TA SECURITIES
A MEMBER OF THE TA GROUP
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Kelington Group Bhd

Growing At A Considerable Rate

TP: RM1.20 *(+41.2%)*

Last traded: RM 0.85

Not Rated

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Background
Kelington Group Bhd (KGB) established in 2000 and is well-known as a leading total Ultra-High Purity (UHP) gas and chemical delivery solutions provider in the region. The products and service comprises: i) system design and installation; ii) gas and chemical delivery equipment; iii) control and instrumentation; iv) QA and QC services; and v) maintenance and servicing

One-Stop UHP Delivery System Solutions Provider
KGB is a one-stop UHP delivery system solutions provider as the group owns a significant number of qualified and experienced personnel, many of whom possess advanced academic qualifications, with extensive expertise and experience in their fields of specialisation. This enables KGB to understand and implement the total UHP delivery system solutions.

Favourable Orderbook and Tenderbook
Management guided that KGB has an orderbook of around RM54mn as at February 2012 while its tenderbook is RM400mn as at end of March 2012. The normal success rate for tenders is in the range of 20% to 25%. We expect more projects to be secured from China, Taiwan and Singapore as management expects a better second half of the year from these regions.

Continue Seeing Good Growth Momentum in 2012
Having said that, we believe 2012 will be another record year for KGB. We expect KGB to continue seeing good growth momentum in 2012. We expect the group's revenue to grow at a compounded annual growth rate (CAGR) of 26.2% between FY08-FY13 while net profit should increase at a CAGR of 13.1%. The commendable growth was mainly due to more contribution from China, Taiwan and Singapore.

A Net Cash Company With Dividend Policy of 25% of Net Profit
As highlighted before, KGB has a strong balance sheet with net cash of RM23mn as at end of December 2011. We opine that strong balance sheet can adequately steer the future direction of earnings. Looking to 2012, we expect the group to generate double-digit earnings growth and positive operating cash flow while further investing in the long-term growth of the group. With the dividend policy of 25% of net profit, we expect the group to pay 3.3sen DPS in FY12 while in FY13; it should improve to 3.9sen/share. This translates into an attractive dividend yield of 3.9% and 4.6%, respectively.

Valuation
We like KGB due to its good business model, strong balance sheet, growth in sales and earnings, positive free cash flow, attractive valuations and potentially higher dividend payments. On the valuation front, at RM0.85, the stock is trading at PER of 6.4x in FY12 and 5.5x FY13. We value the stock with a target price of RM1.20, using a CY12 EPS of 13.2sen and pegging it to our blended sector PER of 9x.

Share Information

Bloomberg Code	KGRB MK
Stock Code	0151
Listing	Main Market
Share Cap (mn)	79.1
Market Cap (RMmn)	67.2
Par Value	0.1
52-wk Hi/Lo (RM)	1.10/0.0.76
12-mth Avg Daily Vol ('000 shrs)	264
Estimated Free Float (%)	21.6
Beta	0.37
Major Shareholders (%)	
	Palace Star - 47.52
	LTAT - 12.64
	Sky Walker - 12.17

Forecast Revision

	FY12	FY13
Forecast Revision (%)	-	-
Net profit (RMmn)	10.4	12.2
Consensus	10.7	12.5
TA's / Consensus (%)	97.7	97.9

Financial Indicators

	FY12	FY13
Net Debt/Equity (%)	Net Cash	Net Cash
CFPS (sen)	13.1	15.4
Price/CFPS (x)	6.5	5.5
ROE (%)	17.9	18.2
NTA/Share (RM)	0.7	0.9
Price/NTA (x)	1.2	1.0

Share Performance (%)

Price Change	KGB	FBM KLCI
1 mth	(6.6)	1.7
3 mth	(1.2)	5.1
6 mth	3.7	9.0
12 mth	11.8	5.0

CORPORATE PROFILE

Kelington Group Bhd (KGB) established in 2000 and is well-known as a leading total Ultra-High Purity (UHP) gas and chemical delivery solutions provider in the region. The products and service comprises: i) system design and installation; ii) gas and chemical delivery equipment; iii) control and instrumentation; iv) QA and QC services; and v) maintenance and servicing.

Due to its expertise, the group manages to attract established global companies to become its customers. Presently, KGB has ventures in Malaysia, China, Taiwan, Singapore and Vietnam.

