

Kelington Group

Bagged RM117m Contract

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KGB has defied the noises of slowdown in semiconductor expansion with another RM117m job win which entails the provision of bulk and specialty gas distribution system to a US-listed semiconductor customer known for its solid-state memory products. We are positive on this award, bringing its YTD wins to c.RM950m which meets our FY22 assumption. KGB's current orderbook has ballooned to RM1.85b, paving for a smooth journey for another record year. Maintain earnings forecast and OUTPERFORM call with an unchanged Target Price of RM1.90.

Another significant win, a new record year in the making

1. Kelington Group (KGB) has continued to defy the negative noises in the market regarding semiconductor expansion slowing down by extending its job wins with another award worth c.RM117m from a US-listed semiconductor customer known for its solid-state memory products. The job entails the provision of both bulk gas and specialty gas distribution system to the customer's new fab in Singapore which will be recognised under its ultra-high purity (UHP) business segment. The contract will begin immediately in August 2022 until June 2024.
2. Despite the market's fear of chip oversupply, we learnt that actual fab expansion on the ground has continued on. This is also echoed by the group indicating that the shortage of critical semiconductor chips remains very real and wafer fabs are still seeing the necessity to carry out their expansion plans, which will in turn provide more opportunities for KGB.
3. Including this RM117m job win in Singapore, KGB has chalked up a commendable YTD order wins of RM950m which is largely within our expectation for FY22. This represents 80% of FY21's replenishment of RM1.19b (a record high) despite the absence of major turnkey projects this year. The group's current orderbook has now ballooned to RM1.85b which will pave for a smooth journey for another record year in FY22.

Maintain FY22F and FY23F earnings forecasts at RM44.2m and RM44.9m, respectively.

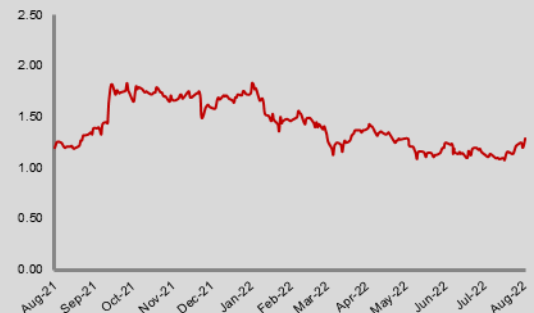
Maintain our OUTPERFORM call and target price of RM1.90 on FY23E PER of 27x, representing a slight premium to regional peers' average (e.g. PNC Process Systems and Shanghai Gentech) of 24x. We continue to like KGB for its: (i) unique proxy to the front-end semiconductor space, (ii) strong track record 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. There is no adjustment to TP based on ESG (given a 3-star ESG rating as appraised by us).

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

OUTPERFORM ↔

Price : **RM1.29**
Target Price : **RM1.90** ↔

Share Price Performance



KLCI	1,507.7
YTD KLCI chg	-3.8%
YTD stock price chg	-25.0%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	KGRB MK Equity
Market Cap (RM m)	829.5
Shares Outstanding	643.0
52-week range (H)	1.88
52-week range (L)	1.06
3-mth avg daily vol:	1,101,569
Free Float	49%
Beta	1.0

Major Shareholders

Palace Star	21.0%
Sun Lead International Ltd	6.2%
CIMB Group Holdings Bhd	5.0%

Summary Earnings Table

FYE Dec (RM m)	2021A	2022F	2023F
Turnover	517.7	826.0	838.0
EBITDA	46.9	67.0	69.0
PBT	38.5	58.8	59.7
Net Profit (NP)	31.8	44.2	44.9
Consensus (NP)	n.a	44.7	47.1
Earning. Revision	n.a	0%	0%
EPS (sen)	4.9	6.9	7.0
EPS growth (%)	78.8	38.9	1.5
NDPS (sen)	1.5	1.7	1.7
BVPS (RM)	0.30	0.35	0.41
Price/BV (x)	3.6	3.1	2.7
PER (x)	22.2	16.0	15.8
Gearing (x)	0.3	0.2	0.2
ROA (%)	7.8	9.2	8.6
ROE (%)	16.4	19.4	17.1
Dividend Yield (%)	1.4	1.6	1.6

