

Kelington Group Bhd

Bucking the slowdown in semiconductor space

Summary

- Kelington Group Bhd (KGB) has received 2 separate contracts with a combined value of RM262.0m. The first contract valued at RM170.0m bagged by their wholly-owned subsidiary, Kelington Technologies Sdn Bhd revolves around the engineering, procurement, and construction works of oil products storage tanks for tank pit expansion project will run from November 2022 till November 2024.
- Meanwhile, the second contract bagged by their wholly-owned subsidiary, Kelington Engineering (Shanghai) Co Ltd at China revolves around the supply and installation of bulk gas delivery system carries a value of RM92.0m will run from November 2022 till September 2023.
- We expect both the abovementioned contract to deliver high single-digit EBITDA margins, in line with similar works performed by the group historically. As we approach year-end, we reckon that the contributions may only scale up moving into FY23f.
- Following the latest win, KGB's year-to-date orderbook replenishment now stood at RM1.62bn; slightly exceeding our orderbook replenishment to RM1.50bn for FY22f. Moving forward, we keep our FY23f orderbook replenishment target unchanged at RM1.20bn.
- Prospects remains buoyant as KGB is equipped with an outstanding orderbook of approximately RM2.22bn. This which represents an orderbook-to-cover ratio of 4.3x against FY21 revenue of RM517.7m that will provide strong earnings visibility over the next 2 years. Meanwhile, tenderbook stays healthy at approximately RM1.50bn that is skewed towards the semiconductor space.
- Although there were signs of slowdown within the semiconductor industry with global semiconductor sales falling -0.5% MoM in September 2022, wafer fabrication plants expansions remain aggressive. We note that Taiwan's GlobalWafers Co Ltd commits to spend USD5.00bn to build a new plant at Texas, while South Korea's SK Siltron will invest USD1.63bn for the expansion of its semiconductor wafer plant over the next 5 years.
- We expect KGB to leverage on their expertise as a UHP specialist to ride onto the strong global wafer fabrication plant expansion plans. The slowdown in demand for chips from consumer related products such as smartphones and PCs will be cushioned by the robust demand from big data centers, electric vehicles, IoT and 5G applications.
- Meanwhile, the industrial gas segment will be boosted by the commencement of 10-year supply scheme for an optoelectronics semiconductor player in Kulim, Kedah in 1Q23. This will boost topline by RM180.0m that will span over the next 10 years.

Company Update

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BUY

Share price	RM1.30
Target price	RM1.70
Previous TP	RM1.70
Capital upside	30.8%
Dividend return	1.3%
Total return	32.1%

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)	838.8
52W High/Low	1.86 / 1.06
Est. Free float	48.9
Beta	1.0
3-mth avg vol ('000)	1,889.8
Shariah compliant	Yes

Major shareholders

	%
Palace Star	21.1
CIMB Group Holdings Bhd	6.7
Sun Lead International Ltd	6.2

Share price vs. KLCI (%)

	1M	3M	12M
Hist. return	-1.5	8.3	-22.8
Absolute	-5.2	11.2	-19.8
Relative			

Earnings snapshot

FYE (Dec)	FY21	FY22f	FY23f
PATMI (m)	29.0	48.6	54.7
EPS (sen)	4.5	7.5	8.5
P/E (x)	29.0	17.2	15.3

