Kelington Group

Building a New Growth Engine

OUTPERFORM ↔

Price :	**RM8.75**
Target Price :	**RM9.05 ↔**

By Cheow Ming Liang l cheowml@kenanga.com.my

KGB's RM120m ASU investment in India marks a strategic expansion into upstream industrial gas production, strengthening its recurring income base and geographical diversification. While earnings contribution is only expected after completion in 3QCY28, management is targeting RM20m–RM30m annual PAT at steady state. With RM238m net cash as at 1QFY26, funding appears manageable. We maintain our forecasts and TP of RM9.05, based on 37x FY27F PER.

Expanding industrial gas capacity into India. KGB is investing USD29.3m (or c.RM120m) to develop a merchant air separation unit (ASU) plant in Maharashtra, India, through its wholly-owned subsidiary, Ace Gases Technologies Private Ltd (AGTI). The facility will be built on a 20,000 sq m parcel of land leased from the Maharashtra Industrial Development Corporation for 95 years with capacity of 300 tonnes per day. The plant will produce oxygen, nitrogen and argon, supported by the necessary utilities, storage facilities and distribution systems. Construction is scheduled to commence in August 2026, with completion targeted by 3QCY28, subject to regulatory approvals.

Strengthening recurring income and geographical diversification. The investment marks KGB's entry into upstream industrial gas production in India and is expected to strengthen its recurring revenue base through merchant gas sales. The plant's strategic location within the Additional Dindori industrial area should enable the group to serve customers across Maharashtra and surrounding regions, capturing demand from the semiconductor, electronics, healthcare, metallurgy, chemicals, automotive, pharmaceutical and broader manufacturing sectors. Localised production should also improve supply reliability and support KGB's longer-term international expansion strategy.

Positive for long-term earnings visibility. We view the development positively as it expands KGB's industrial gas footprint beyond Malaysia and Singapore, while increasing its exposure to recurring and potentially higher-margin gas income. Nevertheless, the project is unlikely to materially contribute to earnings in the near term, given its targeted completion by 3QCY28. We understand that management is targeting an average annual PAT contribution of approximately RM20m–RM30m once the plant reaches a steady-state operating level**.**

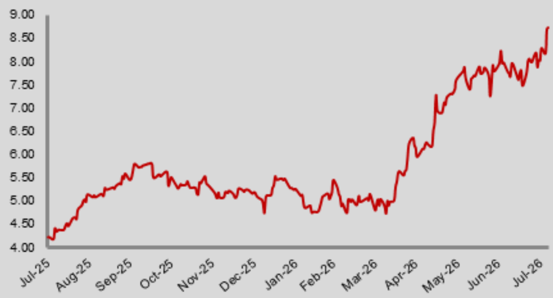
Strong balance sheet supports the investment. The RM120m investment is expected to be funded through a combination of internally generated funds and bank borrowings, potentially in a 40:60 ratio. Assuming 60% debt funding and an annual interest rate of 5%, we estimate an incremental annual interest cost of approximately RM3.6m. We believe the investment remains manageable, supported by KGB's solid balance sheet and net cash position of RM238m as at 1QFY26.

Forecasts. No change.

Valuations. Our TP maintained at RM9.05, 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.**

Share Price Performance



KLCI	1,748.17
YTD KLCI chg	4.1%
YTD stock price chg	69.3%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	KGRB MK Equity
Market Cap (RM m)	7,723.0
Shares Outstanding	882.6
52-week range (H)	8.75
52-week range (L)	4.36
3-mth avg. daily vol.	3,886,764
Free Float	69%
Beta	0.69

Major Shareholders

Palace Star	21.4%
Sun Lead Internation	5.3%
Employees Provident	4.9%

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	-	195	239
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)	43.1	40.8	35.8
P/BV (x)	10.6	9.9	9.0
Gearing (x)	-0.3	-0.4	-0.4
Dvd Yield (%)	1.5%	1.7%	1.7%

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)	54.1	47.5	43.1	40.8	35.8
Div. Yield (%)	0.5%	0.9%	1.5%	1.7%	1.7%
P/BV (x)	17.0	12.5	10.6	9.9	9.0
EV/EBITDA (x)	36.7	33.6	32.5	29.7	26.5

