

09 May 2012

Kelington Group

1-For-1 Bonus Issue

News

- Proposed a 1-for-1 bonus issue of up to 79.11m shares of RM0.10 each. The bonus issue worth RM7.911m would be distributed solely from the company's share premium and retained profits of RM39.1m.
- Employees' share option scheme (ESOS) of up to 10% of the issued and paid-up share capital for eligible employees. As at 2 May 2012, there were 7.1m outstanding options granted under ESOS.
- The entitlement date will be determined later upon the approval from the relevant authorities and shareholders.

Comments

- We are positive on the exercise as we expect the bonus issue to enhance Kelington's liquidity and reward shareholders with a higher trading volume of the stock.
- Assuming full exercise of the ESOS and proposed Bonus Issue, the company's share base will increase by 117.9% to 172.4m shares (from current level of 79.1m).
- The exercise will result in FY12E-13E EPS being adjusted down by 54% each to 6.2 sen-7.3 sen, implying FY12E-13E PER of 6.1x-7.1x.
- FY12E-13E NDPS will be lower by 54% to 1.6-1.8 sen from 3.4-4.0 sen each previously, implied post-exercise yields of 3.6%-4.2% for FY12-FY13, which are still attractive.

Outlook

- We are still positive on Kelington as we expect the tech sector to be better in 2H CY12 due to a higher market demand.
- In the market, demand has been strong for engineering solution provider, which is mainly coming out of Asia.
- Coupled with a better outlook for the tech sector, we expect the group's earnings to grow 25% and 17% in FY12 and FY13 respectively as it benefits from the recovery trend.

Forecast

- Maintaining FY12E-13E earnings of RM10.7m-RM12.5m as the bonus issue will not change the company's fundamentals.
- Post bonus issue, current FY12E-13E EPS of 13.5 sen-15.9 sen will be adjusted down by 54% each to 6.2 sen-7.3 sen. However, FY12E-13E PER remains the same at 6.1x-7.1x.

Rating

MAINTAIN OUTPERFORM

Valuation

Maintain our TP of RM1.10 (ex-bonus issue: RM0.50) based on Fwd PER of 8.0x on our FY12E EPS of 13.5 sen.

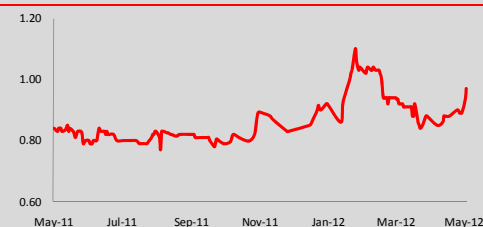
Risks

- Failure to secure more projects.
- Industry downturn.

OUTPERFORM ↔

Price (Ex-Price): RM0.97 (RM0.44)
Target Price (Ex-TP): RM1.10 (RM0.50) ↔

Share Price Performance



KLCI	1,590.60
YTD KLCI chg	3.9%
YTD stock price chg	7.8%

Stock Information

Bloomberg Ticker	KGRB MK Equity
Market Cap (RM m)	76.7
Issued shares	79.1
52-week range (H)	1.10
52-week range (L)	0.77
3-mth avg daily vol:	53,956
Free Float	28%
Beta	0.3

Major Shareholders

PALACE STAR	47.5%
LEMBAGA TABUNG	12.6%
SKY WALKER	12.2%

Summary Earnings Table

FYE Dec (RM m)	2011A	2012E	2013E
Turnover	139.7	165.1	196.0
EBIT	9.9	11.6	13.6
PBT	9.8	11.5	13.4
Net Profit (NP)	8.7	10.7	12.5
Consensus (NP)		10.7	12.7
Earnings Revision		-	-
EPS (sen)	11.0	13.5	15.8
EPS growth (%)	2.5%	22.9%	16.8%
NDPS (sen)	2.8	3.4	4.0
PER	8.4	6.8	5.8
ROE (%)	18.3%	18.9%	18.4%
Dividend Yield (%)	2.8%	3.5%	4.1%

