

## Kelington Group

### Secured new RM114m Job

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We maintain our FY22E/FY23E earnings forecasts and reiterate our **OUTPERFORM** call on Kelington Group Berhad (KGB) with an unchanged target price of RM1.90 on FY23E PER of 27x, which represents a slight premium to regional peers' average (such as PNC Process Systems and Shanghai Gentech) of 24x. We believe our valuation is justified by the group's dominant presence in Malaysia and Singapore which represents c.86% of its outstanding orderbook. In addition, its LCO2 plant utilisation rate remains elevated at 70% on higher export demand due to inefficient supply among neighbouring countries.

#### Secured another job win from a semiconductor customer:

1. KGB has recently announced another job win worth RM114m from a Switzerland-based semiconductor customer that is looking to expand its facility in Muar, Johor. The job is similar to a turnkey arrangement, albeit at a much smaller scale to the RM420m turnkey job in Kuching, Sarawak. KGB will undertake the design, engineering and construction works which consist of a plating area, mechanical and electrical utilities plant, and multi-storey carpark. While this is not a new customer to KGB, the previous engagements were relatively small in value and this is the first time being awarded such a large job award, which we believe is a testament of the group's strong track record in the semiconductor space. The job will commence immediately and is slated to be completed by December 2023.
2. Meanwhile, the group has also been receiving new awards from the largest semiconductor wafer fab in China over the past two months for hook-up jobs. Given that KGB is the sole winner for all five wafer fab sites (across Tianjin, Beijing, Shanghai, Shenzhen), we anticipate more hook-up jobs to follow in the coming months as the customer continues to remain aggressive on increasing its wafer output capacity.
3. Including the new job win, KGB's YTD order wins have soared to RM700m (vs. RM1.19b in FY21), outpacing the replenishment run rate in FY21 by 18%. This brings its current orderbook to RM1.6b which will likely translate into another record year in FY22.

**Maintain FY22E/FY23E earnings forecast at RM44.2m and RM45.0m respectively.** Given the sporadic lockdowns in China, we learnt that job progress remains on track with minimal disruption as workers are quarantined on site. In fact, certain areas are starting to see some relaxation on SOPs which will translate positively in the upcoming quarter.

**Maintain our OUTPERFORM call and target price of RM1.90 on FY23E PER of 27x.** We continue to like KGB for its: (i) unique proxy to the front-end semiconductor space, (ii) strong track record which continues to attract large MNC customers, and (iii) venture into the industrial gas segment which has high barriers to entry and yields very lucrative margins.

**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 : RM1.15  
Target Price : RM1.90 ↔

#### Share Price Performance



|                     |          |
|---------------------|----------|
| KLCI                | 1,466.27 |
| YTD KLCI chg        | -6.0%    |
| YTD stock price chg | -33.1%   |

#### Stock Information

|                      |                |
|----------------------|----------------|
| Shariah Compliant    | Yes            |
| Bloomberg Ticker     | KGRB MK Equity |
| Market Cap (RM m)    | 726.6          |
| Shares Outstanding   | 739.5          |
| 52-week range (H)    | 1.88           |
| 52-week range (L)    | 0.95           |
| 3-mth avg daily vol: | 1,805,143      |
| Free Float           | 47%            |
| Beta                 | 0.6            |

#### Major Shareholders

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

#### Summary Earnings Table

| FYE Dec (RM m)     | 2021A       | 2022E       | 2023E       |
|--------------------|-------------|-------------|-------------|
| Turnover           | 517.7       | 826.0       | 840.3       |
| EBITDA             | 46.9        | 67.0        | 69.2        |
| PBT                | 38.5        | 58.8        | 59.9        |
| Net Profit (NP)    | <b>31.8</b> | <b>44.2</b> | <b>45.0</b> |
| Consensus (NP)     | n.a         | 42.8        | 45.6        |
| Earning. Revision  | n.a         | 0%          | 0%          |
| EPS (sen)          | 4.9         | 6.9         | 7.0         |
| EPS growth (%)     | 78.8        | 38.9        | 1.8         |
| NDPS (sen)         | 1.5         | 1.7         | 1.7         |
| BVPS (RM)          | 0.30        | 0.35        | 0.41        |
| Price/BV (x)       | 3.8         | 3.2         | 2.8         |
| PER (x)            | 23.2        | 16.7        | 16.4        |
| Gearing (x)        | 0.3         | 0.2         | 0.2         |
| ROA (%)            | 7.8         | 9.2         | 8.7         |
| ROE (%)            | 16.4        | 19.4        | 17.2        |
| Dividend Yield (%) | 1.3         | 1.5         | 1.5         |



