

21 November 2022

Kelington Group

Buoyed by Chip Industry Expansion

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KGB's 9MFY22 results exceeded expectations. Its revenue more than doubled on higher project deliveries in Malaysia (+239% YoY) and Singapore (+158% YoY). It also saw strong revenue growth (+37% YoY) in China despite the intermittent lockdowns. The group anticipates a strong quarter ahead as it moves into its seasonally stronger period. We raise our FY22F and 23F earnings by 10% and 7%, respectively, increase our TP by 3% to RM1.80 (from RM1.75) and maintain our OUTPERFORM call.

Above expectations. KGB's 9MFY22 earnings of RM37.6m (+80% YoY) came in at 75% and 78% of our full-year forecast and the full-year consensus estimates, respectively. However, we deem the results above expectations as we expect bumper earnings in 4Q.

Results' highlights. YoY, 9MFY22 revenue soared 152.4% on higher demand for the group's services amidst the aggressive expansion among front-end semiconductor players. Geographically, Malaysia being the largest revenue contributor saw a gain of 239%, followed by Singapore with a revenue increase of 158%. More importantly, revenue from China climbed 37% despite the on-going lockdowns, further reinforcing KGB's resilience and timeliness in project deliveries. Overall, 9MFY22 net profit jumped 80% to RM37.6m.

Charting another record year. The group expects the positive momentum to continue into 4QFY22 as it enters its seasonally strongest quarter. We gather that its liquid carbon dioxide (LCO2) plant has been consistently exceeding 80% utilisation rate on greater demand from customers. To cater for further increase in orders, the group is building a second plant which will commence operation in FY24. As of 30 September 2022, the group has secured RM1.4b worth of new jobs (excluding two new contracts won in November worth RM262m), bringing its outstanding orderbook to RM1.6b.

Forecasts. We raise our FY22F and 23F net profits by 10% and 7%, respectively.

We like KGB for: (i) it being a direct proxy to the front-end wafer fab expansion, (ii) its strong earnings visibility underpinned by robust order-book and tender-book exceeding RM1b, and (iii) its strong foothold in multiple markets, i.e. Malaysia, Singapore and China.

Maintain OUTPERFORM with a higher TP of RM1.80 (previously RM1.75) based on 22x FY23F PER, which represents a slight reduction from 23x previously to reflect the downtrend in the sector's forward PER. The sector's forward PER is the average of regional peers, i.e. PNC Process Systems and Linde. There is no adjustment to our TP based on ESG given a 3-star rating as appraised by us (see Page 4).

Risks to our call include: (i) chip makers halting their expansion plans due to oversupply, (ii) operations in China impacted by lockdowns, and (iii) delays in LCO2 expansion.

OUTPERFORM ↔

Price: RM1.30
Target Price: RM1.80 ↑

Share Price Performance



KLCI	1,449.3
YTD KLCI chg	-7.5%
YTD stock price chg	-24.4%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	KGRB MK Equity
Market Cap (RM m)	835.9
Shares Outstanding	643.0
52-week range (H)	1.86
52-week range (L)	1.06
3-mth avg daily vol:	1,721,997
Free Float	48.9%
Beta	0.7

Major Shareholders

Palace Star	21.1%
CIMB Group Holdings Bhd	6.7%
Sun Lead International Ltd	6.2%

Summary Earnings Table

FYE Dec (RM m)	2021A	2022F	2023F
Turnover	517.7	1,199.5	1,041.3
EBITDA	46.9	76.7	83.3
PBT	38.5	65.5	68.1
Core NP (CNP)	31.8	50.2	52.2
Consensus (NP)	n.a	48.1	54.8
Earnings Revision	n.a	10%	7%
EPS (sen)	4.9	7.8	8.1
EPS growth (%)	78.8	57.9	3.8
NDPS (sen)	1.5	2.0	2.0
BVPS (RM)	0.30	0.36	0.42
Price/BV (x)	4.3	3.6	3.1
PER (x)	26.3	16.6	16.0
Net Gearing (x)	(0.3)	0.3	0.3
ROA (%)	7.8	7.0	7.1
ROE (%)	16.4	21.6	19.2
Dividend Yield (%)	1.2	1.5	1.6



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Result Highlight								
	3Q	2Q	QoQ	3Q	YoY	9M	9M	YoY
FYE: Dec (RM m)	FY22	FY22	Chg	FY21	Chg	FY22	FY21	Chg
Revenue	366.4	312.4	17.3%	106.4	244.5%	852.1	337.6	152.4%
GP	40.7	32.5	25.1%	20.4	99.2%	97.0	54.6	77.7%
EBIT	20.0	18.5	8.3%	9.5	111.4%	50.3	27.4	83.2%
PBT	18.8	17.5	7.7%	8.8	114.9%	47.5	25.2	88.1%
Taxation	-2.5	-3.6	29.6%	-0.6	-303.5%	-8.7	-3.9	-125.4%
Net Profit (NP)	15.7	13.6	15.8%	8.0	97.3%	37.6	20.9	80.1%
Core NP	15.7	13.6	15.8%	8.0	97.3%	37.6	20.9	80.1%
EPS (sen)	2.4	2.1	15.8%	1.2	97.3%	5.8	3.2	80.1%
DPS (sen)	0.0	1.0		0.0		1.0	0.5	
		0						
GP margin	11.1%	10.4%		19.2%		11.4%	16.2%	
EBIT margin	5.5%	5.9%		8.9%		5.9%	8.1%	
Pretax margin	5.1%	5.6%		8.2%		5.6%	7.5%	
CNP margin	4.3%	4.3%		7.5%		4.4%	6.2%	
Effective tax rate	-13.3%	-20.4%		-7.1%		-18.3%	-15.3%	

