

# Kelington Group

## Bonanza! And More to Come

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**A huge surprise! KGB clinched its largest job win worth RM420m, doubling its existing order-book which was already at all-time high levels before this. The job entails a turnkey construction of a new semiconductor fab in Kuching for a US listed memory company which will begin immediately as the US client is scrambling for capacity to keep up with the surge in memory chip demand. This brings YTD order wins to a new high of RM764m while order-book hits a record RM822m, nearing its current market cap. KGB remains our top hidden gem pick owing to its healthy job pipeline and secular growth story. Maintain OUTPERFORM with a higher TP of RM2.50.**

**Largest job win; 4x its typical contract size.** Kelington Group (KGB) surprised us with its single largest job award ever worth RM420m (4x the size of typical contracts) from a US listed semiconductor manufacturing company at Sama Jaya Free Industrial Zone in Kuching to undertake a turnkey construction for an entire new semiconductor fab, focusing on memory chip. KGB is tasked with handling the whole project, involving all three of its business segments (UHP, Precision Engineering and General Contracting). The job will begin immediately and is slated to be completed by end-2022 as the US customer is urgently in need of new capacity to accommodate the surging demand for its memory and data storage products. This is in line with our observation on the tech space that chip shortage will remain in the foreseeable future as the surge in semiconductor demand continues to outpace capacity expansion.

**Orderbook nears current market cap.** Inclusive of this recent win, KGB has secured a record-breaking RM764m (vs. FY19 of RM490m) new job wins in 2021, exceeding our expectation of RM500m. Meanwhile, its outstanding order-book has ballooned to another all-time high of RM822m, which is more than double of FY20 revenue. Interestingly, its order-book has grown very close to its current market capitalisation.

**Sufficient resources to take on more jobs.** The recent completion of one of its large projects in Penang couldn't have been timelier as this frees up resources for the group to take on the new turnkey job in Kuching. Note that the relationship of higher revenue recognition and overhead expense is non-linear, which means KGB is able to enjoy economies of scale and better margin as we anticipate the group to achieve back-to-back record revenue and earnings for FY21 and FY22.

**Still, more to come.** Reiterating our positive view, we expect more fab expansion to come and KGB is in a favourable position to benefit from more UHP jobs, with the management showing no signs of slowing down in terms of securing new jobs. The group's tender-book remains elevated at RM1.1b.

**Raise FY21E-22E earnings by 4% and 33% to RM32.3m and RM47.0m,** representing growth of 85% and 46%, respectively.

**Maintain OUTPERFORM with a higher Target Price of RM2.50** (previously RM1.50) on FY22E PER of 33x (+1SD to 3-year peer mean), justified by the group's healthy job pipeline and secular growth story.

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

**OUTPERFORM** ↔

Price : **RM1.44**  
Target Price : **RM2.50** ↑

### Share Price Performance



KLCI	1,555.51
YTD KLCI chg	-4.4%
YTD stock price chg	13.4%

### Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	KGRB MK Equity
Market Cap (RM m)	925.9
Shares Outstanding	643.0
52-week range (H)	1.49
52-week range (L)	0.53
3-mth avg daily vol:	4,185,154
Free Float	47%
Beta	1.3

### Major Shareholders

Palace Star	21.1%
Sun Lead International Ltd	6.2%
CIMB Group Holdings Bhd	4.9%

### Summary Earnings Table

FYE Dec (RM m)	2020A	2021E	2022E
Turnover	394.6	495.3	693.8
EBITDA	33.5	50.8	72.7
PBT	20.9	42.9	62.5
Net Profit (NP)	17.5	32.3	47.0
Consensus (NP)	N.A.	28.1	34.8
Earning. Revision	N.A.	4%	33%
EPS (sen)	2.8	5.1	7.4
EPS growth (%)	-32.3	84.7	45.7
NDPS (sen)	0.8	1.3	1.9
BVPS (RM)	0.27	0.30	0.36
Price/BV (x)	5.4	4.7	4.0
PER (x)	52.1	28.2	19.4
Gearing (x)	0.3	0.3	0.2
ROA (%)	5.0	8.6	10.4
ROE (%)	10.4	16.7	20.6
Dividend Yield (%)	0.5	0.9	1.3



