

29 November 2012

# Kelington Group

## 3Q12 results below expectations

- |                                |  |
|--------------------------------|--|
| <b>Period</b>                  | <ul style="list-style-type: none"> <li>3Q12/9M12</li> </ul>  |
| <b>Actual vs. Expectations</b> | <ul style="list-style-type: none"> <li>The group's 9M12 earnings of RM4.0m was below expectations, accounting for 54% and 48% of our and the street's full year estimates of RM7.4m and RM8.4m respectively.</li> </ul>  |
| <b>Dividend</b>                | <ul style="list-style-type: none"> <li>No dividend was announced during the quarter.</li> </ul>  |
| <b>Key Result Highlights</b>   | <ul style="list-style-type: none"> <li>The 9M12 group revenue decreased 31% YoY due to the timing differences between completed projects and new projects that were still in their preliminary stages. Meanwhile, its net profit declined substantially by 29.3% YoY to RM4.0m due to the higher administrative expenses (personnel costs and integration costs of its newly acquired subsidiary, Puritec Technologies (S) Pte Ltd in the 1H12). This also resulted in the PBT margin dropping 0.5ppt to 6.2%.           <ul style="list-style-type: none"> <li>YoY, its revenue contribution from Malaysia increased by 3% to RM32.2m due to the contribution from its newly acquired subsidiary, Puritec Technologies PL. However, the revenue contributions from China and Singapore declined 34% and 28% respectively due to the timing differences between completed projects and new projects that were still in their preliminary stages. For Taiwan, its revenue decreased by 8% due to the above reason as well as the fact that its key base build project here for a touch screen panel application has had almost been completed. Meanwhile, the 3Q12 group revenue rose 9.7% to RM26.4m while NP decreased by 8.9% to RM1.5m due to a higher taxation charge incurred in the quarter (RM0.4m vs. RM0.1m previously).</li> </ul> </li> </ul> |
| <b>Outlook</b>                 | <ul style="list-style-type: none"> <li>The coming quarters may be more challenging due to the continued uncertainty and bearishness in the global economy, which will continue to affect the earnings visibility of the company.</li> <li>As of to date, the group has secured RM137m in orders. However, there could be a slowdown in the commencement of the new projects secured and this may further lower the earnings of the group.</li> </ul>   |
| <b>Change to Forecasts</b>     | <ul style="list-style-type: none"> <li>We have revised down our FY12E NP by 16% due to the lower sales across all its geographical segments. However, we are maintaining our FY13E-FY14E earnings estimates at RM10.5m and RM11.1m respectively.</li> </ul>  |
| <b>Rating</b>                  | <b>MAINTAIN MARKET PERFORM</b>   |
| <b>Valuation</b>               | <ul style="list-style-type: none"> <li>We are maintaining our TP of RM0.53 based on an unchanged 8x Fwd PER on the FY13E EPS of 6.6 sen.</li> </ul>  |
| <b>Risks</b>                   | <ul style="list-style-type: none"> <li>Fluctuation in foreign currencies.</li> <li>Cyclical sector.</li> <li>Delays in new projects.</li> </ul>  |

# MARKET PERFORM ↔

**Price: RM0.565**  
**Target Price: RM0.53** ↔

### Share Price Performance



|                     |          |
|---------------------|----------|
| KLCI                | 1,606.52 |
| YTD KLCI chg        | 5.0%     |
| YTD stock price chg | 25.6%    |

### Stock Information

|                      |                |
|----------------------|----------------|
| Bloomberg Ticker     | KGRB MK Equity |
| Market Cap (RM m)    | 90.2           |
| Issued shares        | 159.6          |
| 52-week range (H)    | 0.73           |
| 52-week range (L)    | 0.42           |
| 3-mth avg daily vol: | 80,139         |
| Free Float           | 29%            |
| Beta                 | 0.7            |

### Major Shareholders

|                    |       |
|--------------------|-------|
| PALACE STAR        | 46.8% |
| LTAT               | 12.5% |
| SKY WALKER GROUP L | 12.1% |

### Summary Earnings Table

| FYE Dec (RM m)         | 2011A      | 2012E      | 2013E       |
|------------------------|------------|------------|-------------|
| Turnover               | 139.6      | 111.7      | 146.9       |
| EBITDA                 | 11.0       | 7.9        | 12.9        |
| PBT                    | 9.8        | 6.9        | 11.6        |
| <b>Net Profit (NP)</b> | <b>8.7</b> | <b>6.2</b> | <b>10.5</b> |
| Consensus (NP)         | -          | 8.4        | 10.6        |
| Earnings Revision      | -          | -16.2%     | -           |
| EPS (sen)              | 5.5        | 3.9        | 6.6         |
| EPS growth (%)         | 2.1        | -28.8      | 68.4        |
| GDPS (sen)             | 2.0        | 1.6        | 2.6         |
| NTA/Share (RM)         | 0.3        | 0.4        | 0.4         |
| PER                    | 10.3       | 14.5       | 8.6         |
| Price/NTA (x)          | 1.8        | 1.4        | 1.3         |
| Gearing (%)            | 44.6       | 63.8       | 65.8        |
| Dividend Yield (%)     | 3.5        | 2.8        | 4.6         |