Source: Kenanga Research

Malaysian Technology Peers Comparison

Name	Rating	Last Price @ 5 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.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.
D&O GREEN TECHNOLOGIES BHD	MP	0.355	0.440	23.9%	440.0	Y	12/2026	(2.6)	2.0	-385.8%	-0.3%	N.A.	17.8	0.8	-16.6%	1.0	2.8%
FRONTKEN BHD	OP	5.21	5.72	9.8%	9,445.4	Y	12/2026	12.3	15.2	27.3%	22.9%	42.3	34.4	7.4	18.5%	4.0	0.8%
INARI AMERTRON BHD	OP	2.41	2.72	12.9%	9,246.3	Y	06/2026	4.8	8.0	-28.1%	64.6%	49.9	30.3	3.3	5.9%	5.0	2.1%
KELINGTON GROUP BHD	OP	8.75	9.05	3.4%	7,723.0	Y	12/2026	21.4	24.5	29.1%	14.1%	40.8	35.8	9.9	27.5%	15.0	1.7%
LGMS BHD	OP	0.510	0.580	13.7%	232.6	Y	12/2026	2.9	3.6	30.4%	21.8%	17.5	14.4	1.8	10.5%	2.0	3.9%
M'SIAN PACIFIC INDUSTRIES BHD	MP	46.94	43.70	-6.9%	9,359.7	Y	06/2026	104.7	134.1	35.6%	28.0%	44.8	35.0	4.2	9.7%	40.0	0.9%
NATIONGATE HOLDINGS BHD	MP	1.36	0.780	-42.6%	3,076.4	Y	12/2026	3.5	5.2	-20.1%	49.3%	39.0	26.1	2.9	7.6%	2.0	1.5%
OPPSTAR BHD	UP	0.625	0.430	-31.2%	404.1	Y	03/2027	1.2	2.0	-50.9%	58.2%	50.7	32.0	3.1	6.3%	0.0	0.0%
P.I.E. INDUSTRIAL BHD	MP	1.56	1.51	-3.2%	599.1	Y	12/2026	5.9	8.4	0.4%	42.3%	26.4	18.5	0.9	3.5%	0.0	0.0%
SKP RESOURCES BHD	UP	0.325	0.270	-16.9%	496.2	Y	03/2027	2.5	3.5	-19.4%	42.0%	13.2	9.3	0.5	3.7%	0.0	0.0%
SKYECHIP BHD	OP	3.06	2.00	-34.6%	5,495.8	Y	03/2027	2.6	3.4	30.1%	32.1%	117.7	89.1	31.7	31.2%	70.0	22.9%
UNISEM (M) BHD	UP	4.57	3.81	-16.6%	7,836.3	Y	12/2026	5.6	11.7	44.4%	107.5%	81.2	39.1	3.4	3.5%	0.0	0.0%
UWC BHD	OP	6.48	7.00	8.0%	7,149.6	Y	07/2026	8.6	15.9	132.3%	86.3%	75.7	40.6	12.5	18.0%	0.0	0.0%
PENTAMASTER CORP BHD	MP	5.70	4.68	-17.9%	4,054.5	Y	12/2026	12.1	13.1	39.0%	8.1%	47.0	43.5	4.7	10.4%	2.0	0.4%
INFOMINA BHD	OP	1.50	1.90	26.7%	899.1	Y	05/2027	7.6	8.5	30.2%	11.6%	19.7	17.7	4.7	25.8%	3.0	2.0%
Simple Average					66,458.0					13.4%	46.3%	51.8	35.4	6.1	11.0%		2.6%

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.

This document has been prepared for general circulation based on information obtained from sources believed to be reliable but we do not make any representations as to its accuracy or completeness. Any recommendation contained in this document does not have regard to the specific investment objectives, financial situation and the particular needs of any specific person who may read this document. This document is for the information of addressees only and is not to be taken in substitution for the exercise of judgement by addressees. Kenanga Investment Bank Berhad accepts no liability whatsoever for any direct or consequential loss arising from any use of this document or any solicitations of an offer to buy or sell any securities. Kenanga Investment Bank Berhad and its associates, their directors, and/or employees may have positions in, and may effect transactions in securities mentioned herein from time to time in the open market or otherwise, and may receive brokerage fees or act as principal or agent in dealings with respect to these companies. Kenanga Investment Bank Berhad being a full-service investment bank offers investment banking products and services and acts as issuer and liquidity provider with respect to a security that may also fall under its research coverage.

Published by:

KENANGA INVESTMENT BANK BERHAD (15678-H)
Level 17, Kenanga Tower, 237, Jalan Tun Razak, 50400 Kuala Lumpur, Malaysia
Telephone: (603) 2172 0880 Website: www.kenanga.com.my E-mail: research@kenanga.com.my