

Initial Public Offering

13 November 2009

Kelington Group Berhad

SUBSCRIBE

First to be listed on ACE.

Target Price: RM0.64

IPO Price	0.53
FBM KLCI (12 Nov 09)	1271.75

Company Background

Corporate Profile

Kelington Group Bhd. (KGB) was incorporated in 1999 with authorized capital RM5m and paid-up capital RM2m. The company is a leading provider of total engineering solution for the design, installation and quality assurance of the ultra high purity (UHP) delivery system in the region. As of to date, KGB has completed well over \$30 millions worth of projects.

The company has maintained a zero accident record to-date with more than 1,750,000 man-hours. Our Company HQ is located at Bukit Jelutong Industrial Park, Shah Alam, Malaysia. It has an Operating Subsidiary in Shanghai, China and Branch Office in HsinChu, Taiwan.

KGB has built strong relationships with 3 out of 4 of the world's largest gas companies namely the Linde Group, Air Liquide and Air Products to implement UHP gas and chemical delivery in the region.

Products

KGB focus in serving the following industries:-

- Wafer Fabrications Industry
- Biotechnology/Pharmaceutical Industry
- Medical and Healthcare Industry
- Chemical Industry
- Disk Media Industry
- LCD, Flat Panel and Plasma Display Plants
- Petrochemical Industry
- Ultra Pure Water Treatment Industry
- R & D Laboratory
- Semiconductor Industry

KGB undertakes end-to-end services from design, fabrication and installation, to QA, QC, maintenance and servicing. In simpler terms, KGB plays an essential role that offers value added services that ensure the supply of gas and chemicals from major gas and chemicals producers to manufacturing industries (wafer fab, solar, storage and flat panel display or FPD).

Stock Data

Market/Sector	ACE Market
Enlarged Share Capital (m)	74.71
Par value	0.10
Market cap (RM'm)	39.6
Enterprise Value (RM'm)	15.02

Major Shareholders

1) Palace Star	53.19%
2) Allied Moral Investment	7.88%
3) Sky Walker Group Ltd	12.88%

Financial Result

RM' m	FY08	FY09E	FY10F	FY11F
Revenue	60.1	75.0	79.0	102.0
Gross Profit	12.3	18.8	19.8	25.5
Operating profit	7.1	12.8	13.4	17.3
Pre-tax Profit	7.1	12.8	13.0	17.0
Net Profit	6.6	11.3	11.9	15.3
EPS (sen)	8.7	10.9	11.4	14.8
PER (x)	6.1	4.9	4.6	3.6
DPS (sen)	-	-	-	-
Dividend yield	-	-	-	-

Important Balance Sheet Items (30 April 2009)

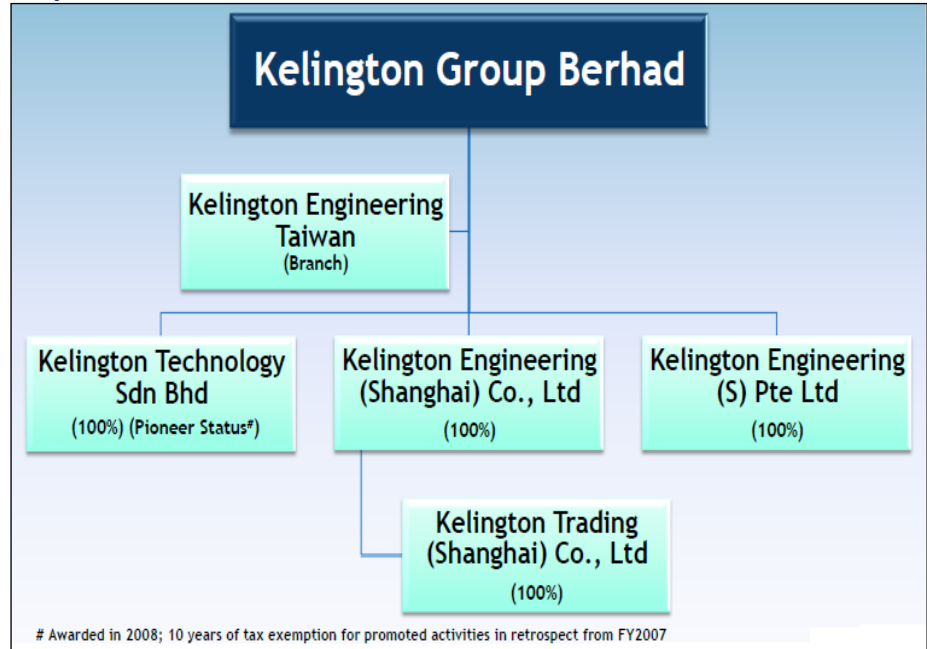
Long-term Borrowings (RM' 000)	826
Short-term Borrowings(RM' 000)	62
Total Receivables (RM' 000)	9,289
Total Payables (RM' 000)	8,985
Cash & Near Cash Items (RM' 000)	967
Net Gearing (%)	Net Cash