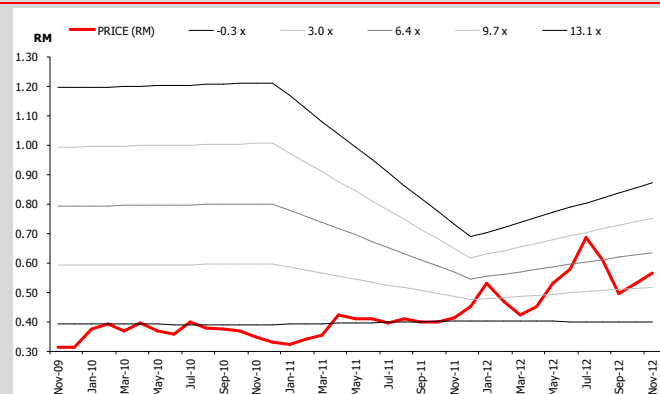
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**Result Highlight**

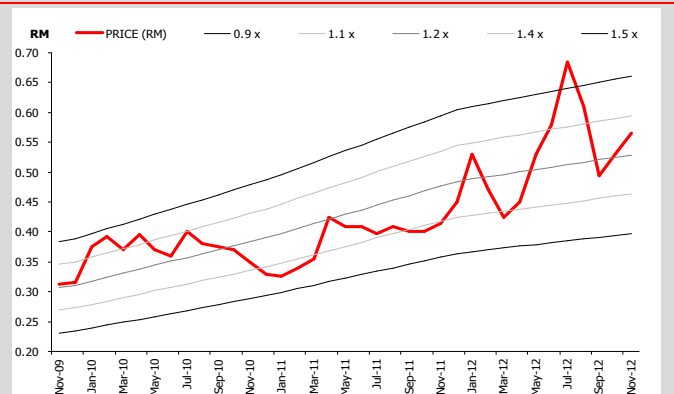
|                    | 3Q          | 2Q          | QoQ          | 2Q          | YoY           | 9M          | 9M          | YoY           |
|--------------------|-------------|-------------|--------------|-------------|---------------|-------------|-------------|---------------|
| FYE Dec (RM'm)     | FY12        | FY12        | Chg          | FY11        | Chg           | FY12        | FY11        | Chg           |
| <b>Turnover</b>    | <b>26.4</b> | <b>24.1</b> | <b>9.7%</b>  | <b>38.2</b> | <b>-30.8%</b> | <b>77.2</b> | <b>94.3</b> | <b>-18.2%</b> |
| EBITDA             | 2.0         | 1.9         | 6.5%         | 2.0         | 3.1%          | 5.0         | 6.4         | -22.6%        |
| PBT                | 1.9         | 1.8         | 6.8%         | 1.9         | -0.1%         | 4.8         | 6.3         | -25.1%        |
| Taxation           | -0.4        | -0.1        | -195.7%      | -0.4        | 4.6%          | -0.7        | -0.7        | 10.6%         |
| <b>Net profit</b>  | <b>1.5</b>  | <b>1.7</b>  | <b>-8.9%</b> | <b>1.5</b>  | <b>1.3%</b>   | <b>4.0</b>  | <b>5.7</b>  | <b>-29.3%</b> |
| EPS (sen)          | 1.2         | 2.1         | -42.0%       | 2.0         | -38.8%        | 4.2         | 7.4         | -43.7%        |
| DPS (sen)          | 0.0         | 0.0         |              | 0.0         |               | 0.0         | 0.0         |               |
| EBITDA margin      | 7.6%        | 7.9%        |              | 5.1%        |               | 6.4%        | 6.8%        |               |
| Pretax margin      | 7.3%        | 7.6%        |              | 5.1%        |               | 6.2%        | 6.7%        |               |
| NP margin          | 5.8%        | 7.0%        |              | 4.0%        |               | 5.2%        | 6.0%        |               |
| Effective tax rate | 21.2%       | 7.6%        |              | 22.2%       |               | 15.6%       | 10.5%       |               |

Source: Company, Kenanga Research

**Fwd PER**



**Fwd PBV**



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.***

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