1.7	13.1	-1.4

Source: Kelington, AmInvestment Bank Bhd.

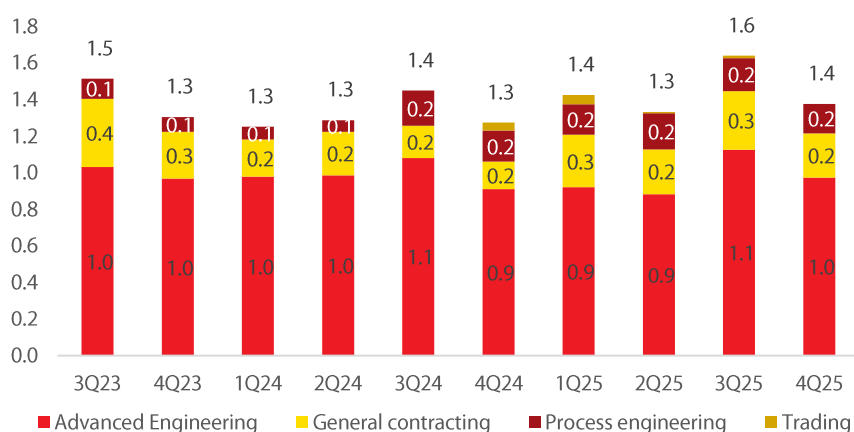
EXHIBIT 2. 1Q26 Earnings Summary

FYE Dec	1Q26	1Q25	% YoY	4Q25	% QoQ
Revenue					
UHP/Advanced Engineering	182	199	-8.7	258	-29.5
Process engineering	10	9	4.9	42	-77.0
General contracting	46	26	80.5	70	-33.8
Industrial gases	31	34	-8.5	30	2.1
Equipment and materials	7	9	-19.6	13	-42.8
Geography					
Malaysia	85	80	6.8	144	-40.9
China	49	101	-51.4	67	-26.6
Singapore	108	76	42.4	155	-30.1
Taiwan	10	4	>100	9	6.5
Germany	7	0	nm	0	nm
Others	11	9	16.7	30	-63.6
Orderbook (bil)	1.92	1.43	34.3	1.38	39.1
Tenderbook (bil)	5.28	3.90	35.5	4.88	8.2

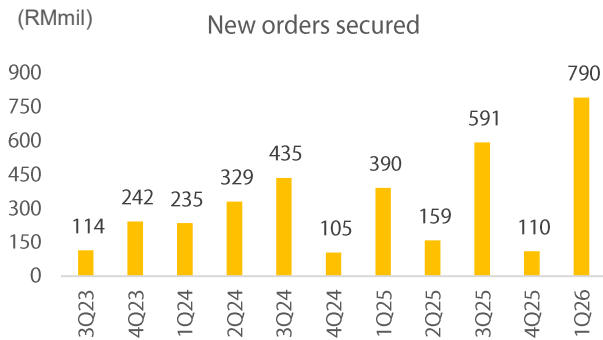
Source: Kelington, AmInvestment Bank Bhd.

EXHIBIT 3. Orderbook breakdown

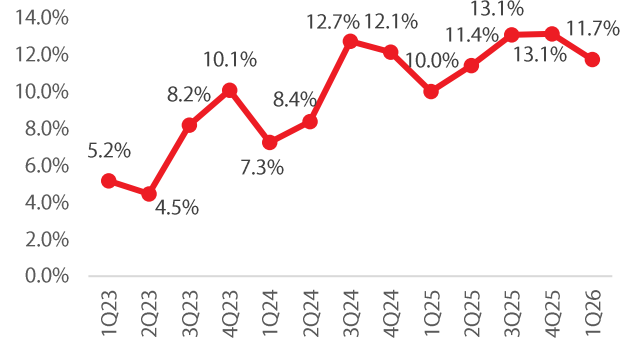
(RMbil)



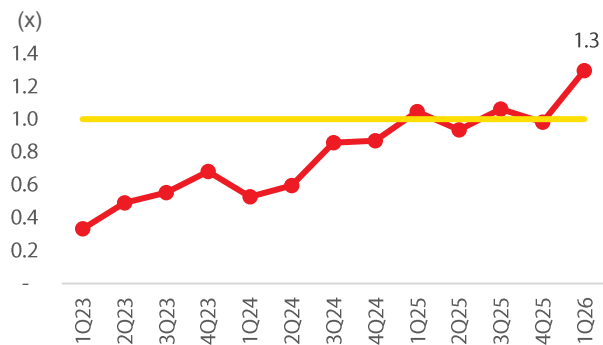
Source: Kelington, AmInvestment Bank Bhd.