17 June 2022

| Income Statement    |              |              |              |              |              | Financial Data & Ratios  |       |       |       |       |       |
|---------------------|--------------|--------------|--------------|--------------|--------------|--------------------------|-------|-------|-------|-------|-------|
| FY Dec (RM m)       | 2019A        | 2020A        | 2021A        | 2022E        | 2023E        | FY Dec                   | 2019A | 2020A | 2021A | 2022E | 2023E |
| Revenue             | 379.8        | 394.6        | 517.7        | 826.0        | 840.3        | <b>Growth (%)</b>        |       |       |       |       |       |
| EBITDA              | 35.0         | 33.5         | 46.9         | 67.0         | 69.2         | Turnover                 | 8.5   | 3.9   | 31.2  | 59.6  | 1.7   |
| Depre & Amor        | -2.1         | -5.1         | -5.7         | -5.9         | -7.0         | EBITDA                   | 20.7  | -4.1  | 40.0  | 42.7  | 3.2   |
| Operating Profit    | 32.9         | 28.4         | 41.3         | 61.1         | 62.2         | Operating Profit         | 26.9  | -13.6 | 45.3  | 48.2  | 1.7   |
| Other Income        | 5.3          | 8.7          | 5.8          | 3.3          | 3.4          | PBT                      | 26.3  | -33.7 | 83.8  | 52.8  | 1.8   |
| Interest Exp        | -1.3         | -2.5         | -2.8         | -2.3         | -2.3         | Adj Net Profit           | 30.9  | -28.3 | 81.8  | 38.9  | 1.8   |
| Associate           | 0.0          | -5.0         | 0.0          | 0.0          | 0.0          | <b>Profitability (%)</b> |       |       |       |       |       |
| PBT                 | 31.6         | 20.9         | 38.5         | 58.8         | 59.9         | EBITDA Margin            | 9.2   | 8.5   | 9.1   | 8.1   | 8.2   |
| Taxation            | -7.7         | -3.4         | -5.9         | -13.6        | -13.8        | Operating Margin         | 8.7   | 7.2   | 8.0   | 7.4   | 7.4   |
| Minority Interest   | -0.5         | 0.1          | 0.7          | 1.0          | 1.0          | PBT Margin               | 8.3   | 5.3   | 7.4   | 7.1   | 7.1   |
| PATAMI              | 24.4         | 17.5         | 31.8         | 44.2         | 45.0         | Core Net Margin          | 6.4   | 4.4   | 6.1   | 5.4   | 5.4   |
| Core PATAMI         | 24.4         | 17.5         | 31.8         | 44.2         | 45.0         | Effective Tax Rate       | 24.3  | 16.0  | 15.4  | 23.1  | 23.1  |
|                     |              |              |              |              |              | ROA                      | 6.1   | 8.1   | 5.0   | 7.8   | 9.2   |
|                     |              |              |              |              |              | ROE                      | 15.7  | 10.4  | 16.4  | 19.4  | 17.2  |
|                     |              |              |              |              |              | <b>DuPont Analysis</b>   |       |       |       |       |       |
|                     |              |              |              |              |              | Net Margin (%)           | 6.4   | 4.4   | 6.1   | 5.4   | 5.4   |
|                     |              |              |              |              |              | Assets Turnover (x)      | 1.3   | 1.1   | 1.3   | 1.7   | 1.6   |
|                     |              |              |              |              |              | Leverage Factor (x)      | 1.9   | 2.1   | 2.1   | 2.1   | 2.0   |
|                     |              |              |              |              |              | ROE (%)                  | 15.7  | 10.4  | 16.4  | 19.4  | 17.2  |
|                     |              |              |              |              |              | <b>Leverage</b>          |       |       |       |       |       |
|                     |              |              |              |              |              | Debt/Asset (x)           | 0.1   | 0.2   | 0.1   | 0.1   | 0.1   |
|                     |              |              |              |              |              | Debt/Equity (x)          | 0.2   | 0.3   | 0.3   | 0.2   | 0.2   |
|                     |              |              |              |              |              | Net (Cash)/Debt          | -49.7 | -76.5 | -54.3 | -53.2 | -79.6 |
|                     |              |              |              |              |              | Net Debt/Equity (x)      | -0.3  | -0.5  | -0.3  | -0.2  | -0.3  |
|                     |              |              |              |              |              | <b>Valuations</b>        |       |       |       |       |       |
|                     |              |              |              |              |              | Core EPS (sen)           | 4.1   | 2.8   | 4.9   | 6.9   | 7.0   |
|                     |              |              |              |              |              | DPS (sen)                | 1.0   | 0.8   | 1.5   | 1.7   | 1.7   |
