



Kelington Group Bhd

4 Potential New Jobs for 2013

THIS REPORT IS STRICTLY FOR INTERNAL CIRCULATION ONLY*

BUY

Tan Kam Meng, CFA

+603-2072-1277 ext:1614

kmtan@ta.com.my

www.taonline.com.my

Despite weak earnings performance for 9M12, in which revenue and net profit contracted by 18% and 29% YoY respectively, we maintain our Buy recommendation on Kelington after knowing the company is close to secure four major contracts in the near term, which will boost FY13 earnings.

4 major contracts to be awarded

Of the 4 new major contracts below, the group has already started design works on 2 hospital projects, ie: Healthway Medical at Jalan Kia Peng, Malaysia and Fusionopolis in Singapore, for contract sums of approximately RM75mn and RM37mn respectively. Besides that, the company is currently waiting for purchase orders worth RM40mn for a Wind Energy project in Vietnam, which will have a ground breaking ceremony next month. All in, the company has close to RM168mn potential new jobs, including a water treatment plant in Taiwan, that likely be secured in 1Q13. This is 23% higher than the RM137mn new jobs secured in FY12.

New contract	Contract sum (RM'mn)	Remark
Timar Wind Solar Energy, Vietnam	40.0	Phase 1 package is app. RM40mn. Phase 2 & 3 will be larger
Healthway Medical Development, Malaysia	75.0	Design works have started
Fusionopolis, Singapore	37.5	Design works have started
Water treatment plant, Taiwan	15.9	likely award after CNY
Total	168.4	

Source: Kelington & TA Research

More wind power projects to come from Vietnam

Note that the Wind Energy project in Vietnam is carried out by a China-Malaysia joint venture namely Timar Wind Solar Energy (Timar Wind), which has entered into a 50-year PPA to produce 1,000MW wind-energy electricity to power 750,000 household in Ninh Thuan Province, Vietnam. It will invest US\$800mn in developing the wind power industry based on an agreement signed.

As far as Kelington is concerned, the company has entered into a MOU with Timar Wind to provide engineering solutions to the project. According to management, the M&E works in phase 1 are limited to RM40mn and it will grow substantially in subsequent phases. Judging from the entire development cost of US\$800mn, this will be a long term contract for Kelington which bodes well to FY13-15 earnings.

Bid to produce solar energy in Malaysia

Other than the Wind Energy project, which will enhance the group's earnings visibility, we understand from management that it has submitted a bid in Nov-12 to produce renewable Solar energy of up to 5MW in Malaysia. This will provide an estimated RM4mn to the group's bottomline for 7 years, if the group received approval from SEDA in generating and selling solar-energy electricity.

TP: RM0.66 (+21.1%)

Last traded: RM 0.545

Share Information

Bloomberg Code	KGRB MK
Stock Code	0151
Listing	Main Market
Share Cap (mn)	159.6
Market Cap (RMmn)	87.0
Par Value	0.1
52-wk Hi/Lo (RM)	0.725/0.42
12-mth Avg Daily Vol ('000 shrs)	133
Estimated Free Float (%)	22.8
Beta	0.61
Major Shareholders (%)	

Palace Star - 46.8

LTAT - 12.5

Sky Walker - 11.9

Allied Moral Inv - 6.0

Forecast Revision

	FY12	FY13
Forecast Revision (%)	0.0	0.0
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)	16.0	12.5
ROE (%)	12.1	18.6
NTA/Share (RM)	0.3	0.4
Price/NTA (x)	1.6	1.5

Share Performance (%)

Price Change	KGB	FBM KLCI
1 mth	(5.2)	4.6
3 mth	10.1	2.7
6 mth	(5.2)	4.4
12 mth	21.1	11.4

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



Source: Bloomberg

Impact

No change to our FY12-14 earnings estimate. We maintain our new job assumptions of RM170-180mn for FY13-14.

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 21%, we reiterate our Buy recommendation on Kelington.

Earnings Summary (RMmn)

FYE Dec 31 (RM'mn)	FY10	FY11	FY12F	FY13F	FY14F
Revenue	84.5	139.6	104.0	143.0	164.5
EBITDA	9.6	11.1	8.6	13.2	15.3
EBITDA margin (%)	11.4	7.9	8.3	9.2	9.3
Pretax profit	8.6	9.8	7.2	11.9	13.7
Net profit	8.5	8.7	6.4	10.7	12.1
Core net profit	8.5	8.7	6.4	10.7	12.1
Reported EPS (sen)	11.4	11.2	4.0	6.7	7.6
Adj EPS *(sen)	5.7	5.6	4.0	6.7	7.6
EPS growth (%)	(5.0)	(1.8)	(28.7)	67.8	13.1
PER (x)	9.6	9.7	13.7	8.1	7.2
GDPS (sen)	1.5	2.0	1.5	3.0	3.0
Div yield * (%)	2.8	3.7	2.8	5.5	5.5
Core ROE (%)	22.9	19.3	12.1	18.6	18.9

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

Disclaimer

The information in this report has been obtained from sources believed to be reliable. Its accuracy or completeness is not guaranteed and opinions are subject to change without notice. This report is for information only and not to be construed as a solicitation for contracts. We accept no liability for any direct or indirect loss arising from the use of this document. We, our associates, directors, employees may have an interest in the securities and/or companies mentioned herein.

for TA SECURITIES HOLDINGS BERHAD(14948-M)

MENARA TA ONE, 22 JALAN P. RAMLEE, 50250 KUALA LUMPUR, MALAYSIA TEL: +603-20721277 / FAX: +603-20325048

(A Participating Organisation of Bursa Malaysia Securities Berhad)

Kaladher Govindan – Head of Research