EXHIBIT 4. New orders secured

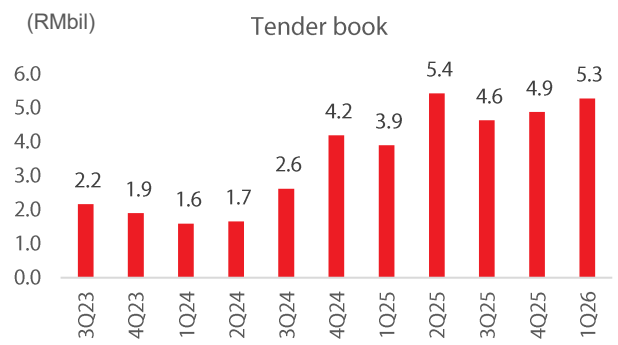
Source: Kelington, AmInvestment Bank Bhd.

EXHIBIT 5. Patami growth

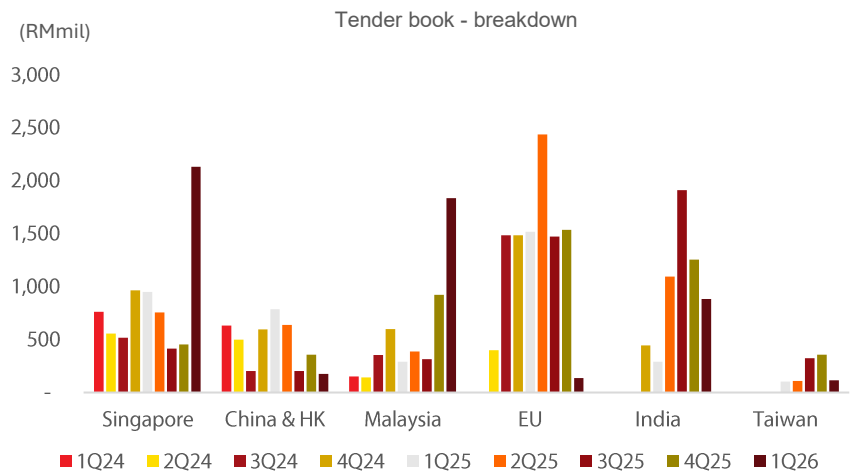
Source: Kelington, AmInvestment Bank Bhd.

EXHIBIT 6. Book-to-bill ratio

Source: Kelington, AmInvestment Bank Bhd.

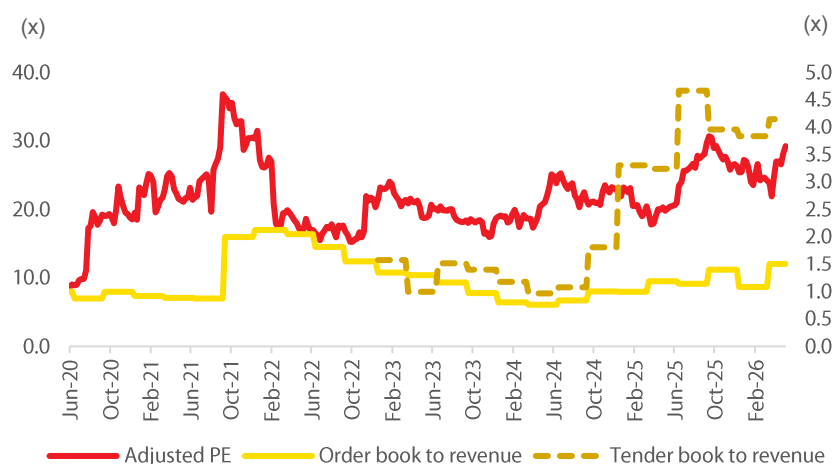
EXHIBIT 7. Tenderbook

Source: Kelington, AmInvestment Bank Bhd.

EXHIBIT 8. Tenderbook breakdown

Source: Kelington, AmInvestment Bank Bhd.

EXHIBIT 9. Kelington orderbook & tenderbook to revenue



Source: Kelington, AmInvestment Bank Bhd.

EXHIBIT 10. 5-year average PE



Source: Kelington, AmInvestment Bank Bhd.

EXHIBIT 11. Valuations

Target PE (x)	27x
Avg CY27/28 EPS	33.9sen
Target price	RM8.50 (from RM6.70)

Source: AmInvestment Bank Bhd.