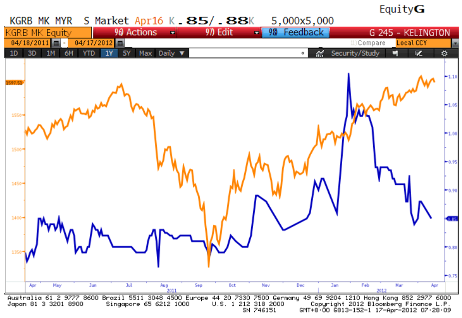
KGB's UHP's gas and chemical delivery solutions are deployed in high technology industries such as:

- Wafer fabrication
- Flat Panel Display (FPD) manufacturing
- Solar energy
- Pharmaceutical
- Light Emitting Diode (LED)
- Storage media

KGB was listed on the ACE Market of Bursa Malaysia in 2009. On 16 December 2011, Lembaga Tabung Angkatan Tentera (LTAT) became one of its major shareholders with 12.63% stake in KGB to fulfill the bumiputra shareholding requirements of Bursa Malaysia for companies on the Main Market. The total 10mn shares were from Palace Star Sdn Bhd (3.8%), Mavcap (3.6%), Allied Moral Investments Limited (2.4%), An-Jih Co., Ltd (2.3%) and Hantech Venture Capital Corporation (0.5%).

Currently, nearly 48% of KGB is controlled by Palace Star, which is owned by its current directors, Gan Hung Keng (27.0%), Ong Weng Leong (27.0%) and Lim Hock San (46.0%). Note that Lim Hock San is not directly involved in the management of KGB.

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



Source: Bloomberg

Figure 1: Key Achievements / Milestones of KGB

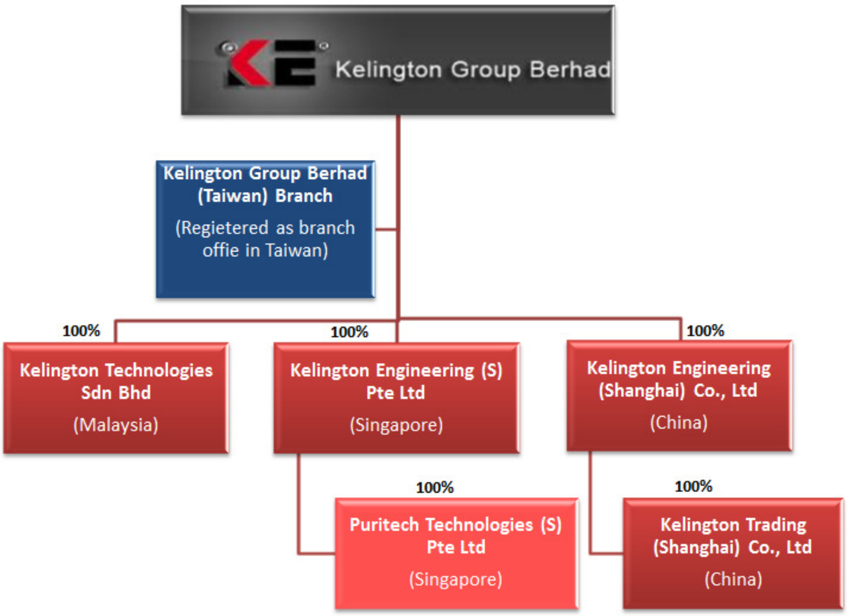
2000	• Commenced operations & secured maiden key project in Malaysia for SilTerra (Malaysia)
2003	• Implemented first project in Taiwan for HannStar Display (TFT-LCD) (Taiwan)
2004	• SMI Emerging Reconition Award
2007	• Implemented first solar cell project for Suntech Power Holdings in PRC (China)
2008	• Implemented first renewable energy project in Singapore for Renewable Energy Corporation • Attained Pioneer Status (with retropsective effect from May-07) (Singapore)
2009	• Listed on the ACE Market of Bursa Malaysia Securities Bhd
2010	• Secured hook-up project with Semiconductor Manufacturing International Corporation (SMIC), the largest wafer fabrication foundry in Mainland China • Recognition Award For Innovative Venture Capital Backed Companies (MVCA)
2011	• Secured First project in Vietnam with Vietnam Glass Industries Ltd. (Vietnam)
2012	• 1 Malaysia Enterprise Award 2012 • Transfer to Main Board on 27 January 2012

