

KELINGTON GROUP

(KGRB MK EQUITY, KELG.KL)

BUY

(MAINTAINED)

Price: RM9.00

Target Price (% return): RM12.30 (39%)

52-week High/Low: RM9.03/RM4.58

Technology

Rationale for report: Company Result

Laying the groundwork for 2027

Kelington's 1H26 earnings were in line with expectations, but the stronger story lies ahead. A record RM2.0bil order book, increasingly weighted towards higher-margin advanced engineering projects, should drive a seasonally stronger 2H26. Meanwhile, its RM7.5bil tender book provides healthy earnings visibility into 2027. Our FY27F-28F earnings remain 38%-58% above consensus, reflecting stronger assumptions for contract wins and execution than currently priced by the market.

- **Retain BUY with a street-high TP of RM12.30/share.** This is based on an unchanged target PE of 27x and blended CY27/28. We continue to see meaningful upside to consensus, with our FY27F and FY28F earnings forecasts standing 30% and 38% above street estimates, respectively.
- **Order book of RM2.0bil underpins a stronger 2H26.** Kelington reported a 24% YoY increase in 1H26 core net profit to RM73mil. As we expect earnings to accelerate, we deem earnings within expectations at 38% of ours and 37% of consensus full-year forecasts. The order book continues to diversify geographically, with India and Germany accounting for 28% and 8% of outstanding orders. In addition, 79% of the order book comprises advanced engineering projects, which typically command higher margins.
- **Tender book provides a strong setup for 2027 growth.** We expect outstanding order book to reach RM4.0bil by end-2026. Although the tender book eased slightly to RM7.5bil in June 2026 from May levels, management indicated this was a deliberate move to prioritise higher-quality opportunities by withdrawing from selected tenders. Given that the bulk of the current pipeline consists of repeat customers, we adopt a higher tender win rate assumption of 55%. We continue to expect the pipeline to be driven by AI-led investments, particularly in data storage capacity.
- **Industrial gas investments strengthen recurring earnings visibility.** The group has commenced construction of a merchant air separation unit plant in India, with total capex budgeted at RM120mil. Construction began in August 2026, with commercial completion targeted for 3Q28. While production is expected to ramp up over two to four years, we estimate the project could ultimately contribute approximately 5% upside to our earnings forecasts through higher recurring income.

YE to December	FY25	FY26F	FY27F	FY28F
Revenue (RM mil)	1,273.6	1,684.5	3,002.4	3,759.1
Core net profit (RM mil)	159.0	193.0	332.0	409.9
FD Core EPS (sen)	18.5	22.5	38.7	47.8
FD Core EPS growth (%)	24.4	21.4	72.0	23.5
Consensus Net Profit (RM mil)	-	195.0	255.2	296.8
DPS (sen)	6.1	10.2	15.3	21.6
PE (x)	48.5	40.0	23.2	18.8
EV/EBITDA (x)	33.1	27.4	16.3	13.1
Div yield (%)	1.2	1.9	2.9	4.1
ROE (%)	27.8	25.1	32.5	33.2
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)	7,062.6
Book Value (RM/Share)	0.72
P/BV (x)	12.6
ROE (%)	27.8
Net Gearing (%)	-
Free Float	68.7
Avg Daily Value (RMmil)	28.0

Major Shareholders

PALACE STAR	(21.4%)
SUN Lead International	(5.3%)
EPF	(4.9%)

Price performance	3mth	6mth	12mth
Absolute(%)	26.1	76.0	94.3
Relative(%)	24.7	77.6	77.7

Source: Kelington Group, AmInvestment Bank Bhd.

