

26 May 2026

Kelington Group

AI Capex Fuels Growth

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Despite flat YoY revenue of RM270m and a softer QoQ showing due to project timing, profitability improved on stronger gross margins and sustained UHP-led momentum. We remain positive on KGB's outlook, supported by AI-led semiconductor capex, its expanding Europe and India footprint, RM790m new wins in 1QFY26, and a record RM1.92b outstanding order book. We raise our FY26/FY27 earnings forecasts by 4.7%/11.8% and lift our TP to RM9.05 from RM6.15 after rolling forward our valuation base to FY27 and applying a higher 37x target PER, reflecting stronger earnings visibility and improved margin prospects.

KGB's 1QFY26 net profit rose 14% YoY to RM30m, in line with expectations, representing 16% of our and consensus' full-year forecast - within its historical 1Q contribution range of 15%-20%. The Group declared a first interim dividend per share (DPS) of 3.0 sen, higher than the 2.5 sen declared a year ago. Overall, the group's 1QFY26 performance remain resilient, with margin expansion and sustained UHP-led momentum supporting earnings visibility despite muted headline revenue growth.

YoY, 1QFY26 revenue was broadly flat at RM270m, as seasonal slowdown and shorter working days offset stronger contributions from Singapore (+42% YoY) and Taiwan (+136%), driven mainly by Advanced Engineering/UHP projects, while China revenue fell 51% due to project timing. The Advanced Engineering/UHP division remained the key revenue driver, contributing 73% of group turnover. Despite muted topline growth, profitability improved, with PBT rising 15% to RM39m and PAT increasing 14% to RM30m, supported by better gross margins across key projects, partly offset by higher staff costs and a RM1.4m forex loss. Overall, the results were resilient, underpinned by sustained UHP-led momentum and stronger margin deliver.

QoQ, 1QFY26 revenue declined 33%, mainly due to lower contributions from Malaysia, Singapore and China, reflecting timing differences in project revenue recognition. In line with the softer topline, PBT and PAT fell 37% and 40%, respectively, largely weighed by lower project volume during the quarter.

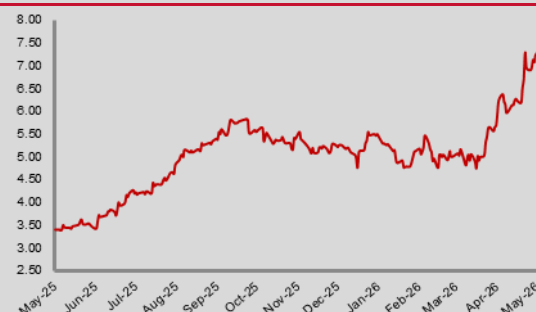
Outlook. AI-led semiconductor capex remains a key structural tailwind for KGB, with worldwide large-scale fab equipment spending expected to rise to USD133b in CY26 and surpass USD150b in CY27. We believe KGB is well positioned to capture these opportunities, supported by its expanding footprint in Europe and India, including its USD105m turnkey gas distribution contract for India's first pure-play semiconductor foundry in Gujarat. With RM790m new wins secured in 1QFY26 and a record RM1.92b outstanding orderbook, earnings visibility remains strong over the next few years. Meanwhile, its RM4.6b tender book as at end-FY25 is expected to grow in tandem with rising global semiconductor capex. While we maintain our FY26 new order win assumption at RM1.8b, we raise our FY27 assumption to RM2.0b from RM1.8b previously.

Forecasts. We raise our FY26/FY27 earnings forecasts by 4.7%/11.8% to RM195m/RM222m, respectively, after lifting our revenue assumptions and factoring in higher gross margin assumptions (23% vs 22% previously) to reflect the latest margin trend.

OUTPERFORM ↔

Price: **RM7.33**
Target Price: **RM9.05** ↑

Share Price Performance



KLCI	1,708.76
YTD KLCI chg	1.7%
YTD stock price chg	-2.0%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	KGRB MK EQUITY
Market Cap (RM m)	4,008.2
Shares Outstanding	789.0
52-week range (H)	5.86
52-week range (L)	2.59
3-mth avg. daily vol.	3,082,688
Free Float	73%
Beta	0.9

Major Shareholders

Palace Star	17.2%
Employees Provident	5.7%
Sun Lead Internation	5.0%

Summary Earnings Table

FYE Dec (RM m)	2025A	2026F	2027F
Turnover	1,274	1,688	1,911
EBIT	191	260	295
PBT	190	251	287
Net Profit	151	195	223
Consensus	-	182	205
Earnings Revision	-	4.7%	11.8%
EPS (sen)	20.3	21.4	24.5
EPS Growth (%)	10.1	5.7	14.1
NDPS (sen)	13.0	15.0	15.0
BV/Share (RM)	0.8	0.9	1.0
Core PER (x)	36.1	34.2	30.0
P/BV (x)	8.9	8.3	7.5
Gearing (x)	-0.3	-0.4	-0.4
Dvd Yield (%)	1.8%	2.0%	2.0%