Source: Company, TA Securities

CORPORATE STRUCTURE

The figure below illustrates the group's corporate structure

Figure 2: Corporate Structure



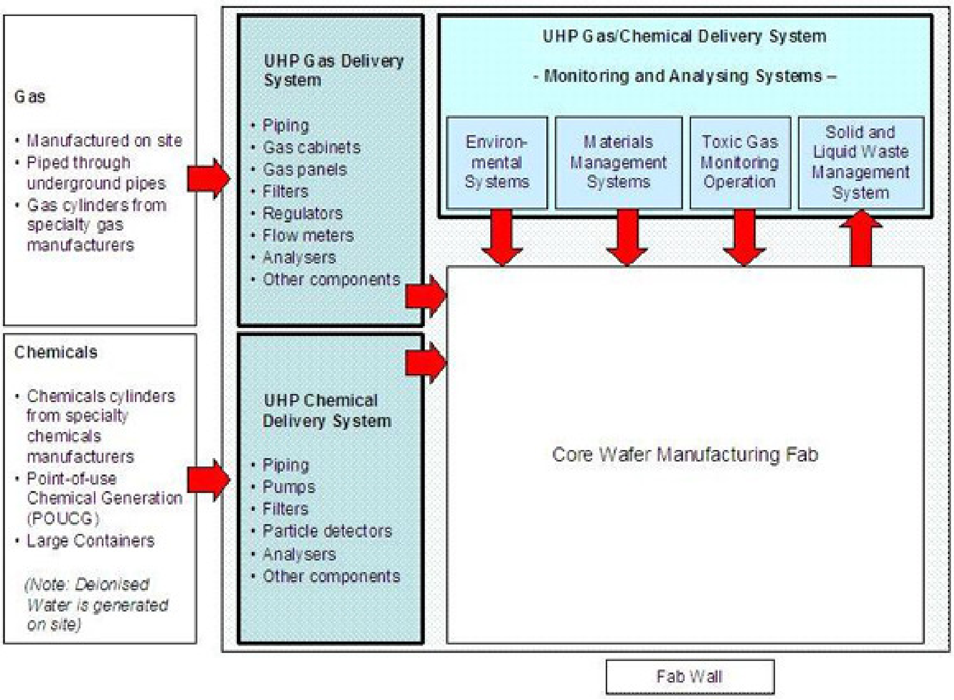
Source: Company, TA Securities

BUSINESS DESCRIPTION

Ultra High Purity (UHP) Engineering

The UHP gas / chemical delivery system's main purpose is to ensure that the pipeline into the core wafer manufacturing process/environment will not introduce any foreign micro-contaminants, moisture or oxygen which can create serious challenges for the operations and yield of a Wafer Foundry (and/or a FPD Fabrication plant). .

Figure 3: Overview of The Main Components Within A UHP Gas / Chemical Network in a Wafer Foundry

