

22 August 2025

# Kelington Group

## Riding the Fab Wave

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KGB's 1HFY25 results were in line. Order visibility remains strong with a RM1.82b order book (RM1.33b outstanding) and RM549m 1H wins. We retain FY25F/FY26F new job targets at RM1.6b/RM1.8b, with upside risk from accelerating fab build-outs, especially in Europe. We raise FY25F/FY26F earnings by 3–7% to RM160m/RM187m on higher GP assumptions and lift TP by 19% to RM5.15 after rolling forward to FY26F, and applying a higher 25x PER (removing the prior 10% peer discount). **Maintain OUTPERFORM.**

KGB's 1HFY25 net profit rose 16% YoY to RM60m, in line with expectations, representing 39% of our FY forecast and 40% of the street's estimate, within its historical 1H contribution range of 34–42%. Notably, its GP margin reached a new high of 23% in 2QFY25. The group declared a second interim dividend of 2.5 sen per share, bringing YTD DPS to 5.0 sen. We project a full-year DPS of 11.0 sen.

**YoY**, 1HFY25 revenue declined 16% to RM552m due to timing gaps in Malaysia and China between project completions and new starts. Momentum remains intact with RM549m in new wins. The advanced engineering (previously known as UHP) segment contributed 69% (vs. 65% a year ago) of revenue. By geography, Malaysia led with 34% of revenue, while Singapore grew 15% YoY to RM176m on stronger advanced engineering activity. Process engineering, general contracting, and industrial gases softened on project tapering and weaker demand. Despite the top-line pullback, net profit improved 16% to RM60m on a more favourable mix, driving better margins.

**QoQ**, 2QFY25 revenue increased 4%, underpinned by higher contributions from Malaysia and Singapore as new projects ramped up. GP margin expanded to 23% (from 18% in 1QFY25) on richer project mix, lifting PBT and PAT by 21% and 23%, respectively.

**Outlook.** Despite ongoing trade/tariff uncertainty, we remain constructive. Visibility is strong with a RM1.82b order book (RM1.33b outstanding) after RM549m new wins in 1HFY25. We maintain our new order assumptions at RM1.6b (FY25) and RM1.8b (FY26), with upside risk on accelerating fab build-outs in Europe. Strategic exposure to semiconductors, industrial gases, and carbon capture, utilisation and storage (CCUS) underpins long-term growth. The industrial gas division remains resilient on steady LCO<sub>2</sub> demand and rising export mix, while active positioning in CCUS broadens medium-term optionality.

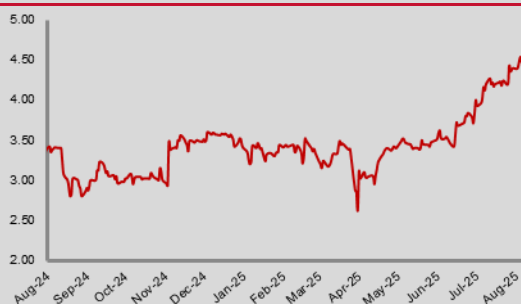
**Forecasts.** We lift FY25F/FY26F net profit by 3.5%/6.6% to RM160m/RM187m, reflecting higher GP margin assumptions of 20.7%/21.0% (from 19.5% each previously) in line with latest trends and a tilt toward higher margin projects.

**Valuations.** We raise our TP by 19% to RM5.15, rolling forward to FY26F and lifting the target PER to 25x after removing the prior 10% discount vs. global peers (Air Products, Air Liquide, Linde). The discount removal is justified by KGB's step-up in capability and market access, evidenced by the 4 Aug 2025 LOI for a Dresden wafer fab. The LOI covers hook-up scopes (specialty gases, chemicals, slurry, bulk gases, process vacuum, UPW) with unit rates fixed through 2027. Phase 1 is valued at ≥€30m (c. RM146m), potentially rising to €50m (c. RM244m), with works commencing immediately over 2–3 years. There is no adjustment to our TP based on ESG given a 3-star rating as appraised by us (see Page 4).