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Valuations. We raise our TP to RM9.05 from RM6.15 previously, after rolling forward our valuation base year to FY27 and applying a higher target PER of 37x (from 30x previously which was pegged to 1SD above KLTECH's 5-year forward PER). Our revised target PER represents a 10% discount to the average FY27 PER of 41.3x for local semiconductor front-end peers, namely UWC, Frontken and ViTrox. We believe the discount is justified as KGB's net margin remains thinner than its front-end peers, although it has been improving in recent years. Separately, when benchmarked against global peers such as Air Products, Air Liquide and Linde, KGB has historically traded at an average 47% premium over the past three years, which we believe is partly supported by local mandate-driven demand. Applying this 47% premium to the global peer average FY26 PER of 25.1x implies a fair target PER of 37x.

Notably, more than 65% of the group's outstanding order book is related to the UHP segment, which we view as a critical front-end infrastructure solution for wafer fabrication, given its role in ensuring stable and contamination-free delivery of gases and chemicals across key fab processes. As such, we believe benchmarking KGB against front-end semiconductor peers is more appropriate, as it better reflects the group's semiconductor earnings exposure and growth profile. No ESG adjustment has been applied to our TP, based on our in-house 3-star ESG rating for the stock.

Investment case. We like KGB for: (i) it being a direct proxy to the front-end wafer fab expansion, (ii) strong earnings visibility supported by an outstanding order book exceeding RM1.9b and a robust tender book of over RM4b (as of FY25), (iii) its strong foothold in multiple markets, i.e. Malaysia, Singapore and China, and (iv) its progressive margin expansion. 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.

Results Highlights								
FYE Dec (RM m)	1Q26	4Q25	QoQ Chg	1Q25	YoY Chg	3M26	3M25	YoY Chg
Turnover	270.4	404.9	-33.2%	270.3	0.1%	270.4	270.3	0.1%
Gross Profit	63.2	87.7	-27.9%	48.6	30.2%	63.2	48.6	30.2%
EBITDA	45.8	64.6	-29.0%	38.2	20.0%	45.8	38.2	20.0%
EBIT	41.2	60.4	-31.7%	34.3	20.3%	41.2	34.3	20.3%
PBT/(LPT)	39.4	62.2	-36.7%	34.2	15.1%	39.4	34.2	15.1%
Taxation	(9.0)	(11.7)	-23.3%	(7.6)	18.7%	(9.0)	(7.6)	18.7%
MI	(0.0)	(0.1)	NA	0.0	NA	(0.0)	0.0	NA
Net Profit	30.4	50.4	-39.7%	26.6	14.0%	30.4	26.6	14.0%
Core EPS (sen)	3.9	6.5	-40.5%	3.7	4.5%	3.9	3.7	4.5%
DPS (sen)	3.0	4.0	-25.0%	2.5	20.0%	3.0	2.5	20.0%
Gross Margin	23.4%	21.7%		18.0%		23.4%	18.0%	
EBITDA Margin	17.0%	15.9%		14.1%		17.0%	14.1%	
EBIT Margin	15.2%	14.9%		12.7%		15.2%	12.7%	
PBT Margin	14.6%	15.4%		12.7%		14.6%	12.7%	
NP Margin	11.2%	12.5%		9.9%		11.2%	9.9%	
Tax Rate	-22.8%	-18.8%		-22.1%		-22.8%	-22.1%	

Source: Kenanga Research

Geographical Breakdown								
FYE Dec (RM m)	1Q26	4Q25	QoQ Chg	1Q25	YoY Chg	3M26	3M25	YoY Chg
Malaysia	85.2	144.2	-40.9%	79.8	6.8%	85.2	79.8	6.8%
China	49.1	66.9	-26.6%	101.0	-51.4%	49.1	101.0	-51.4%
Singapore	108.1	154.7	-30.1%	75.9	42.4%	108.1	75.9	42.4%
Others	27.9	39.0	-28.5%	13.5	107.2%	27.9	13.5	107.2%
TOTAL REV.	270.4	404.9	-33.2%	270.3	0.1%	270.4	270.3	0.1%
Malaysia	32%	36%		30%		32%	30%	
China	18%	17%		37%		18%	37%	
Singapore	40%	38%		28%		40%	28%	
Others	10%	10%		5%		10%	5%	

