1Q19: In-line results supported by Singapore

Kelington's (KGB) 1Q19 core net profit was in line with consensus and our forecasts, making up 22% of both respective full-year estimates. The commendable result was mainly driven by UHP projects in Singapore, which garner higher margins. We maintain our BUY call and raise our target price to RM1.72.

1Q19 results came in within expectations

KGB's headline net profit came in at RM4.8m (+15% yoy) in 1Q19. After excluding a RM0.6m unrealized forex loss and RM0.2m impairment on trade receivables, core net profit doubled to RM5.6m (vs. RM2.7m in 1Q18 after excluding a one-off settlement gain from Biocon). **UHP** business saw lower revenue of RM44m (-31% yoy) as a result of a lower contribution from a large UHP project in China, which was partly offset by a stronger Singapore operation. UHP business continues to contribute the bulk of group revenue. **Process Engineering (PE)** revenue rose 43% yoy to RM20.8m, attributed to the larger projects completed in Malaysia. Collectively, these two divisions accounted for 85% of KGB's total revenue while General Contracting (GC) and Industrial Gases contributed 13% and 2% respectively.

Singapore made up 41% of 1Q19 revenue (vs. 16% in 1Q18)

Revenue fell 12% yoy to RM76.4m due to a lower contribution from China (-53% yoy). However, revenue was supported by a rise in UHP projects in Singapore (+128% yoy), which was the largest contributor at 41% of group revenue in 1Q19. As a result of the higher revenue from Singaporean projects, gross and net profit margins both rose to 18.3% (from 14.1%) and 6.3% (from 4.9%) respectively.

Order book update

The total outstanding order book stood at RM330m with RM146m of new orders secured YTD. UHP made up the bulk of the order book at 79% of the total, followed by PE and GC at 16% and 4% respectively. Singapore, Malaysia and China are the 3 biggest contributors to the current order book at 59%, 17% and 15% of the total respectively.

Maintain BUY with a raised TP of RM1.72

We maintain our **BUY** call and raise our target price to RM1.72 (from RM1.60) after rolling forward our valuation horizon to 2020E, based on an unchanged 16x PER. Despite the recent slowdown in China, Singapore continues to make up for the shortfall, while the industrial gas business continues to be the company's long-term attraction, once the LCO2 plant comes on stream by end-3Q19.

Earnings & Valuation Summary

FYE 31 Dec	2017A	2018A	2019E	2020E	2021E
Revenue (RMm)	313.3	349.2	409.5	516.7	613.1
EBITDA (RMm)	24.8	32.8	39.1	52.1	60.7
Pretax profit (RMm)	16.8	24.5	33.2	43.1	51.8
Net profit (RMm)	10.9	18.5	24.7	33.1	39.7
EPS (sen)	4.8	6.0	8.0	10.7	12.9
PER (x)	26.0	20.7	15.0	11.6	9.6
Core net profit (RMm)	17.2	23.7	25.5	33.1	39.7
Core EPS (sen)	7.5	7.7	8.3	10.7	12.9
Core EPS growth (%)	(2.7)	2.1	7.8	29.4	20.0
Core PER (x)	16.5	16.1	15.0	11.6	9.6
Net DPS (sen)	1.0	1.2	2.5	3.0	3.5
Dividend Yield (%)	0.8	1.0	2.0	2.4	2.8
EV/EBITDA (x)	10.2	11.3	8.5	6.2	5.1
Chg in EPS (%)			(1.5)	(2.8)	0.7
Affin/Consensus (x)			1.06	1.14	1.17

Source: Company, Affin Hwang forecasts, Bloomberg

Results Note

Kelington

KGRB MK
Sector: Oil & Gas

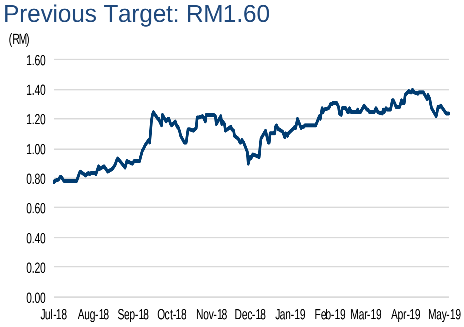
RM1.24 @ 23 May 2019

BUY (maintain)

Upside: 39%

Price Target: RM1.72

Previous Target: RM1.60



Price Performance

	1M	3M	12M
Absolute	2.5%	3.2%	-1.0%
Rel to KLCI	3.7%	8.2%	13.5%

Stock Data

Issued shares (m)	294.0
Mkt cap (RMm)/(US$m)	364.6/87
Avg daily vol - 6mth (m)	1.7
52-wk range (RM)	0.73-1.41
Est free float	43.1%
BV per share (RM)	0.39
P/BV (x)	3.14
Net cash/ (debt) (RMm) (1Q19)	76.5
ROE (2019E)	18.7%
Shariah Compliant	Yes

Key Shareholders

Palace Star	28.8%
Sun Lead International	6.7%
KWAP	5.5%

Source: Affin Hwang, Bloomberg

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Downside risks

The key downside risks to our call include a slowdown in the semiconductor sector, increased price competition, and a breakdown in trade negotiations between the US and China.

