KELINGTON GROUP

(KGRB MK EQUITY, KELG.KL)

BUY

(MAINTAINED)

Price: RM8.54

Target Price (% return): RM12.30 (+45%)

52-week High/Low: RM8.90/RM4.47

Technology

Rationale for report: Company Result

Recalibrating assumptions

We believe consensus is underestimating Kelington's earnings potential. We retain BUY with a higher street-high TP of RM12.30/share, underpinned by FY27F–28F earnings forecasts that are 38–58% above consensus. The key difference lies in our conviction that a greater proportion of its record RM9bil tender book will be converted, supported by a growing base of repeat customers and sustained AI-driven semiconductor investments. As memory and storage manufacturers expand capacity, the group is entering a period of structurally higher earnings visibility.

- **BUY at street high TP of RM12.30/share (from RM8.50).** This is based on an unchanged target PE of 27x and blended CY27/28 EPS, to capture a 12-month view. Our FY27F and FY28F earnings stands at a 38% and 58% premium to consensus.
- **Higher win rate assumption driven by repeat customers.** We raise our contract win rate assumption from 45% to 55%, increasing our FY27F and FY28F earnings forecasts by 23% and 31%. We believe our previous assumptions were overly conservative given the significant improvement in earnings visibility. Tender book expanded sharply from RM5bil to RM9bil during the last quarter, with management indicating that a substantial portion comprises opportunities from existing customers.
- **AI-driven storage investments drives tender book.** While GPUs and high-performance memory remain the primary AI enablers, the exponential growth in AI-generated data is also driving demand for storage infrastructure across the entire data lifecycle. High-performance NAND flash is increasingly deployed for AI training datasets and inference workloads, while high-capacity HDDs provide cost-efficient storage for exabyte-scale data lakes and long-term retention. This is prompting memory and storage manufacturers to expand production capacity and invest in next-generation manufacturing technologies, creating a favourable semiconductor capex backdrop.
- **Existing order book underpin FY27F earnings.** We forecast FY27F earnings growth of 21% YoY. The group's existing RM1.9bil order book, fully supports our FY27F revenue forecast of RM1.7bil. With 83% of the outstanding order book comprising higher-margin UHP projects, this supports an above-average 12% Patami margin. Meanwhile, its geographic diversification continues to gain traction, with India and Germany accounting for 28% and 8% of the current order book, respectively, reducing reliance on its traditional core markets.

YE to December	FY25	FY26F	FY27F	FY28F
Revenue (RM mil)	1,273.6	1,684.5	3,002.4	3,759.1
Core net profit (RM mil)	159.0	193.0	332.0	409.9
FD Core EPS (sen)	18.5	22.5	38.7	47.8
FD Core EPS growth (%)	24.4	21.4	72.0	23.5
Consensus Net Profit (RM mil)	-	195.2	239.8	259.0
DPS (sen)	6.1	10.2	15.3	21.6
PE (x)	46.9	38.7	22.5	18.2
EV/EBITDA (x)	32.0	26.4	15.7	12.6
Div yield (%)	1.2	1.9	2.9	4.1
ROE (%)	27.8	25.1	32.5	33.2
Net Gearing (%)	0.0	nm	nm	nm

Source: Kelington Group, AmInvestment Bank Bhd.

Analyst (s)

Paul Yap Ee Xing, CFA
paul.ee-xing@ambankgroup.com
+603 2036 2281

Key Changes

Target Price:	
EPS:	

Stock and Financial Data

Shares Outstanding (million)	784.7
Market Cap (RMmil)	6,827.1
Book Value (RM/Share)	0.72
P/BV (x)	12.2
ROE (%)	27.8
Net Gearing (%)	-
Free Float	73.4
Avg Daily Value (RMmil)	29.6

Major Shareholders

PALACE STAR	(21.4%)
SUN Lead International	(5.3%)
EPF	(4.9%)

Price performance	3mth	6mth	12mth
Absolute(%)	25.0	81.8	95.4
Relative(%)	25.9	83.3	78.3

Source: Kelington Group, AmInvestment Bank Bhd.