EXHIBIT 12. Change in earnings

RMmil	Old	FY26F New	Change	Old	FY27F New	Change	Old	FY28F New	Change
Revenue	1,684	1,684	-	1,989	2,383	+20%	2,074	2,780	+34%
Earnings	193	193	-	230	270	+17%	242	312	+29%
Tenderbook	4,181	6,969	+67%	4,390	5,575	+27%	4,610	5,854	+27%

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 tripled to RM5bil 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 the bulk of order book, while industrial gas revenue grew from 2% to 11% over five years.

Robust Cash Reserves Enable Strategic Moves. Operating in a net cash position, the group has flexibility. Dividend payout doubled to 50%, with potential for more or investment in CCUS, where it has CO₂ expertise.

Valuation

We value Kelington based on a target PE of 27x and 12-month forward EPS. Our target PE is pegged to 1sd above its 5-year average, underpinned by 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	2,382.9	2,779.8
EBITDA	180.3	213.4	249.3	341.2	394.3
Depreciation/Amortisation	(14.7)	(16.1)	(12.2)	(13.6)	(15.5)
Operating income (EBIT)	165.6	197.2	237.0	327.6	378.8
Other income & associates	(3.6)	(7.9)	-	-	-
Net interest	(3.4)	0.7	4.2	9.4	11.7
Exceptional items	(3.6)	(7.9)	-	-	-
Pretax profit	158.6	190.0	241.3	337.0	390.5
Taxation	(32.0)	(38.8)	(48.3)	(67.4)	(78.1)
Minorities/pref dividends	(2.4)	(0.1)	-	-	-
Net profit	124.2	151.1	193.0	269.6	312.4
Core net profit	127.8	159.0	193.0	269.6	312.4

Balance Sheet (RMmil)

YE to December	FY24	FY25	FY26F	FY27F	FY28F
Fixed assets	214.1	235.6	257.1	291.1	331.1
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	299.3	339.4
Cash & equivalent	203.0	203.5	335.7	315.9	366.9
Stock	19.8	14.8	19.6	27.7	32.3
Trade debtors	341.4	468.2	619.2	876.0	1,021.9
Other current assets	362.8	470.2	470.2	470.2	470.2
Total current assets	927.0	1,156.7	1,444.7	1,689.7	1,891.3
Trade creditors	245.8	320.9	424.4	600.4	700.4
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	878.1	961.9
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	1,076.0	1,242.9
Minority interests	0.1	0.1	0.1	0.1	0.1
BV/share (RM)	0.61	0.72	1.08	1.25	1.45

Cash Flow (RMmil)

YE to December	FY24	FY25	FY26F	FY27F	FY28F
Pretax profit	158.6	190.0	241.3	337.0	390.5
Depreciation/Amortisation	14.7	16.1	12.2	13.6	15.5
Net change in working capital	19.9	(127.9)	31.2	86.6	178.0
Others	(24.5)	(21.6)	(136.0)	(252.3)	(318.3)
Cash flow from operations	168.7	56.6	148.7	184.9	265.7
Capital expenditure	(48.5)	(31.5)	(33.7)	(47.7)	(55.6)
Net investments & sale of fixed assets	-	0.6	-	-	-
Others	(24.0)	(53.2)	-	-	-
Cash flow from investing	(72.5)	(84.1)	(33.7)	(47.7)	(55.6)
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)	(115.7)	(145.5)
Others	(15.5)	5.2	4.2	9.4	11.7
Cash flow from financing	8.8	51.4	17.2	(157.1)	(159.0)
Net cash flow	105.0	23.9	132.2	(19.8)	51.1
Net cash/(debt) b/f	237.3	357.4	-	-	-
Net cash/(debt) c/f	357.6	379.1	132.2	(19.8)	51.1

Key Ratios

YE to December	FY24	FY25	FY26F	FY27F	FY28F
Revenue growth (%)	(21.2)	0.1	32.3	41.5	16.7
EBITDA growth (%)	17.4	18.3	16.8	36.9	15.6
Pretax margin (%)	12.5	14.9	14.3	14.1	14.0
Net profit margin (%)	9.8	11.9	11.5	11.3	11.2
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	42.9	46.6
Debtors turnover (days)	111	116	118	115	125
Stock turnover (days)	6	5	4	4	4
Creditors turnover (days)	75	81	81	78	85

Source: Company, AmInvestment Bank Bhd.

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