Fig 1: Results comparison

FYE 31 Dec (RM m)	1Q18	4Q18	1Q19	*qoq % chg*	*yoy % chg*	Comments
Revenue	86.5	109.8	76.4	*(30.4)*	*(11.7)*	Revenue decreased by 12% yoy, mainly due to a decrease in contribution from China as a result of lower recognition from a UHP project in China
Op costs	(80.9)	(100.4)	(68.2)	*(32.1)*	*(15.7)*	
EBITDA	5.6	9.4	8.2	*(12.6)*	*45.3*	
EBITDA margin (%)	*6.5*	*8.6*	*10.7*	*2.2ppt*	*4.2ppt*	Projects from Singapore contributed to better blended EBITDA margin
Depn and amort	(0.3)	(0.6)	(0.6)	*(7.1)*	*44.6*	
EBIT	5.3	8.8	7.6	*(12.9)*	*45.4*	
EBIT margin (%)	*6.1*	*8.0*	*10.0*	*2ppt*	*3.9ppt*	
Int expense	(0.3)	(0.3)	(0.3)	*32.4*	*12.1*	
Int and other inc	0.0	0.0	0.0	*n.m*	*n.m*	
Associates	0.0	0.0	0.0	*n.m*	*n.m*	
EI	1.6	(1.6)	(0.8)	*(50.1)*	*n.m*	RM0.6m unrealised forex loss and RM0.2m impairment on trade receivables
Pretax profit	**6.4**	**6.9**	**6.5**	*(6.1)*	*1.1*	
Core pretax	**4.9**	**8.5**	**7.3**	*(14.3)*	*47.4*	
Tax	(2.2)	(1.9)	(1.7)	*(9.3)*	*(22.9)*	
Tax rate (%)	*34.8*	*27.5*	*26.5*	*-0.9ppt*	*-8.3ppt*	
MI	0.0	0.2	0.1	*n.m*	*n.m*	
Net profit	**4.2**	**5.2**	**4.8**	*(6.9)*	*15.0*	
EPS (sen)	1.8	2.1	1.9	*(6.9)*	*5.3*	
Core net profit	**2.7**	**6.8**	**5.6**	*(17.1)*	*>100*	Core net profit was within consensus and our expectations at 22% of 2019 full-year estimates

Source: Affin Hwang, Company

Fig 2: Segmental and geographical revenue breakdown (RMm)

	1Q18	2Q18	3Q18	4Q18	1Q19	*qoq % chg*	*yoy % chg*
Ultra High Purity	63.3	75.0	37.9	50.2	44.0	(12.2)	(30.5)
Process Engineering	14.5	9.5	15.5	35.2	20.8	(40.9)	43.0
General Contracting	8.0	3.7	9.7	23.0	10.3	(55.4)	28.3
Industrial Gases	0.6	1.0	0.6	1.4	1.3	(7.1)	100.9
TOTAL	**86.5**	**89.2**	**63.7**	**109.8**	**76.4**	**(30.4)**	**(11.7)**

	1Q18	2Q18	3Q18	4Q18	1Q19	*qoq % chg*	*yoy % chg*
Malaysia	22.7	19.9	20.3	51.5	21.5	(58.2)	(5.2)
Singapore	13.6	26.2	25.7	46.2	31.1	(32.7)	127.7
China	46.7	39.7	12.5	8.3	22.1	164.7	(52.8)
Taiwan	3.2	2.8	4.6	2.0	1.5	(24.1)	(52.8)
Indonesia	0.3	0.7	0.7	1.8	0.3	(85.8)	(7.0)
TOTAL	**86.5**	**89.2**	**63.7**	**109.8**	**76.4**	**(30.4)**	**(11.7)**

Source: Affin Hwang, Company

Important Disclosures and Disclaimer

Equity Rating Structure and Definitions

BUY	Total return is expected to exceed +10% over a 12-month period
HOLD	Total return is expected to be between -5% and +10% over a 12-month period
SELL	Total return is expected to be below -5% over a 12-month period
NOT RATED	Affin Hwang Investment Bank Berhad does not provide research coverage or rating for this company. Report is intended as information only and not as a recommendation

The total expected return is defined as the percentage upside/downside to our target price plus the net dividend yield over the next 12 months.

OVERWEIGHT	Industry, as defined by the analyst's coverage universe, is expected to outperform the KLCI benchmark over the next 12 months
NEUTRAL	Industry, as defined by the analyst's coverage universe, is expected to perform inline with the KLCI benchmark over the next 12 months
UNDERWEIGHT	Industry, as defined by the analyst's coverage universe is expected to under-perform the KLCI benchmark over the next 12 months

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