25 May 2022

Outthink. Outperform.

AFFIN HWANG INVESTMENT BANK

Results Note | **RM1.13 @ 24 May 2022**

"1Q22 results in line"

Share price performance

	1M	3M	12M
Absolute (%)	-13.7	-19.3	13.0
Rel KLCI (%)	-9.8	-17.0	16.0

	BUY	HOLD	SELL
Consensus	4	1	-

Stock Data

Sector	Oil and Gas
Issued shares (m)	643.0
Mkt cap (RMm)/(US$m)	726.6/165.3
Avg daily vol - 6mth (m)	2.3
52-wk range (RM)	0.95-1.88
Est free float	46.9%
Stock Beta	0.57
Net cash/(debt)	11.9
ROE (CY22E)	19.3%
Derivatives	Nil
Shariah Compliant	Yes
FTSE4Good Constituent	Yes
FBM Emas (Top 200)	
ESG Rank	Top 25%
ESG Risk Rating	29.4

Key Shareholders

Palace Star	21.1%
CIMB	6.2%
Sun Lead	6.2%

Source: Bloomberg, Affin Hwang, Bursa Malaysia, ESG Risk Rating Powered by Sustainalytics

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Kelington (KGRB MK)

BUY (upgrade)
Up/Downside: +23%

Price Target: RM1.39
Previous Target (Rating): RM1.39 (HOLD)

Slowly ramping up

- **KGB recorded RM9m in core profit (-40% qoq, +75% yoy), in line with our forecast**
- **1Q22 activities slowed on fewer working days, cushioned by a higher liquid carbon dioxide plant utilisation rate (from 60% to 70%) on robust demand. We expect a 2H22 recovery after Shanghai lifts its lockdown**
- **Upgrade to Buy on valuation grounds following the recent share price weakness. No change to our 12-month target price of RM1.39**

Revenue growth underpinned by strong order book replenishment

Stripping out the unrealized forex loss, KGB reported a 75% yoy increase in core net profit in 1Q22. Revenue rose 65% yoy to RM173m underpinned by robust job orders across Malaysia (+77%), Singapore (+61%) and China (+42%). This is on the back of a larger outstanding order book of RM1.2bn, as compared to RM364m end 1Q21. The Ultra High Purity (UHP) segment remained the largest revenue contributor at 65%. The liquid carbon dioxide (LCO2) plant also saw an uptick in demand with the utilisation rate now at 70%, as compared to 60% previously. The overall earnings are in line with our estimate.

Sequential weakness as expected

Sequentially, 1Q22 revenue fell 4% due to fewer working days during the quarter. EBITDA margin fell 3ppts largely due to the lower project margins for executing the turnkey construction contract in Sarawak. The effective tax rate in 1Q22 was also higher as it had fully utilised AceGases' accumulated losses from previous years. Combined, the core profit fell by 40% qoq. Nonetheless, we expect a stronger 2H22 performance as Shanghai plans to lift its lockdown in June. Based on our estimates, KGB has about 10% of its order book exposed to this region.

Upgrade to Buy

KGB recently announced the contract win for SMIC's 2022 hook-up package for its Beijing sites. Being a sole-winner arrangement over the past few years, we believe contract news flow for other sites will be announced soon. Given the share price weakness over the past 4 months, we upgrade KGB to Buy (from Hold) with an unchanged 12-month target price of RM1.39, based on a 22x 2023E PE. Downside risks include further strict lockdowns around the world, lower-than-expected LCO2 plant utilisation, and a hiccup in the execution of its maiden turnkey contract.

Earnings & Valuation Summary

FYE 31 Dec	2020	2021	2022E	2023E	2024E
Revenue (RMm)	394.6	517.7	782.8	731.7	812.9
EBITDA (RMm)	32.4	48.7	62.6	62.7	69.4
Pretax profit (RMm)	20.9	38.5	53.0	53.7	60.8
Net profit (RMm)	17.5	31.8	39.0	40.7	46.0
EPS (sen)	2.7	5.0	6.1	6.3	7.2
PER (x)	41.5	22.8	18.6	17.9	15.8
Core net profit (RMm)	22.5	34.5	39.0	40.7	46.0
Core EPS (sen)	3.5	5.4	6.1	6.3	7.2
Core EPS growth (%)	(12.9)	53.6	13.0	4.3	13.0
Core PER (x)	32.3	21.0	18.6	17.9	15.8
Net DPS (sen)	1.0	2.0	2.5	2.5	3.0
Dividend Yield (%)	0.9	1.8	2.2	2.2	2.7
EV/EBITDA (x)	20.1	14.1	10.3	9.9	8.7
Chg in EPS (%)			-	-	-
Affin/Consensus (%)			0.9	0.9	1.0

Source: Company, Affin Hwang estimates

Fig 1: Results Comparison

FYE 31 Dec (RMm)	1Q21	4Q21	1Q22	QoQ % chg	YoY % chg	Comments
Revenue	104.8	180.1	173.3	*(3.8)*	*65.4*	Driven by high RM1.2bn outstanding order book (from a mere RM364m in 1Q21)
Op costs	(96.7)	(161.3)	(159.8)	*(1.0)*	*65.2*	
EBITDA	8.1	18.8	13.5	*(28.0)*	*67.0*	
EBITDA margin (%)	*7.7*	*10.4*	*7.8*	*-2.6ppt*	*0.1ppt*	
Depn and amort	(1.1)	(1.2)	(1.2)	*2.5*	*15.6*	
EBIT	7.0	17.6	12.3	*(30.1)*	*74.8*	
EBIT margin (%)	6.7	9.8	7.1	*-2.7ppt*	*0.4ppt*	
Int expense	(0.8)	(0.6)	(0.6)	*2.2*	*(21.2)*	
EI	0.5	(3.7)	(0.6)	*n.m*	*n.m*	Unrealised forex loss
Pretax profit	**6.7**	**13.3**	**11.1**	*(16.2)*	*64.9*	
Core pre tax	**6.3**	**17.0**	**11.7**	*(31.2)*	*86.3*	
Tax	(1.0)	(2.1)	(2.6)	*n.m*	*152.6*	
Tax rate (%)	15.3	15.7	23.4	*7.7ppt*	*8.1ppt*	Higher tax rate after fully utilising AceGases' accumulated losses from prior years
MI	(0.2)	(0.2)	(0.2)	*n.m*	*n.m*	
Net profit	**5.5**	**11.0**	**8.3**	*(24.3)*	*49.7*	
EPS (sen)	2.2	4.4	3.3	*(24.3)*	*49.7*	
Core net profit	**5.1**	**14.7**	**8.9**	*(39.6)*	*74.7*	In line with our expectation

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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