

Kelington Group

Extending its Growth Streak

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Kelington Group Bhd (KGB)'s 3QFY21 CNP of RM8.0m (+8% QoQ; -2% YoY) brings 9MFY21 CNP to RM20.9m (+74% YoY), which came in within expectations, representing 65% and 73% of our and consensus full-year estimates, respectively. 9MFY21 jumped 74% on a 30% jump in revenue to RM337.6m on higher job completion across all four business segments. The industrial gas (30% GPM) recorded a strong 57% YoY revenue growth on a cumulative basis to RM23.9m. We expect a better 4Q on the commencement of the recently won RM420m job. Maintain OUTPERFORM and TP of RM2.50.

Within expectation. KGB's 3QFY21 CNP of RM8.0m (+8% QoQ; -2% YoY) brings 9MFY21 CNP to RM20.9m (+74% YoY), which came in within expectations, representing 65% and 73% of our and consensus full-year estimates, respectively.

Results' highlight. QoQ, despite the challenges faced during the FMCO period that led to a 16% dip in 3QFY21 revenue to RM106.4m, KGB still managed to further extend its growth streak as 3QFY21 CNP grew 8% to RM8.0m. This was on the back of improved operational efficiencies as GPM grew 3.8ppt to 19.2% while NPM inched 1.7ppt upwards to 7.5%. **YoY,** 3QFY21 revenue climbed 8% while CNP rose 9% thanks to higher contributions from Malaysia (+15%) and Singapore (52%). Cumulatively, 9MFY21 revenue increased 30% to RM337.6m while CNP jumped 74% to RM20.9m on higher job completion across all four business segments. More interestingly, revenue from the industrial gas has grown 57% YoY on a cumulative basis to RM23.9m which is very encouraging as this segment yields c.30% GPM (double the margin of other segments).

Full swing ahead. With restrictions lifted and higher vaccination rates, we feel sanguine for a strong quarter sequentially as the group is able to operate at full scale in the countries it has presence in. The group has commenced operations for the newly awarded RM420m turnkey project by a US-listed semiconductor company involved in memory chips which will see contribution as early as 4QFY21. While KGB has more than exceeded our estimated contract win for the year, the group is still expecting further wins in the coming months. YTD, the group has won RM891m worth of contracts, boosting its orderbook to a record high of RM1.2b. We continue to like KGB owing to its unique exposure in the semiconductor wafer fab which is expected to continue expanding aggressively over the next few years.

Maintain FY21E and FY22E earnings of RM32.3m and RM47.0m, representing growth of 85% and 46%, respectively.

Maintain OUTPERFORM and Target Price of RM2.50 based 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 LCO2 ramp-up.

OUTPERFORM ↔

Price: RM1.61
Target Price: RM2.50 ↔

Share Price Performance



KLCI	1,515.98
YTD KLCI chg	-6.9%
YTD stock price chg	91.6%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	KGRB MK Equity
Market Cap (RM m)	1,035.2
Shares Outstanding	643.0
52-week range (H)	1.88
52-week range (L)	0.77
3-mth avg daily vol:	6,097,623
Free Float	47%
Beta	1.2

Major Shareholders

Palace Star	21.4%
Sun Lead International Ltd	6.2%
CIMB Group Holdings Bhd	5.8%

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
Core NP (CNP)	17.5	32.3	47.0
Consensus (NP)	N.A.	29.5	42.0
Earnings Revision	N.A.	0%	0%
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)	6.4	5.6	4.7
PER (x)	61.9	33.5	23.0
Gearing (x)	0.3	0.3	0.2
ROA (%)	5.0	8.6	10.4
ROE (%)	10.4	16.7	20.6
Dividend Yield (%)	0.4	0.7	1.1

Result Highlight								
	3Q	2Q	QoQ	3Q	YoY	9M	9M	YoY
FYE: Dec (RM m)	FY21	FY21	Chg	FY20	Chg	FY21	FY20	Chg
Revenue	106.4	126.4	-15.8%	98.3	8.3%	337.6	260.3	29.7%
GP	20.4	19.5	4.7%	17.7	15.6%	54.6	34.7	57.4%
EBIT	9.5	10.5	-9.3%	7.9	20.6%	27.4	15.2	80.2%
PBT	8.8	9.7	-9.8%	7.2	22.4%	25.2	13.3	90.3%
Taxation	-0.6	-2.2	71.7%	-2.2	71.5%	-3.9	-3.6	-6.3%
Net Profit (NP)	8.0	7.4	8.3%	4.9	62.3%	20.9	9.6	117.6%
Core NP	8.0	7.4	8.3%	7.3	9.0%	20.9	12.0	74.0%
EPS (sen)	1.3	1.2	8.3%	1.2	9.0%	3.3	1.9	74.0%
DPS (sen)	0.0	0.5		0.0		0.5	0.5	
GP margin	19.2%	15.4%		18.0%		16.2%	13.3%	
EBIT margin	8.9%	8.3%		8.0%		8.1%	5.8%	
Pretax margin	8.2%	7.7%		7.3%		7.5%	5.1%	
CNP margin	7.5%	5.8%		7.4%		6.2%	4.6%	
Effective tax rate	-7.1%	-22.6%		-30.5%		-15.3%	-27.3%	