Thien Ting Ting
ting.ting.thien@kenanga.com.my
 +603 2713 2292

Summary of earnings adjustments						
	FY12E		FY13E			
	Pre-exercise	Post-exercise	Pre-exercise	Post-exercise		
Issued shares (RM 'm)	79.1	172.4	79.1	172.4		
Share price (RM)	0.97	0.44	0.97	0.44		
Net profits (RM 'm)	10.7	10.7	12.5	12.5		
EPS (sen)	13.5	6.2	15.8	7.3		
PER (x)	7.2	7.1	6.1	6.1		
TP (RM)	1.10	0.50	1.26	0.58		
Total Div (RM 'm)	2.7	2.7	3.2	3.2		
DPS (sen)	3.4	1.6	4.00	1.8		
Dividend yield (%)	3.5	3.6	4.1	4.2		

Source: Kenanga Research

Issued and paid-up share capital

	Minimum Scenario		Maximum Scenario	
	No. of Shares ('000)	Nominal value (RM'000)	No. of Shares ('000)	Nominal value (RM'000)
Issued and paid-up share capital as at the LPD	79,110	7,911	79,110	7,911
Assuming full exercise of the ESOS Options	-	-	7,080	708
To be issued pursuant to the Proposed Bonus Issue	79,110	7,911	86,190	8,619
Enlarged issued and paid-up share capital	158,220	15,822	172,380	17,238

LPD = As at 2 May 2012

Source: Kenanga Research

Earnings Estimates

FYE 31 Dec (RMm)	2009A	2010A	2011A	2012E	2013E
Turnover	63.9	84.5	139.7	165.1	196.0
EBIT	8.8	8.7	9.9	11.6	13.6
Pretax profit	8.7	8.6	9.8	11.5	13.4
Net Profit	8.1	8.5	8.7	10.7	12.5
EBIT margin	13.8%	10.3%	7.1%	7.1%	6.9%
Pretax margin	13.6%	10.2%	7.0%	7.0%	6.9%
Net profit margin	12.7%	10.1%	6.2%	6.5%	6.4%
Effective tax rate	6.9%	1.2%	10.7%	6.9%	6.9%
Growth ratios					
Turnover	6.3%	32.2%	65.3%	18.2%	18.7%
EBIT	23.9%	-1.1%	13.8%	17.6%	16.6%
Pretax profit	22.5%	-1.1%	13.5%	17.9%	16.8%
Net profit	22.7%	4.9%	2.5%	22.9%	16.8%
ROE	23.5%	21.1%	18.3%	18.9%	18.4%
ROA	14.3%	12.3%	9.5%	9.9%	9.8%
Net Gearing (x)	-71.6%	-52.0%	-45.6%	-49.7%	-44.1%
Per share data					
EPS (sen)	10.2	10.7	11.0	13.5	15.8
EPS growth (%)	22.7%	4.9%	2.5%	22.9%	16.8%
PER (x)	9.0	8.6	8.4	6.8	5.8
Net DPS (sen)	3.0	3.0	2.8	3.4	4.0
Div. Yield (%)	3.1%	3.1%	2.8%	3.5%	4.1%
Historical Price Ratio	2007	2008	2009	2010	2011
PER (x) - High	N.A.	N.A.	529.2	5.8	8.3
PER (x) - Last	N.A.	N.A.	525.0	825.0	8.0
PER (x) - Low	N.A.	N.A.	0.5	525.0	5.4
PBV (x) - High	N.A.	N.A.	1.4	2.2	1.8
PBV (x) - Last	N.A.	N.A.	1.4	1.2	N.A.
PBV (x) - Low	N.A.	N.A.	1.4	1.2	1.2

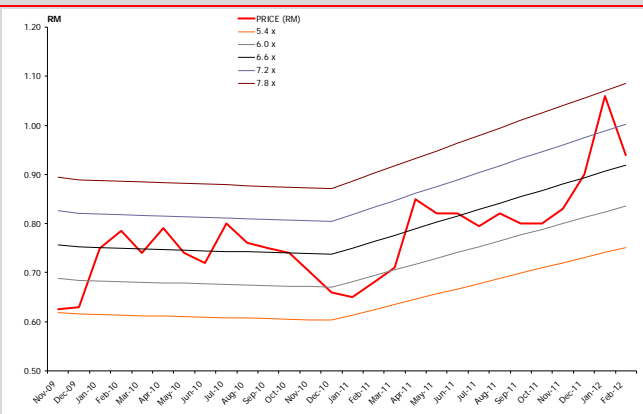
Source: Kenanga Research

Balance Sheet (Pre-exercise)

