

Kelington Group Bhd

Another one in the bag

Summary

- Kelington Group Bhd (KGB) wholly owned subsidiary, Kelington Engineering (Shanghai) Co Ltd has received an award of contract from China's largest semiconductor foundry to perform gas hook up works in Shanghai, China.
- The contract value is worth approximately RMB94.0m (approximately RM62.0m), subject to the actual amount of work carried out. Works will commence in June 2022 and will be completed by March 2023. We envisaged that the abovementioned contract will be able to generate high single digit EBITDA margins, in line with the historical average for similar work scopes.
- We gather that this is contract part of the main hook up project relating to the contract secured from the same existing customer in May 2022 valued at RMB123.0m (approximately RM80.0m). The latest win is also a testament to KGB's established presence in China.
- Following the latest win, KGB's year-to-date orderbook replenishment now stood at approximately RM762.0m. Current orderbook replenishment meets 76.2% of our projected orderbook replenishment target of RM1.00bn for FY22f. Moving into final half of the year, we reckon that our projected orderbook replenishment is largely achievable, supported by the robust outlook within the semiconductor industry.
- Moving forward, KGB's current outstanding orderbook of approximately RM1.66bn, which represents an orderbook-to-cover ratio of 3.2x against FY21 revenue of RM517.7m will provide strong earnings visibility over the next 2 years. Meanwhile, we note that tenderbook remains healthy at close to RM1.50bn as semiconductor players expansion plans continues to demonstrate no signs of slowdown.
- We believe that the UHP segment will remain as a key driver towards overall revenue contribution over the foreseeable future. KGB remains in the prime position to leverage onto the ever-evolving technological advancement such as high-performance computing, rising adoption of artificial intelligence and gradual transitioning into 5G that continue to drive demand in the semiconductor industry.
- Despite the two-month citywide lockdown that was ended recently, we gather that there is minimal disruption or impact towards KGB existing operations in China. Following the relaxation of lockdown measures, we expect tenders progress to speed up over the foreseeable future.

Valuation & Recommendation

- Given that the orderbook replenishment comes 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.

Company Update

Kenneth Leong
kennethleong@msec.com.my
(603) 2201 2100

BUY

Share price	RM1.10
Target price	RM1.61
Previous TP	RM1.61
Capital upside	46.4%
Dividend return	1.6%
Total return	48.0%

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)	709.8
52W High/Low	1.88 / 1.01
Est. Free float	46.9
Beta	1.4
3-mth avg vol ('000)	1,368.5
Shariah compliant	Yes

Major shareholders

	%
Palace Star	21.1
Sun Lead International Ltd	6.2
Employees Provident Fund	4.9

Share price vs. KLCI (%)

Hist. return	1M	3M	12M
Absolute	-4.3	-12.0	-0.6
Relative	2.8	-2.8	6.4

Earnings snapshot

FYE (Dec)	FY21	FY22f	FY23f
PATMI (m)	29.0	48.4	49.6
EPS (sen)	4.5	7.5	7.7
P/E (x)	24.5	14.7	14.3

Relative performance chart



- 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 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 for FY22f. 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	778.6	782.2	Cash	85.2	132.0	106.5	120.3	156.0
EBITDA	35.0	27.8	43.4	66.2	68.4	Receivables	90.9	74.2	92.1	96.0	96.4
EBIT	31.9	22.7	37.7	60.1	61.8	Inventories	0.6	2.8	6.9	7.1	7.2
Net finance income/ (cost)	(0.3)	(1.7)	(2.1)	(2.5)	(2.8)	PPE	53.0	59.7	64.4	69.9	75.0
Associates & JV	-	-	-	-	-	Others	46.8	68.6	75.3	127.7	142.2
Profit before tax	31.6	20.9	35.7	57.6	59.0	Assets	304.5	350.3	404.0	442.0	483.9
Tax	(7.7)	(3.4)	(6.0)	(8.6)	(8.8)	Debts	38.8	58.5	56.4	60.3	61.8
Net profit	23.9	17.6	29.7	48.9	50.1	Payables	43.3	71.5	94.0	88.2	95.1
Minority interest	(0.5)	0.1	0.7	0.5	0.5	Others	66.9	52.0	60.8	63.6	57.1
Core earnings	24.4	17.5	29.0	48.4	49.6	Liabilities	149.0	182.0	211.2	212.1	214.0
Diluted Core earnings	-	-	-	49.9	50.4	Shareholder's equity	116.1	155.8	168.6	192.2	229.4
Exceptional items	-	-	-	-	-	Minority interest	0.3	0.3	1.1	1.1	1.1
Reported earnings	24.4	17.5	29.0	48.4	49.6	Equity	155.5	168.3	192.7	229.9	269.9
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	57.6	59.0	Core EPS (sen)	3.8	2.7	4.5	7.5	7.7
Depreciation & amortisation	3.1	5.1	5.7	6.1	6.6	Diluted Core EPS (sen)	-	-	-	5.8	5.9
Changes in working capital	(19.1)	18.6	96.0	20.8	1.6	P/E (x)	29.1	40.5	24.5	14.7	14.3
Share of JV profits	-	-	-	-	-	Diluted P/E (x)	-	-	-	18.9	18.8
Taxation	(7.9)	(5.1)	(5.3)	(8.6)	(8.8)	DPS (sen)	1.0	0.8	1.3	1.8	1.5
Others	0.8	5.2	4.4	2.5	2.8	Dividend yield	0.9%	0.7%	1.1%	1.6%	1.4%
Operating cash flow	21.1	45.7	(3.9)	39.3	59.6	BVPS (RM)	0.24	0.26	0.30	0.36	0.42
Net capex	(34.9)	(12.3)	(12.4)	(11.7)	(11.7)	P/B (x)	4.6	4.2	3.7	3.1	2.6
Others	(0.3)	0.3	-	-	-	EBITDA margin	9.2%	7.1%	8.4%	8.5%	8.8%
Investing cash flow	(35.2)	(12.0)	(12.7)	(11.7)	(11.7)	EBIT margin	8.4%	5.8%	7.3%	7.7%	7.9%
Changes in borrowings	21.7	19.7	(2.4)	4.2	1.5	PBT margin	8.3%	5.3%	6.9%	7.4%	7.5%
Issuance of shares	24.2	20.2	-	-	-	PAT margin	6.3%	4.5%	5.8%	6.3%	6.4%
Dividends paid	(3.7)	(8.1)	(4.8)	(6.4)	(11.3)	Core PAT margin	6.4%	4.4%	5.6%	6.2%	6.3%
Others	(8.1)	(4.8)	(6.4)	(11.3)	(9.7)	ROE	15.7%	10.4%	15.0%	21.1%	18.4%
Financing cash flow	30.6	11.3	(14.2)	(13.8)	(12.2)	ROA	8.0%	5.0%	7.2%	11.0%	10.3%
Net cash flow	16.5	45.0	(30.9)	13.8	35.7	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	98.9						
Ending cash	68.0	113.8	85.0	98.9	134.5						

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