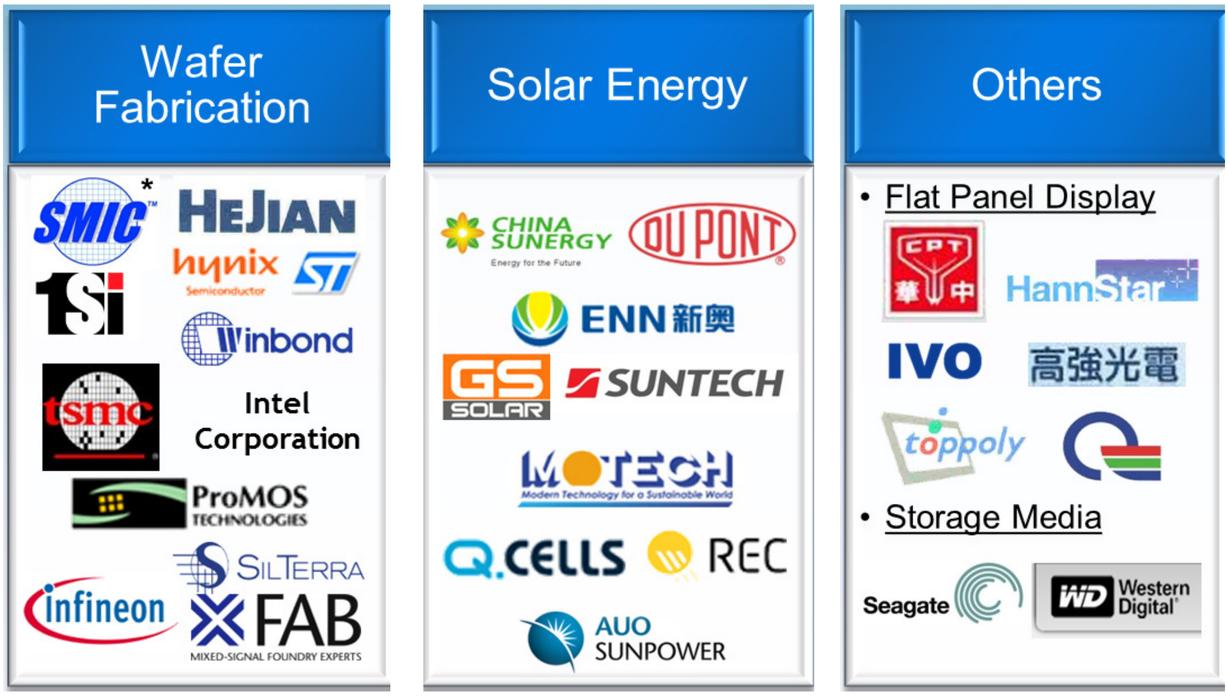


Source: Company, TA Securities

MAJOR CUSTOMERS

Due to its expertise, the group manages to attract established global companies to become its customers. The group has maintained good relationship with major wafer fabrication customers such as SMIC, Infineon, TSMC, Hynic, and Intel, amongst others. Besides, by servicing big boys in the solar energy industry, we did not rule out the possibility that the group may expand further in this segment. This is especially through its newly acquired Singapore based Puritech Technologies (S) Pte Ltd (Puritech), which is principally providing total value chain engineering services to the Semi-conductor, Photovoltaic, LCD, Pharmaceutical and Process Plants.

Figure 4: Reputable Global Clients Base



Source: Company, TA Securities

INVESTMENT HIGHLIGHTS

One-Stop UHP Delivery System Solutions Provider

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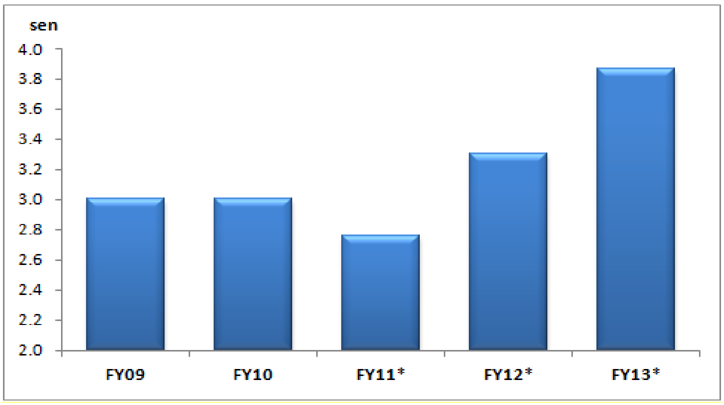
Further Outsourcing by Major Gas and Chemical Providers

Major gas and chemical providers outsource the UHP delivery system solution in order to eliminate distractions and force themselves to concentrate on their core competencies and achieve greater financial flexibility. The outsourcing trend by theses major gas and chemical providers creates opportunities for delivery solutions provider such as KGB to be their suppliers.

Dividend Payout Ratio of 25% of PAT

KGB has a strong balance sheet with net cash of RM23mn as at end of December 2011. We opine that strong balance sheet can adequately steer the future direction of earnings. Looking to 2012, we expect the group to generate double-digit earnings growth and positive operating cash flow while further investing in the long-term growth of the group. Last month, KGB announced to Bursa that the group has adopted a dividend policy and it aims to payout 25% of its profit after tax (PAT) to the shareholders.

Figure 5: Dividend



** Based on new dividend policy*
Source: Company, TA Securities

MAJOR RISKS

Lack of Long Term Contracts

KGB normally derives revenue from Base Build and Hook Up projects. It is normal within the UHP delivery systems industry that users of gas and chemical delivery equipment and QA and QC services do not enter into long-term contracts with suppliers.

Foreign Exchange Fluctuation

The group secures its supply of raw materials and labour services from the China, Taiwan and Singapore. Thus, substantial parts of the group's total purchase are denominated in foreign currencies including USD, NTD, RMB and SGD. With that, the group is exposing to currency risks and any weakening of the RM may affect the group's financial performance.

FINANCIAL HIGHLIGHTS

KGB registered a commendable growth in FY11, where it achieved remarkable revenue growth of about 65.3% to RM139.7mn. The commendable results were primarily attributed to an increase in sales for all countries, especially China, Taiwan and Singapore. Nonetheless, the group's net profit margin had reduced by 3.9 percentage point as compared to the previous corresponding period of mainly due to projects undertaken with lower margin in Malaysia, Singapore and China. Besides, higher administrative expenses, which mainly due to increase in personnel costs resulting from higher business volume had also affected the margin obtained.