Price Chart

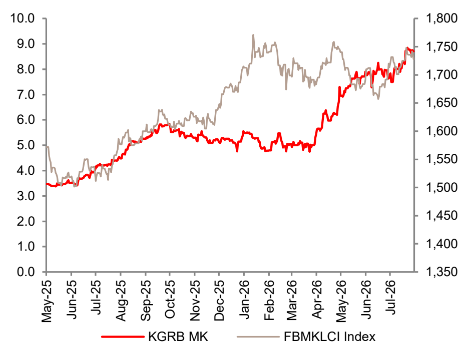
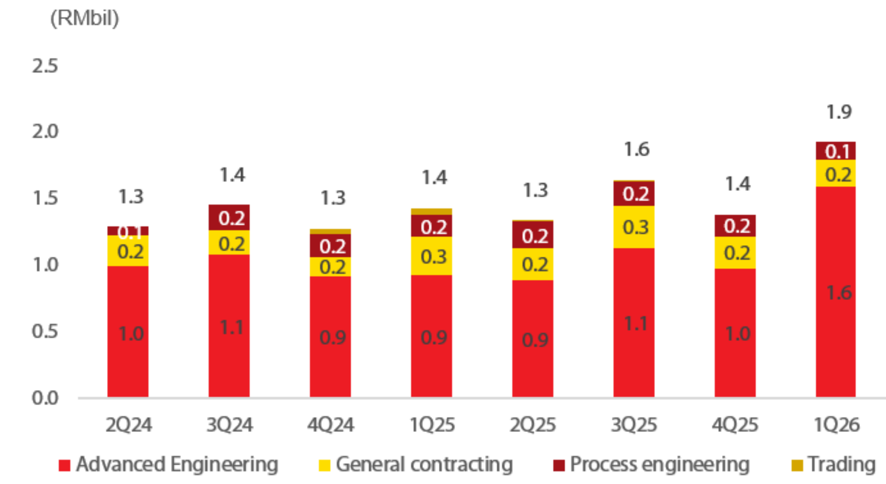
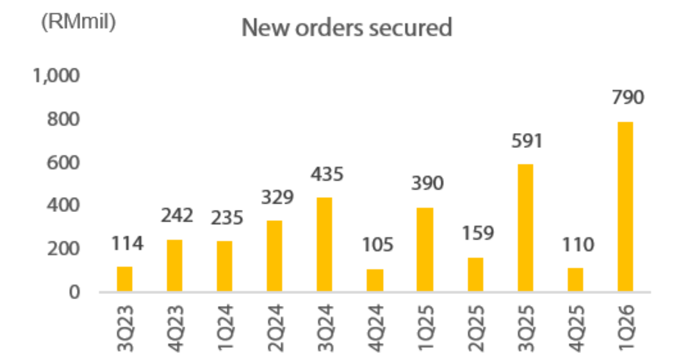


EXHIBIT 1. Orderbook breakdown



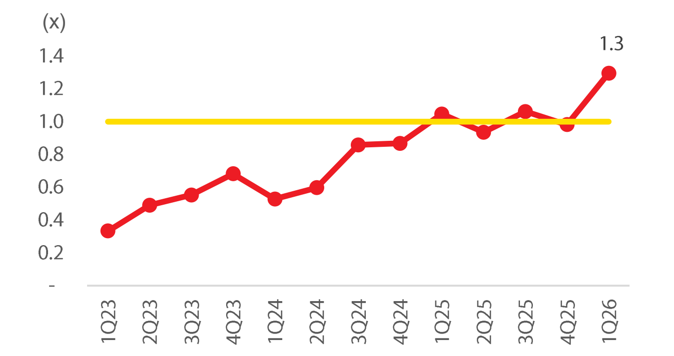
Source: Kelington, AmInvestment Bank Bhd.

EXHIBIT 2. New orders secured



Source: Kelington, AmInvestment Bank Bhd.

EXHIBIT 3. Book-to-bill ratio

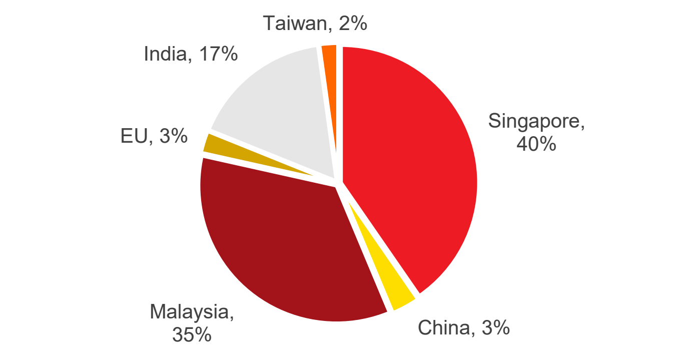


Source: Kelington, AmInvestment Bank Bhd.