**Income Statement**

FY Dec (RM m)	2018A	2019A	2020A	2021E	2022E
Revenue	350.0	379.8	394.6	495.3	693.8
EBITDA	29.0	35.0	33.5	50.8	72.7
Depre & Amor	-3.1	-2.1	-5.1	-5.4	-7.7
Operating Profit	25.9	32.9	28.4	45.4	65.0
Other Income	0.9	5.3	8.7	3.8	5.4
Interest Exp	-0.9	-1.3	-2.5	-2.5	-2.5
Associate	0.0	0.0	-5.0	0.0	0.0
PBT	25.0	31.6	20.9	42.9	62.5
Taxation	-6.7	-7.7	-3.4	-10.4	-15.2
Minority Interest	-0.3	-0.5	0.1	0.2	0.3
PATAMI	18.6	24.4	17.5	32.3	47.0
Core PATAMI	18.6	24.4	17.5	32.3	47.0

**Balance Sheet**

FY Dec (RM m)	2018A	2019A	2020A	2021E	2022E
Fixed Assets	24.7	53.0	59.7	84.2	119.6
Intangible Assets	6.3	6.4	6.4	6.4	6.4
Other FA	0.0	4.3	4.7	4.7	4.7
Inventories	0.2	0.6	2.8	3.4	4.8
Receivables	81.4	90.9	74.2	93.1	130.5
Other CA	88.0	62.9	70.6	70.6	70.6
Cash	42.9	85.1	132.0	114.6	114.1
<b>Total Assets</b>	<b>243.5</b>	<b>303.1</b>	<b>350.3</b>	<b>377.1</b>	<b>450.7</b>
Payables	77.8	71.6	89.1	109.7	153.3
ST Borrowings	15.6	12.1	28.3	28.3	28.3
Other ST Liability	32.3	37.9	35.1	16.3	10.9
LT Borrowings	1.5	23.3	27.2	27.2	27.2
Other LT Liability	0.1	2.6	2.6	2.6	2.6
<b>Net Assets</b>	<b>116.2</b>	<b>155.5</b>	<b>168.0</b>	<b>193.0</b>	<b>228.4</b>
Shr. Equity	116.1	155.3	168.0	192.8	228.0
Mnrt. Interest	0.1	0.3	0.3	0.2	0.3
<b>Total Equity</b>	<b>116.2</b>	<b>155.5</b>	<b>168.3</b>	<b>193.0</b>	<b>228.4</b>

**Cashflow Statement**

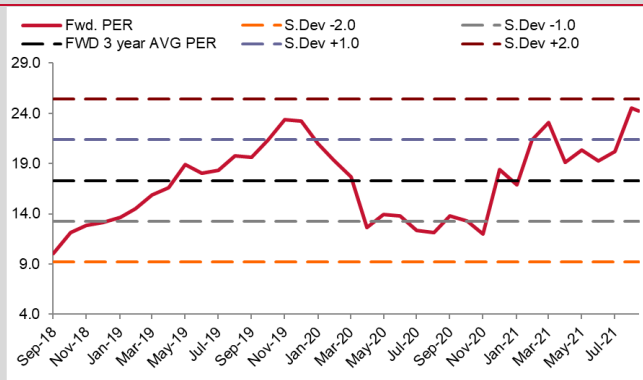
FY Dec (RM m)	2018A	2019A	2020A	2021E	2022E
Operating CF	8.4	20.0	45.7	34.9	51.3
Investing CF	-12.1	-35.2	-12.0	-30.0	-43.0
Financing CF	6.7	31.7	11.3	-4.1	-8.8

