

# Kelington Group

## Positioned for Semiconductor Upsurge

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KGB's outlook remains promising, supported by a robust order book primarily consisting of high-margin UHP projects. Its LCO<sub>2</sub> plants are operating at 58% capacity, with utilization expected to increase due to strong regional demand. We have adjusted our FY24-25 net profit forecasts upward by 4%/2% and raised our target price to RM4.16, maintaining our OUTPERFORM call.

We recently met with KGB's management and remain optimistic about its promising outlook. The key takeaways from the meeting are as follows:

1. KGB is well-positioned to benefit from the anticipated recovery in semiconductor demand in 2024 and beyond. The Semiconductor Industry Association (SEMI) expects 103 new fabs worldwide to come online between 2023 and 2027, including eight in Southeast Asia, driven by production capacity expansions to support AI proliferation and other disruptive technologies. As a reputable infrastructure contractor, KGB is set to be a key beneficiary in the region.
2. Recently, the group secured additional ultra-high purity (UHP) gas contracts worth RM413m, mostly from Malaysia and Singapore, bringing its YTD secured contract value to RM977m as of early September. KGB continues to see a higher proportion of UHP gas solution jobs in its pipeline, making up c.76% (versus 74% in FY23) of its RM1.29b outstanding order book as of the end of 1HFY24. Its tender book remains significant at RM1.66b, predominantly potential jobs from Singapore, China, Germany and Hong Kong.
3. Its LCO<sub>2</sub> plants, with a combined capacity of 120k MT (Plant 1: 50k MT; Plant 2: 70k MT), are now operating at c.58% capacity—up from about 40% in 1QFY24—producing 200 tonnes per day. The utilization rate is expected to rise due to strong uptake from Plant 2, driven by increased demand from neighbouring countries experiencing permanent LCO<sub>2</sub> shortages following plant shutdowns for decarbonization efforts. Besides, its 10-year contract to supply hydrogen, nitrogen, and oxygen to an optoelectronics semiconductor giant in Kulim, Kedah, has begun contributing in 2QFY24 and will continue until 2QFY34. The group has earlier guided for cumulative revenue of approximately RM180m over the period, generated through fixed facility fees and gas sales.

**Forecasts.** Raised our FY24/FY25F net profit by 4%/2%, respectively, after incorporating the latest quarterly results and increasing our FY24 new orders assumptions by RM200m to RM1.2b.

**Valuations.** Correspondingly, we have raised our TP to **RM4.16** (vs. RM4.10 previously) based on an unchanged 21x FY25F PER. Our valuation represents a c.10% discount to peer's forward mean PER of 24x which includes global players such as Air Products, Air Liquide and Linde. There is no adjustment to our TP based on ESG given a 3-star rating as appraised by us (see Page 4).

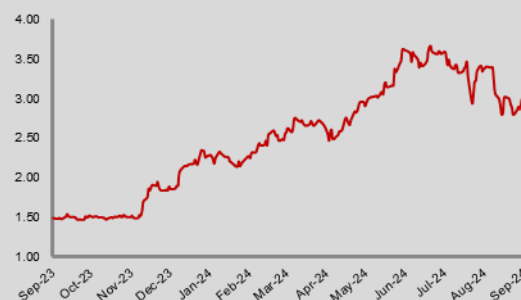
**Investment case.** We like KGB for: (i) it being a direct proxy to the front-end wafer fab expansion, (ii) its strong earnings visibility underpinned by robust order book and tender book exceeding RM1b, and (iii) its strong foothold in multiple markets, i.e. Malaysia, Singapore and China. Maintain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

**Risks to our call include:** (i) a slowdown in wafer fab investment, (ii) worsening Sino-US chip war, and (iii) low utilisation of its LCO<sub>2</sub> plants.