Source: Kenanga Research

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Segmental Breakdown								
FYE: Dec (RM m)	1Q26	4Q25	QoQ Chg	1Q25	YoY Chg	3M26	3M25	YoY Chg
UHP/Advanced Engineering	197.3	258.3	-23.6%	199.5	-1.1%	197.3	199.5	-1.1%
Process Engineering	9.1	41.7	-78.1%	9.1	0.0%	9.1	9.1	0.0%
General Contracting	25.6	69.7	-63.3%	23.4	9.4%	25.6	23.4	9.4%
Industrial Gas	38.3	35.2	8.9%	38.3	0.0%	38.3	38.3	0.0%
TOTAL REV.	270.3	404.9	-33.3%	270.3	0.0%	270.3	270.3	0.0%
UHP	73%	64%		74%		73%	74%	
Process Engineering	3%	10%		3%		3%	3%	
General Contracting	9%	17%		9%		9%	9%	
Industrial Gas	14%	9%		14%		14%	14%	

Source: Kenanga Research

Semiconductor front-end peers comparison

	FY23	FY24	FY25	FY26	FY27
UWC	119.8	433.3	162.3	66.8	42.1
Frontken	68.9	57.1	50.0	38.4	35.4
Vitrox	48.0	66.8	56.9	56.4	46.6
Skyechip	169.3	143.9	134.9	103.8	78.7
KGB	44.8	39.3	35.7	35.4	33.1
Simple Average	90.2	148.1	88.0	60.2	47.2
Simple Average (ex-Skyechip)	70.4	149.2	76.2	49.3	39.3
Simple Average (ex-Skyechip & KGB)	78.9	185.8	89.7	53.9	41.3

Source: Bloomberg, Kenanga Research

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Malaysian Technology Peers Comparison

Name	Rating	Last Price @ 25 May (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	MP	0.445	0.470	5.6%	551.6	Y	12/2026	2.1	2.3	132.7%	39.9%	21.0	19.5	0.8	3.8%	1.0	2.2%
FRONTKEN BHD	OP	4.95	5.10	3.0%	8,974.0	Y	12/2026	12.8	13.9	31.9%	8.7%	38.7	35.7	6.9	19.1%	4.0	0.8%
INARI AMERTRON BHD	OP	1.98	2.02	2.0%	7,539.5	Y	06/2026	5.7	7.5	-14.6%	30.6%	34.5	26.4	2.7	7.2%	5.0	2.5%
KELINGTON GROUP BHD	OP	7.33	9.05	23.5%	6,626.0	Y	12/2026	21.4	24.5	29.1%	14.1%	34.2	30.0	8.3	27.5%	15.0	2.0%
LGMS BHD	OP	0.530	0.580	9.4%	241.7	Y	12/2026	2.9	3.6	30.4%	21.8%	18.2	14.9	1.8	10.5%	2.0	3.8%
M'SIAN PACIFIC INDUSTRIES BHD	MP	48.00	38.90	-19.0%	9,571.1	Y	06/2026	104.7	134.1	35.6%	28.0%	45.8	35.8	4.3	9.7%	40.0	0.8%
NATIONGATE HOLDINGS BHD	MP	0.750	0.660	-12.0%	1,697.0	Y	12/2026	4.7	5.7	7.8%	21.1%	15.9	13.2	1.6	10.2%	2.0	2.7%
OPPSTAR BHD	MP	0.635	0.230	-63.8%	408.6	Y	03/2026	(1.6)	1.0	-184.7%	-40.0%	N.A.	64.5	3.2	-8.0%	0.0	0.0%
P.I.E. INDUSTRIAL BHD	MP	1.52	1.45	-4.6%	583.7	Y	12/2026	5.9	8.4	0.4%	42.3%	25.7	18.1	0.9	3.5%	0.0	0.0%
SKP RESOURCES BHD	MP	0.360	0.500	38.9%	562.4	Y	03/2026	5.7	4.4	-24.4%	-22.5%	6.4	8.2	0.5	8.0%	0.0	0.0%
SKYECHIP BHD	OP	2.92	2.00	-31.5%	5,244.3	Y	03/2027	2.6	3.4	30.1%	32.1%	112.3	85.0	30.2	31.2%	70.0	24.0%
UNISEM (M) BHD	UP	4.85	2.47	-49.1%	7,823.4	Y	12/2026	5.4	9.5	39.6%	74.6%	89.1	51.0	3.6	4.1%	0.0	0.0%
UWC BHD	OP	5.85	4.70	-19.7%	6,454.5	Y	07/2026	9.0	14.3	143.3%	59.0%	65.3	41.0	11.2	18.7%	0.0	0.0%
PENTAMASTER CORP BHD	MP	4.59	3.95	-13.9%	3,264.9	Y	12/2026	12.1	13.1	39.0%	8.1%	37.9	35.0	3.8	10.4%	2.0	0.4%
INFOMINA BHD	OP	1.10	1.90	72.7%	661.4	Y	05/2026	5.6	7.6	60.7%	34.8%	19.5	14.5	3.3	18.3%	1.0	0.9%
Simple Average					60,204.2					20.4%	25.9%	42.0	33.4	5.5	11.6%		2.7%

Source: Kenanga Research

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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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Published by:

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