**Financial Data & Ratios**

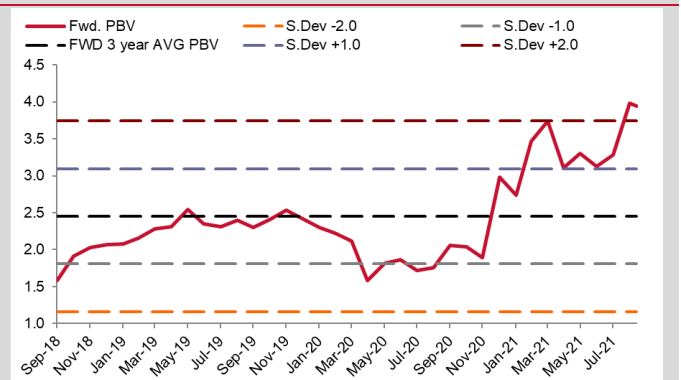
FY Dec	2018A	2019A	2020A	2021E	2022E
<b>Growth (%)</b>					
Turnover	11.7	8.5	3.9	25.5	40.1
EBITDA	50.8	20.7	-4.1	51.5	43.0
Operating Profit	44.6	26.9	-13.6	59.7	43.2
PBT	45.7	26.3	-33.7	104.7	45.7
Adj Net Profit	58.2	30.9	-28.4	84.7	45.7
<b>Profitability (%)</b>					
EBITDA Margin	8.3	9.2	8.5	10.3	10.5
Operating Margin	7.4	8.7	7.2	9.2	9.4
PBT Margin	7.1	8.3	5.3	8.7	9.0
Core Net Margin	5.3	6.4	4.4	6.5	6.8
Effective Tax Rate	26.8	24.3	16.0	24.3	24.3
ROA	6.1	7.7	8.1	5.0	8.6
ROE	16.1	15.7	10.4	16.7	20.6
<b>DuPont Analysis</b>					
Net Margin (%)	5.3	6.4	4.4	6.5	6.8
Assets Turnover (x)	1.4	1.3	1.1	1.3	1.5
Leverage Factor (x)	2.1	1.9	2.1	2.0	2.0
ROE (%)	16.1	15.7	10.4	16.7	20.6
<b>Leverage</b>					
Debt/Asset (x)	0.1	0.1	0.2	0.1	0.1
Debt/Equity (x)	0.1	0.2	0.3	0.3	0.2
Net (Cash)/Debt	-25.8	-49.7	-76.5	-59.1	-58.7
Net Debt/Equity (x)	-0.2	-0.3	-0.5	-0.3	-0.3
<b>Valuations</b>					
Core EPS (sen)	3.8	4.1	2.8	5.1	7.4
DPS (sen)	0.0	1.0	0.8	1.3	1.9
BVPS (RM)	0.2	0.3	0.3	0.3	0.4
PER (x)	38.1	35.3	52.1	28.2	19.4
Div. Yield (%)	0.0	0.7	0.5	0.9	1.3
P/BV (x)	6.1	5.5	5.4	4.7	4.0
EV/EBITDA (x)	23.6	23.2	24.9	16.8	11.8

Source: Kenanga Research

**Fwd PER Band**



**Fwd PBV Band**



Source: Bloomberg, Kenanga Research

15 September 2021

### 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	5.55	6,652.5	Y	12/2021	58.9%	15.8%	148%	16.1%	120.5	48.6	41.9	14.5	11.5	23.7%	0.3%	6.00	OP
GHL SYSTEMS BHD	1.86	2,123.2	Y	12/2021	4.3%	36.3%	8.4%	41.8%	73.5	67.8	47.8	4.4	4.0	6.5%	0.0%	2.30	OP
INARI AMERTRON BHD	3.53	13,002.2	Y	06/2021	22.5%	14.6%	19.2%	14.7%	36.0	30.2	26.3	8.7	8.0	26.4%	2.3%	4.80	OP
JHM CONSOLIDATION BHD	1.94	1,081.7	Y	12/2020	29.8%	10.7%	72.2%	11.1%	41.9	24.3	21.9	4.7	3.8	15.8%	0.8%	2.00	MP
KELINGTON GROUP BHD	1.44	925.9	Y	12/2021	25.5%	40.1%	84.7%	45.7%	52.1	28.2	19.4	5.4	4.7	16.7%	0.9%	2.50	OP
KESM INDUSTRIES BHD	12.28	528.2	Y	07/2021	-3.0%	18.7%	10633%	113%	5959	55.5	26.1	1.6	1.6	2.8%	0.7%	12.00	MP
MALAYSIAN PACIFIC INDUSTRIES BHD	45.2	8,990.1	Y	06/2021	10.0%	10.0%	11.3%	10.0%	32.2	28.8	26.2	7.1	8.0	15.6%	0.7%	56.20	OP
P.I.E. INDUSTRIAL BHD	3.35	1,286.5	Y	12/2021	59.9%	7.5%	31.2%	27.0%	24.0	18.3	14.4	2.3	2.0	11.1%	2.5%	4.15	OP
SKP RESOURCES BHD	1.84	2,874.7	Y	03/2022	12.3%	12.4%	21.7%	12.4%	21.6	17.7	15.8	4.1	3.7	21.0%	2.8%	2.60	OP
UNISEM (M) BHD	8.32	6,710.4	Y	12/2021	18.5%	7.0%	64.3%	8.5%	42.5	28.6	26.4	3.5	3.2	12.1%	0.7%	9.80	OP

Source: Kenanga Research

**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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