Kelington Group

Riding the Fab Expansion Wave

OUTPERFORM ↔

Price : RM7.32

Target Price : RM9.05 ↔

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KGB's outlook remains underpinned by record order book and a rapidly expanding tender pipeline. Outstanding order book rose to RM1.92b in 1QFY26, with Advanced Engineering/UHP accounting for 83%, while YTD wins had reached nearly RM1b by mid-May. Management also highlighted a larger c.RM9b tender pipeline, supported by opportunities across Singapore, India, Japan, Malta and Malaysia. Its US key customer's global fab expansion remains a key growth driver, although management will stay selective to avoid overstretching execution capacity in newer markets. We keep our forecasts unchanged for now pending clearer tender-to-order book conversion, and maintain our TP at RM9.05, based on 37x FY27F PER, a 10% discount to local semiconductor front-end peers.

Orderbook reached a record high, supporting earnings visibility. KGB's outstanding order book rose to RM1.92b in 1QFY26, from RM1.38b in 4QFY25, with Advanced Engineering/UHP accounting for a higher-than-historical 83% of the total. Geographically, India was the largest contributor at 28%, mainly driven by the RM400m+ Tata Electronics gas package, followed by Singapore (22%), Malaysia (21%), China (20%), Germany (8%) and Taiwan (1%). The group also secured RM790m in new orders in 1QFY26 and a further RM176m in April–May, bringing YTD wins to nearly RM1b by mid-May.

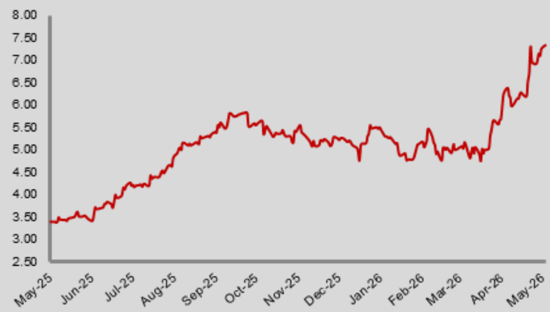
Tender pipeline has expanded sharply. KGB's tender book stood at RM5.3b as at end-1QFY26, mainly driven by Singapore (RM2.1b), Malaysia (RM1.8b) and India (RM883m). Key opportunities include its US customer's F10B fab and other fab-related packages in Singapore, Malaysia-based customer, and India-related jobs. Management also highlighted four major tenders emerging in April–May across Japan, India, Malta and Malaysia, adding more than RM4b to the pipeline and lifting the estimated tender book to c.RM9b. Based on a conservative 20% win rate, management sees potential for close to RM2b in additional wins, implying FY26 new orders of RM2b–RM3b.

Riding on its US key customer's global fab expansion plans. Management described its US key customer as a key strategic account, with KGB's near-term focus centred on Singapore and Japan. In Singapore, KGB is tendering for the customer's F10B fab as well as targeting the upcoming advanced packaging fab, where the gas package alone could exceed RM1b. In Japan, KGB is tendering for bulk gas and specialty gas packages, with a potential package size of more than RM1b and possible award in 2HFY26, subject to the tender process. That said, management cautioned that Japan remains a challenging market due to local contractor preference and its relatively closed procurement ecosystem.

Management remains selective despite strong demand. KGB reiterated that it will avoid overstretching its execution capacity, particularly in newer markets such as India, Japan and Europe, and will prioritise higher-margin projects over topline growth. Based on its current engineering workforce of c.1k, management believes the group can support up to RM2b in annual revenue, but further expansion would require additional capacity through key hires, more contract workers and/or greater subcontractor support.

Industrial gases was softer, but CO_2 remained stable. Industrial gases revenue declined 9% YoY due to lower demand for traded specialty gases, although LCO_2 demand remained steady. Management also continues to explore longer-term opportunities in CCUS, green hydrogen and Bio-CNG, including discussions involving Petronas and Worldwide Energy Development.

