

Kelington Group

All Stars Aligned

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Our con-call with KGB was well attended by ~70 participants. The group has been working with pharma companies since 2-3 months ago to understand using dry ice to store Covid-19 vaccines. KGB is also one of two suppliers locally for LCO2 (raw mat of dry ice). More importantly, SMIC is asking KGB to speed things up and hinted of more UHP-related jobs award due to an imminent wafer shortage (SMIC's utilisation already at 100%). Lucrative job tenders in the pipeline includes WD, Micron, Tsinghua Unigroup, Lam Research, Bosch, and B Braun. The stock is still cheap at 19.9x Fwd. PER vs peers' avg. of 30-58x. Reiterate **OUTPERFORM** and TP of RM1.92.

Significantly undervalued. We hosted a conference call with the management recently which was very well attended by ~70 participants. The conference call reaffirms our **OUTPERFORM** call with a **target price of RM1.92**. Despite rallying 28% after our initiation report (09/11/2020), we think the stock is still cheap at FY21E PER of 19.9x vs peers' average of 30-58x.

Dry ice being the highlight. The group has been working with pharmaceutical companies since 2-3 months back to understand the requirements of using dry ice to store Covid-19 vaccines. Apart from supplying their own dry ice, other dry ice manufacturer in Malaysia also have to source liquid CO2 from KGB, as there are only two players locally (Linde and KGB) due to the high barrier of entry. LCO2 business is very lucrative with GPM >30%, which more than double their ultra-high purity (UHP) gas delivery system margins.

SMIC speeding up expansion. On the UHP side, SMIC is asking KGB to speed things up and hinted of more job awards due to an imminent wafer shortage. SMIC recently reported 123% YoY jump in profit on 33% increase in revenue for 3QCY20, marking a new high. SMIC's current utilisation rate is at 100% and it is guiding momentum to remain strong going into 1H 2021. Tendering activities are getting much more intense with Western Digital (which announced RM2.3b investment in Penang), Micron Singapore (resuming memory spending), along with Tsinghua Unigroup, Lam Research, Bosch, and B Braun looking to expand capacity. Note that KGB has worked with Western Digital and Micron Singapore in all their past expansions, positioning the group well for upcoming tenders.

Maintain FY20E and FY21E earnings. We believe KGB's earnings potential in FY21 is being underestimated by market, which is only looking at RM17.9m. KGB already achieved PAT of RM24.4m in FY19 even with ~RM1m start-up losses for its LCO2 plant and ~RM2m idling losses at Taiwan division. For FY21, we forecast the LCO2 plant to start generating RM3-4m profit, while Taiwan also swings into profit of RM2m. With its all-time high orderbook, we believe we too are still being conservative with our FY21E PAT of RM26.0m (+230% YoY). We anticipate the upcoming 3QFY20 results to meet our expectation.

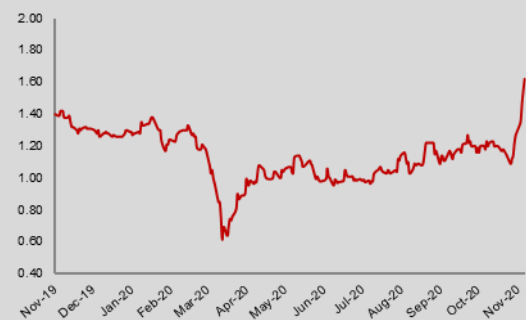
Maintain OUTPERFORM and Target Price of RM1.92, based on FY21E PER of 23.6x (+0.5SD from 3-year mean – a premium justly applied on our conservative FY21 estimate).

Risks to our call include: (i) slower-than-expected revenue recognition due to Covid-19, (ii) downturn in semiconductor sales, and (iii) delay in liquid CO2 ramp up.

OUTPERFORM

Price : **RM1.62**
Target Price : **RM1.92**

Share Price Performance



KLCI	1,589.7
YTD KLCI chg	6.8%
YTD stock price chg	26.5%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	KGRB MK Equity
Market Cap (RM m)	438.8
Shares Outstanding	321.4
52-week range (H)	1.62
52-week range (L)	0.59
3-mth avg daily vol:	2,592,208
Free Float	53%
Beta	1.2

Major Shareholders

Palace Star	21.0%
Sun Lead International Ltd	6.2%
Kenanga Unit Trust	5.2%

Summary Earnings Table

FYE Dec (RM m)	2019A	2020E	2021E
Turnover	379.8	336.9	435.3
EBITDA	35.0	14.3	38.7
PBT	31.6	10.2	33.6
Net Profit (NP)	24.4	7.9	26.0
Consensus (NP)	n.a	7.7	17.9
Earning. Revision	n.a	0%	0%
EPS (sen)	8.2	2.5	8.1
EPS growth (%)	8.0	-69.8	230.1
NDPS (sen)	2.0	0.6	2.0
BVPS (RM)	0.52	0.51	0.57
Price/BV (x)	2.3	2.5	2.2
PER (x)	14.8	51.6	19.9
Gearing (x)	0.2	0.2	0.2
ROA (%)	8.1	2.4	7.3
ROE (%)	15.7	4.9	14.3
Dividend Yield (%)	1.7	0.5	1.6

