

Kelington Group Bhd

Another solid quarter

Summary

- Kelington Group Bhd's (KGB) 1QFY22 net profit expanded 49.7% YoY to RM8.3m, on higher contribution across all major segments following the execution of its orderbook on hand. Revenue for the quarter gained 65.4% YoY to RM173.3m.
- The reported earnings make up to 17.1% and 19.5% of ours and consensus forecasted net profit of RM48.4m and RM42.6m, respectively. We deem the figures to be in line as historically 1Q results makes up to less than 25.0% of full year figures, while 4Q results are seasonally stronger over the years.
- We believe that the record high orderbook replenishment at RM1.20bn in 2021 might be difficult to be replicate over for FY22f. Still, the contract wins during 1Q22 at RM347.0m remains pretty impressive, largely on track to meet our internal orderbook replenishment target of RM700.0m.
- As of 1QFY22, KGB's outstanding order book stood at approximately RM1.24bn which represents an orderbook-to-cover ratio of 2.4x against FY21 revenue of RM514.6m will provide earnings visibility over the next 2 years. Meanwhile, current tenderbook remains relatively healthy at around RM1.00bn that is supported by increasing numerous projects from semiconductor players in bid to address the chip shortages across the globe.
- Moving forward, we expect KGB to deliver improved performances particularly in 2H22, back by the relaxation of Covid-19 control measures in China, while the group remain focus onto the execution of works secured in FY21. Locally, KGB will also be kept busy with the large-scale construction work that was secured at Sarawak towards end-2021. In the meantime, the utilisation rate of liquid carbon dioxide (LCO2) plant is at 70.0%.
- We gather that the global semiconductor sales remain healthy, recording at 23.0% YoY growth to USD151.70bn in 1Q22. We foresee the demand-supply imbalances trend to prolong amid rising demand and technological advancement such as 5G, electric vehicles and IoT, while the supply constraints from the shortages of raw materials and global supply chain disruptions remains in the picture.

Quarterly performance					
FYE Dec (RM m)	1QFY21	4QFY21	1QFY22	QoQ (%)	YoY (%)
Revenue	104.8	180.1	173.3	(3.8)	65.4
EBITDA	8.4	15.1	13.2	(12.5)	57.6
PBT	6.7	13.3	11.1	(16.2)	64.9
PAT	5.7	11.2	8.5	(23.8)	49.1
Core PATMI	5.5	11.0	8.3	(24.3)	49.7
Reported PATMI	5.5	11.0	8.3	(24.3)	49.7
Core EPS (sen)	0.2	0.3	0.2	(24.3)	49.7
EBITDA margin (%)	8.0	8.4	7.6		
PBT margin (%)	6.4	7.4	6.4		
Core PATMI margin (%)	5.3	6.1	4.8		

Results Note – 1QFY22

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BUY

Share price	RM1.13
Target price	RM1.61
Previous TP	RM2.10
Capital upside	42.5%
Dividend return	1.5%
Total return	44.0%

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)	729.1
52W High/Low	1.88 / 0.95
Est. Free float	46.9
Beta	1.4
3-mth avg vol ('000)	1,820.4
Shariah compliant	Yes

Major shareholders

	%
Palace Star	21.1
CIMB Principal Asset Mgt	6.2
Sun Lead International Ltd	6.2

Share price vs. KLCI (%)

	1M	3M	12M
Hist. return	-13.7	-19.3	14.4
Absolute	-9.8	-17.0	16.0
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)	29.0	19.0	18.6

Relative performance chart



Valuation & Recommendation

- Given that the reported earnings deem to be within expectations, we made no changes to our earnings forecast. We maintained our **BUY** recommendation on KGB, but with a lower target price of RM1.61 (from RM2.10).
- We derive our target price by assigning a revised targeted P/E multiple of 21.0x (from 30.0x) to FY23f EPS of 7.7 sen. The lowered 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 RM700.0m 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	119.8	155.0
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	441.5	482.9
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	87.7	94.1
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	211.6	213.0
Diluted Core earnings	-	-	-	49.9	50.3	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)	29.9	41.7	25.2	15.1	14.7
Share of JV profits	-	-	-	-	-	Diluted P/E (x)	-	-	-	19.5	19.3
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%	1.5%	1.3%
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)	4.7	4.3	3.8	3.2	2.7
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	(0.5)	(0.5)						
Others	-	-	-	-	-						
Beginning cash	52.2	68.0	113.8	85.0	98.4						
Ending cash	68.0	113.8	85.0	98.4	133.5						

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