|                     |              |              |              |              |              | BVPS (RM)                | 0.3   | 0.3   | 0.3   | 0.4   | 0.4   |
|                     |              |              |              |              |              | PER (x)                  | 28.2  | 41.6  | 23.2  | 16.7  | 16.4  |
|                     |              |              |              |              |              | Div. Yield (%)           | 0.9   | 0.7   | 1.3   | 1.5   | 1.5   |
|                     |              |              |              |              |              | P/BV (x)                 | 4.4   | 4.3   | 3.8   | 3.2   | 2.8   |
|                     |              |              |              |              |              | EV/EBITDA (x)            | 18.2  | 19.4  | 14.6  | 10.3  | 9.6   |
|                     |              |              |              |              |              |                          |       |       |       |       |       |
| Balance Sheet       |              |              |              |              |              |                          |       |       |       |       |       |
| FY Dec (RM m)       | 2019A        | 2020A        | 2021A        | 2022E        | 2023E        |                          |       |       |       |       |       |
| Fixed Assets        | 53.0         | 59.7         | 64.2         | 76.2         | 87.2         |                          |       |       |       |       |       |
| Intangible Assets   | 6.4          | 6.4          | 5.5          | 5.5          | 5.5          |                          |       |       |       |       |       |
| Other FA            | 4.3          | 4.7          | 7.0          | 7.0          | 7.0          |                          |       |       |       |       |       |
| Inventories         | 0.6          | 2.8          | 6.9          | 11.1         | 11.2         |                          |       |       |       |       |       |
| Receivables         | 90.9         | 74.2         | 91.7         | 146.4        | 148.9        |                          |       |       |       |       |       |
| Other CA            | 62.9         | 70.6         | 128.7        | 128.7        | 128.7        |                          |       |       |       |       |       |
| Cash                | 85.1         | 132.0        | 106.3        | 105.2        | 131.6        |                          |       |       |       |       |       |
| <b>Total Assets</b> | <b>303.1</b> | <b>350.3</b> | <b>410.3</b> | <b>480.0</b> | <b>520.1</b> |                          |       |       |       |       |       |
| Payables            | 71.6         | 89.1         | 118.5        | 191.1        | 194.2        |                          |       |       |       |       |       |
| ST Borrowings       | 12.1         | 28.3         | 26.9         | 26.9         | 26.9         |                          |       |       |       |       |       |
| Other ST Liability  | 37.9         | 35.1         | 40.6         | 3.9          | 7.2          |                          |       |       |       |       |       |
| LT Borrowings       | 23.3         | 27.2         | 25.1         | 25.1         | 25.1         |                          |       |       |       |       |       |
| Other LT Liability  | 2.6          | 2.4          | 3.6          | 3.6          | 3.6          |                          |       |       |       |       |       |
| <b>Net Assets</b>   | <b>155.5</b> | <b>168.3</b> | <b>195.6</b> | <b>229.4</b> | <b>263.2</b> |                          |       |       |       |       |       |
| Shr. Equity         | 155.3        | 168.0        | 194.6        | 228.3        | 262.0        |                          |       |       |       |       |       |
| Mnrt. Interest      | 0.3          | 0.3          | 1.0          | 1.1          | 1.2          |                          |       |       |       |       |       |
| <b>Total Equity</b> | <b>155.5</b> | <b>168.3</b> | <b>195.6</b> | <b>229.4</b> | <b>263.2</b> |                          |       |       |       |       |       |
| Cashflow Statement  |              |              |              |              |              |                          |       |       |       |       |       |
| FY Dec (RM m)       | 2019A        | 2020A        | 2021A        | 2022E        | 2023E        |                          |       |       |       |       |       |
| Operating CF        | 20.0         | 45.7         | -6.2         | 47.0         | 52.6         |                          |       |       |       |       |       |
| Investing CF        | -35.2        | -12.0        | -13.3        | -17.9        | -17.9        |                          |       |       |       |       |       |
| Financing CF        | 31.7         | 11.3         | -10.9        | -8.1         | -8.2         |                          |       |       |       |       |       |

