

Kelington Group Bhd

Another record-breaking quarter

Summary

- Kelington Group Bhd's (KGB) 2QFY22 net profit surged to a record high at RM13.6m (+84.4% YoY), on higher recognition of major general contracting work and UHP projects. Revenue for the quarter jumped 147.2% YoY to RM312.4m. A first interim dividend of 1.0 sen per share, payable on 22nd September 2022 was declared.
- For 1HFY22, cumulative net profit grew 69.5% YoY to RM21.9m. The reported earnings make up to 45.2% and 48.9% of ours and consensus forecasted net profit of RM48.4m and RM44.7m, respectively. We deem the figures to be in line as 2H results are seasonally stronger over the years.
- Meanwhile, we believe that the higher trade receivables and borrowings would not be a major concern as it is to cater towards working capital for the relatively chunky contract secured at East Malaysia at end-2021. Moving into 2H22, we expect KGB solid performances to sustain, in view of un-interrupted operations, coupled with the execution of job wins in FY21.
- After bagging multiple contract awards in recent months, KGB's orderbook replenishment now stood at approximately RM950.0m, making up to 95.0% of our projected orderbook replenishment target of RM1.00bn for FY22f. We made no changes to our orderbook replenishment target, taking one step at a time for future earnings revision should there be positive surprises over the foreseeable future.
- Moving forward, KGB's outstanding order book at approximately RM1.60bn represents an orderbook-to-cover ratio of 3.1x against FY21 revenue of RM514.6m will provide strong earnings visibility over the next 2 years. Meanwhile, tenderbook remains relatively healthy at around RM2.00bn, supported mainly from on-going wafer fabrication plants expansions of semiconductor players.
- We gather that global semiconductor sales remain robust, registering 13.3% YoY growth to USD152.50bn in 2Q22. While the demand-supply imbalances remain in picture, recent month's (June 2022) global semiconductor sales have slowed to USD50.80bn (-1.9% MoM). There appears to be signs of softening since peaking in March 2022 as chipmakers like Samsung Electronics Co. is now consider winding back investment plans amid the concern over global economic slowdown.

Quarterly performance

FYE Dec (RM m)	2QFY21	1QFY22	2QFY22	QoQ (%)	YoY (%)	6MFY21	6MFY22	YoY (%)
Revenue	126.4	173.3	312.4	80.2	147.2	231.2	485.7	110.1
EBITDA	11.6	13.2	20.2	52.5	74.0	20.0	33.4	67.1
PBT	9.7	11.1	17.5	57.5	80.0	16.5	28.6	73.8
PAT	7.5	8.5	13.9	63.6	85.2	13.2	22.4	69.6
Core PATMI	7.4	8.3	13.6	63.3	84.4	12.9	21.9	69.5
Reported PATMI	7.4	8.3	13.6	63.3	84.4	12.9	21.9	69.5
Core EPS (sen)	0.2	0.2	0.4	63.3	84.4	0.4	0.6	69.5
EBITDA margin (%)	9.2	7.6	6.5			8.6	6.9	
PBT margin (%)	7.7	6.4	5.6			7.1	5.9	
Core PATMI margin (%)	5.8	4.8	4.3			5.6	4.5	

Results Note – 2QFY22

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BUY

Share price	RM1.31
Target price	RM1.61
Previous TP	RM1.61
Capital upside	22.9%
Dividend return	1.3%
Total return	24.2%

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)	845.3
52W High/Low	1.88 / 1.06
Est. Free float	48.9
Beta	0.9
3-mth avg vol ('000)	1,076.9
Shariah compliant	Yes

Major shareholders

	%
Palace Star	21.1
Sun Lead International Ltd	6.2
CIMB Group Holdings Bhd	5.0

Share price vs. KLCI (%)

	1M	3M	12M
Hist. return	20.2	12.9	9.5
Absolute	13.3	16.0	8.3
Relative			

Earnings snapshot

FYE (Dec)	FY21	FY22f	FY23f
PATMI (m)	29.0	48.4	49.5
EPS (sen)	4.5	7.5	7.7
P/E (x)	29.2	17.5	17.1

