

## Kelington Group Bhd

### BRIEFING NOTE

**Current Price RM 1.00**

**Consensus Price RM 1.14**

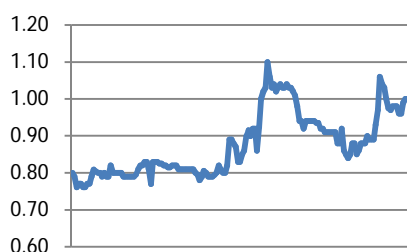
#### Key Statistics

Bloomberg Ticker	KGRB MK
Masa Ticker / Stock Code	KGB/0151
Shares Issued (m)	79.6
Market Capitalisation (RM'm)	79.6
52 Week Hi/Lo Price (RM)	1.12/0.76
Avg Trading Volume (3-mth)	41,279
Est Free Float (m)	7.3
YTD Returns (%)	25%
Beta (x)	0.42

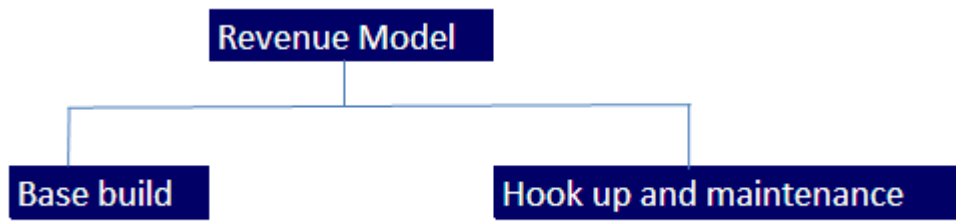
#### Major Shareholders (%)

Palace Star Sdn Bhd	50.23
Sky Walker Limited	12.17

#### 1-Year Share Price Performance



**Business Background**



- ◆ **Base Build.** Base build activities involve the building of the ultra high purity (UHP) delivery systems which would include the construction or fabrication of the piping and interconnects of the UHP delivery system. This is usually done as part of the construction of a semiconductor foundry, or a high technology manufacturing plant. Base Build represents the 'back-bone' of the entire UHP delivery system, which connects the gas and chemical source to be distributed throughout the foundry or manufacturing plant.
- ◆ **Hook up.** Complementing the Base Build, a Hook Up package consisting of installation works is considered the "last mile" delivery system from the Base Build to the primary and process tools or equipment that actually utilise the UHP gas or chemicals to fabricate wafers, flat panel displays and etc.

**Takeaways from Kelington briefing on Friday 25<sup>th</sup> May 2012**

- ◆ For the upcoming years, the company is committed to raising its top line as a means to eventually expanding their market cap. In their line of business, track record is essential for tendering for jobs. As proof of this, since 2009, Kelington has posted double digit revenue growth, demonstrating their growing creditability.
- ◆ The aggressive growth in revenue adversely affected Kelington's collection period. Since 2008, the collection period has been increasing and was above the 90 days period in 2010. Management informs 60-90 days is the normal business collection period. The company's took remedial action on the issue and managed to improve the collection period from 107 days (2010) to 95days (2011). The company may have extended collection period temporarily to build customer loyalty.
- ◆ This year February, Kelington acquired Puritech Technologies (S) Pte Ltd for RM5m. The expansion into Singapore was also to diversify its huge portion of revenue away from wafer (24%) and solar services (28%). Puritech Technologies is a one stop total facilities solution for exhaust services. The management expects the new-wholly-own subsidiary to generate RM20m revenue by 2013. A legal suit is pending in respect of contested patent rights to its facilities service engineering division's rights.

- ◆ For the rest of the year, we think Kelington can outperform last year's revenues significantly. To date, the company has secured RM72m in its order book and it is poised for stronger growth in 2H 2012. The current industry prospects remain positive as the Semiconductor Industry Association's Book-to-Bill ratio for the semiconductor industry currently stands at 1.10, meaning USD1.10 in new orders have been received for every USD1 in orders completed and fulfilled.
- ◆ Valuations are inexpensive at 8.6x trailing PER, and the dividend yield stands at 4.5% based on FY2011 dividends. Management has committed to a formal dividend policy of a payout ratio at least 25% of net profit.
- ◆ Interesting prospects for the share, as the business volume is settling down to a fast paced growth stage but the legal suit against Puritech pending casts a negative backdrop. We are unable to offer an opinion of the legitimacy of the claim, and as a prudent measure, longer term investment into the share should be deferred until the issue is resolved.

## Ratings System

Ratings:	Description:
BUY	Total return is expected to exceed 15% in the next 12 months
NEUTRAL	Total return is expected to be between above -15% to 15% in the next 12 months
SELL	Total return is expected to be below -15% in the next 12 months

## Abbreviation

Abbreviation	Definition	Abbreviation	Definition
PER	Price Earnings Ratio	CAGR	Compounded Annual Growth Rate
PEG	PER to Growth	CAPEX	Capital Expenditure
EPS	Earnings per Share	DPS	Dividend per Share
FYE	Financial Year End	ROA	Return on Asset
FY	Financial Year	ROE	Return on Equity
CY	Calendar Year	PBT	Profit Before Tax
MoM	Month-on-Month	PAT	Profit After Tax
QoQ	Quarter-on-Quarter	EV	Enterprise Value
YoY	Year-on-Year	EBIT	Earnings Before Interest And Tax
YTD	Year-to-Date	EBITDA	EBIT Depreciation & Amortisation
p.a.	Per Annum	WACC	Weighted Average Cost of Capital
DCF	Discounted Cash Flow	NTA	Net Tangible Asset
FCF	Free Cash Flow	BV	Book Value
NAV	Net Asset Value		

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