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Income Statement

FY Dec (RM m)	2017A	2018A	2019A	2020E	2021E
Revenue	313.3	350.0	379.8	336.9	435.3
EBITDA	19.2	29.0	35.0	14.3	38.7
Depre & Amor	-1.3	-3.1	-2.1	-2.8	-3.8
Operating Profit	17.9	25.9	32.9	11.5	34.9
Other Income	2.1	0.9	5.3	2.6	3.4
Interest Exp	-0.8	-0.9	-1.3	-1.3	-1.3
Associate	0.0	0.0	0.0	0.0	0.0
PBT	17.2	25.0	31.6	10.2	33.6
Taxation	-5.6	-6.7	-7.7	-2.5	-8.2
Minority Interest	-0.2	-0.3	-0.5	-0.2	-0.5
PATAMI	11.8	18.6	24.4	7.9	26.0
Core PATAMI	11.8	18.6	24.4	7.9	26.0

Balance Sheet

FY Dec (RM m)	2017A	2018A	2019A	2020E	2021E
Fixed Assets	15.5	24.7	53.0	70.1	96.4
Intangible Assets	6.3	6.3	6.4	6.4	6.4
Other FA	0.0	0.0	4.3	4.3	4.3
Inventories	1.0	0.2	0.6	0.5	0.6
Receivables	81.2	81.4	90.9	80.7	104.2
Other CA	78.3	88.0	91.0	91.0	91.0
Cash	47.5	42.9	57.0	69.9	51.6
Total Assets	229.9	243.5	303.1	322.8	354.4
Payables	93.6	77.8	71.6	67.0	82.3
ST Borrowings	27.9	15.6	12.1	12.1	12.1
Other ST Liability	27.4	32.3	37.9	56.2	53.4
LT Borrowings	2.3	1.5	23.3	23.3	23.3
Other LT Liability	0.2	0.1	2.6	2.6	2.6
Net Assets	78.5	116.2	155.5	161.6	180.7
Shr. Equity	78.2	116.1	155.3	161.7	181.2
Mnrt. Interest	0.2	0.1	0.3	-0.1	-0.5
Total Equity	78.5	116.2	155.5	161.6	180.7

Cashflow Statement

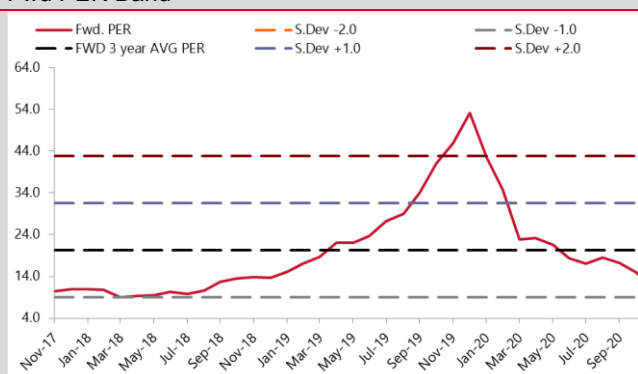
FY Dec (RM m)	2017A	2018A	2019A	2020E	2021E
Operating CF	23.2	8.4	20.0	18.3	14.2
Investing CF	-13.4	-12.1	-35.2	-20.0	-30.0
Financing CF	5.4	6.7	31.7	3.6	-2.5