Price Chart

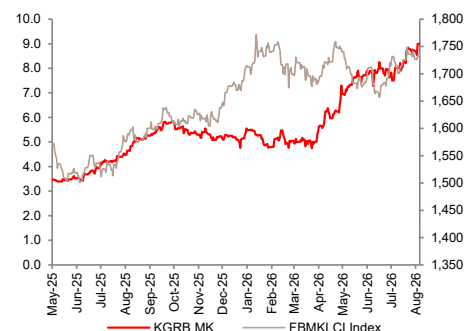


EXHIBIT 1. 2Q26 Earnings Summary

FYE Dec	2Q26	2Q25	% YoY	1Q26	% QoQ	1H26	1H25	% YoY
Revenue	344	282	22.1	270	27.4	615	552	11.3
EBITDA	56	45	23.8	45	22.9	101	84	20.5
Depreciation and amortisation	-5	-4	-20.5	-5	-4.8	-9	-8	-19.0
EBIT	51	41	24.1	41	24.9	91	76	20.7
Finance income	2	2	18.8	2	10.2	4	4	13.3
Finance cost	-2	-2	14.8	-2	4.8	-4	-4	12.4
El	0	1	nm	-1	95.8	-1	1	nm
Profit before tax	51	42	23.0	39	29.8	90	76	19.4
Tax	-10	-8	-15.2	-9	-8.5	-19	-16	-16.9
MI	0	0	nm	0	-966.7	0	0	nm
Net profit	41	33	25.0	30	36.1	72	60	20.1
Core net profit	41	32	28.7	32	30.3	73	59	23.5
EPS (sen)	4.8	4.5	7.1	3.9	24.5	8.7	8.2	6.0
DPS (sen)	3.0	2.5	20.0	3.0	0.0	6.0	5.0	20.0
Profitability ratios (%)								
Ebitda margin	16.1	15.9	0.2	16.7	-0.6	16.4	15.1	1.2
Ebit margin	14.7	14.5	0.2	15.0	-0.3	14.8	13.7	1.1
Pbt margin	14.8	14.7	0.1	14.6	0.3	14.7	13.7	1.0
Tax rate	19.1	20.3	-1.3	22.8	-3.8	20.7	21.1	-0.4
Net profit margin	12.0	11.4	0.6	11.7	0.3	11.9	10.7	1.2

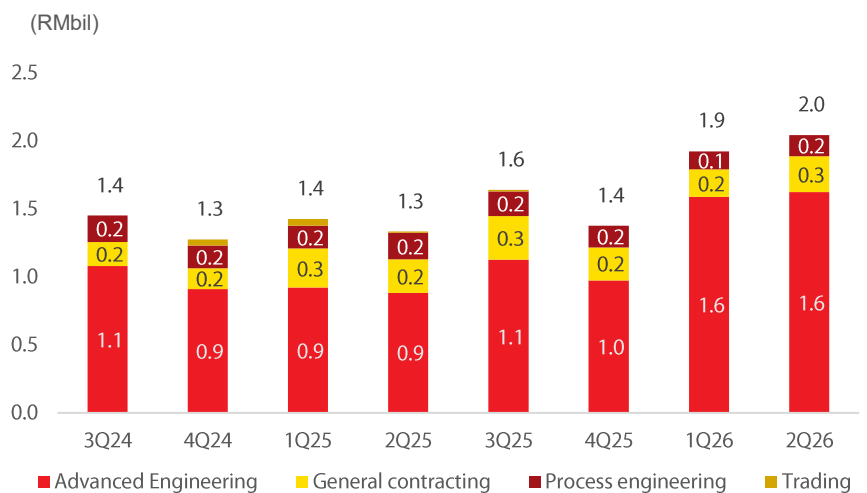
Source: Kelington, AmInvestment Bank Bhd.