Source: Company Prospectus, JF Apex Securities



*Established in 2000.
A total UHP solutions
provider.*

Corporate Structure



Source: Corporate presentation slide

Customer / Sales Network

Reputable list of global clientele, a testament to Kelington's capabilities.

Wafer Fabrication	Solar Energy	Others
		<ul style="list-style-type: none"> Flat Panel Display <ul style="list-style-type: none"> CPT, HannStar, IVO, 高強光電, toppoly Storage Media <ul style="list-style-type: none"> Seagate

Source: Corporate presentation slide

Strong regional presence especially in China and Taiwan.

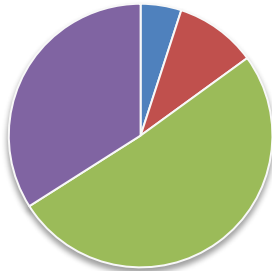


Dividend Policy

Currently there are no plans for a dividend policy.

Listing Rational

Kelington Group Berhad intends to utilise the proceeds of RM5.146 million from IPO in the following manner:



- R&D
- Capex
- Working capital
- Listing expenses

Table 1: Utilization of Proceeds

Purpose	Time Frame (months)	Amount (RM)	
		'000	%
R&D Expenses	12	250	5
Capital Expenditure	12	500	10
Working capital	On-going	2,640	51
Listing expenses	Immediate	1,750	34

Source: Company prospectus

IPO Offering Summary (Tentative)

Date	Events
30-Oct-09	Opening for IPO application
13-Nov-09	Closing for IPO application
17-Nov-09	Announcement of subscription results
25-Nov-09	Listing on ACE Market of Bursa