Relative performance chart



Valuation & Recommendation

- Given that the reported earnings came within our expectations, we made no changes to our earnings forecast. We maintained our **BUY** recommendation on KGB, with an unchanged target price of RM1.61.
- We derive our target price by assigning a targeted P/E multiple of 21.0x to FY23f EPS of 7.7 sen. The assigned targeted P/E multiple is in tandem with the revision of valuations of the technology sector that is trading at 20.8x for 2023f.
- Risks to our recommendation and target price include weaker-than-expected targeted orderbook replenishment of RM1.00bn and RM800.0m for FY22f and FY23f respectively. Any decline in semiconductor sales may dampen the large scale UHP projects delivery to China and Singapore, given that the UHP segment plays a major part in 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	514.6	841.9	898.3	Cash	85.2	132.0	106.5	100.9	119.5
EBITDA	35.0	27.8	43.4	67.3	69.6	Receivables	90.9	74.2	92.1	103.8	110.7
EBIT	31.9	22.7	37.7	61.2	62.9	Inventories	0.6	2.8	6.9	7.7	8.2
Net finance income/ (cost)	(0.3)	(1.7)	(2.1)	(2.6)	(2.9)	PPE	53.0	59.7	64.4	70.9	77.6
Associates & JV	-	-	-	-	-	Others	46.8	68.6	75.3	127.7	153.3
Profit before tax	31.6	20.9	35.7	58.7	60.0	Assets	304.5	350.3	404.0	442.9	485.7
Tax	(7.7)	(3.4)	(6.0)	(8.8)	(9.0)	Debts	38.8	58.5	56.4	60.3	61.8
Net profit	23.9	17.6	29.7	49.9	51.0	Payables	43.3	71.5	94.0	88.7	97.1
Minority interest	(0.5)	0.1	0.7	1.5	1.5	Others	66.9	52.0	60.8	64.1	57.1
Core earnings	24.4	17.5	29.0	48.4	49.5	Liabilities	149.0	182.0	211.2	213.1	216.0
Diluted Core earnings	-	-	-	49.9	50.2	Shareholder's equity	116.1	155.8	168.6	192.2	229.3
Exceptional items	-	-	-	-	-	Minority interest	0.3	0.3	1.1	1.1	1.1
Reported earnings	24.4	17.5	29.0	48.4	49.5	Equity	155.5	168.3	192.7	229.9	269.7
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	35.7	58.7	60.0	Core EPS (sen)	3.8	2.7	4.5	7.5	7.7
Depreciation & amortisation	3.1	5.1	5.7	6.1	6.7	Diluted Core EPS (sen)	-	-	-	5.8	5.8
Changes in working capital	(19.1)	18.6	96.0	48.3	24.6	P/E (x)	34.6	48.3	29.2	17.5	17.1
Share of JV profits	-	-	-	-	-	Diluted P/E (x)	-	-	-	22.6	22.4
Taxation	(7.9)	(5.1)	(5.3)	(8.8)	(9.0)	DPS (sen)	1.0	0.8	1.3	1.8	1.5
Others	0.8	5.2	4.4	2.6	2.9	Dividend yield	0.8%	0.6%	1.0%	1.3%	1.1%
Operating cash flow	21.1	45.7	(3.9)	20.8	44.3	BVPS (RM)	0.24	0.26	0.30	0.36	0.42
Net capex	(34.9)	(12.3)	(12.4)	(12.6)	(13.5)	P/B (x)	5.4	5.0	4.4	3.7	3.1
Others	(0.3)	0.3	-	-	-	EBITDA margin	9.2%	7.1%	8.4%	8.0%	7.8%
Investing cash flow	(35.2)	(12.0)	(12.7)	(12.6)	(13.5)	EBIT margin	8.4%	5.8%	7.3%	7.3%	7.0%
Changes in borrowings	21.7	19.7	(2.4)	4.2	1.5	PBT margin	8.3%	5.3%	6.9%	7.0%	6.7%
Issuance of shares	24.2	20.2	-	-	-	PAT margin	6.3%	4.5%	5.8%	5.9%	5.7%
Dividends paid	(3.7)	(8.1)	(4.8)	(6.4)	(11.3)	Core PAT margin	6.4%	4.4%	5.6%	5.7%	5.5%
Others	(8.1)	(4.8)	(6.4)	(11.3)	(9.7)	ROE	15.7%	10.4%	15.0%	21.0%	18.3%
Financing cash flow	30.6	11.3	(14.2)	(13.8)	(12.2)	ROA	8.0%	5.0%	7.2%	10.9%	10.2%
Net cash flow	16.5	45.0	(30.9)	(5.6)	18.7	Net gearing	Net Cash	Net Cash	Net Cash	Net Cash	Net Cash
Forex	(0.7)	0.8	2.1	-	-						
Others	-	-	-	-	-						
Beginning cash	52.2	68.0	113.8	85.0	79.4						
Ending cash	68.0	113.8	85.0	79.4	98.1						

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