

Kelington Group Bhd

Contract flows remain upbeat

Summary

- Kelington Group Bhd (KGB) wholly owned subsidiary, Kelington Engineering (Shanghai) Co Ltd has received an award of contract on 11th May 2022 from China's largest semiconductor foundry (which is also their existing client) to perform gas hook up works in Beijing, China.
- The contract value is worth approximately RMB123.0m (approximately RM80.0m), commencing in May 2022 and is expected to be completed by March 2024. We expect the aforementioned contract to generate high single digit EBITDA margins, which is line with historical average for similar works.
- Following the latest win, KGB's year-to-date orderbook replenishment now stood at approximately RM427.0m. Current orderbook replenishment represents 61.0% of our orderbook replenishment target of RM700.0m for FY22f.
- Moving forward, KGB's outstanding orderbook of approximately RM1.30bn, which represents an orderbook-to-cover ratio of 2.9x against FY21 revenue of RM517.7m will provide strong earnings visibility over the next 2 years. At the same time, KGB's tenderbook of close to RM2.00bn remains healthy, particularly within the semiconductor industry as chip shortages remain prevalent with expansion of wafer fabrication plants in the pipeline.
- Globally, semiconductor sales continue to demonstrate improvement after having registered 23.0% YoY rise to USD151.70bn in 1Q22. This suggests demand remains relatively robust, which we expect KGB to be in a prime position to leverage on that, premised to their strong historical track record, specialising in Ultra High Purity (UHP) delivery system works.
- Moving forward, we reckon that the UHP segment will continue to anchor revenue contribution, being kept busy by multiple wafer fabrication works. Meanwhile, the general contracting segment will focus onto the relatively large-scale construction work that was secured last year at Sarawak, while the industrial gas segment will be kept busy with the gas supply scheme for one of the largest optoelectronics semiconductor companies located at Kulim, Kedah.
- Although China has step up their lockdown measures since March 2022, the latest win suggests that there is no slowing down for KGB's China operations. Still, we remain cautious that the impact on KGB operations in China would be manageable as certain work progress may be delayed to subsequent quarters ahead.

Valuation & Recommendation

- Given that the orderbook replenishment falls within our expectations, we made no changes to our earnings forecast, pending their 1Q22 quarterly results release in

Company Update

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BUY

Share price	RM1.09
Target price	RM2.10
Previous TP	RM2.10
Capital upside	92.7%
Dividend return	1.6%
Total return	94.3%

Company profile

Principally involved in the provision of engineering services, construction and general trading

Stock information

Bursa Code	0151
Bloomberg ticker	KGRB MK
Listing market	MAIN
Share issued (m)	645.2
Market Cap (m)	703.3
52W High/Low	1.88 / 0.92
Est. Free float	46.9
Beta	1.3
3-mth avg vol ('000)	1,822.4
Shariah compliant	Yes

Major shareholders

	%
Palace Star	21.1
CIMB Group Holdings Bhd	6.2
Sun Lead International Ltd	6.2

Share price vs. KLCI (%)

	1M	3M	12M
Hist. return	-18.7	-28.8	10.3
Absolute	-15.6	-26.9	11.5
Relative			

Earnings snapshot

FYE (Dec)	FY21	FY22f	FY23f
PATMI (m)	31.8	48.4	49.5
EPS (sen)	4.9	7.5	7.7
P/E (x)	22.1	14.5	14.2

Relative performance chart



coming weeks. Therefore, we maintained our **BUY** recommendation on KGB with an unchanged target price of RM2.10.

- We derive our target price by assigning targeted P/E multiple of 28.0x to FY22f EPS of 7.5 sen. The assigned targeted P/E multiple is slightly above with the valuations of the technology sector that is trading at 25.3x for 2022f. The slight premium is justifiable due to KGB's niche business model.
- Risks to our recommendation and target price include weaker-than-expected targeted orderbook replenishment of RM700.0m for FY22f. Any slowdown in semiconductor sales may dampen the large scale UHP projects delivery to China and Singapore, given that the UHP segment plays an integral role towards the total revenue contribution and earnings growth.

