

25 November 2020

Kelington Group

Above Expectations; A Sharp Recovery

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Upgrade TP to RM2.30 (35% upside). KGB registered record high quarterly earnings in 3QFY20 with CNP of RM8.1m (+25% YoY), after adjusting for impairment and FX losses. 9MFY20 CNP of RM10.8m (-36% YoY) came above expectations, exceeding our/consensus full-year forecast by 38%/50%. Order-book piled to an all-time high of RM370m (+31% YoY) with more UHP jobs from SMIC. We raise our FY20E/21E CNP by 71%/20% to better reflect the group's prospects as our previous estimates were overly conservative. Reiterate **OUTPERFORM** with a higher Target Price of RM2.30.

Above expectation. Kelington Group Bhd (KGB) registered a record high earnings with 3QFY20 CNP of RM8.1m (+25.2% YoY), after adjusting for impairment and unrealised forex losses worth RM3.2m. 9MFY20 CNP of RM10.8m (-36% YoY) came above expectations, exceeding our and consensus full-year forecast by 38% and 50%, respectively.

Results' highlight. QoQ, 3QFY20 CNP of RM8.1m increased sharply (vs. RM0.6m in 2QFY20) as its operations in Malaysia, Taiwan and China are fully back online. As such, revenue soared 27% QoQ to RM98m. YoY, 3QFY20 CNP jumped 25% to RM8.1m (post-adjustment for impairment and unrealised forex losses) while revenue inched 1.3% higher on improved contribution from general contracting and industrial gasses segments. The group's liquid CO2 plant has not just recovered to pre-Covid-19 utilisation rate of 50% but is currently nearing 60%.

Strong order replenishment. After delivering RM98m (+1.3% YoY) in 3QFY20, the group still managed to replenish its orderbook to an all-time high of RM370m (+31% YoY; +14% QoQ) as of 30 Sep, with China pouring in more orders. SMIC is requesting KGB to speed things up at its Shanghai plant and hinted of more UHP-related job awards due to an imminent wafer shortage. SMIC recently reported a 123% YoY jump in profit to mark a new high as its utilisation rate hits 100% and is guiding strong momentum going into 1H 2021.

Tendering activities are fully lined up with WD Penang (announced RM2.3b investment), Micron SG (resuming memory spending), along with Lam Research, Bosch, and B Braun looking to expand capacity. Note that KGB has worked with WD and Micron SG in all their past expansions, positioning the group well for upcoming tenders.

Icing on the cake. The group has been working with pharma companies since 2-3 months back to understand the requirements of using dry ice to store Covid-19 vaccines. Apart from supplying their own dry ice, other dry ice manufacturers in Malaysia also have to source liquid CO2 from KGB, as there are only two players locally due to the high barrier of entry.

Raise FY20E/FY21E CNP by 71%/20% to RM13.5m/RM31.1m as our previous forecasts were overly conservative.

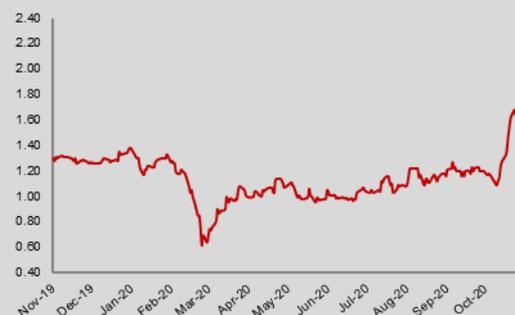
Maintain OUTPERFORM with higher TP of RM2.30 (previously RM1.92) based on unchanged FY21E PER of 23.6x (+0.5SD to 3-year mean).

Risks to our call include: (i) slower revenue recognition due to Covid-19, (ii) downturn in semiconductor sales, and (iii) delay in liquid CO2 ramp-up.