Source: Kenanga Research

Geographical Breakdown								
	3Q	2Q	QoQ	3Q	YoY	9M	9M	YoY
FYE: Dec (RM m)	FY21	FY21	Chg	FY20	Chg	FY21	FY20	Chg
Revenue	106.4	126.4	-15.8%	98.3	8.3%	337.6	260.3	29.7%
Malaysia	36.2	37.6	-3.9%	31.5	14.8%	117.7	70.2	67.8%
China	29.3	46.6	-37.2%	35.0	-16.3%	94.9	80.0	18.6%
Taiwan	3.5	3.3	7.5%	5.4	-34.9%	9.8	11.1	-11.7%
Singapore	36.5	37.8	-3.4%	24.1	51.6%	113.0	94.9	19.0%
Others	0.9	1.1	-17.8%	2.3	-59.5%	2.2	4.1	-46.4%
Malaysia	34%	30%		32%		35%	27%	
China	28%	37%		36%		28%	31%	
Taiwan	3%	3%		5%		3%	4%	
Singapore	34%	30%		24%		33%	36%	
Others	1%	1%		2%		1%	2%	

Source: Kenanga Research

Segmental Breakdown								
	3Q	2Q	QoQ	3Q	YoY	9M	9M	YoY
FYE: Dec (RM m)	FY21	FY21	Chg	FY20	Chg	FY21	FY20	Chg
Revenue	106.4	126.4	-15.8%	98.3	8.3%	337.6	260.3	29.7%
UHP	72.0	93.9	-23.3%	70.1	2.7%	236.1	196.8	20.0%
Process Engineering	17.1	12.5	36.1%	9.3	82.6%	39.2	26.6	47.5%
General Contracting	9.8	12.3	-20.7%	11.6	-15.8%	38.3	21.7	76.6%
Industrial Gasses	7.5	7.6	-1.2%	7.2	4.4%	23.9	15.3	56.9%
UHP	68%	74%		71%		70%	76%	
Process Engineering	16%	10%		10%		12%	10%	
General Contracting	9%	10%		12%		11%	8%	
Industrial Gasses	7%	6%		7%		7%	6%	

Source: Kenanga Research

01 December 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	5.80	6,952.1	Y	12/2021	48.9%	26.4%	123%	34.0%	141.7	63.5	47.4	17.0	13.9	21.9%	0.2%	6.60	OP
GHL SYSTEMS BHD	1.90	2,168.9	Y	12/2021	4.3%	36.3%	-10.5%	71.6%	69.5	77.6	45.2	4.5	4.2	5.4%	0.0%	2.30	OP
INARI AMERTRON BHD	4.19	15,481.3	Y	06/2022	22.5%	14.6%	11.3%	14.7%	43.4	35.9	1.3	10.4	10.2	26.4%	2.5%	4.80	OP
JHM CONSOLIDATION BHD	1.77	987.0	Y	12/2021	11.7%	17.7%	-5.3%	63.3%	37.8	40.0	24.5	4.3	3.7	13.6%	0.9%	1.80	MP
KELINGTON GROUP BHD	1.61	1,035.2	Y	12/2021	25.5%	40.1%	84.7%	45.7%	61.9	33.5	23.0	6.4	5.6	16.7%	0.7%	2.50	OP
KESM INDUSTRIES BHD	12.90	554.9	Y	07/2022	4.9%	6.4%	4072%	250%	131.0	37.4	25.0	1.5	1.4	3.8%	0.7%	11.40	MP
MALAYSIAN PACIFIC INDUSTRIES BHD	50.50	10,044.3	Y	06/2022	10.0%	10.0%	11.3%	10.0%	32.2	28.8	26.2	7.1	8.0	15.6%	0.6%	56.20	OP
P.I.E. INDUSTRIAL BHD	3.87	1,486.2	Y	12/2021	59.9%	10.6%	31.0%	29.9%	32.3	24.7	19.0	1.3	1.5	11.5%	1.8%	4.30	OP
SKP RESOURCES BHD	1.88	2,937.2	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	4.20	6,774.9	Y	12/2021	20.0%	15.0%	47.5%	21.0%	46.8	31.7	26.2	3.8	3.5	11.2%	1.4%	4.90	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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