Kelington

A seasonal low 1Q

OUTPERFORM ↔

Price: RM1.00

Target Price: RM1.10 ↔

Period
- 1Q12

Actual vs. Expectations
- Turnover of RM26.7m (+38% YoY) was in line with expectations and accounted for 16.2% of ours and 16.0% of the consensus' full year estimate. Meanwhile, the NP of RM0.8m (+2% YoY) also came in within ours and the consensus' full year estimate.
- Despite 1Q12 NP being only at 7.5% (or 9.0% should we add back the one-off transfer listing expenses thus bringing the NP to a normalised level of RM0.9m) of ours and the consensus' full year estimate, we deemed the result to be in line with expectations given that 1Q is normally low and accounts for an approximately 7%-10% of the full year NP based on the company's historical financial trend.

Dividends
- No dividend was announced during the quarter. For the full financial year, we expect the group to declare a total of 3.5 sen dividends for FY12, translating into a 3.4% net dividend yield.

Key Result Highlights
- YoY, the revenue increased by 38% thanks to higher revenue contribution from its Taiwan (+176%) and Singapore (+345%) divisions, boasted by its newly-acquired subsidiary (Puritec Technologies). The PBT margin however declined to 3.7% (vs. 4.1% previously) as a result of higher administrative expenses led by acquisition expenses as well as transfer listing expenses of RM140k. Meanwhile, the NP only increased 1.5% YoY due to a higher tax rate bracket of 19% for the quarter vs. 2% previously.
- QoQ, the revenue and earnings declined by 41% and 74% respectively to RM45.4m and RM3.0m due to the seasonally lower sales in the 1Q as highlighted above.

Outlook
- We remain positive on the tech sector and expect a better 2H for CY12 (in contrast to a likely weaker 1H), underpinned by likely higher market demand led by consumer electronic products.
- The group has secured a total of RM72m in orders as of 25 May, out of which RM44.6m or 62% has not been recognised yet.

Change to Forecasts
- No changes in our FY12-13E forecasts.

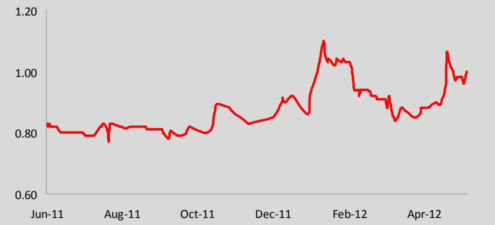
Rating

OUTPERFORM (maintained)

Valuation
- Our current TP is RM1.10 based on Fwd PER of 8.0x on our FY12E EPS of 13.5 sen.

Risks
- Foreign currency exchange.
- Semiconductor industry downturn.

Share Price Performance



KLCI	1,551.12
YTD KLCI chg	1.0%
YTD stock price chg	11.1%

Stock Information

Bloomberg Ticker	KGRB MK Equity
Market Cap (RM m)	79.6
Issued shares	79.6
52-week range (H)	1.12
52-week range (L)	0.77
3-mth avg daily vol:	42,608
Free Float	28%
Beta	0.4

Major Shareholders

PALACE STAR	47.2%
LEMBAGA TABUNG ANGKA	12.6%
SKY WALKER	12.1%

Summary Earnings Table

FYE Dec (RM m)	2011A	2012E	2013E
Turnover	139.7	165.1	196.0
EBITDA	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%
DPS (sen)	2.8	3.4	4.0
NTA/Share (RM)	0.6	0.7	0.8
PER	8.4	6.8	5.8
Price/NTA (x)	1.57	1.38	1.18
Net Gearing (x)	-0.4	-0.7	-0.7
Dividend Yield (%)	2.8%	3.5%	4.1%
ROE (%)	18.3%	18.9%	18.4%

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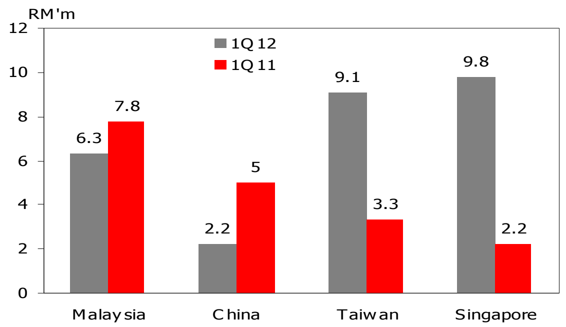
Key Highlights from Briefing

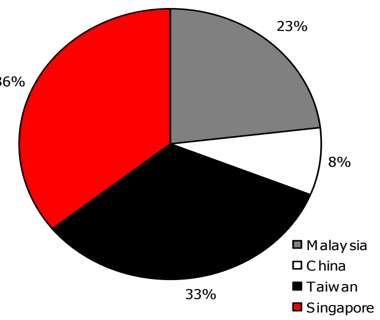
Lower sales in 1H due to seasonality. The group's 1H turnover is generally lower than the 2H due to seasonality factors as more festivals fall into the latter period thus causing a slowdown in its projects. We understand that a project usually takes 3-6 months to complete. Based on the historical three-year financial performance, Kellington's 1H sales typically only account for 30%-40% of the group's total turnover for a particular financial year.