OUTPERFORM ↔

Price : RM1.70
Target Price : RM2.30 ↑

Share Price Performance



KLCI	1,578.4
YTD KLCI chg	6.1%
YTD stock price chg	45.3%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	KGRB MK Equity
Market Cap (RM m)	546.6
Shares Outstanding	321.4
52-week range (H)	1.82
52-week range (L)	0.59
3-mth avg daily vol:	2,049,479
Free Float	53%
Beta	1.2

Major Shareholders

Palace Star	21.0%
Sun Lead International Ltd	6.2%
Kenanga Unit Trust	5.2%

Summary Earnings Table

FYE Dec (RM m)	2019A	2020E	2021E
Turnover	379.8	348.7	426.4
EBITDA	35.0	21.6	45.3
PBT	31.6	17.5	40.2
Net Profit (NP)	24.4	13.5	31.1
Consensus (NP)	n.m	7.3	22.0
Earnings Revision	n.m	71%	20%
EPS (sen)	8.2	4.2	9.7
EPS growth (%)	8.0	-48.3	130.5
NDPS (sen)	2.0	1.1	2.4
BVPS (RM)	0.52	0.52	0.59
Price/BV (x)	3.3	3.3	2.9
PER (x)	20.8	40.3	17.5
Gearing (x)	0.2	0.2	0.2
ROA (%)	8.1	4.1	8.6
ROE (%)	15.7	8.1	16.4
Dividend Yield (%)	1.2	0.6	1.4



Result Highlight								
	3Q	2Q	QoQ	3Q	YoY	9M	9M	YoY
FYE: Dec (RM m)	FY20	FY20	Chg	FY19	Chg	FY20	FY19	Chg
Revenue	98.3	77.3	27.1%	97.0	1.3%	260.3	268.5	-3.1%
GP	17.7	5.2	238.5%	12.1	45.7%	34.1	40.9	-16.8%
EBIT	7.9	1.8	347.2%	7.9	-0.6%	15.2	22.2	-31.4%
PBT	7.2	1.2	497.9%	7.5	-5.1%	13.3	21.2	-37.5%
Taxation	-2.2	-0.6	-291.9%	-1.3	-64.7%	-3.6	-5.2	30.3%
Net Profit (NP)	4.9	0.6	687.3%	6.3	-21.7%	9.6	16.2	-40.9%
Core NP	8.1	0.6	1207.4%	6.5	25.2%	10.8	16.8	-35.6%
EPS (sen)	2.5	0.2	1200.6%	2.1	21.2%	3.4	5.6	-38.8%
DPS (sen)	0.0	0.0		0.0		0.5	1.0	
GP margin	18.0%	6.7%		12.5%		13.1%	15.2%	
EBIT margin	8.0%	2.3%		8.2%		5.8%	8.3%	
Pretax margin	7.3%	1.5%		7.8%		5.1%	7.9%	
CNP margin	8.3%	0.8%		6.7%		4.2%	6.3%	
Effective tax rate	-30.5%	-46.6%		-17.6%		-27.3%	-24.5%	

Source: Kenanga Research

Segmental Breakdown								
	3Q	2Q	QoQ	3Q	YoY	9M	9M	YoY
FYE: Dec (RM m)	FY20	FY20	Chg	FY19	Chg	FY20	FY19	Chg
Revenue	98.3	77.3	27.1%	97.0	1.3%	260.3	268.5	-3.1%
UHP	70.1	62.7	11.7%	73.1	-4.1%	196.3	172.7	13.7%
Process Engineering	9.3	6.2	50.6%	17.0	-45.1%	26.6	75.7	-64.8%
General Contracting	11.6	5.3	118.9%	5.5	110.2%	22.1	16.2	36.3%
Industrial Gasses	7.2	3.1	133.6%	1.4	432.3%	15.3	3.9	293.7%
UHP	71%	81%		75%		75%	64%	
Process Engineering	10%	8%		18%		10%	28%	
General Contracting	12%	7%		6%		9%	6%	
Industrial Gasses	7%	4%		1%		6%	1%	