Financials

Earnings Outlook

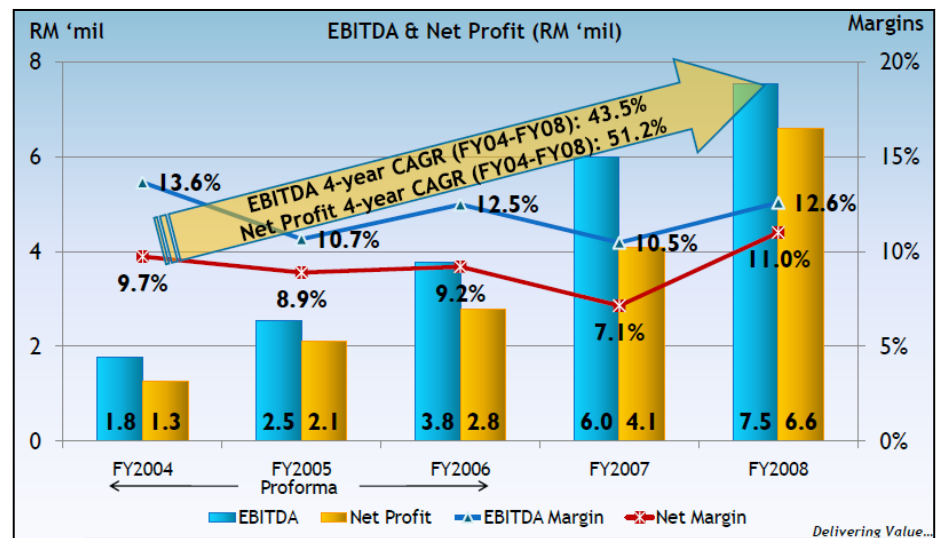
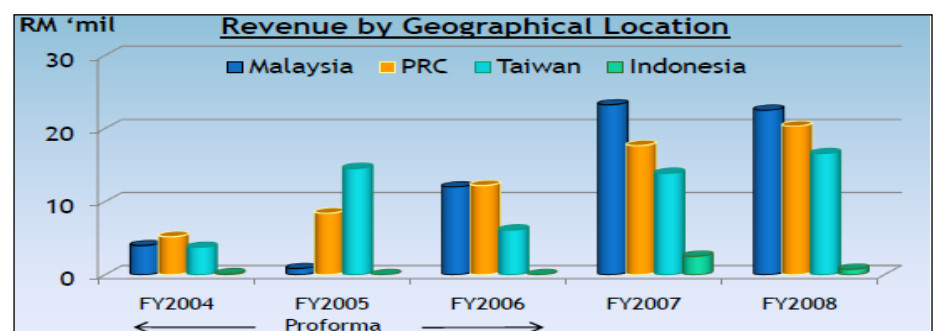


Figure 1: Revenue, Gross Profit Margin and Net Profit Margin

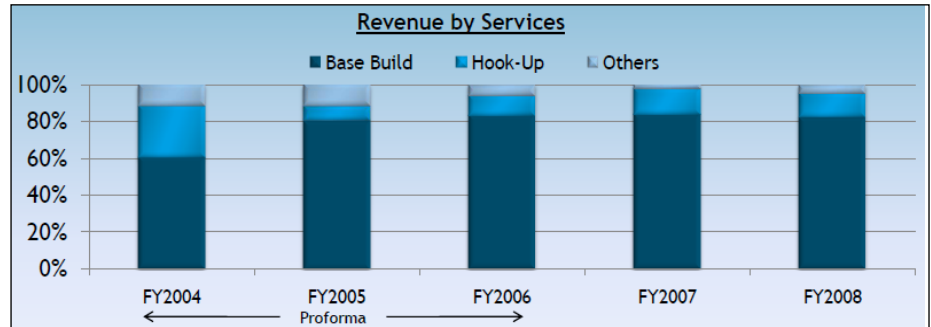
Frost & Sullivan estimates UHP market in China is 13% CAGR for and Taiwan is 10% CAGR for the 2008-2013 period.



Kelington has diversified its revenue base by venturing into storage media and solar cells.

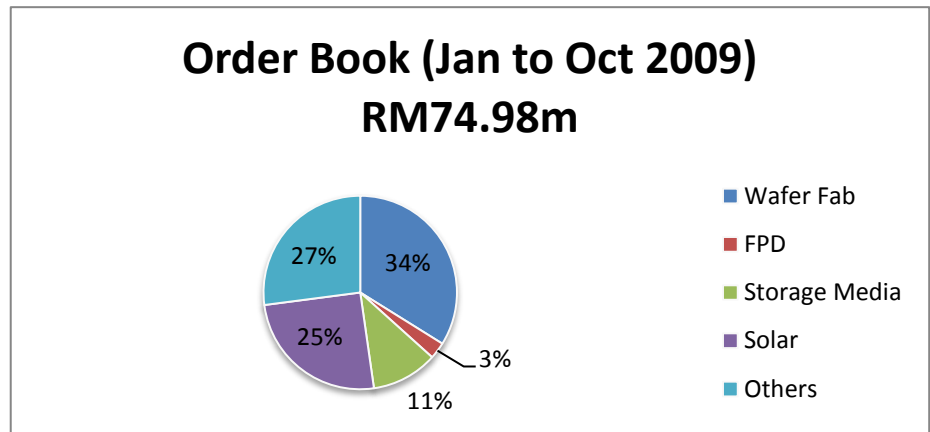


Base build remains the company highest revenue contributor.



