

1 June 2023

Kelington Group

Rock Solid

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KGB guided for better performance in subsequent quarters, premised on its RM1.93b job pipeline and efficient cost control. Its second liquid CO2 (LCO2) plant is expected to be commissioned by Oct 2023. It will capture business opportunities the existing plant 1— already operating at close to full capacity—was unable to seize. We maintain our forecasts, TP of RM1.92 and OUTPERFORM call.

We came away from KGB's post-1QFY23 briefing feeling upbeat on the group's outlook. Key takeaways from the meeting are as follow:

- Coming off its seasonally weaker 1QFY23 which still recorded a doubling of net profit YoY, the group is excited for the subsequent quarters where it envisions performance to trend in an upward trajectory towards the end of the year. This is supported by its robust project pipelines coupled with efficient cost control, as evidenced in its 1QFY23 performance where administrative expenses only inched up 25% YoY relative to its revenue growth of 78% YoY.
- The fabrication works for its second LCO2 plant (with capacity of 70k tonnes/year) at an investment of RM45m are currently on-going with commissioning expected by Oct 2023. It will capture business opportunities its existing plant 1 (capable of producing 50k tonnes/year) was unable to seize as it is currently already running at 91% utilisation rate, driven by overwhelming orders from the F&B industry in Asia and the Oceania region.
- Despite the general slowdown in the semiconductor sector, which was reflected in the group's tender book moderating from RM2b to RM1.4b, we believe this figure is still a very large sum with an abundance of job tenders in the space still. Also, not forgetting the group is sitting on a sizable outstanding order book of RM1.93b which will provide solid earnings visibility compared to many other tech players which are struggling with order cuts amidst the challenging climate.

Forecasts. Maintained.

We also keep our TP of RM1.92 based on an unchanged 22x FY23F PER, in line with its peers' forward average. 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).

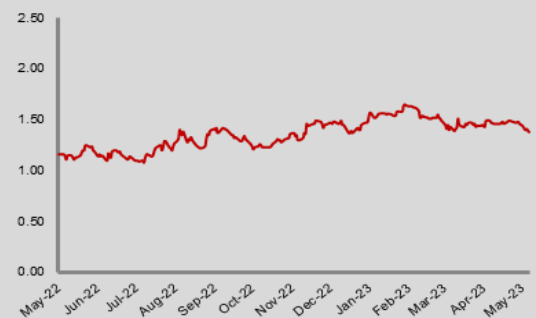
Investment thesis. We like KGB for: (i) it being a direct proxy to the front-end wafer fab expansion, (ii) its strong earnings visibility underpinned by robust order book and tender book exceeding RM1b, and (iii) its strong foothold in multiple markets, i.e. Malaysia, Singapore and China. Maintain **OUTPERFORM**.

Risks to our call include: (i) chip makers halting their expansion plans due to oversupply, (ii) worsening Sino-US chip war, and (iii) delays in its LCO2 plant expansion.

OUTPERFORM ↔

Price : **RM1.40**
Target Price : **RM1.92** ↔

Share Price Performance



KLCI	1,387.1
YTD KLCI chg	-7.2%
YTD stock price chg	-2.2%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	KGRB MK Equity
Market Cap (RM m)	903.2
Shares Outstanding	643.0
52-week range (H)	1.65
52-week range (L)	1.06
3-mth avg daily vol:	1,048,548
Free Float	50.8%
Beta	0.9

Major Shareholders

Palace Star	21.1%
Sun Lead International Ltd	6.22%
AmanahRaya Trustees	5.5%

Summary Earnings Table

FYE Dec (RM m)	2022A	2023F	2024F
Turnover	1,269.5	1,040.6	1,069.6
EBITDA	85.7	93.8	99.3
PBT	73.6	74.5	76.8
Net Profit	55.4	56.0	57.8
Consensus	-	60.9	63.7
Earning. Revision	-	-	-
EPS (sen)	8.6	8.7	9.0
EPS growth (%)	74.1	1.2	3.2
NDPS (sen)	2.5	2.4	2.5
BVPS (RM)	0.37	0.43	0.50
Price/BV (x)	3.8	3.2	2.8
PER (x)	16.3	16.1	15.6
Net gearing (x)	(0.2)	(0.2)	(0.3)
ROA (%)	5.2	5.4	5.3
ROE (%)	23.2	20.0	18.0
Dividend Yield (%)	1.8	1.7	1.8

