29 May 2025

Outthink. Outperform.

AFFIN HWANG INVESTMENT BANK

Results Note | **RM3.40 @ 28 May 2025**

"Outlook remains positive with higher new contract wins in 1Q25 and record-high tender book"

Share price performance

	1M	3M	12M
Absolute (%)	2.7	-2.6	11.1
Rel KLCI (%)	2.4	0.5	17.6

	BUY	HOLD	SELL
Consensus	4	-	-

Source: Bloomberg

Stock Data

Sector	Technology
Issued shares (m)	734.8
Mkt cap (RMm)/(US$m)	2498.3/591.1
Avg daily vol - 6mth (m)	1.5
52-wk range (RM)	2.6-3.71
Est free float	71.9%
Stock Beta	0.80
Net cash/(debt)	231.96
ROE (2025E)	28.7%
Derivatives	Yes
Shariah Compliant	Yes
FTSE4Good Constituent	Yes
FBM Emas (Top 200)	Top 25%
ESG Rank	
ESG Risk Rating	N/A

Key Shareholders

Palace Star	18.4%
Aberdeen Group PLC	14.8%
Employees Provident	6.7%

Source: Bloomberg, Affin Hwang, Bursa Malaysia

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Kelington Group (KGRB MK)

BUY (maintain)
Up/Downside: +36%

Price Target: RM4.63
Previous Target (Rating): RM4.03 (BUY)

1Q25: within expectations; secured higher new contract wins

- **1Q25 core net profit grew 8% yoy to RM27m, in line with expectations**
- **Sequential declines in 1Q25 revenue and core net profit were mainly due to timing differences in revenue recognition**
- **Reiterate BUY with a higher 12-month TP of RM4.63 after rolling forward our valuation horizon**

1Q25 core earnings grew 8%; results in line with expectations

Kelington's 1Q25 core net profit grew 8% yoy to RM27m, despite lower revenue (-20% yoy), supported by i) a favorable project mix given its strategic focus on the higher-margin advanced engineering segment (renamed from previous UHP segment as it now includes a broader range of advanced engineering solutions), and ii) a reversal of impairment totaling RM2m, due to the recovery of a previously impaired debt in Malaysia. The lower revenue was mainly attributed to the timing differences in revenue recognition due to the nature of the business. Geographically, China was the largest revenue contributor, accounting for 37% of group revenue in 1Q25, followed by Malaysia (30%) and Singapore (28%). Revenue from the industrial gas division declined 24% yoy, as softer demand for certain specialty gases and reduced project-related work in the segment offset the higher sales of LCO2. Overall, 1Q25 core net profit came in at 18% of our and consensus' full-year forecasts. We deem this to be within expectations as 1Q is seasonally weaker, making up 15-20% of full-year earnings over the past four years.

Secured higher new contract wins of RM390m in 1Q25

Sequentially, 1Q25 revenue and core net profit declined 11% and 24% respectively, due to lower contributions from Malaysia (-25% qoq) and Singapore (-16% qoq), on the back of the aforementioned differences in the timing of revenue recognition, which offset the higher revenue from China (+7% qoq). Notably, the group secured higher new contract wins of RM390m in 1Q25 (1Q24: RM235m; 4Q24: RM101m), while its outstanding order book stands at RM1.43bn (1Q24: RM1.25bn; 4Q24: RM1.27bn).

Reiterate BUY with a higher 12-month TP of RM4.63

Post-results, we make minimal changes to our FY25-27E EPS forecasts for housekeeping reasons. We reiterate our BUY call with a higher TP of RM4.63 as we roll forward our valuation horizon to FY26E with an unchanged target PER of 23x. We continue to like Kelington as we believe the group is well-positioned to benefit from wafer fab new builds and onshoring activities globally. Our valuation has factored in full warrant conversion. Key risks: i) project execution, ii) recession impacting semiconductor capex, and iii) weak demand for industrial gas.

Earnings & Valuation Summary

FYE 31 Dec	2023	2024	2025E	2026E	2027E
Revenue (RM m)	1,614.4	1,272.2	1,520.6	1,738.1	1,908.5
EBITDA (RM m)	154.6	180.3	215.0	244.3	266.2
Pretax profit (RM m)	133.9	158.8	193.9	225.3	248.0
Net profit (RM m)	104.1	124.3	151.1	175.6	193.2
EPS (sen)	11.9	14.3	17.3	20.1	22.2
PER (x)	28.5	23.8	19.6	16.9	15.3
Core net profit (RM m)	105.3	127.7	151.1	175.6	193.2
Core EPS (sen)	12.1	14.6	17.3	20.1	22.2
Core EPS chg (%)	84.7	21.2	18.4	16.2	10.1
Core PER (x)	28.1	23.2	19.6	16.9	15.3
DPS (sen)	3.0	6.4	5.2	6.0	6.6
Dividend Yield (%)	0.9	1.9	1.5	1.8	2.0
EV/EBITDA (x)	18.6	15.1	12.5	10.7	9.4
Chg in EPS (%)			-0.5	-0.8	0.7
Affin/Consensus (x)			1.03	1.05	1.07

Source: Company, Affin Hwang estimates

Fig 1: Results Comparison

FYE 31 Dec (RMm)	1QFY24	4QFY24	1QFY25	QoQ % chg	YoY % chg	Comments
Revenue	339.3	304.3	270.3	*-11.2*	*-20.3*	The lower 1Q25 revenue was mainly due to the timing differences in revenue recognition.
Op costs	(301.2)	(257.4)	(231.6)	*-10.0*	*-23.1*	
EBITDA	**38.1**	**47.0**	**38.7**	***-17.5***	***1.7***	
EBITDA margin (%)	*11.2*	*15.4*	*14.3*	*-1.1ppt*	*3.1ppt*	Yoy, margin improvement mainly driven by favorable project mix and contributions from the industrial gas division.
Depn and amort	(3.6)	(2.4)	(3.9)	*62.3*	*10.7*	
EBIT	**34.5**	**44.5**	**34.8**	***-21.9***	***0.8***	
EBIT margin (%)	10.2	14.6	12.9	*-1.8ppt*	*2.7ppt*	
Int expense	(2.4)	(2.3)	(2.2)	*-6.5*	*-10.1*	
Int and other inc	0.8	2.7	2.0	*-26.0*	*143.1*	
EI	(0.2)	3.1	(0.4)	*-113.2*	*86.7*	Largely forex gain/(loss)
Pretax profit	**32.7**	**48.0**	**34.2**	***-28.7***	***4.5***	
Core pretax	**32.9**	**44.9**	**34.6**	***-22.9***	***5.1***	
Tax	(7.1)	(8.9)	(7.6)	*-14.7*	*6.9*	
Tax rate (%)	21.6	18.5	22.1	*3.6ppt*	*0.5ppt*	
MI	(0.8)	(0.4)	0.0	*-100.9*	*-100.5*	
Net profit/(loss)	**24.8**	**38.7**	**26.6**	***-31.1***	***7.3***	
EPS (sen)	2.9	4.5	3.1	*-31.1*	*7.3*	
Core net profit	**25.0**	**35.6**	**27.1**	***-24.0***	***8.0***	Within expectations at 18% of our and consensus' full-year forecast.

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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