

JF Apex

Key takeaways from Kelington Group's lunch presentation

Expect better 2H12. We reckon that the Group traditionally has a weaker sales in 1HFY12 due to winter and festive seasons. Sharp decrease in 1HFY12 revenue and net profit of 10% y-o-y and 40% y-o-y respectively attributable to the timing of delivery of the projects in hand from Malaysia, China, Singapore and Taiwan operations as well as a few of the group's key clients have delayed some of their capital expenditures to the second half of the year. The management expects the momentum to pick up during last two quarters of the year.

Orders secured to-date totalled RM126m. Fairly strong orders secured to-date augurs well for coming quarters. Orders YTD account for RM125.8mil while RM50.8mil has been recognized and the remaining RM75mil will be booked in for 2H2012. The majority of the contributions of orders came from Malaysia and Taiwan in the solar and wafer industries of 34% and 16% respectively.

Strong performance from Taiwan market. Robust revenue growth in Taiwan, +90% y-o-y from RM8.3mil to RM15.8mil in 1H 2011 and 2H2012 respectively in spite of global economic uncertainty as compared with other countries. However, we reckon that jobs secured in Taiwan would render low margin to the Group, still, management believes that the Group could retain GP margin of at least 15% as offset by the higher margins projects in Malaysia and Singapore.

Rosy outlook for Singapore market. Puritec, the group acquired this year February with a total cost of SGD2.1 mil proved to be a rewarding investment. Management's target for FY12 is SGD600,000 PAT and strongly believe it is achievable given the two newly secured projects and expect to get back the investment return within 2 years time frame.

Two new jobs secured. The latest projects secured by the group is from Ividen Co.Ltd, a Japan-based printed circuit board (PCB) maker which will be located in Prai industrial area in Penang. The group will utilize their expertise in UHP gas and chemical in delivery system to produce high performance and high density printed wiring boards(PWB) used in mobile phones globally for the client. Hence Kelington will indirectly benefit from the current I-Phone 5 launching. Second project is secured via its newly acquired Singapore-based subsidiary Puritec Technologies(S) Pte Ltd. for approx RM25mil from Tokuyama Malaysia Sdn Bhd, a Japan-based producer of organic and inorganic chemicals related products. The group will be responsible for the installation of HVAC(heating, ventilation & air-conditioning) system at a plant to produce polycrystalline silicon for solar panels at Bintulu, Sarawak.

Venturing into two new markets ie Bioscience and Wind Turbine that make up of approx. RM181m of its total current tender book of RM400m.

The Group has tendered jobs with established MNC worth RM400m. Historically the win rate has been around 20%-25% with projects usually lasting about 3-6 months. We believe the Group secure **at least RM181mil** as listed below:

Samsung, China to deliver LED service in the plant located in Su Zhou amount **RM6mil**. We understand that they are close to securing the project as documentations had been finalized and the group are awaiting official order.

Infineon, Malaysia, which was supposed to kick start in the 1HFY12 but was delayed due to European turmoil. Though nothing has been confirmed yet, management are confident on winning the bid leveraging on the Group's historical strong track record, had been serving Infineon for the past 7 years, with total tender of **RM40mil**.

Healthway Medical Development Malaysia(HMDM) which is an associate company of HMC a listed company in Singapore SGX. The group managed to secured slice of the cake of 37.5% or **RM75mil** out of RM200mil which the group will employ their engineering prowess in hospital piping and vacuum system. This will also mark the first attempt for the group in Bioscience and MOU has signed. The construction to take place in Jalan Kia Peng, KL.

Timar Wind Solar Energy Vietnam. New venture for the group which will JV with a reputable China company that has a patented Wind Turbine system. This will deliver USD20mil approx **RM60mil** and MOU has signed while the final contract will be sealed after design has been confirmed.

Industry Outlook remain encouraging despite the devitalising technology sector as the group pinpoint that the demand for miniaturization of line widths for thinner and faster processors and circuits are growing and the increasing size of glass substrates in flat panel displays. The management expect the growth market to be driven by smartphones and tablets i.e. small screen devices(+66% y-o-y in 2011). Moving forward, the management reckon that ultrabooks and 3D LCD TVs will be key products spurring the growth of their respective segments.

Steady Income Stream to look out for as the group has submit tender for the government SEDA renewable energy by applying quota yet nothing is solid yet. The management is looking at 5megawatt system with tender book of **RM40-50mil** if fruitful will sign contract with TNB lasting 21 years. This is to balance up the group's business portfolio as presently the group's projects are mostly contract base.

Our fair value for Kelington Group (non-rated) is RM0.60 which renders 14% upside to the current market price. Our target price is pegged at 7x 2013F PE, which is in line with small cap. valuation. Our FY13F net profit estimation is at RM13.3m assuming RM400m yearly orderbook replenishment.