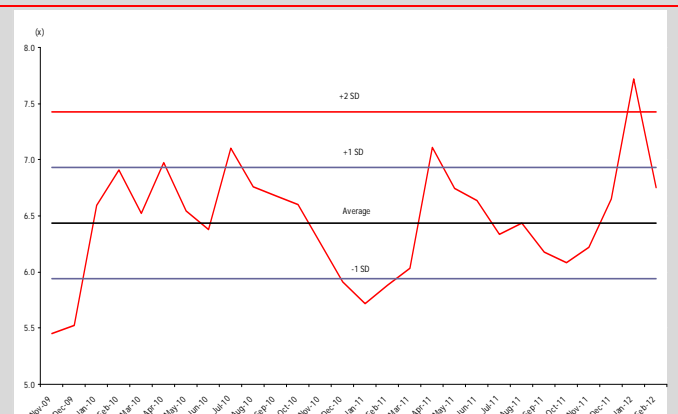
FYE: 31Dec (RMm)	2009A	2010A	2011A	2012F	2013F
Non Current Assets	6.5	7.8	8.2	10.5	18.2
Current Assets	50.1	61.5	90.5	97.8	110.2
Total Assets	56.7	69.2	98.7	108.3	128.4
Current Liabilities	20.7	27.6	46.6	48.6	57.1
Non Current Liabilities	1.5	1.4	1.7	2.8	3.1
Shareholders' Fund	34.4	40.2	50.4	56.8	68.2
Minority Interests	N.A.	N.A.	N.A.	N.A.	N.A.
Equity & Liabilities	56.7	69.3	98.7	108.3	128.4

Source: Kenanga Research

Forward PER Band



Forward PER Standard Deviation



Source: Bloomberg, Kenanga Research

Stock Ratings are defined as follows:

Stock Recommendations

- OUTPERFORM : A particular stock's Expected Total Return is MORE than 10% (an approximation to the 5-year annualised Total Return of FBMKLCI of 10.2%).
- MARKET PERFORM : A particular stock's Expected Total Return is WITHIN the range of 3% to 10%.
- UNDERPERFORM : A particular stock's Expected Total Return is LESS than 3% (an approximation to the 12-month Fixed Deposit Rate of 3.15% as a proxy to Risk-Free Rate).

Sector Recommendations***

- OVERWEIGHT : A particular stock's Expected Total Return is MORE than 10% (an approximation to the 5-year annualised Total Return of FBMKLCI of 10.2%).
- NEUTRAL : A particular stock's Expected Total Return is WITHIN the range of 3% to 10%.
- UNDERWEIGHT : A particular stock's Expected Total Return is LESS than 3% (an approximation to the 12-month Fixed Deposit Rate of 3.15% as a proxy to Risk-Free Rate).

******Sector recommendations are defined based on market capitalisation weighted average expected total return for stocks under our coverage.***

This document has been prepared for general circulation based on information obtained from sources believed to be reliable but we do not make any representations as to its accuracy or completeness. Any recommendation contained in this document does not have regard to the specific investment objectives, financial situation and the particular needs of any specific person who may read this document. This document is for the information of addressees only and is not to be taken in substitution for the exercise of judgement by addressees. Kenanga Investment Bank Berhad accepts no liability whatsoever for any direct or consequential loss arising from any use of this document or any solicitations of an offer to buy or sell any securities. Kenanga Investment Bank Berhad and its associates, their directors, and/or employees may have positions in, and may effect transactions in securities mentioned herein from time to time in the open market or otherwise, and may receive brokerage fees or act as principal or agent in dealings with respect to these companies.

Published and printed by:

KENANGA INVESTMENT BANK BERHAD (15678-H)
8th Floor, Kenanga International, Jalan Sultan Ismail, 50250 Kuala Lumpur, Malaysia
Telephone: (603) 2166 6822 Facsimile: (603) 2166 6823 Website: www.kenangaresearch.com



Chan Ken Yew
Associate Director