EXHIBIT 4. Tender book

Source: Kelington, AmInvestment Bank Bhd.

EXHIBIT 5. Tenderbook breakdown



Source: Kelington, AmInvestment Bank Bhd.

EXHIBIT 6. Change in earnings

		FY26F			FY27F			FY28F	
RMmil	**Old**	**New**	**Change**	**Old**	**New**	**Change**	**Old**	**New**	**Change**
Revenue	1,684	1,684	-	2,383	3,002	+26%	2,780	3,759	+35%
Earnings	193	193	-	270	332	+23%	312	410	+31%
Tenderbook	6,969	9,292	+33%	5,575	6,504	+17%	5,854	6,830	+17%
Conversion rate	45%	55%	+10pp	45%	45%	-	45%	45%	-

Source: AmInvestment Bank Bhd.

EXHIBIT 7. Valuations

Target PE (x)	27.0x
Avg CY27/28 EPS	45.5sen (from 31.4sen)
Target price	RM12.30 (from RM8.50)

Source: AmInvestment Bank Bhd.

Background

Kelington specialises in ultra-high purity (UHP) gas systems, which serves as "plumbing" for high tech industries like semiconductors, electronics and solar. These systems operate in mission critical environments, where even microscopic contaminations can ruin a batch of wafers.

The group was founded in 1999, by a team of engineers led by Ir. Gan Hung Keng, many whom had previously worked at Malaysia Oxygen Berhad (MOX), the country's largest industrial gas supplier. This experience provided a solid technical foundation, particularly in the UHP gas handling segment, which is a niche but high barrier segment. The group initially served Malaysian fabs, before expanding into Singapore, China and Taiwan.

Investment thesis and catalysts

Benefiting from Semiconductor Sovereignty Push. Tender book more than doubled to RM9bil amid global chip independence efforts. Expansion into Europe, Hong Kong, and India positions the group to win major contracts, leveraging its track record and partnerships.

Strong Product Mix Driving Margins. Sustainable Patami margins are supported by high-margin UHP and industrial gas segments. UHP makes up bulk of the order book, while industrial gas revenue grew from 2% to 11% over five years.

Robust Cash Reserves Enable Strategic Moves. Operating in a net cash position, the group has flexibility. Dividend payout doubled to 50%, with potential for more or investment in CCUS, where it has CO_2 expertise.

Valuation methodology

We value Kelington based on a target PE of 27x and 12-month forward EPS. Our target PE is pegged to 1sd above its 5-year average, underpinned by a fund flow driven rerating. The group's strong earnings visibility stands out amid a scarcity of high quality investment options within the sector.

Risk factors

Delays and execution risks. Delay in project award or delivery can impact revenue timing, resulting to downside in our earnings forecasts. Its expansion into new geographies also presents execution risks, if it is not able to deliver its projects on time, within budget or to specification.

Lumpy project awards. A large part of revenues is non-recurring in nature. If it is unable to secure replacement contracts in a timely manner, it may face periods of low revenue and profitability. This can occur, if existing customers do not expand their facilities and/or if the group fails to secure new customers.

Financial Summary

Income Statement (RMmil)

YE to December	FY24	FY25	FY26F	FY27F	FY28F
Revenue	1,272.2	1,273.6	1,684.5	3,002.4	3,759.1
EBITDA	180.3	213.4	249.3	420.1	518.5
Depreciation/Amortisation	(14.7)	(16.1)	(12.2)	(13.9)	(16.6)
Operating income (EBIT)	165.6	197.2	237.0	406.1	501.9
Other income & associates	(3.6)	(7.9)	-	-	-
Net interest	(3.4)	0.7	4.2	8.9	10.5
Exceptional items	(3.6)	(7.9)	-	-	-
Pretax profit	**158.6**	**190.0**	**241.3**	**415.0**	**512.4**
Taxation	(32.0)	(38.8)	(48.3)	(83.0)	(102.5)
Minorities/pref dividends	(2.4)	(0.1)	-	-	-
Net profit	**124.2**	**151.1**	**193.0**	**332.0**	**409.9**
Core net profit	127.8	159.0	193.0	332.0	409.9

