

Kelington Group

Revenue and Earnings Hit New Highs

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KGB chalked up record earnings with a 1HFY22 CNP of RM21.9m (+69.5% YoY) which was within expectations. 1HFY22 revenue more than doubled YoY on higher recognition from a turnkey project in Malaysia while revenue from Singapore similarly more than doubled YoY on the back of strong orders from various semiconductor MNCs. We continue to like KGB for it being a unique proxy to global wafer fab expansion. Reiterate our OUTPERFORM call and TP of RM1.60.

Within expectations. Kelington Group Bhd (KGB) chalked up record earnings with 1HFY22 CNP of RM21.9m which came in within expectations, representing 49% and 48% of our full-year forecast and the full-year consensus estimate, respectively.

Results' highlights. YoY, 1HFY22 revenue soared 110% despite coming from an already high base last year while CNP jumped 69.5% to RM21.9m as the group continued to ride on the capex plans of major semiconductor players. The strong set of numbers was supported by robust revenue recognition from projects across all countries. Malaysia was the largest revenue growth contributor (+177% YoY) thanks to the turnkey project in Sarawak which is progressing well. Revenue from China regained momentum (+19.7%) as lockdown restrictions eased while contribution from Singapore (+118%) continued to exhibit solid growth and is likely to be sustained, backed by steady semiconductor wafer fab expansion by various MNCs in the region.

Cementing its track record in delivering earnings. KGB's latest financial achievement has clearly demonstrated that it has massive room for growth (even from an already high base a year ago). As of 30 June 2022, the group has secured RM798m (which has grown to c.RM950m as of early-Aug) of new orders while outstanding order-book stands at c.RM1.85b. We believe KGB will further cement its track record in delivering earnings in 2HFY22.

Forecasts. Maintained.

Maintain OUTPERFORM and TP of RM1.60 based on 23x FY23F PER, in line with regional peers' average (e.g. PNC Process Systems and Shanghai Gentech). There is no adjustment to TP based on ESG (given a 3-star rating as appraised by us).

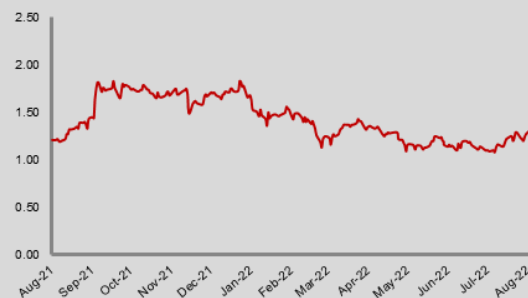
Risks to our call include: (i) slower revenue recognition due to Covid-19, (ii) downturn in semiconductor sales, and (iii) delay in LCO2 ramp-up.

OUTPERFORM ↔

Price: **RM1.31**

Target Price: **RM1.60** ↔

Share Price Performance



KLCI	1,504.0
YTD KLCI chg	-4.1%
YTD stock price chg	-23.8%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	KGRB MK Equity
Market Cap (RM m)	842.3
Shares Outstanding	643.0
52-week range (H)	1.88
52-week range (L)	1.06
3-mth avg daily vol:	1,076,548
Free Float	48.9%
Beta	0.9

Major Shareholders

Palace Star	21.4%
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
Core NP (CNP)	31.8	44.2	44.9
Consensus (NP)	n.a	45.5	47.8
Earnings 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)	4.3	3.7	3.2
PER (x)	26.5	19.1	18.8
Gearing (x)	0.3	0.2	0.2
ROA (%)	7.8	9.2	8.6
ROE (%)	16.4	19.4	17.1
Dividend Yield (%)	1.1	1.3	1.3

16 August 2022

Result Highlight								
	2Q	1Q	QoQ	2Q	YoY	6M	6M	YoY
FYE: Dec (RM m)	FY22	FY22	Chg	FY21	Chg	FY22	FY21	Chg
Revenue	312.4	173.3	80.2%	126.4	147.2%	485.7	231.2	110.1%
GP	32.5	23.7	37.1%	19.5	66.7%	56.3	34.1	64.9%
EBIT	18.5	11.7	58.1%	10.5	77.0%	30.2	17.9	68.3%
PBT	17.5	11.1	57.5%	9.7	80.0%	28.6	16.5	73.8%
Taxation	-3.6	-2.6	-37.4%	-2.2	-62.2%	-6.2	-3.2	-91.0%
Net Profit (NP)	13.6	8.3	63.3%	7.4	84.4%	21.9	12.9	69.5%
Core NP	13.6	8.3	63.3%	7.4	84.4%	21.9	12.9	69.5%
EPS (sen)	2.1	1.3	63.3%	1.1	84.4%	3.4	2.0	69.5%
DPS (sen)	1.0	0.0		0.5		1.0	0.5	
GP margin	10.4%	13.7%		15.4%		11.6%	14.8%	
EBIT margin	5.9%	6.8%		8.3%		6.2%	7.8%	
Pretax margin	5.6%	6.4%		7.7%		5.9%	7.1%	
CNP margin	4.3%	4.8%		5.8%		4.5%	5.6%	
Effective tax rate	-20.4%	-23.4%		-22.6%		-21.6%	-19.6%	