**OUTPERFORM** ↔

**Price:** RM4.63  
**Target Price:** RM5.15 ↑

### Share Price Performance



KLCI	1,592.87
YTD KLCI chg	-3.0%
YTD stock price chg	29.7%

### Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	KGRB MK EQUITY
Market Cap (RM m)	3,511.7
Shares Outstanding	734.8
52-week range (H)	4.72
52-week range (L)	2.60
3-mth avg. daily vol.	2,189,485
Free Float	72%
Beta	0.8

### Major Shareholders

Palace Star	17.9%
Aberdeen Group Plc	13.4%
Sun Lead International	5.2%

### Summary Earnings Table

FYE Dec (RM m)	2024A	2025F	2026F
Turnover	1,272	1,427	1,651
EBIT	168	211	249
PBT	158	204	239
<b>Net Profit</b>	123	160	187
Consensus	-	150	176
Earnings Revision	-	3.5%	6.6%
EPS (sen)	18.2	21.1	20.5
EPS Growth (%)	12.8	15.6	-2.7
NDPS (sen)	8.0	11.0	11.0
BV/Share (RM)	0.7	0.9	1.0
Core PER (x)	25.4	22.0	22.6
P/BV (x)	6.6	5.1	4.6
Gearing (x)	-0.5	-0.7	-0.8
Dvd Yield (%)	1.7%	2.4%	2.4%

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**Investment case.** We like KGB for: (i) 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 footholds 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 LCO2 plants.

<b>Results Highlights</b>								
<b>FYE Dec (RM m)</b>	<b>2Q25</b>	<b>1Q25</b>	<b>QoQ Chg</b>	<b>2Q24</b>	<b>YoY Chg</b>	<b>6M25</b>	<b>6M24</b>	<b>YoY Chg</b>
Turnover	282.0	270.3	4.3%	321.2	-12.2%	552.3	660.5	-16.4%
Gross Profit	65.0	48.6	33.7%	55.5	17.1%	113.5	108.4	4.7%
EBITDA	47.7	38.2	24.9%	40.9	16.7%	86.0	79.6	8.0%
EBIT	43.7	34.3	27.5%	37.2	17.5%	78.0	72.3	7.9%
PBT/(LPT)	41.3	34.2	20.8%	34.8	18.7%	75.6	67.6	11.8%
Taxation	(8.5)	(7.6)	11.7%	(7.7)	10.3%	(16.0)	(14.7)	8.6%
MI	0.0	0.0	NA	(0.5)	NA	0.0	(1.3)	NA
Net Profit	32.9	26.6	23.4%	26.7	23.3%	59.5	51.5	15.6%
Core EPS (sen)	4.5	3.7	21.6%	4.0	12.9%	8.2	7.8	5.3%
DPS (sen)	2.5	2.5	0.0%	2.0	25.0%	5.0	4.0	25.0%
Gross Margin	23.0%	18.0%		17.3%		20.6%	16.4%	
EBITDA Margin	16.9%	14.1%		12.7%		15.6%	12.0%	
EBIT Margin	15.5%	12.7%		11.6%		14.1%	11.0%	
PBT Margin	14.7%	12.7%		10.8%		13.7%	10.2%	
NP Margin	11.7%	9.9%		8.3%		10.8%	7.8%	
Tax Rate	-20.5%	-22.1%		-22.0%		-21.2%	-21.8%	

Source: Kenanga Research

<b>Geographical Breakdown</b>								
<b>FYE Dec (RM m)</b>	<b>2Q25</b>	<b>1Q25</b>	<b>QoQ Chg</b>	<b>2Q24</b>	<b>YoY Chg</b>	<b>6M25</b>	<b>6M24</b>	<b>YoY Chg</b>
Malaysia	109.3	79.8	36.9%	124.1	-11.9%	189.2	275.7	-31.4%
China	57.5	101.0	-43.1%	101.1	-43.1%	158.5	205.1	-22.7%
Singapore	99.8	75.9	31.3%	82.7	20.6%	175.7	153.2	14.7%
Others	15.4	13.5	14.5%	13.4	15.5%	28.9	26.5	9.1%
<b>TOTAL REV.</b>	<b>282.0</b>	<b>270.3</b>	<b>4.3%</b>	<b>321.2</b>	<b>-12.2%</b>	<b>552.3</b>	<b>660.5</b>	<b>-16.4%</b>
Malaysia	39%	30%		39%		34%	42%	
China	20%	37%		31%		29%	31%	
Singapore	35%	28%		26%		32%	23%	
Others	5%	5%		4%		5%	4%	