EXHIBIT 2. 2Q26 Operational Breakdown

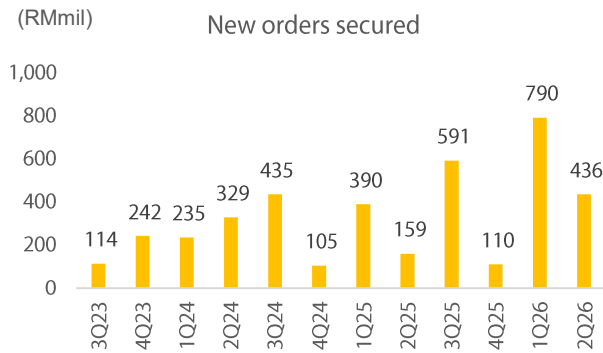
FYE Dec	2Q26	2Q25	% YoY	1Q26	% QoQ	1H26	1H25	% YoY
Revenue								
UHP/Advanced Engineering	219	185	18.6	182	20.4	402	385	4.5
Process engineering	26	17	59.0	10	>100	36	26	39.8
General contracting	65	53	22.0	46	40.9	111	79	41.0
Industrial gases	32	29	10.4	31	4.4	63	63	0.3
Equipment and materials	13	4	>100	7	77.1	20	13	54.8
Geography								
Malaysia	123	109	12.7	85	44.5	208	189	10.2
China	43	58	-24.7	49	-11.8	92	159	-41.7
Singapore	142	100	42.2	108	31.2	250	176	42.3
Taiwan	17	7	>100	10	75.2	27	11	>100
Germany	7	0	nm	7	0.9	14	0	nm
Others	11	9	31.0	11	5.9	22	18	23.7
Orderbook (bil)	2.04	1.33	53.4	1.92	6.3			
Tenderbook (bil)	7.50	5.43	38.0	5.28	41.9			

Source: Kelington, AmInvestment Bank Bhd.

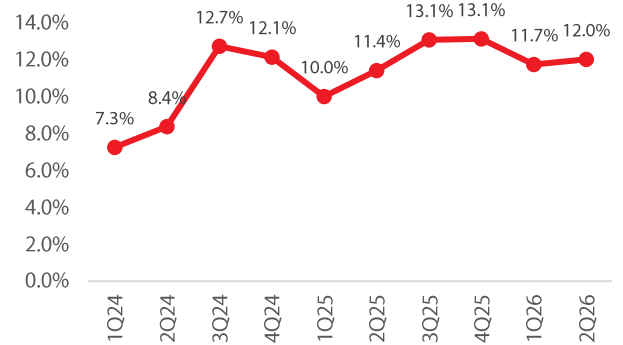
EXHIBIT 3. Orderbook breakdown



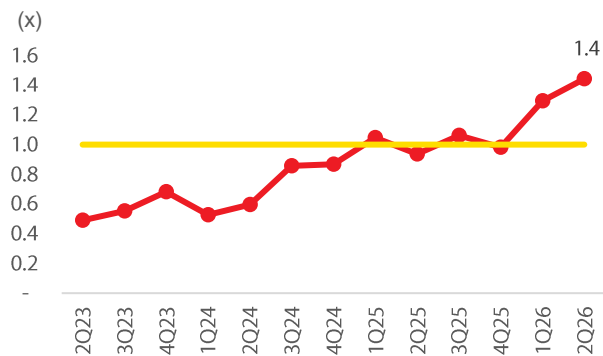
Source: Kelington, AmInvestment Bank Bhd.

EXHIBIT 4. New orders secured

Source: Kelington, AmInvestment Bank Bhd.

EXHIBIT 5. Core patami margin

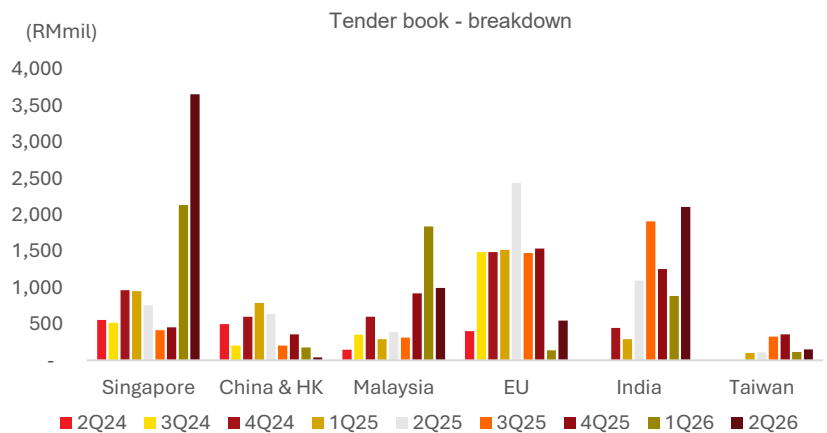
Source: Kelington, AmInvestment Bank Bhd.