05 August 2022

Income Statement						Financial Data & Ratios					
FY Dec (RM m)	2019A	2020A	2021A	2022F	2023F	FY Dec	2019A	2020A	2021A	2022F	2023F
Revenue	379.8	394.6	517.7	826.0	838.0	Growth (%)					
EBITDA	35.0	33.5	46.9	67.0	69.0	Turnover	8.5	3.9	31.2	59.6	1.4
Depre & Amor	-2.1	-5.1	-5.7	-5.9	-7.0	EBITDA	20.7	-4.1	40.0	42.7	3.0
Operating Profit	32.9	28.4	41.3	61.1	62.0	Operating Profit	26.9	-13.6	45.3	48.2	1.4
Other Income	5.3	8.7	5.8	3.3	3.4	PBT	26.3	-33.7	83.8	52.8	1.5
Interest Exp	-1.3	-2.5	-2.8	-2.3	-2.3	Adj Net Profit	30.9	-28.3	81.8	38.9	1.5
Associate	0.0	-5.0	0.0	0.0	0.0	Profitability (%)					
PBT	31.6	20.9	38.5	58.8	59.7	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	44.9	Core Net Margin	6.4	4.4	6.1	5.4	5.4
Core PATAMI	24.4	17.5	31.8	44.2	44.9	Effective Tax Rate	24.3	16.0	15.4	23.1	23.1
Balance Sheet						ROA	6.1	8.1	5.0	7.8	9.2
FY Dec (RM m)	2019A	2020A	2021A	2022F	2023F	ROE	15.7	10.4	16.4	19.4	17.1
Fixed Assets	53.0	59.7	64.2	76.2	87.2	DuPont Analysis					
Intangible Assets	6.4	6.4	5.5	5.5	5.5	Net Margin (%)	6.4	4.4	6.1	5.4	5.4
Other FA	4.3	4.7	7.0	7.0	7.0	Assets Turnover (x)	1.3	1.1	1.3	1.7	1.6
Inventories	0.6	2.8	6.9	11.1	11.2	Leverage Factor (x)	1.9	2.1	2.1	2.1	2.0
Receivables	90.9	74.2	91.7	146.4	148.5	ROE (%)	15.7	10.4	16.4	19.4	17.1
Other CA	62.9	70.6	128.7	128.7	128.7	Leverage					
Cash	85.1	132.0	106.3	105.2	131.5	Debt/Asset (x)	0.1	0.2	0.1	0.1	0.1
Total Assets	303.1	350.3	410.3	480.0	519.6	Debt/Equity (x)	0.2	0.3	0.3	0.2	0.2
Payables	71.6	89.1	118.5	191.1	193.6	Net (Cash)/Debt	-49.7	-76.5	-54.3	-53.2	-79.5
ST Borrowings	12.1	28.3	26.9	26.9	26.9	Net Debt/Equity (x)	-0.3	-0.5	-0.3	-0.2	-0.3
Other ST Liability	37.9	35.1	40.6	3.9	7.3	Valuations					
LT Borrowings	23.3	27.2	25.1	25.1	25.1	Core EPS (sen)	4.1	2.8	4.9	6.9	7.0
Other LT Liability	2.6	2.4	3.6	3.6	3.6	DPS (sen)	1.0	0.8	1.5	1.7	1.7
Net Assets	155.5	168.3	195.6	229.4	263.1	BVPS (RM)	0.3	0.3	0.3	0.4	0.4
Shr. Equity	155.3	168.0	194.6	228.3	261.9	PER (x)	28.2	41.6	23.2	16.7	15.8
Mnrt. Interest	0.3	0.3	1.0	1.1	1.1	Div. Yield (%)	0.9	0.7	1.3	1.5	1.6
Total Equity	155.5	168.3	195.6	229.4	263.1	P/BV (x)	4.4	4.3	3.8	3.2	2.7
Cashflow Statement						EV/EBITDA (x)	18.2	19.4	14.6	10.3	9.1
FY Dec (RM m)	2019A	2020A	2021A	2022F	2023F						
Operating CF	20.0	45.7	-6.2	47.0	52.5						
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

05 August 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	4.15	5,134.1	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%	4.50	OP
GHL SYSTEMS BHD	1.20	1,369.8	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	2.93	10,865.6	Y	06/2022	22.5%	7.0%	20.7%	7.1%	26.0	24.2	22.6	6.3	3.9	15.9%	3.7%	3.30	OP
JHM CONSOLIDATION BHD	1.32	736.0	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%	1.40	MP
KELINGTON GROUP BHD	1.29	829.5	Y	12/2022	59.6%	1.4%	38.9%	1.5%	22.2	16.0	15.8	3.6	3.1	19.4%	1.6%	1.90	OP
KESM INDUSTRIES BHD	7.59	326.5	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	32.48	6,460.2	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%	32.90	OP
P.I.E. INDUSTRIAL BHD	3.40	1,305.7	Y	12/2022	18.3%	11.9%	28.2%	11.7%	17.8	13.9	12.5	2.1	1.8	13.1%	2.5%	4.10	OP
SKP RESOURCES BHD	1.60	2,499.8	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	3.05	4,919.9	Y	12/2022	14.0%	10.0%	22.1%	11.3%	22.5	18.4	16.6	2.1	1.9	10.4%	2.2%	3.85	OP

Source: Kenanga Research

Stock ESG Ratings:

	Criterion	Rating				
GENERAL	Earnings Sustainability & Quality	★	★	★	☆	
	Corporate Social Responsibility	★	★	★	☆	
	Management/Workforce Diversity	★	★	☆		
	Accessibility & Transparency	★	★	★		
	Corruption-Free Pledge	★	★	★		
	Carbon-Neutral Initiatives	★	★	★	★	
SPECIFIC	Foreign Worker Welfare	★	★	★		
	Supply Chain Auditing	★	★	★	☆	
	Waste Disposal / Pollution Control	★	★	★		
	Energy Efficiency	★	★	★		
	Work Site Safety	★	★	★		
	Digital Transformation	★	★	☆		
OVERALL		★	★	★		

☆ denotes half-star
 ★ -10% discount to TP
 ★★ -5% discount to TP
 ★★★ TP unchanged
 ★★★★ +5% premium to TP
 ★★★★★ +10% premium to TP

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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