Balance Sheet (RMmil)

YE to December	FY24	FY25	FY26F	FY27F	FY28F
Fixed assets	214.1	235.6	257.1	303.2	361.7
Intangible assets	6.8	6.6	6.6	6.6	6.6
Other long-term assets	2.3	1.7	1.7	1.7	1.7
Total non-current assets	**223.2**	**243.8**	**265.3**	**311.4**	**370.0**
Cash & equivalent	203.0	203.5	335.7	271.7	316.0
Stock	19.8	14.8	19.6	34.9	43.7
Trade debtors	341.4	468.2	619.2	1,103.7	1,381.9
Other current assets	362.8	470.2	470.2	470.2	470.2
Total current assets	**927.0**	**1,156.7**	**1,444.7**	**1,880.5**	**2,211.8**
Trade creditors	245.8	320.9	424.4	756.5	947.1
Short-term borrowings	104.9	130.1	64.7	32.2	16.0
Other current liabilities	234.9	245.5	245.5	245.5	245.5
Total current liabilities	**585.6**	**696.5**	**734.6**	**1,034.2**	**1,208.7**
Long-term borrowings	76.3	73.6	36.4	18.0	9.0
Other long-term liabilities	15.0	16.8	16.8	16.8	16.8
Total long-term liabilities	**91.3**	**90.4**	**53.2**	**34.8**	**25.7**
Shareholders' funds	**473.3**	**613.4**	**922.1**	**1,122.8**	**1,347.2**
Minority interests	0.1	0.1	0.1	0.1	0.1
BV/share (RM)	0.61	0.72	1.08	1.31	1.57

Cash Flow (RMmil)

YE to December	FY24	FY25	FY26F	FY27F	FY28F
Pretax profit	158.6	190.0	241.3	415.0	512.4
Depreciation/Amortisation	14.7	16.1	12.2	13.9	16.6
Net change in working capital	19.9	(127.9)	31.2	86.5	256.4
Others	(24.5)	(21.6)	(136.0)	(346.2)	(465.7)
Cash flow from operations	**168.7**	**56.6**	**148.7**	**169.3**	**319.7**
Capital expenditure	(48.5)	(31.5)	(33.7)	(60.0)	(75.2)
Net investments & sale of fixed assets	-	0.6	-	-	-
Others	(24.0)	(53.2)	-	-	-
Cash flow from investing	**(72.5)**	**(84.1)**	**(33.7)**	**(60.0)**	**(75.2)**
Debt raised/(repaid)	(1.3)	17.9	(102.7)	(50.9)	(25.2)
Equity raised/(repaid)	83.8	80.9	203.0	-	-
Dividends paid	(58.2)	(52.5)	(87.4)	(131.3)	(185.5)
Others	(15.5)	5.2	4.2	8.9	10.5
Cash flow from financing	**8.8**	**51.4**	**17.2**	**(173.2)**	**(200.2)**
Net cash flow	**105.0**	**23.9**	**132.2**	**(64.0)**	**44.3**
Net cash/(debt) b/f	**237.3**	**357.4**	-	-	-
Net cash/(debt) c/f	**357.6**	**379.1**	**132.2**	**(64.0)**	**44.3**

Key Ratios

YE to December	FY24	FY25	FY26F	FY27F	FY28F
Revenue growth (%)	(21.2)	0.1	32.3	78.2	25.2
EBITDA growth (%)	17.4	18.3	16.8	68.5	23.4
Pretax margin (%)	12.5	14.9	14.3	13.8	13.6
Net profit margin (%)	9.8	11.9	11.5	11.1	10.9
Interest cover (x)	49.1	nm	nm	nm	nm
Effective tax rate (%)	20.2	20.4	20.0	20.0	20.0
Dividend payout (%)	46.8	34.8	45.3	39.5	45.2
Debtors turnover (days)	111	116	118	105	121
Stock turnover (days)	6	5	4	3	4
Creditors turnover (days)	75	81	81	72	83

Source: Company, AmInvestment Bank Bhd.

DISCLOSURE AND DISCLAIMER