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. Valuations

Target PE (x)	27.0x
Blended CY27/28 EPS	45.5sen
Target price	RM12.30

Source: AmInvestment Bank Bhd.

Background

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 more than doubled to RM9bil 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 bulk of the 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 methodology

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	3,002.4	3,759.1
EBITDA	180.3	213.4	249.3	420.1	518.5
Depreciation/Amortisation	(14.7)	(16.1)	(12.2)	(13.9)	(16.6)
Operating income (EBIT)	165.6	197.2	237.0	406.1	501.9
Other income & associates	(3.6)	(7.9)	-	-	-
Net interest	(3.4)	0.7	4.2	8.9	10.5
Exceptional items	(3.6)	(7.9)	-	-	-
Pretax profit	158.6	190.0	241.3	415.0	512.4
Taxation	(32.0)	(38.8)	(48.3)	(83.0)	(102.5)
Minorities/pref dividends	(2.4)	(0.1)	-	-	-
Net profit	124.2	151.1	193.0	332.0	409.9
Core net profit	127.8	159.0	193.0	332.0	409.9

Balance Sheet (RMmil)

YE to December	FY24	FY25	FY26F	FY27F	FY28F
Fixed assets	214.1	235.6	257.1	303.2	361.7
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	311.4	370.0
Cash & equivalent	203.0	203.5	335.7	271.7	316.0
Stock	19.8	14.8	19.6	34.9	43.7
Trade debtors	341.4	468.2	619.2	1,103.7	1,381.9
Other current assets	362.8	470.2	470.2	470.2	470.2
Total current assets	927.0	1,156.7	1,444.7	1,880.5	2,211.8
Trade creditors	245.8	320.9	424.4	756.5	947.1
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	1,034.2	1,208.7
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	1,122.8	1,347.2
Minority interests	0.1	0.1	0.1	0.1	0.1
BV/share (RM)	0.61	0.72	1.08	1.31	1.57

Cash Flow (RMmil)

YE to December	FY24	FY25	FY26F	FY27F	FY28F
Pretax profit	158.6	190.0	241.3	415.0	512.4
Depreciation/Amortisation	14.7	16.1	12.2	13.9	16.6
Net change in working capital	19.9	(127.9)	31.2	86.5	256.4
Others	(24.5)	(21.6)	(136.0)	(346.2)	(465.7)
Cash flow from operations	168.7	56.6	148.7	169.3	319.7
Capital expenditure	(48.5)	(31.5)	(33.7)	(60.0)	(75.2)
Net investments & sale of fixed assets	-	0.6	-	-	-
Others	(24.0)	(53.2)	-	-	-
Cash flow from investing	(72.5)	(84.1)	(33.7)	(60.0)	(75.2)
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)	(131.3)	(185.5)
Others	(15.5)	5.2	4.2	8.9	10.5
Cash flow from financing	8.8	51.4	17.2	(173.2)	(200.2)
Net cash flow	105.0	23.9	132.2	(64.0)	44.3
Net cash/(debt) b/f	237.3	357.4	-	-	-
Net cash/(debt) c/f	357.6	379.1	132.2	(64.0)	44.3

Key Ratios

YE to December	FY24	FY25	FY26F	FY27F	FY28F
Revenue growth (%)	(21.2)	0.1	32.3	78.2	25.2
EBITDA growth (%)	17.4	18.3	16.8	68.5	23.4
Pretax margin (%)	12.5	14.9	14.3	13.8	13.6
Net profit margin (%)	9.8	11.9	11.5	11.1	10.9
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	39.5	45.2
Debtors turnover (days)	111	116	118	105	121
Stock turnover (days)	6	5	4	3	4
Creditors turnover (days)	75	81	81	72	83

Source: Company, AmInvestment Bank Bhd.

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