# OUTPERFORM ↔

Price : **RM3.02**  
Target Price : **RM4.16** ↑

### Share Price Performance



KLCI	1,660.59
YTD KLCI chg	14.2%
YTD stock price chg	43.8%

### Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	KGRB MK EQUITY
Market Cap (RM m)	2,145.4
Shares Outstanding	687.6
52-week range (H)	3.71
52-week range (L)	1.46
3-mth avg. daily vol.	1,958,317
Free Float	70%
Beta	0.8

### Major Shareholders

Palace Star	19.7%
Sun Lead International Ltd	5.9%
Public Mutual Bhd	5.8%

### Summary Earnings Table

FYE Dec (RM m)	2023A	2024F	2025F
Turnover	1,614	1,626	1,706
EBIT	144	153	176
PBT	133	143	166
<b>Net Profit</b>	103	108	127
Consensus	-	120	137
Earnings Revision (%)	-	+4	+2
EPS (sen)	15.9	16.8	19.8
EPS Growth (%)	83.9	5.1	18.1
NDPS (sen)	4.0	8.5	10.0
BV/Share (RM)	0.5	0.6	0.7
Core PER (x)	19.6	18.6	15.8
P/BV (x)	6.0	5.3	4.6
Gearing (x)	-0.3	-0.7	-0.7
Dvd Yield (%)	1.3	2.7	3.2





19 September 2024

### Malaysian Technology Peers Comparison

Name	Rating	Last Price @ 18 Sept (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	2.18	2.64	21.1%	2,702.1	Y	12/2024	5.8	9.8	64.2%	67.4%	25.8	18.2	2.8	7.9%	1.0	0.5%
INARI AMERTRON BHD	OP	3.01	4.05	34.6%	11,402.3	Y	06/2025	10.0	12.1	22.0%	21.3%	32.0	25.4	3.9	13.2%	8.0	2.7%
KELINGTON GROUP BHD	OP	3.12	4.16	33.3%	2,145.4	Y	12/2024	16.8	19.8	5.1%	18.1%	19.3	16.0	5.2	30.1%	9.0	2.9%
LGMS BHD	OP	1.25	1.53	22.4%	570.0	Y	12/2024	3.6	5.1	46.4%	41.5%	27.0	19.7	5.8	17.7%	1.0	0.8%
M'SIAN PACIFIC INDUSTRIES BHD	OP	27.10	38.80	43.2%	5,117.2	Y	06/2025	118.4	149.0	87.1%	25.9%	36.4	19.6	2.4	10.8%	35.0	1.3%
NATIONGATE HOLDINGS BHD	OP	1.72	2.30	33.7%	3,915.2	Y	12/2024	5.1	9.2	84.2%	86.6%	30.0	18.7	4.1	16.9%	1.0	0.6%
OPPSTAR BHD	MP	0.825	0.820	-0.6%	528.5	Y	03/2025	2.2	3.3	-11.0%	52.2%	14.6	12.6	3.3	9.0%	1.0	1.2%
P.I.E. INDUSTRIAL BHD	OP	5.20	6.35	22.1%	1,997.0	Y	12/2024	17.5	27.0	-9.4%	54.5%	23.4	18.1	3.0	10.5%	0.0	0.0%
SKP RESOURCES BHD	OP	1.11	1.35	21.6%	1,734.2	Y	03/2025	7.4	8.4	18.8%	14.5%	15.2	13.1	1.6	11.0%	0.0	0.0%
UNISEM (M) BHD	OP	3.16	3.70	17.1%	5,097.3	Y	12/2024	10.2	12.7	100.4%	25.2%	31.1	24.9	2.1	6.8%	8.0	2.5%
<b>Simple Average</b>					<b>35,209.3</b>					<b>39.0%</b>	<b>32.4%</b>	<b>27.5</b>	<b>20.8</b>	<b>3.4</b>	<b>13.4%</b>		<b>1.2%</b>

Source: Kenanga Research

**Stock ESG Ratings:**

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

- ☆ 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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