

Kelington Group Bhd

Record high quarter and annual earnings

Summary

- Kelington Group Bhd's (KGB) 4QFY21 net profit rose 37.7% YoY to RM11.0m, on higher contribution across all major segments, coupled with the lower effective tax rate. Revenue for the quarter added 34.2% YoY to RM180.1m. A second interim dividend of 1.0 sen per share, payable on 6th April 2022 was declared.
- For FY21, cumulative net profit gained 81.8% YoY to RM31.8m. Revenue for the year grew 31.2% YoY to RM517.7m. The reported earnings came slight above expectations at 105.8% and 103.3% of ours and consensus forecasted net profit of RM30.1m and RM30.8m, respectively. The variance is mainly due to the lower reported effective tax rate at 15.4% against our assumption at 20.0%.
- We believe that the record high orderbook replenishment at RM1.20bn in 2021 might be difficult to be replicate over the foreseeable future. Hence, we have penciled an orderbook replenishment of RM400.0m for FY22f.
- As of end-2021, KGB's outstanding order book stood at RM1.06bn which represents an orderbook-to-cover ratio of 2.0x against FY21 revenue of RM517.7m will provide earnings visibility over the next 2 years. Meanwhile, current tenderbook remains relatively healthy at around RM1.00bn that is supported by increasing job flows with semiconductor players that still on the expansion mode. With tenderbook remains relatively solid, job flows remain promising for the year.
- With the upliftment of operations restrictions on the local front, we reckon earnings growth will return to normalcy in subsequent quarters. Elsewhere, overseas operations particularly projects in China and Singapore will continue to provide earnings sustainability. Elsewhere, liquid carbon dioxide (LCO2) plant is expected to see higher utilisation, riding onto the resumption of economic activities.
- Strong global semiconductor sales that rose 26.2% YoY to record high of USD555.90bn in 2021 implies that the global chips demand remain sturdy. We believe that KGB remains in prime position to leverage on the industry's extraordinary efforts to ramp up production to meet that demand Malaysia, China and Singapore markets.

Quarterly performance								
FYE Dec (RM m)	4QFY20	3QFY21	4QFY21	QoQ (%)	YoY (%)	12MFY20	12MFY21	YoY (%)
Revenue	134.3	106.4	180.1	69.4	34.2	394.6	517.7	31.2
EBITDA	8.9	10.8	15.1	39.2	69.0	27.6	45.9	66.2
PBT	7.7	8.8	13.3	51.1	72.5	20.9	38.5	83.8
PAT	8.0	8.1	11.2	37.2	40.5	17.6	32.6	85.1
Core PATMI	7.9	8.0	11.0	37.7	38.4	17.5	31.8	81.8
Reported PATMI	7.9	8.0	11.0	37.7	38.4	17.5	31.8	81.8
Core EPS (sen)	0.2	0.2	0.3	37.7	38.4	0.5	0.9	81.8
EBITDA margin (%)	6.7	10.2	8.4			7.0	8.9	
PBT margin (%)	5.7	8.2	7.4			5.3	7.4	
Core PATMI margin (%)	5.9	7.5	6.1			4.4	6.1	

Results Note – 4QFY21

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BUY

Share price	RM1.43
Target price	RM2.10
Previous TP	RM2.07
Capital upside	46.9%
Dividend return	1.2%
Total return	48.1%

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)	922.7
52W High/Low	1.88 / 0.85
Est. Free float	46.9
Beta	1.1
3-mth avg vol ('000)	2,671.5
Shariah compliant	Yes

Major shareholders

	%
Palace Star	21.1
Sun Lead International Ltd	6.2
CIMB Principal Asset Mgt	5.8

Share price vs. KLCI (%)

	1M	3M	12M
Hist. return	-4.7	-4.0	22.2
Absolute	-9.4	-8.7	20.1
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 came slightly above expectations, we tweaked our earnings forecast slightly higher by 9.0% and 10.1% to RM48.4m and RM49.5m for FY22f and FY23f respectively after adjusting for the lower effective tax rate. We maintained our **BUY** recommendation on KGB with a higher target price of RM2.10 (from RM2.07).
- We derive our target price by assigning targeted P/E multiple of 30.0x to FY22f EPS of 7.5 sen. The assigned targeted P/E multiple is in tandem with the valuations of the technology sector that is trading at 30.2x for 2022f.
- Risks to our recommendation and target price include weaker-than-expected targeted orderbook replenishment of RM400.0m 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	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)	37.8	52.7	29.0	19.0	18.6
Share of JV profits	-	-	-	-	-	Diluted P/E (x)	-	-	-	24.6	24.5
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	0.7%	0.5%	0.9%	1.2%	1.0%
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)	5.9	5.5	4.7	4.0	3.4
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						

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