



Kelington Group Bhd

3Q12 Affected by the Timing of New Contracts

TP: RM0.66 (+16.8%)

Last traded: RM 0.565

BUY

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Review

- Kelington's 9M12 net profit came in below expectations at 50% of our full-year estimates. The variance was largely due to time lag in securing and executing new projects, leading to lower-than-expected revenue.
- The cumulative 9M12 earnings dropped 29.3% YoY to RM4.0mn underpinned by 18.2% decline revenue. According to management, the decline in revenue was due to the completion of a base build project in Taiwan and the delay in securing replacement projects to sustain revenue growth.
- QoQ, 3Q12 PBT surged 6.8% QoQ to RM1.9mn due to higher progress claims on Malaysian jobs. However, the growth was offset by higher effective tax rate, resulting in a 8.9% decline in core net profit.

Impact

- We cut our FY12 earnings by 20.3% but raise our FY13-14 earnings marginally higher by 0.4% after pushing the completion of some projects to next year.

Outlook

- We are not overly concerned about the delay in profit recognition as we were given to understand that the group has secured new jobs worth RM137mn YTD, which is close to the entire RM139mn new jobs secured last year. According to management, 63% of the RM137mn new jobs were secured in 3Q12 and contribution from these jobs can only be felt from 4Q12 onwards. As at end-September, Kelington's order book stood at RM60.2mn, which was equivalent to 2.3x 3Q12 revenue.
- In term of tender book, the company has tendered for jobs worth RM400mn. According to management, the company has secured a letter of intent from a hospital operator in Singapore for the provision of engineering solution worth SGD30mn. Meanwhile, the company is hopeful to convert the MOU with Timar Wind Solar Energy Vietnam into a formal contract, which involves the provision of engineering solution worth RM30-40mn.
- Elsewhere, we see opportunity in the wafer fabrication industry as chipmakers in Taiwan, China, Singapore and Malaysia are ramping up productions for sales to smartphone and tablet manufacturers. In other words, chipmakers will continue its capex spending to increase production capacity/line. This will create job opportunities to base build contractor like Kelington

Valuation

- We maintain our target price at RM0.66/share for Kelington based on unchanged 10x CY13 earnings, which is at a discount of 5% to the historical average 3-year forward PER of peers. Given the potential upside of 16.8%, we reiterate our Buy recommendation on Kelington.

Share Information

Bloomberg Code	KGRB MK
Stock Code	0151
Listing	Main Market
Share Cap (mn)	159.6
Market Cap (RMmn)	90.2
Par Value	0.1
52-wk Hi/Lo (RM)	0.725/0.415
12-mth Avg Daily Vol ('000 shrs)	130.5
Estimated Free Float (%)	22.6
Beta	0.66
Major Shareholders (%)	

Palace Star	- 46.8
LTAT	- 12.53
Sky Walker	- 12.06
Allied Moral Inv	- 6.0

Forecast Revision

	FY12	FY13
Forecast Revision (%)	(20.3)	0.4
Net profit (RMmn)	6.4	10.7
Consensus	-	-
TA's / Consensus (%)	na	na
	Buy (maintained)	

Financial Indicators

	FY12	FY13
Net Debt/Equity (%)	Net cash	Net cash
CFPS (sen)	3.4	4.4
Price/CFPS (x)	16.6	12.9
ROE (%)	12.1	18.6
NTA/Share (RM)	0.3	0.4
Price/NTA (x)	1.7	1.5

Scorecard

	% of FY	
vs TA	50	Below
vs Consensus	na	na

Share Performance (%)

Price Change	KGB	FBM KLCI
1 mth	(1.7)	(3.9)
3 mth	(7.4)	(2.4)
6 mth	8.7	2.6
12 mth	29.9	11.2

(12-Mth) Share Price relative to the FBM KLCI



Source: Bloomberg

Earnings Summary (RMmn)

FYE Dec 31 (RM'mn)	FY10	FY11	FY12F	FY13F	FY14F
Revenue	84.5	139.6	126.1	142.5	163.9
EBITDA	9.6	11.1	10.5	13.1	15.2
EBITDA margin (%)	11.4	7.9	8.3	9.2	9.3
Pretax profit	8.6	9.8	9.0	11.8	13.7
Net profit	8.5	8.7	8.0	10.6	12.0
Core net profit	8.5	8.7	8.0	10.6	12.0
Reported EPS (sen)	11.4	11.2	5.0	6.7	7.5
Adj EPS *(sen)	5.7	5.6	5.0	6.7	7.5
EPS growth (%)	(5.0)	(1.8)	(10.5)	33.1	13.1
PER (x)	8.9	9.1	10.2	7.6	6.8
GDPS (sen)	3.0	4.0	2.0	3.0	3.0
Div yield * (%)	5.9	7.8	3.9	5.9	5.9
Core ROE (%)	22.9	19.3	15.1	18.3	18.6

* adjusted for 1:1 bonus issue in Aug-12

3QFY12 Results Analysis (RMmn)

FYE Dec	3Q11	2Q12	3Q12	QoQ%	YoY%	9M11	9M12	YoY%
Revenue	38.2	24.1	26.4	9.7	(30.8)	94.3	77.2	(18.2)
EBIT	2.0	1.9	2.0	6.5	3.1	6.4	5.0	(22.6)
Interest costs	(0.0)	(0.1)	(0.1)	0.0	406.7	(0.1)	(0.2)	250.0
PBT	1.9	1.8	1.9	6.8	(0.1)	6.3	4.8	(25.1)
Taxation	(0.4)	(0.1)	(0.4)	195.7	(4.6)	(0.7)	(0.7)	10.6
Net profit	1.5	1.7	1.5	(8.9)	1.3	5.7	4.0	(29.3)
Core net profit	1.5	1.7	1.5	(8.9)	1.3	5.7	4.0	(29.3)
EPS (sen)	2.0	2.1	1.2	(42.5)	(37.8)	7.2	4.4	(39.7)
DPS (sen)	0.0	0.0	0.0	nm	nm	0.0	0.0	nm
EBIT margin (%)	5.1	7.9	7.6	(0.2)	2.5	6.8	6.4	(0.4)
PBT margin (%)	5.1	7.6	7.3	(0.2)	2.3	6.7	6.2	(0.6)
Net margin (%)	4.0	7.0	5.8	(1.2)	1.8	6.0	5.2	(0.8)
Tax rate (%)	22.2	7.6	21.2	13.5	(1.0)	10.5	15.6	5.0

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