Source: Kenanga Research

<b>Segmental Breakdown</b>								
<b>FYE: Dec (RM m)</b>	<b>2Q25</b>	<b>1Q25</b>	<b>QoQ Chg</b>	<b>2Q24</b>	<b>YoY Chg</b>	<b>6M25</b>	<b>6M24</b>	<b>YoY Chg</b>
UHP/Advanced Engineering	181.9	199.5	-8.8%	222.1	-18.1%	381.4	427.6	-10.8%
Process Engineering	16.6	9.1	81.7%	17.4	-4.6%	25.8	38.8	-33.6%
General Contracting	55.5	23.4	137.4%	46.5	19.4%	78.9	122.6	-35.7%
Industrial Gas	28.0	38.3	-26.7%	35.3	-20.5%	66.3	71.5	-7.3%
<b>TOTAL REV.</b>	<b>282.0</b>	<b>270.3</b>	<b>4.3%</b>	<b>321.2</b>	<b>-12.2%</b>	<b>552.3</b>	<b>660.5</b>	<b>-16.4%</b>
UHP	64%	74%		69%		69%	65%	
Process Engineering	6%	3%		5%		5%	6%	
General Contracting	20%	9%		14%		14%	19%	
Industrial Gas	10%	14%		11%		12%	11%	

Source: Kenanga Research

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### Malaysian Technology Peers Comparison

Name	Rating	Last Price @ 21 Aug (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.	2-Yr. Fwd.
D&O GREEN TECHNOLOGIES BHD	MP	0.995	1.18	18.6%	1,233.3	Y	12/2025	4.0	5.3	24.8%	34.3%	25.0	18.6	1.3	5.3%	1.0	1.0%		
INARI AMERTRON BHD	MP	1.91	2.00	4.7%	7,237.0	Y	06/2025	6.8	7.6	-17.2%	11.8%	28.2	25.3	2.6	6.1%	6.0	3.1%		
KELINGTON GROUP BHD	OP	4.63	5.15	11.2%	3,511.7	Y	12/2025	21.1	20.5	29.6%	17.1%	22.0	22.6	5.1	27.5%	11.0	2.4%		
LGMS BHD	MP	0.725	0.860	18.6%	330.6	Y	12/2025	2.3	2.9	-15.4%	25.0%	31.8	25.4	3.4	10.8%	2.0	2.8%		
M'SIAN PACIFIC INDUSTRIES BHD	MP	22.14	18.40	-16.9%	4,414.7	Y	06/2026	80.3	86.1	4.0%	7.3%	27.6	25.7	2.0	7.5%	35.0	1.6%		
NATIONGATE HOLDINGS BHD	OP	1.23	2.21	79.7%	2,801.0	Y	12/2025	9.2	9.4	19.5%	2.3%	13.3	13.0	2.6	21.1%	2.0	1.6%		
OPPSTAR BHD	MP	0.465	0.500	7.5%	298.2	Y	03/2026	1.4	1.7	-27.4%	21.1%	33.1	27.3	2.1	6.5%	1.0	2.2%		
P.I.E. INDUSTRIAL BHD	MP	3.39	3.85	13.6%	1,301.9	Y	12/2025	14.1	17.8	1.7%	26.9%	24.1	19.0	1.9	8.2%	0.0	0.0%		
SKP RESOURCES BHD	OP	0.910	1.24	36.3%	1,421.8	Y	03/2026	8.6	9.2	13.9%	6.3%	10.5	9.9	1.2	12.0%	0.0	0.0%		
UNISEM (M) BHD	UP	2.54	1.23	-51.6%	4,097.2	Y	12/2025	3.8	5.3	2.0%	38.8%	66.2	47.7	1.9	2.8%	8.0	3.1%		
Simple Average					<b>26,647.3</b>					<b>7.0%</b>	<b>12.9%</b>	<b>24.1</b>	<b>21.4</b>	<b>2.4</b>	<b>10.8%</b>		<b>1.8%</b>		

Source: Kenanga Research

**Stock ESG Ratings:**

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