Prospects

In spite of the global economy slowdown, Kelington has managed to increase its order book.



Currently, there are plans to further diversify into emerging growth industries primarily in the solar energy, LED and bioscience. These fields are expected to be key drivers in the future for the UHP gas & chemicals industry.

Company will remain focused on expanding in China and Taiwan as they will provide the highest growth.

The company UHP services are only gas & chemicals. However, the management has indicated that they plan to expand their services in the UHP sector by broadening the scope in providing services to include other utilities such as water and vacuum.

Risk

Project risks

Project Risk are subject to project cost being under-estimated, clients that delay or cancel outright due to unforeseen circumstances and failure to implement projects that meets the clients satisfaction. The company has not encountered any significant project risk in the past and given its track record the company will continue to ensure smooth implementation of projects and avoid cost overruns.

Revocation of license

The company has been granted the right to provide UHP delivery systems in China with business license 20-year tenure until April 2022. This license is

renewed on a yearly basis through annual inspection by the government. A revocation of the license will affect the financial position of the company adversely. Nevertheless, the company has been passing the annual inspection since 2002. The Directors do not foresee any issues will arise as the company have been diligently adhering to laws and parameters of the license.

Lack of long term contracts

Substantial part of the company revenue is contributed by Base build and Hook up projects. There is a failure risk to secure future projects. Fortunately, this is mitigated by strong business relationships and ability to continue secure repeat orders from major gas companies and foundries. Also as indicated in prospects, the company plans to diversify into new service industries.

Dependency on Major customers

According to the management Kelington relied on BOCLH group of companies which has indirect shareholding interests in the company via Sky Walker to gain a foothold in China and Taiwan. However, the company have taken steps to reduce reliance and as of 31 Dec 08 only 34.4% of the company total revenue were received from BOLCH Group.

Valuation and Recommendation

Kelington's management has indicated that the purpose of the listing is to raise the company profile in the global arena as a leading UHP provider. This will further enable the company to bid on projects that before this were restricted to the company.

Using FY10F earnings with PE multiple of 7 and applying a 20% discount, we arrive at a fair value of RM0.64 which equates to a potential upside of 20%, we recommend investors to SUBSCRIBE for Kelington. Our discount of 20% is justified given the global economy recovery remains slow and consumer demand for goods remains uncertain. Also, this being the first IPO on the ACE market, there might be some concerns by investors. However, these factors maybe mitigated by Kelington's strong order book, net cash and impressive track record in addition to close industrial links.

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STOCK RECOMMENDATIONS

- BUY** : The stock's total returns* are expected to exceed 10% within the next 12 months.
- HOLD** : The stock's total returns* are expected to be within +10% to – 10% within the next 12 months.
- SELL** : The stock's total returns* are expected to be below -10% within the next 12 months.
- TRADING BUY** : The stock's total returns* are expected to exceed 10% within the next 3 months.
- TRADING SELL** : The stock's total returns* are expected to be below -10% within the next 3 months.

SECTOR RECOMMENDATIONS

- OVERWEIGHT** : The industry as defined by the analyst is expected to exceed 10% within the next 12 months.
- MARKETWEIGHT** : The industry as defined by the analyst is expected to be within +10% to – 10% within the next 12 months.
- UNDERWEIGHT** : The industry as defined by the analyst, is expected to be below -10% within the next 12 months.

*capital gain + dividend yield

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JF Apex Securities Berhad (47680-X)
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