Share Price Performance



KLCI	1,699.02
YTD KLCI chg	1.1%
YTD stock price chg	41.8%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	KGRB MK EQUITY
Market Cap (RM m)	6,626.0
Shares Outstanding	904.0
52-week range (H)	7.45
52-week range (L)	3.29
3-mth avg. daily vol.	3,913,004
Free Float	69%
Beta	0.9

Major Shareholders

Palace Star	20.9%
Sun Lead Internation	5.1%
Employees Provident	4.8%

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	-	184	209
Earnings Revision (%)	-	-	-
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	29.9
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

Outlook. KGB has earlier guided for another strong year in FY26, with reported net profit targeted to grow at a double-digit pace, inclusive of FX and other adjustments. On the order win front, management is aiming to deliver another record year, with an indicative FY26 target likely to exceed RM2.0b (vs. our conservative RM1.8b assumption). Notably, management highlighted that its orderbook replenishment is not dependent on any single mega project, as the group has a healthy pipeline comprising multiple tenders worth RM9b in aggregate (as of May 26) that could collectively drive total order wins.

Forecasts. We keep our forecasts unchanged for now pending clearer tender-to-orderbook conversion.

Valuations. Our TP which is maintained at RM9.05 is based on an unchanged targeted FY27F PER of 37x, a 10% discount to the local semiconductor front-end peers (UWC, Frontken and Vitrox) average FY27 PER of 41.3x. 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) strong earnings visibility supported by an outstanding order book exceeding RM1.9b and a robust tender book of over RM9b, (iii) its strong foothold in multiple markets, i.e. Malaysia, Singapore and China, and (iv) 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.

Income Statement

FY Dec (RM m)	2023A	2024A	2025A	2026F	2027F
Revenue	1,614	1,272	1,274	1,688	1,911
EBITDA	156	183	207	279	315
Dep & Amor	11	15	16	19	21
Operating Profit	145	168	191	260	295
Other Income	10	15	10	13	15
Interest Exp	-11	-9	-8	-9	-8
PBT	134	159	190	251	287
Taxation	-28	-32	-39	-56	-64
Minority Interest	-2	-2	-0	-0	-0
Net Profit	104	124	151	195	223
Core Net Profit	104	124	151	195	223

Balance Sheet

FY Dec (RM m)	2023A	2024A	2025A	2026F	2027F
Fixed Assets	169	209	227	256	292
Intangible Assets	-	-	-	-	-
Other FA	15	14	16	16	16
Inventories	25	20	15	19	22
Receivables	437	341	468	620	702
Other CA	157	153	268	270	271
Cash	269	413	405	490	548
Total Assets	**1,073**	**1,150**	**1,401**	**1,672**	**1,852**
Payables	216	189	225	292	329
ST Borrowings	252	225	199	199	199
Other ST Liability	193	172	272	160	164
LT Borrowings	63	76	74	74	74
Other LT Liability	10	15	17	143	197
MI	6	0	0	0	0
Net Assets	**332**	**473**	**613**	**803**	**889**
Shr. Equity	74	184	266	397	397
Reserves	259	289	348	406	492
Total Equity	**332**	**473**	**613**	**803**	**889**

Cashflow Statement

FY Dec (RM m)	2023A	2024A	2025A	2026F	2027F
Operating CF	177	175	65	161	252
Investing CF	-68	-73	-84	-47	-57
Financing CF	-107	3	43	-29	-137

Financial Data & Ratios

FY Dec	2023A	2024A	2025A	2026F	2027F
Growth (%)					
Turnover	26.2	-21.2	0.1	32.5	13.2
EBITDA	79.2	17.1	13.4	34.6	13.1
Operating Profit	81.5	15.8	13.8	36.0	13.5
PBT	80.0	18.6	19.7	32.3	14.0
Adj Net Profit	86.8	19.4	21.5	29.1	14.1
Profitability (%)					
EBITDA Margin	9.7	14.3	16.3	16.5	16.5
Operating Margin	9.0	13.2	15.0	15.4	15.4
PBT Margin	8.3	12.5	14.9	14.9	15.0
Core Net Margin	6.5	9.8	11.9	11.6	11.6
Effective Tax Rate	-20.8	-20.2	-20.4	-22.4	-22.3
ROA	9.7	10.8	10.8	11.7	12.0
ROE	30.8	26.3	24.6	24.3	25.0
DuPont Analysis					
Net Margin (%)	6.5%	9.8%	11.9%	11.6%	11.6%
Assets Turnover (x)	1.5x	1.1x	0.9x	1.0x	1.0x
Leverage Factor (x)	3.2x	2.4x	2.3x	2.1x	2.1x
ROE (%)	30.8	26.3	24.6	24.3	25.0
Leverage					
Debt/Asset (x)	0.2	0.2	0.1	0.1	0.1
Debt/Equity (x)	0.5	0.4	0.3	0.2	0.2
Net Cash/(Debt)	92	236	209	318	376
Net Debt/Equity (x)	-0.3	-0.5	-0.3	-0.4	-0.4
Valuations					
Core EPS (sen)	16.2	18.4	20.3	21.4	24.5
DPS (sen)	4.0	8.0	13.0	15.0	15.0
BVPS (RM)	0.52	0.70	0.82	0.88	0.98
PER (x)	45.3	39.7	36.1	34.2	29.9
Div. Yield (%)	0.5%	1.1%	1.8%	2.0%	2.0%
P/BV (x)	14.2	10.4	8.9	8.3	7.5
EV/EBITDA (x)	30.8	28.3	27.3	25.0	22.3

