Kelington (KGRB MK)

BUY (maintain)
Up/Downside: +31%

Price Target: RM2.00
Previous Target (Rating): RM2.00 (BUY)

"Earnings prospects looks promising with high RM1.7bn orderbook"

Share price performance

	1M	3M	12M
Absolute (%)	-2.6	5.6	6.3
Rel KLCI (%)	0.3	7.8	16.2

	BUY	HOLD	SELL
Consensus	2	2	-

Source: Bloomberg

Stock Data

Sector	Oil and Gas
Issued shares (m)	643.0
Mkt cap (RMm)/(US$m)	977.4/218.3
Avg daily vol - 6mth (m)	1.6
52-wk range (RM)	1.06-1.65
Est free float	48.9%
Stock Beta	0.90
Net cash/(debt) (RMm)	23.5
ROE (2023E)	24.4%
Derivatives	Nil
Shariah Compliant	Yes
FTSE4Good Constituent	Yes
FBM Emas (Top 200)	
ESG Rank	Top 26-50%
ESG Risk Rating	22.7(-6.7 yoy)

Key Shareholders

Palace Star	21.1%
CIMB	6.4%
Sun Lead	6.2%

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

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Strong earnings momentum

- **Kelington (KGB) delivered its highest profit since listing**
- **Result was above our and consensus expectations by 10-13% with surprise arising from faster-than-expected project billing**
- **Maintain BUY and target price of RM2.00 (based on 22x 2023E EPS)**

Higher tax rate partly offset 4Q22 profit gains

4Q22 revenue increased qoq driven by a higher order book in hand. Notable contract wins secured in the previous quarter, which included the new memory fab expansion in Singapore and a project in Kulim, Malaysia (both combined worth close to RM450m) partly contributed to the gains this quarter. This led to EBITDA margin improvement of 1ppt and a higher 4Q22 core net profit of RM19m (+4% yoy) which was partly offset by a higher effective tax rate due to its loss-making Taiwan operation this quarter.

2022 core net profit surged 74% yoy

KGB delivered a record-high 2022 core net profit of RM60m (+74% yoy) driven by stronger revenue of RM1.3bn (+145% yoy) attributable to an increase in contracts secured throughout the year. Its General Contracting (GC) segment accounted for a larger revenue mix in 2022 at 27% (2021: 15%) and was one of the two revenue growth drivers, but also was the reason behind the overall 3ppt EBITDA margin decline. Nevertheless, with the Sarawak turnkey contract scheduled to complete in April 2023, we expect margins to improve on the back of lower GC revenue mix. Ultra High Purity revenue rose 137% yoy underpinned by aggressive client expansion plans especially in the Singapore region.

Strong earnings visibility over the next 12-16 months

KGB's high outstanding order book of RM1.7bn translates to 1.33x 2022 revenue. We expect earnings prospects over the next 12-16 months to remain positive as the group focuses on delivering contracts in hand. Despite the global slowdown in 2022, KGB has demonstrated strong ability in securing a total of RM1.9bn new contracts (2021: RM1.2bn). KGB is in the midst of constructing a second carbon dioxide gas recovery plant to capture the high market demand.

Maintain BUY

KGB's competitive edge in the Singapore and China markets will continue to present ample job opportunities while its high order book provides strong earnings visibility for the coming 2 years, in our opinion. The upcoming carbon dioxide gas recovery plant expansion will further grow its recurring income base. We reiterate a Buy rating and TP of RM2.00 (based on 22x 2023E PE multiple). Downside risks include delays in semicon clients' expansion plans, execution delays, lower-than-expected gas recovery plant demand and project cost overruns.