Source: Kenanga Research

Geographical Breakdown								
	3Q	2Q	QoQ	3Q	YoY	9M	9M	YoY
FYE: Dec (RM m)	FY22	FY22	Chg	FY21	Chg	FY22	FY21	Chg
Revenue	366.4	312.4	17.3%	106.4	244.5%	852.1	337.6	152.4%
Malaysia	173.2	148.0	17.1%	36.2	379.0%	399.1	117.7	239.1%
China	51.0	51.6	-1.2%	29.3	74.2%	129.6	94.9	36.5%
Taiwan	11.7	6.6	76.6%	3.5	234.0%	23.2	9.8	135.8%
Singapore	125.0	104.7	19.4%	36.5	242.6%	291.9	113.0	158.4%
Others	5.5	1.5	262.1%	0.9	480.7%	8.3	2.2	283.1%
Malaysia	47%	47%		34%		47%	35%	
China	14%	17%		28%		15%	28%	
Taiwan	3%	2%		3%		3%	3%	
Singapore	34%	34%		34%		34%	33%	
Others	1%	0%		1%		1%	1%	

Source: Kenanga Research

Segmental Breakdown								
	3Q	2Q	QoQ	3Q	YoY	9M	9M	YoY
FYE: Dec (RM m)	FY22	FY22	Chg	FY21	Chg	FY22	FY21	Chg
Revenue	366.4	312.4	17.3%	106.4	244.5%	852.1	337.6	152.4%
UHP	210.2	192.1	9.4%	72.0	191.8%	515.4	236.1	118.3%
Process Engineering	14.1	11.5	22.5%	17.1	-17.1%	37.6	39.2	-4.1%
General Contracting	121.6	97.1	25.2%	9.8	1145.0%	257.1	38.3	570.5%
Industrial Gasses	20.5	11.7	75.8%	7.5	172.2%	42.0	23.9	75.4%
UHP	57%	61%		68%		60%	70%	
Process Engineering	4%	4%		16%		4%	12%	
General Contracting	33%	31%		9%		30%	11%	
Industrial Gasses	6%	4%		7%		5%	7%	

Source: Kenanga Research

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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.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.
D&O GREEN TECHNOLOGIES BHD	OP	3.77	4.45	18.04%	4,664.4	Y	12/2022	11.3	14.4	27.1%	26.6%	33.2	26.3	5.2	16.3%	1.9	0.5%
GHL SYSTEMS BHD	MP	0.700	1.10	57.14%	793.3	Y	12/2022	2.1	2.7	-16.4%	30.2%	34.0	26.1	1.5	4.5%	0.0	0.0%
INARI AMERTRON BHD	MP	2.58	2.85	10.47%	9,630.6	Y	06/2023	10.2	11.5	-3.2%	12.7%	25.3	22.4	3.8	15.0%	9.7	3.8%
JHM CONSOLIDATION BHD	MP	0.740	0.900	21.62%	412.6	Y	12/2022	5.7	6.7	15.8%	17.7%	13.0	11.1	1.4	11.6%	0.5	0.7%
KELINGTON GROUP BHD	OP	1.30	1.80	38.46%	835.9	Y	12/2022	7.8	8.1	57.9%	4.0%	16.6	16.0	3.6	23.4%	2.0	1.4%
KESM INDUSTRIES BHD	MP	7.00	6.60	-5.71%	301.1	Y	07/2023	2.8	8.6	500.0%	208.3%	251.2	82.2	0.8	0.3%	7.5	1.1%
LGMS BHD	OP	1.20	1.50	25.00%	547.2	Y	12/2022	2.7	3.5	20.4%	29.0%	44.1	34.1	6.5	22.0%	0.0	0.0%
MALAYSIAN PACIFIC INDUSTRIES BHD	MP	26.10	34.50	32.18%	5,191.2	Y	06/2023	173.0	182.5	4.1%	5.5%	15.1	14.3	2.3	16.0%	35.0	1.3%
P.I.E. INDUSTRIAL BHD	OP	2.56	3.15	23.05%	983.1	Y	12/2022	16.6	19.7	6.0%	18.5%	15.4	13.0	1.7	11.6%	7.0	2.7%
SKP RESOURCES BHD	OP	1.62	2.10	29.63%	2,531.0	Y	03/2023	11.6	12.4	6.3%	7.7%	14.0	13.1	2.8	21.1%	5.8	3.6%
UNISEM (M) BHD	MP	2.61	2.75	5.36%	4,210.1	Y	12/2022	14.4	15.3	17.7%	6.2%	18.1	17.0	1.8	10.4%	6.0	2.3%
Simple Average								23.5	25.9	57.8%	33.3%	43.6	25.1	2.8	13.9%		1.6%

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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