Financial Highlights

All items in (RM m) unless otherwise stated

Income Statement						Balance Sheet					
FYE Dec (RM m)	FY19	FY20	FY21	FY22f	FY23f	FYE Dec (RM m)	FY19	FY20	FY21	FY22f	FY23f
Revenue	379.8	394.6	517.7	785.5	812.3	Cash	85.2	132.0	106.3	121.6	146.7
EBITDA	35.0	27.8	46.4	66.8	69.0	Receivables	90.9	74.2	91.7	96.8	100.1
EBIT	31.9	22.7	40.7	60.7	62.4	Inventories	0.6	2.8	6.9	7.2	7.4
Net finance income/ (cost)	(0.3)	(1.7)	(2.2)	(2.5)	(2.8)	PPE	53.0	59.7	64.2	69.9	75.4
Associates & JV	-	-	-	-	-	Others	46.8	68.6	75.3	134.7	143.5
Profit before tax	31.6	20.9	38.5	58.2	59.6	Assets	304.5	350.3	410.3	445.4	484.4
Tax	(7.7)	(3.4)	(5.9)	(8.7)	(8.9)	Debts	38.8	58.5	56.2	60.3	61.8
Net profit	23.9	17.6	32.6	49.4	50.6	Payables	43.3	71.5	89.4	94.3	97.5
Minority interest	(0.5)	0.1	0.7	1.0	1.2	Others	66.9	52.0	69.1	58.0	52.4
Core earnings	24.4	17.5	31.8	48.4	49.5	Liabilities	149.0	182.0	214.7	212.6	211.8
Diluted Core earnings	-	-	-	49.9	50.2	Shareholder's equity	116.1	155.8	168.6	195.1	232.3
Exceptional items	-	-	-	-	-	Minority interest	0.3	0.3	1.0	1.1	1.1
Reported earnings	24.4	17.5	31.8	48.4	49.5	Equity	155.5	168.3	195.6	232.8	272.6
Cash Flow Statement						Valuation & Ratios					
FYE Dec (RM m)	FY19	FY20	FY21	FY22f	FY23f	FYE Dec (RM m)	FY19	FY20	FY21	FY22f	FY23f
Profit before taxation	31.6	20.9	38.5	58.2	59.6	Core EPS (sen)	3.8	2.7	4.9	7.5	7.7
Depreciation & amortisation	3.1	5.1	5.7	6.1	6.6	Diluted Core EPS (sen)	-	-	-	5.8	5.8
Changes in working capital	(19.1)	18.6	101.0	18.8	11.7	P/E (x)	28.8	40.2	22.1	14.5	14.2
Share of JV profits	-	-	-	-	-	Diluted P/E (x)	-	-	-	18.8	18.7
Taxation	(7.9)	(5.1)	(5.2)	(8.7)	(8.9)	DPS (sen)	1.0	0.8	1.3	1.8	1.5
Others	0.8	5.2	5.0	2.5	2.8	Dividend yield	0.9%	0.7%	1.1%	1.6%	1.4%
Operating cash flow	21.1	45.7	(6.2)	41.3	50.0	BVPS (RM)	0.24	0.26	0.30	0.36	0.42
Net capex	(34.9)	(12.3)	(13.2)	(11.8)	(12.2)	P/B (x)	4.5	4.2	3.6	3.0	2.6
Others	(0.3)	0.3	-	-	-	EBITDA margin	9.2%	7.1%	9.0%	8.5%	8.5%
Investing cash flow	(35.2)	(12.0)	(13.3)	(11.8)	(12.2)	EBIT margin	8.4%	5.8%	7.9%	7.7%	7.7%
Changes in borrowings	21.7	19.7	(2.4)	4.2	1.5	PBT margin	8.3%	5.3%	7.4%	7.4%	7.3%
Issuance of shares	24.2	20.2	-	-	-	PAT margin	6.3%	4.5%	6.3%	6.3%	6.2%
Dividends paid	(3.7)	(8.1)	(4.8)	(6.4)	(11.3)	Core PAT margin	6.4%	4.4%	6.1%	6.2%	6.1%
Others	(8.1)	(4.8)	(6.4)	(11.3)	(9.7)	ROE	15.7%	10.4%	16.3%	20.8%	18.1%
Financing cash flow	30.6	11.3	(10.9)	(13.8)	(12.2)	ROA	8.0%	5.0%	7.8%	10.9%	10.2%
Net cash flow	16.5	45.0	(30.3)	15.8	25.7	Net gearing	Net Cash	Net Cash	Net Cash	Net Cash	Net Cash
Forex	(0.7)	0.8	0.7	(0.5)	(0.5)						
Others	-	-	-	-	-						
Beginning cash	52.2	68.0	113.8	84.1	99.4						
Ending cash	68.0	113.8	84.1	99.4	124.6						