Higher revenue contribution from Singapore and Taiwan in 1Q12. The group's 1Q12 total turnover has improved by 37.6% YoY to RM26.7m, mainly driven by higher contribution from its Singapore (+345% YoY) and Taiwan (+176% YoY) divisions, but partially offset by lower sales in its Malaysian (-19%) and China (-56%) divisions. The better revenue contribution from its Singapore division was mainly due to higher project volumes after the acquisition of Puritec Technologies (its Singapore subsidiary). The higher sales in the Taiwan division, on the other hand, were mainly driven by a Key Base Build project for touch panel application. Going forward, management expect the revenue contribution to be evenly spread between all four countries.

Revenue breakdown by countries (QoQ)



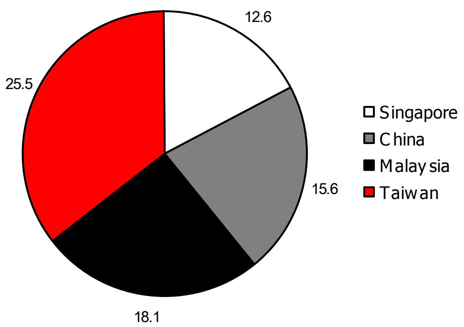
Percentage revenue breakdown by countries



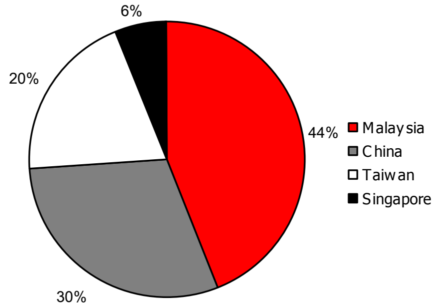
Source: Company, Kenanga Research

RM45m outstanding orders. The group has secured a total of RM72m orders as of 25 May, out of which 63% or RM45m orders were still outstanding, contributed by the Taiwan (RM25.5m), Malaysia (RM18.1m), China (15.6m) and Singapore (RM12.6m) divisions. Despite recording a lower turnover contribution from its China (-56% YoY) and Malaysia (-19% YoY) divisions in 1Q12, revenue contributions here are expected to pick up strongly from 2Q12 onwards based on their respectively outstanding orders of 44% and 30%, as opposed to the Taiwan and Singapore divisions of 20% and 6% respectively.

Secured orders by countries (RM'm)



Outstanding orders by countries



Source: Company, Kenanga Research

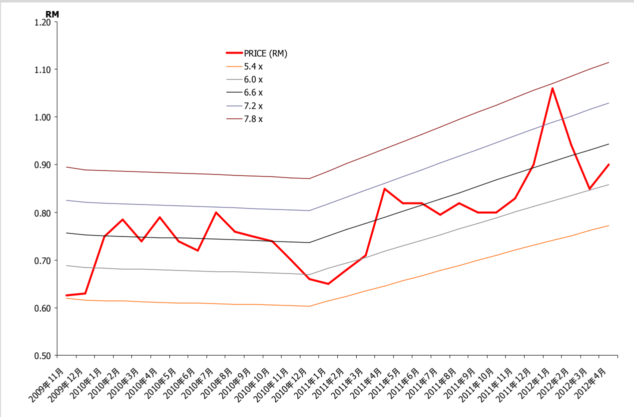
Improving outlook in coming quarters. Management is looking for a stronger growth in 2H12, which is in line with the semiconductor industry recovery, and continues to see strong order book replenishments to sustain the group's revenue growth going forward. Management plans to capture a larger market share in its local and overseas markets to sustain the long term growth of the group. We believe the group's prospect remains bright due to its unique speciality services provided in the niche market of high-purity gas.

Result Highlight

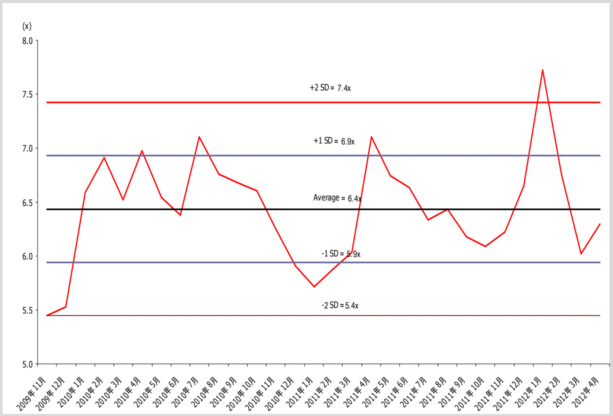
Y/E : Dec (RM m)	1Q FY12	4Q FY11	Q-o-Q Chg	1Q FY11	Y-o-Y Chg	3M FY12	3M FY11	Y-o-Y Chg
Turnover	26.7	45.4	-41.1%	19.4	37.6%	26.7	19.4	37.6%
PBT	1.0	3.4	-71.1%	0.8	23.2%	1.0	0.8	23.2%
Net Profit (NP)	**0.8**	**3.0**	**-73.8%**	**0.8**	**1.5%**	**0.8**	**0.8**	**1.5%**
EPS (sen)	1.0	3.8	-73.7%	1.0	1.9%	1.0	1.0	1.9%
DPS (sen)	0.0	4.0	N.A.	0.0	N.A.	0.0	0.0	N.A.
PBT margin	3.7%	7.5%		4.1%		3.7%	4.1%	
NP margin	3.0%	6.7%		4.1%		3.0%	4.1%	
Effective tax rate	19.1%	11.0%		1.9%		19.1%	1.9%	

Source: Company, Kenanga Research

Forward PER Band



Forward PER Band 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.***

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