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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	UP	3.64	2.68	-26.4%	4,505.6	Y	12/2023	7.8	10.7
GHL SYSTEMS BHD	OP	0.790	1.05	32.9%	896.1	Y	12/2023	3.0	3.4	21.3%	12.9%	26.3	23.4	1.7	6.5%	0.0	0.0%
INARI AMERTRON BHD	MP	2.52	2.46	-2.4%	9,407.0	Y	06/2023	9.0	10.2	-14.1%	13.1%	28.0	24.8	3.7	13.3%	8.6	3.4%
JHM CONSOLIDATION BHD	MP	0.740	0.750	1.4%	445.4	Y	12/2023	3.5	5.0	-8.3%	43.6%	21.3	14.8	1.3	6.5%	0.5	0.7%
KELINGTON GROUP BHD	OP	1.40	1.92	37.1%	900.2	Y	12/2023	8.7	9.0	1.1%	3.2%	16.1	15.6	3.2	21.3%	2.4	1.7%
KESM INDUSTRIES BHD	MP	6.89	6.91	0.3%	296.4	Y	07/2023	(15.8)	1.2	-3500.0%	-92.6%	N.A.	556.1	0.8	-1.9%	7.5	1.1%
LGMS BHD	OP	0.990	1.32	33.3%	451.4	Y	12/2023	3.1	5.3	12.7%	70.4%	31.8	18.7	4.6	15.7%	0.0	0.0%
M'SIAN PACIFIC INDUSTRIES BHD	UP	27.00	15.26	-43.5%	5,370.2	Y	06/2023	41.8	105.8	-74.7%	153.3%	64.3	25.5	2.7	4.1%	35.0	1.3%
NATIONGATE HOLDINGS BHD	OP	1.24	1.50	12.9%	2,571.7	Y	12/2023	5.0	6.1	20.4%	22.8%	24.9	20.3	7.9	37.1%	0.3	0.2%
OPPSTAR BHD	MP	2.01	1.82	-9.5%	1,278.8	N	03/2024	4.5	6.1	34.0%	36.3%	45.1	33.1	8.1	19.3%	1.1	0.5%
P.I.E. INDUSTRIAL BHD	OP	3.19	4.05	27.0%	1,225.1	Y	12/2022	22.5	25.3	22.0%	12.5%	14.2	12.6	2.0	14.6%	7.0	2.2%
SKP RESOURCES BHD	UP	1.02	0.950	-6.9%	1,593.6	Y	03/2024	6.3	7.1	-31.6%	12.5%	16.2	14.4	1.8	11.4%	3.2	3.1%
UNISEM (M) BHD	MP	3.12	2.75	-11.9%	5,032.8	Y	12/2023	8.9	13.8	-41.2%	55.7%	20.3	18.2	2.0	5.9%	6.0	1.9%
Simple Average										-27.2%	34.5%	31.1	23.1	3.4	12.7%		1.3%

Source: Kenanga Research

Stock ESG Ratings:

	Criterion	Rating				
GENERAL	Earnings Sustainability & Quality	★	★	★	☆	
	Community Investment	★	★	★	☆	
	Workers Safety & Wellbeing	★	★	★		
	Corporate Governance	★	★	★		
	Anti-Corruption Policy	★	★	★		
	Emissions Management	★	★	★	★	
SPECIFIC	Technology & Innovation	★	★	☆		
	Supply Chain Management	★	★	★	☆	
	Energy Efficiency	★	★	★		
	Effluent/Water Management	★	★	★		
	Waste Management	★	★	★		
	Ethical Practices	★	★	★		
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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