Source: Kenanga Research

Geographical Breakdown								
	3Q	2Q	QoQ	3Q	YoY	9M	9M	YoY
FYE: Dec (RM m)	FY20	FY20	Chg	FY19	Chg	FY20	FY19	Chg
Revenue	98.3	77.3	27.1%	97.0	1.3%	260.3	268.5	-3.1%
Malaysia	31.5	18.7	68.9%	20.7	52.0%	70.2	66.4	5.6%
China	35.0	32.1	8.9%	25.3	38.2%	80.0	76.7	4.3%
Taiwan	5.4	4.5	19.1%	2.1	153.4%	11.1	6.8	63.1%
Singapore	24.1	21.1	14.0%	48.0	-49.9%	94.9	117.0	-18.8%
Others	2.3	0.9	153.9%	0.9	170.1%	4.1	1.6	157.3%
Malaysia	32%	24%		21%		27%	25%	
China	36%	42%		26%		31%	29%	
Taiwan	5%	6%		2%		4%	3%	
Singapore	24%	27%		49%		36%	44%	
Others	2%	1%		1%		2%	1%	

Source: Kenanga Research

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Malaysian Technology Peers Comparison

Name	Last Price (RM)	Mkt Cap (RM'm)	Shariah Compliant	Current FYE	Revenue Growth		Core Earnings Growth		PER (x) - Core Earnings			PBV (x)		ROE (%)	Net Div Yld (%)	Target Price (RM)	Rating
					1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	Hist.	1-Yr. Fwd.	2-Yr. Fwd.	Hist.	1-Yr. Fwd.	1-Yr. Fwd.			
D&O GREEN TECHNOLOGIES BHD	1.52	1,738.6	Y	12/2019	9.2%	15.7	7.7%	69.9%	48.4	45.9	27.0	4.5	4.1	15.0%	1.3%	2.00	OP
INARI AMERTRON BHD	2.47	8,123.2	Y	06/2020	37.4%	24.9%	66.7%	25.1%	50.9	31.0	24.8	6.7	6.4	21.6%	2.7%	3.14	OP
JHM CONSOLIDATION BHD	1.93	1,080.1	Y	12/2020	5.9%	24.7%	3.6%	58.2%	23.8	22.9	14.5	3.6	3.0	13.1%	1.6%	2.00	OP
KELINGTON GROUP BHD	1.70	546.4	Y	12/2020	-8.2%	22.3%	-44.7%	130%	20.8	40.3	17.5	3.3	3.3	8.1%	0.6%	2.30	OP
KESM INDUSTRIES BHD	10.00	430.1	Y	07/2020	14.6%	5.3%	19158%	34.2%	3768	24.5	18.2	1.0	1.0	5.0%	1.1%	10.60	MP
MALAYSIAN PACIFIC INDUSTRIES BHD	22.98	4,820.7	Y	06/2020	8.0%	8.0%	16.0%	11.0%	19.5	16.7	15.1	1.7	1.8	11.8%	1.9%	18.80	OP
P.I.E. INDUSTRIAL BHD	1.98	760.4	Y	12/2020	-6.0%	76.0%	-46.0%	185%	22.5	41.8	14.7	1.8	1.8	4.0%	1.4%	2.32	MP
SKP RESOURCES BHD	1.95	2,440.7	Y	03/2020	23.7%	9.7%	67.3%	20.7%	27.5	19.2	15.9	3.3	3.0	18.0%	3.0%	1.83	MP
UNISEM (M) BHD	5.50	4,041.2	Y	12/2020	9.0%	17.6%	71.9%	47.7%	49.7	28.9	19.6	2.4	2.2	7.8%	1.4%	5.15	OP

Source: Kenanga Research

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Stock Ratings are defined as follows:**Stock Recommendations**

OUTPERFORM	: A particular stock's Expected Total Return is MORE than 10%
MARKET PERFORM	: A particular stock's Expected Total Return is WITHIN the range of -5% to 10%
UNDERPERFORM	: A particular stock's Expected Total Return is LESS than -5%

Sector Recommendations***

OVERWEIGHT	: A particular sector's Expected Total Return is MORE than 10%
NEUTRAL	: A particular sector's Expected Total Return is WITHIN the range of -5% to 10%
UNDERWEIGHT	: A particular sector's Expected Total Return is LESS than -5%

*****Sector recommendations are defined based on market capitalisation weighted average expected total return for stocks under our coverage.**

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