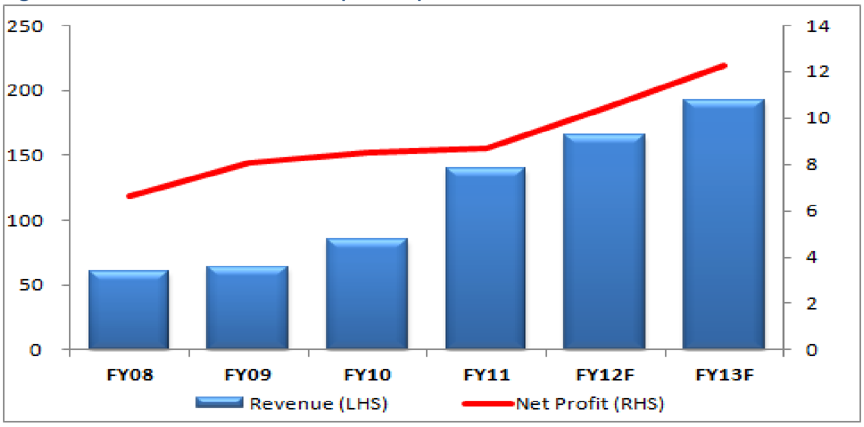
Commendable growth in FY11 attributed to an increase in sales for all countries, especially China, Taiwan and Singapore

Having said that, we believe 2012 will be another record year for KGB. We expect KGB to continue seeing good growth momentum in 2012. We expect the group's revenue to grow at a compounded annual growth rate (CAGR) of 26.2% between FY08-FY13 while net profit should increase at a CAGR of 13.1%. We expect KGB's revenue to reach RM165.2mn and RM191.9mn in FY12 and FY13 while net profit is expected to increase to RM10.5mn and RM12.2mn in FY12 and FY13, respectively. The commendable growth was mainly due to more contribution from China, Taiwan and Singapore.

We expect the Group's revenue to grow at a CAGR of 26.2% between FY08-FY13 while the net profit to increase with CAGR of 13.1%.

As highlighted before, KGB has a strong balance sheet with net cash of RM23mn as at end of December 2011. We opine that strong balance sheet can adequately steer the future direction of earnings. Looking to 2012, we expect the group to generate double-digit earnings growth and positive operating cash flow while further investing in the long-term growth of the group. With the dividend policy of 25% of net profit, we expect the group to pay 3.3sen DPS in FY12 while in FY13; it should improve to 3.9sen/share. This translates into an attractive dividend yield of 3.9% and 4.6%, respectively.

Figure 6: Revenue vs. Net Profit (RMmn)



Source: Company, TA Securities

VALUATION

We like KGB due to its good business model, strong balance sheet, growth in sales and earnings, positive free cash flow, attractive valuations and potentially higher dividend payments. On the valuation front, at RM0.85, the stock is trading at PER of 6.4x in FY12 and 5.5x FY13. We value the stock with a target price of **RM1.20**, using a CY12 EPS of 13.2sen and pegging it with our blended sector PER of 9x.

FINANCIAL MODELS

Earnings Summary (RMmn)

FYE Dec 31	FY09	FY10	FY11	FY12F	FY13F
Revenue	63.8	84.5	139.7	165.2	191.9
EBITDA	9.6	9.6	11.1	13.0	15.1
EBITDA margin (%)	15.0	11.4	7.9	7.9	7.9
Pretax profit	8.6	8.6	9.8	11.7	13.7
Net profit	8.1	8.5	8.7	10.4	12.2
Core net profit	8.1	8.5	8.7	10.4	12.2
EPS (sen)	10.2	10.8	11.0	13.2	15.5
Diluted EPS (sen)	10.2	10.8	11.0	13.2	15.5
EPS growth (%)	22.2	5.8	2.1	19.9	17.1
PER (x)	8.3	7.9	7.7	6.4	5.5
GDPS (sen)	3.0	3.0	2.8*	3.3*	3.9*
Div yield (%)	3.5	3.5	3.2	3.9	4.6
Core ROE (%)	23.5	21.2	17.3	17.9	18.2

** Based on 25% of PAT Payout*

for TA SECURITIES HOLDINGS BERHAD(14948-M)

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(A Participating Organisation of Bursa Malaysia Securities Berhad)

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