Source: Kenanga Research

Geographical Breakdown								
	2Q	1Q	QoQ	2Q	YoY	6M	6M	YoY
FYE: Dec (RM m)	FY22	FY22	Chg	FY21	Chg	FY22	FY21	Chg
Revenue	312.4	173.3	80.2%	126.4	147.2%	485.7	231.2	110.1%
Malaysia	148.0	77.9	89.9%	37.6	293.3%	225.9	81.5	177.0%
China	51.6	27.0	91.4%	46.6	10.8%	78.6	65.6	19.7%
Taiwan	6.6	4.9	36.5%	3.3	103.4%	11.5	6.3	81.5%
Singapore	104.7	62.3	68.2%	37.8	177.2%	166.9	76.5	118.3%
Others	1.5	1.3	12.3%	1.1	31.8%	2.9	1.2	131.9%
Malaysia	47%	45%		30%		46%	35%	
China	17%	16%		37%		16%	28%	
Taiwan	2%	3%		3%		2%	3%	
Singapore	34%	36%		30%		34%	33%	
Others	0%	1%		1%		1%	1%	

Source: Kenanga Research

Segmental Breakdown								
	2Q	1Q	QoQ	2Q	YoY	6M	6M	YoY
FYE: Dec (RM m)	FY22	FY22	Chg	FY21	Chg	FY22	FY21	Chg
Revenue	312.4	173.3	80.2%	126.4	147.2%	485.7	231.2	110.1%
UHP	192.1	113.2	69.8%	93.9	104.5%	305.3	164.0	86.1%
Process Engineering	11.5	12.0	-3.5%	12.5	-8.0%	23.5	22.2	5.9%
General Contracting	97.1	38.4	153.2%	12.3	688.0%	135.5	28.6	374.1%
Industrial Gasses	11.7	9.9	18.2%	7.6	52.9%	21.5	16.4	31.0%
UHP	61%	65%		74%		63%	71%	
Process Engineering	4%	7%		10%		5%	10%	
General Contracting	31%	22%		10%		28%	12%	
Industrial Gasses	4%	6%		6%		4%	7%	

Source: Kenanga Research

16 August 2022

Malaysian Technology Peers Comparison

Name	Rating	Last Price (RM)	Target Price (RM)	Upside (%)	Mkt Cap (RM'm)	Shariah Compliant	Current FYE	Core EPS (sen)		Core EPS Growth		PER (x) – Core Earnings		PBV (x)	ROE (%)	Net Div. (sen)	Net Div. Yld (%)
								1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.				
D&O GREEN TECHNOLOGIES BHD	OP	4.11	4.50	9.5%	5,084.9	Y	12/2022	12.4	14.3	34.0%	15.5%	34.3	29.7	5.6	17.2%	2.0	0.5%
GHL SYSTEMS BHD	MP	1.21	1.40	15.7%	1,381.2	Y	12/2022	3.0	3.4	22.4%	13.7%	40.2	35.3	2.5	6.5%	0.0	0.0%
INARI AMERTRON BHD	OP	2.92	3.45	18.2%	10,831.3	Y	06/2022	10.8	11.5	7.6%	7.1%	27.1	25.4	7.3	27.8%	8.4	3.7%
JHM CONSOLIDATION BHD	MP	1.30	1.30	0.0%	724.9	Y	12/2022	6.8	7.9	38.5%	15.9%	19.2	16.6	2.4	13.7%	0.5	0.4%
KELINGTON GROUP BHD	OP	1.31	1.60	22.1%	842.3	Y	12/2022	6.9	7.0	38.9%	1.5%	19.1	18.8	3.7	19.4%	1.7	1.3%
KESM INDUSTRIES BHD	MP	7.30	7.50	2.7%	314.0	Y	07/2022	4.2	16.7	-55.0%	300.0%	174.4	43.6	0.9	0.5%	9.0	0.7%
MALAYSIAN PACIFIC INDUSTRIES BHD	MP	32.40	34.50	6.5%	6,444.2	Y	06/2022	164.0	173.0	19.4%	5.5%	19.9	18.8	3.3	17.8%	35.0	1.1%
P.I.E. INDUSTRIAL BHD	OP	3.26	3.70	13.5%	1,252.0	Y	12/2022	17.2	20.3	8.6%	18.4%	19.0	16.1	2.1	12.0%	7.0	2.1%
SKP RESOURCES BHD	OP	1.64	2.10	28.0%	2,562.3	Y	03/2023	11.6	12.4	6.3%	7.7%	14.2	13.2	2.8	21.1%	5.8	3.9%
UNISEM (M) BHD	MP	3.01	3.35	11.3%	4,855.4	Y	12/2022	15.0	16.7	22.1%	11.3%	20.1	18.1	2.1	10.8%	6.0	2.2%
Simple Average										14.3%	39.7%	38.7	23.5	3.3	14.8%		1.5%

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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