Source: Kenanga Research

17 June 2022

### 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. | 1-Yr. Fwd.      |                   |        |
| D&O GREEN TECHNOLOGIES BHD       | 3.87            | 4,787.7        | Y                 | 12/2022     | 28.0%          | 15.3%      | 34.0%                | 15.5%      | 41.4                    | 30.9       | 26.8       | 6.0     | 5.1        | 17.1%      | 0.5%            | 5.40              | OP     |
| GHL SYSTEMS BHD                  | 1.39            | 1,586.7        | Y                 | 12/2022     | 22.7%          | 7.0%       | 22.1%                | 13.9%      | 61.7                    | 50.5       | 44.4       | 3.4     | 3.2        | 6.3%       | 0.0%            | 1.40              | MP     |
| INARI AMERTRON BHD               | 2.65            | 9,824.4        | Y                 | 06/2022     | 22.5%          | 7.0%       | 20.7%                | 7.1%       | 25.6                    | 23.8       | 22.2       | 6.2     | 6.7        | 28.2%      | 3.8%            | 3.30              | OP     |
| JHM CONSOLIDATION BHD            | 1.19            | 663.5          | Y                 | 12/2022     | 10.7%          | 15.2%      | 38.6%                | 15.8%      | 25.9                    | 18.7       | 16.1       | 2.8     | 2.4        | 12.6%      | 0.4%            | 1.50              | MP     |
| KELINGTON GROUP BHD              | 1.15            | 739.5          | Y                 | 12/2022     | 59.6%          | 1.7%       | 38.9%                | 1.8%       | 22.8                    | 16.7       | 16.4       | 3.8     | 3.2        | 19.4%      | 1.5%            | 1.90              | OP     |
| KESM INDUSTRIES BHD              | 6.90            | 296.8          | Y                 | 07/2022     | -0.2%          | 4.6%       | -54.3%               | 294%       | 84.6                    | 185.0      | 46.9       | 0.9     | 1.0        | 1.1%       | 0.7%            | 7.50              | MP     |
| MALAYSIAN PACIFIC INDUSTRIES BHD | 29.70           | 5,907.2        | Y                 | 06/2022     | 18.0%          | 6.0%       | 19.4%                | 5.5%       | 22.6                    | 19.0       | 18.0       | 4.4     | 3.8        | 16.6%      | 1.1%            | 38.10             | OP     |
| P.I.E. INDUSTRIAL BHD            | 3.05            | 1,171.3        | Y                 | 12/2022     | 18.3%          | 11.9%      | 28.2%                | 11.7%      | 17.5                    | 13.7       | 12.2       | 22.1    | 1.8        | 13.5%      | 1.8%            | 3.70              | OP     |
| SKP RESOURCES BHD                | 1.57            | 2,452.9        | Y                 | 03/2023     | 17.3%          | 7.7%       | 27.5%                | 6.3%       | 13.6                    | 12.8       | 11.9       | 2.9     | 2.6        | 20.0%      | 3.9%            | 2.10              | OP     |
| UNISEM (M) BHD                   | 2.59            | 4,177.9        | Y                 | 12/2022     | 14.0%          | 10.0%      | 22.1%                | 11.3%      | 23.9                    | 19.6       | 176        | 2.2     | 2.0        | 10.4%      | 2.0%            | 3.75              | OP     |

Source: Kenanga Research

17 June 2022

**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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