Source: Kenanga Research

Malaysian Technology Peers Comparison

Name	Rating	Last Price @ 26 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	0.440	0.470	6.8%	545.4	Y	12/2026	2.1	2.3	132.7%	39.9%	20.7	19.3	0.8	3.8%	1.0	2.3%
FRONTKEN BHD	OP	4.85	5.10	5.2%	8,792.7	Y	12/2026	12.8	13.9	31.9%	8.7%	38.0	34.9	6.8	19.1%	4.0	0.8%
INARI AMERTRON BHD	OP	2.22	2.42	9.0%	8,453.3	Y	06/2026	4.8	8.0	-28.1%	64.6%	45.9	27.9	3.1	5.9%	5.0	2.3%
KELINGTON GROUP BHD	OP	7.32	9.05	23.6%	6,301.0	Y	12/2026	21.4	24.5	29.1%	14.1%	34.1	29.9	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	49.14	38.90	-20.8%	9,798.4	Y	06/2026	104.7	134.1	35.6%	28.0%	46.9	36.7	4.4	9.7%	40.0	0.8%
NATIONGATE HOLDINGS BHD	MP	0.725	0.660	-9.0%	1,640.4	Y	12/2026	4.7	5.7	7.8%	21.1%	15.4	12.7	1.5	10.2%	2.0	2.8%
OPPSTAR BHD	MP	0.670	0.230	-65.7%	431.1	Y	03/2027	(1.6)	1.0	-184.7%	-40.0%	N.A.	68.1	3.4	-8.0%	0.0	0.0%
P.I.E. INDUSTRIAL BHD	MP	1.42	1.45	2.1%	545.3	Y	12/2026	5.9	8.4	0.4%	42.3%	24.0	16.9	0.8	3.5%	0.0	0.0%
SKP RESOURCES BHD	MP	0.355	0.500	40.8%	554.6	Y	03/2026	5.7	4.4	-24.4%	-22.5%	6.3	8.1	0.5	8.0%	0.0	0.0%
SKYECHIP BHD	OP	2.89	2.00	-30.8%	5,190.4	Y	03/2027	2.6	3.4	30.1%	32.1%	111.1	84.1	29.9	31.2%	70.0	24.2%
UNISEM (M) BHD	UP	5.10	2.47	-51.6%	8,226.7	Y	12/2026	5.4	9.5	39.6%	74.6%	93.7	53.7	3.8	4.1%	0.0	0.0%
UWC BHD	OP	5.89	4.70	-20.2%	6,498.6	Y	07/2026	9.0	14.3	143.3%	59.0%	65.7	41.3	11.3	18.7%	0.0	0.0%
PENTAMASTER CORP BHD	MP	4.60	3.95	-14.1%	3,272.1	Y	12/2026	12.1	13.1	39.0%	8.1%	38.0	35.1	3.8	10.4%	2.0	0.4%
INFOMINA BHD	OP	1.08	1.90	75.9%	649.4	Y	05/2026	5.6	7.6	60.7%	34.8%	19.2	14.2	3.3	18.3%	1.0	0.9%
Simple Average					**61,141.2**					**17.5%**	**30.2%**	**43.7**	**33.6**	**5.6**	**11.5%**		**2.7%**

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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