Source: Kenanga Research

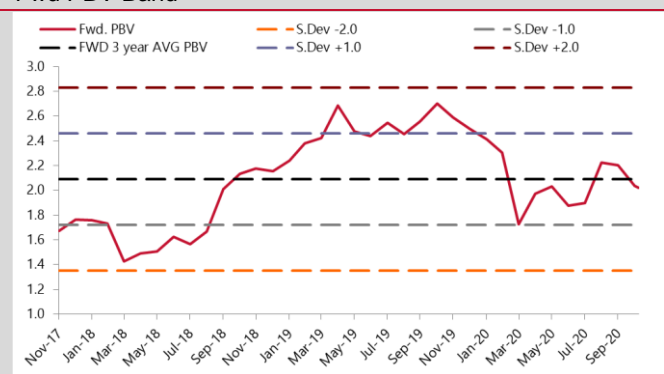
Financial Data & Ratios

FY Dec	2017A	2018A	2019A	2020E	2021E
Growth (%)					
Turnover	-27.1	11.7	8.5	-11.3	29.2
EBITDA	-67.5	50.8	20.7	-59.0	169.9
Operating Profit	-43.9	44.6	26.9	-65.0	203.8
PBT	-42.0	45.7	26.3	-67.8	230.1
Adj Net Profit	-24.2	58.2	30.9	-67.8	230.1
Profitability (%)					
EBITDA Margin	6.1	8.3	9.2	4.3	8.9
Operating Margin	5.7	7.4	8.7	3.4	8.0
PBT Margin	5.5	7.1	8.3	3.0	7.7
Core Net Margin	3.8	5.3	6.4	2.3	6.0
Effective Tax Rate	32.8	26.8	24.3	24.3	24.3
ROA	6.1	5.1	7.7	8.1	2.4
ROE	15.1	16.1	15.7	4.9	14.3
DuPont Analysis					
Net Margin (%)	3.8	5.3	6.4	2.3	6.0
Assets Turnover (x)	1.4	1.4	1.3	1.0	1.2
Leverage Factor (x)	2.9	2.1	1.9	2.0	2.0
ROE (%)	15.1	16.1	15.7	4.7	14.3
Leverage					
Debt/Asset (x)	0.1	0.1	0.1	0.1	0.1
Debt/Equity (x)	0.4	0.1	0.2	0.2	0.2
Net (Cash)/Debt	-17.3	-25.8	-21.6	-35.8	-16.0
Net Debt/Equity (x)	-0.2	-0.2	-0.1	-0.2	-0.1
Valuations					
Core EPS (sen)	5.2	7.6	8.2	2.5	8.1
DPS (sen)	0.0	0.0	2.0	0.6	2.0
BVPS (RM)	0.3	0.5	0.5	0.5	0.6
PER (x)	24.6	16.8	15.6	51.6	19.9
Div. Yield (%)	0.0	0.0	1.6	0.5	1.6
P/BV (x)	3.7	2.7	2.4	2.5	2.2
EV/EBITDA (x)	14.2	9.9	10.2	25.9	10.1

Fwd PER Band



Fwd PBV Band



Source: Bloomberg, Kenanga Research

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Malaysian Technology Peers Comparison

Name	Last Price (RM)	Mkt Cap (RM'm)	Shariah Compliant	Current FYE	Revenue Growth		Core Earnings Growth		PER (x) - Core Earnings			PBV (x)		ROE (%)	Net Div Yld (%)	Target Price (RM)	Rating
					1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	Hist.	1-Yr. Fwd.	2-Yr. Fwd.	Hist.	1-Yr. Fwd.	1-Yr. Fwd.			
D&O GREEN TECHNOLOGIES BHD	1.37	1,570.0	Y	12/2019	0.0%	14.2%	-2.5%	56.7%	28.6	29.7	18.9	2.8	2.5	13.0%	1.1%	1.20	OP
INARI AMERTRON BHD	2.67	8,780.0	Y	06/2020	37.4%	24.9%	66.7%	25.1%	54.8	33.3	26.7	7.1	7.0	21.6%	2.5%	3.14	OP
JHM CONSOLIDATION BHD	2.03	1,132.5	Y	12/2020	5.9%	24.7%	3.6%	58.2%	23.8	22.9	14.5	3.6	3.0	13.1%	1.6%	2.00	OP
KELINGTON GROUP BHD	1.62	522.8	Y	12/2020	-11.3%	29.2%	-67.8%	230.0%	15.6	53.7	19.9	2.4	2.5	4.9%	0.5%	1.92	OP
KESM INDUSTRIES BHD	10.70	462.0	Y	07/2020	14.6%	5.3%	19158%	34.2%	3768	19.6	14.6	1.0	1.0	5.0%	1.1%	8.60	MP
MALAYSIAN PACIFIC INDUSTRIES BHD	23.50	4,932.9	Y	06/2020	8.0%	8.0%	16.0%	11.0%	19.5	16.7	15.1	1.7	1.8	11.8%	1.9%	18.80	OP
P.I.E. INDUSTRIAL BHD	1.94	745.5	Y	12/2020	13.5%	13.5%	24.3%	15.0%	15.5	36.3	14.6	1.3	1.2	3.5%	1.4%	1.45	MP
SKP RESOURCES BHD	1.88	2,353.8	Y	03/2020	23.7%	9.7%	67.3%	20.7%	27.5	16.4	13.6	3.3	3.0	18.0%	3.0%	1.83	OP
UNISEM (M) BHD	5.86	4,300.4	Y	12/2020	9.0%	17.6%	71.9%	47.7%	49.7	28.9	19.6	2.4	2.2	7.8%	1.4%	5.15	OP

Source: Kenanga Research

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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.**

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Published and printed by:

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