22 May 2023

Outthink. Outperform.

AFFIN HWANG INVESTMENT BANK

Results Note | **RM1.34 @ 19 May 2023**

"1Q23 results in line"

Share price performance

	1M	3M	12M
Absolute (%)	-8.2	-16.7	21.6
Rel KLCI (%)	-8.2	-13.7	32.1

	BUY	HOLD	SELL
Consensus	3	1	-

Source: Bloomberg

Stock Data

Sector	Oil and Gas
Issued shares (m)	643.0
Mkt cap (RMm)/(US$m)	868.1/190.7
Avg daily vol - 6mth (m)	1.3
52-wk range (RM)	1.06-1.65
Est free float	50.8%
Stock Beta	0.90
Net cash/(debt)	18.9
ROE (2023E)	22.8%
Derivatives	Yes
Shariah Compliant	Yes
FTSE4Good Constituent	Yes
FBM Emas (Top 200)	Top 26-50%
ESG Rank	
ESG Risk Rating	22.7 (-6.7 yoy)

Key Shareholders

Palace Star	21.1%
Sun Lead	6.2%
AmanahRaya Trustee	5.5%

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

Tan Jianyuan, FCCA
T (603) 2146 7538
E jianyuan.tan@affingroup.com

Kelington (KGRB MK)

BUY (maintain)
Up/Downside: +34%

Price Target: RM1.80
Previous Target (Rating): RM1.64 (BUY)

Looking at a record profit year with contracts in hand

- **Kelington (KGB) reported 1Q23 core net profit of RM16m, an 82% increase yoy. Results are in line with our and consensus estimates**
- **1Q23 is off to a strong start. Activities across regions are progressing well with its liquid carbon dioxide plant utilisation maxed out. We expect additional growth once the second plant commences operation in October 2023**
- **Raise our 12-month target price to RM1.80 after rolling forward our valuation and reaffirm BUY rating. At 13x forward PE, we think valuation is appealing**

Busy executing contracts

KGB's profit base has risen over the past three quarters, registering an average RM16m quarterly profit, on the back of aggressive order book growth. Malaysia (+83% yoy), Singapore (+67% yoy) and China (+69% yoy) remain the key revenue drivers underpinned by robust work orders. 1Q23 core net profit rose 82% yoy to RM16m (1Q22: RM9m) on the back of stronger revenue growth. The Ultra High Purity (UHP) segment remained the largest revenue contributor at 60% in 1Q23. The maiden turnkey contract in Sarawak has reached 90% completion and should be handed over by 3Q23. This should help free up resources for more job wins ahead. Overall results are in line with our estimates.

New growth contribution commencing in 2H23

Revenue and core net profit both declined by 26% and 14% qoq due to fewer working days because of the festive season. We expect the strong earnings momentum to sustain with work progress to pick up in the coming quarters backed by its record high RM1.8bn order book. The liquid carbon dioxide (LCO2) plant is operating at full utilization with the second plant targeted to commence by October 2023, driving further industrial gas segment growth. KGB is on track to match 2022 contract replenishment value with RM570m new jobs secured to-date, which represents 31% of last year's total wins.

Maintain BUY

KGB is well positioned to weather the current macro environment slowdown with its order book in hand providing strong earnings visibility until 2024. We raise our target price to RM1.80, after rolling forward our valuation to 2024E, pegged to an unchanged 18x PE multiple. Maintain BUY. 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	1,146.5	1,158.2	1,197.5
EBITDA (RMm)	48.7	83.6	89.8	95.0	102.2
Pretax profit (RMm)	38.5	73.6	74.6	81.8	89.3
Net profit (RMm)	31.8	55.4	58.6	64.2	70.0
EPS (sen)	5.0	8.6	9.1	10.0	10.9
PER (x)	27.1	15.5	14.7	13.4	12.3
Core net profit (RMm)	34.5	55.4	58.6	64.2	70.0
Core EPS (sen)	5.4	8.6	9.1	10.0	10.9
Core EPS growth (%)	53.6	60.4	5.7	9.6	9.1
Core PER (x)	24.9	15.5	14.7	13.4	12.3
Net DPS (sen)	2.0	2.5	3.5	4.0	4.5
Dividend Yield (%)	1.5	1.9	2.6	3.0	3.4
EV/EBITDA (x)	16.6	10.1	8.2	7.5	6.7
Chg in EPS (%)			-	-	-
Affin/Consensus (%)			1.0	1.0	1.0

Source: Company, Affin Hwang estimates

Fig 1: Results Comparison

FYE 31 Dec (RMm)	1Q22	4Q22	1Q23	QoQ % chg	YoY % chg	Comments
Revenue	173.3	417.4	308.9	*(26.0)*	*78.2*	Revenue growth driven by its high order book
Op costs	(159.8)	(387.1)	(283.0)	*(26.9)*	*77.0*	
EBITDA	13.5	30.3	26.0	*(14.4)*	*92.2*	
EBITDA margin (%)	*7.8*	*7.3*	*8.4*	*1.1ppt*	*0.6ppt*	Better operating leverage
Depn and amort	(1.2)	(1.5)	(1.6)	*12.2*	*34.8*	
EBIT	12.3	28.9	24.3	*(15.8)*	*98.0*	
EBIT margin (%)	7.1	6.9	7.9	*1ppt*	*0.8ppt*	
Int expense	(0.6)	(1.7)	(3.3)	*88.4*	*454.2*	
EI	(0.6)	(0.9)	0.0	*n.m*	*n.m*	
Pretax profit	**11.1**	**26.2**	**21.0**	*(19.7)*	*89.1*	
Core pre tax	**11.7**	**27.1**	**21.0**	*(22.5)*	*79.8*	
Tax	(2.6)	(6.8)	(4.4)	*n.m*	*69.3*	
Tax rate (%)	23.4	26.0	20.9	*-5.1ppt*	*-2.4ppt*	
MI	(0.2)	(1.5)	(0.4)	*n.m*	*n.m*	
Net profit	**8.3**	**17.8**	**16.2**	*(9.2)*	*95.0*	
EPS (sen)	3.3	7.1	6.4	*(9.2)*	*95.0*	
Core net profit	**8.9**	**18.8**	**16.2**	*(13.7)*	*82.4*	In line with our expectation

Source: Affin Hwang, Company

Outthink. Outperform.

AFFIN HWANG INVESTMENT BANK

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

This report is printed and published by:
Affin Hwang Investment Bank Berhad (14389-U)
A Participating Organisation of Bursa Malaysia Securities Berhad

22nd Floor, Menara Boustead,
69, Jalan Raja Chulan,
50200 Kuala Lumpur, Malaysia.

T : + 603 2142 3700
F : + 603 2146 7630
research@affinhwang.com

www.affinhwang.com