Relative performance chart



Valuation & Recommendation

- Although the orderbook replenishment came slightly ahead of our expectations, we keep our earnings forecast unchanged as bulk of the contribution from the new contracts secured may only materialise in FY23f. Therefore, we maintained **BUY** recommendation on KGB with an unchanged target price of RM1.70, pending the upcoming 3QFY22 results release tentatively by end of this month.
- We derive our target price by assigning a targeted P/E multiple of 20.0x to FY23f EPS of 8.5 sen. The assigned targeted P/E multiple is in tandem with the valuations of the technology sector that is trading at 19.2x for 2023.
- Risks to our recommendation and target price include weaker-than-expected targeted orderbook replenishment of RM1.20bn for FY23f. 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	909.2	993.0	Cash	85.2	132.0	106.5	81.2	94.1
EBITDA	35.0	27.8	43.4	70.5	79.4	Receivables	90.9	74.2	92.1	112.1	122.4
EBIT	31.9	22.7	37.7	64.3	72.6	Inventories	0.6	2.8	6.9	8.3	9.1
Net finance income/ (cost)	(0.3)	(1.7)	(2.1)	(2.6)	(2.9)	PPE	53.0	59.7	64.4	71.9	79.9
Associates & JV	-	-	-	-	-	Others	46.8	68.6	75.3	127.7	165.0
Profit before tax	31.6	20.9	35.7	61.7	69.7	Assets	304.5	350.3	404.0	444.9	491.7
Tax	(7.7)	(3.4)	(6.0)	(12.3)	(13.9)	Debts	38.8	58.5	56.4	60.3	61.8
Net profit	23.9	17.6	29.7	49.4	55.7	Payables	43.3	71.5	94.0	89.8	100.8
Minority interest	(0.5)	0.1	0.7	0.8	1.0	Others	66.9	52.0	60.8	64.7	57.1
Core earnings	24.4	17.5	29.0	48.6	54.7	Liabilities	149.0	182.0	211.2	214.8	219.7
Diluted Core earnings	-	-	-	50.1	55.5	Shareholder's equity	116.1	155.8	168.6	192.2	229.6
Exceptional items	-	-	-	-	-	Minority interest	0.3	0.3	1.1	1.1	1.1
Reported earnings	24.4	17.5	29.0	48.6	54.7	Equity	155.5	168.3	192.7	230.1	272.0
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	61.7	69.7	Core EPS (sen)	3.8	2.7	4.5	7.5	8.5
Depreciation & amortisation	3.1	5.1	5.7	6.1	6.8	Diluted Core EPS (sen)	-	-	-	5.8	6.5
Changes in working capital	(19.1)	18.6	96.0	77.6	36.6	P/E (x)	34.4	47.9	29.0	17.2	15.3
Share of JV profits	-	-	-	-	-	Diluted P/E (x)	-	-	-	22.3	20.1
Taxation	(7.9)	(5.1)	(5.3)	(12.3)	(13.9)	DPS (sen)	1.0	0.8	1.3	1.8	2.0
Others	0.8	5.2	4.4	2.6	2.9	Dividend yield	0.8%	0.6%	1.0%	1.3%	1.5%
Operating cash flow	21.1	45.7	(3.9)	(0.4)	40.7	BVPS (RM)	0.24	0.26	0.30	0.36	0.42
Net capex	(34.9)	(12.3)	(12.4)	(13.6)	(14.9)	P/B (x)	5.4	5.0	4.4	3.6	3.1
Others	(0.3)	0.3	-	-	-	EBITDA margin	9.2%	7.1%	8.4%	7.8%	8.0%
Investing cash flow	(35.2)	(12.0)	(12.7)	(13.6)	(14.9)	EBIT margin	8.4%	5.8%	7.3%	7.1%	7.3%
Changes in borrowings	21.7	19.7	(2.4)	4.2	1.5	PBT margin	8.3%	5.3%	6.9%	6.8%	7.0%
Issuance of shares	24.2	20.2	-	-	-	PAT margin	6.3%	4.5%	5.8%	5.4%	5.6%
Dividends paid	(3.7)	(8.1)	(4.8)	(6.4)	(11.3)	Core PAT margin	6.4%	4.4%	5.6%	5.4%	5.5%
Others	(8.1)	(4.8)	(6.4)	(11.3)	(12.9)	ROE	15.7%	10.4%	15.0%	21.1%	20.1%
Financing cash flow	30.6	11.3	(14.2)	(11.3)	(12.9)	ROA	8.0%	5.0%	7.2%	10.9%	11.1%
Net cash flow	16.5	45.0	(30.9)	(25.3)	12.9	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	59.7						
Ending cash	68.0	113.8	85.0	59.7	72.7						

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