Earnings & Valuation Summary

FYE 31 Dec	2021	2022	2023E	2024E	2025E
Revenue (RMm)	517.7	1,269.5	1,125.1	1,122.3	1,172.3
EBITDA (RMm)	48.7	88.1	83.5	89.9	94.6
Pretax profit (RMm)	38.5	73.6	74.6	81.5	86.7
Net profit (RMm)	31.8	55.4	58.6	63.9	68.0
EPS (sen)	5.0	8.6	9.1	9.9	10.6
PER (x)	30.7	17.6	16.7	15.3	14.4
Core net profit (RMm)	34.5	60.0	58.6	63.9	68.0
Core EPS (sen)	5.4	9.3	9.1	9.9	10.6
Core EPS growth (%)	53.6	73.7	(2.3)	9.1	6.4
Core PER (x)	28.3	16.3	16.7	15.3	14.4
Net DPS (sen)	2.0	3.0	3.5	4.0	4.0
Dividend Yield (%)	1.3	2.0	2.3	2.6	2.6
EV/EBITDA (x)	19.2	11.4	10.3	9.2	8.3
Chg in EPS (%)			-	-	New
Affin/Consensus (%)			1.1	1.0	-

Source: Company, Affin Hwang estimates

Fig 1: Results Comparison

FYE 31 Dec (RMm)	4Q21	3Q22	4Q22	QoQ % chg	YoY % chg	2021	2022	YoY % chg	Comments
Revenue	180.1	366.4	417.4	*13.9*	*131.7*	517.7	1,269.5	*145.2*	Higher UHP and GC work billing
Op costs	(161.3)	(342.7)	(387.1)	*13.0*	*139.9*	(469.0)	(1,181.4)	*151.9*	
EBITDA	18.8	23.7	30.3	*27.9*	*61.7*	48.7	88.1	*81.0*	
EBITDA margin (%)	*10.4*	*6.5*	*7.3*	*0.8ppt*	*-3.1ppt*	*9.4*	*6.9*	*-2.5ppt*	Brought down due to higher GC work which commands lower margins
Depn and amort	(1.2)	(1.4)	(1.5)	*4.4*	*23.1*	(4.7)	(5.4)	*14.2*	
EBIT	17.6	22.3	28.8	*29.4*	*64.3*	44.0	82.7	*88.2*	
EBIT margin (%)	9.8	6.1	6.9	*0.8ppt*	*-2.8ppt*	*8.5*	*6.5*	*-2ppt*	
Int expense	(0.6)	(1.2)	(1.7)	*46.4*	*200.7*	(2.8)	(4.5)	*63.6*	
EI	(3.7)	(2.3)	(0.9)	*n.m*	*n.m*	(2.7)	(4.6)	*n.m*	
Pretax profit	**13.3**	**18.8**	**26.2**	*38.9*	*97.5*	**38.5**	**73.6**	*91.3*	
Core pretax	**17.0**	**21.1**	**27.1**	*28.4*	*59.6*	**41.2**	**78.2**	*89.9*	
Tax	(2.1)	(2.5)	(6.8)	*n.m*	*227.4*	(5.9)	(15.5)	*161.1*	
Tax rate (%)	15.7	13.3	26.0	*12.7ppt*	*10.3ppt*	*15.4*	*21.0*	*5.6ppt*	Taiwan operation was loss-making in 4Q22
MI	(0.2)	(0.6)	(1.6)	*n.m*	*n.m*	(0.8)	(2.7)	*275.5*	
Net profit	**11.0**	**15.7**	**17.8**	*13.5*	*62.6*	**31.8**	**55.4**	*74.1*	
EPS (sen)	4.4	6.3	7.1	*13.5*	*62.6*	12.7	22.1	*74.1*	
Core net profit	**14.7**	**18.0**	**18.8**	*4.4*	*27.6*	**34.5**	**60.0**	*73.7*	Above our and consensus forecasts

Source: Affin Hwang, Company

Fig 2: Segmental Breakdown

	4Q21	1Q22	2Q22	3Q22	4Q22	*qoq % chg*	*yoy % chg*	2021	2022	*yoy % chg*
Ultra High Purity	108.1	112.6	191.8	206.6	295.4	43.0	173.2	341.0	806.4	*136.5*
Process Engineering	22.8	12.0	11.5	14.1	13.4	(5.2)	(41.2)	62.0	51.0	*(17.7)*
General Contracting	37.4	38.4	97.1	121.6	87.4	(28.1)	133.7	75.7	344.5	*354.8*
Industrial Gases	11.8	10.4	12.0	24.0	21.2	(11.6)	79.3	38.9	67.6	*73.5*
TOTAL	**180.1**	**173.3**	**312.4**	**366.3**	**417.4**	**13.9**	**131.7**	**517.7**	**1,269.5**	**145.2**

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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