

Kelington Group Bhd

BRIEFING NOTE

Current Price RM 0.49
Rating Not Rated
Consensus Target Price RM 0.56

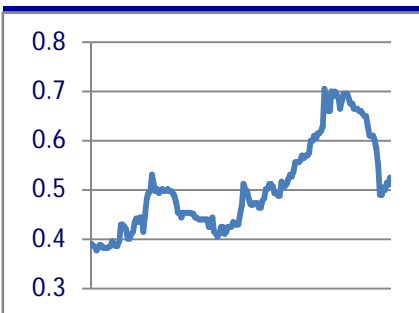
Key Statistics

Bloomberg Ticker	KGRB MK
Masa Ticker / Stock Code	KGB/0151
Shares Issued (m)	159.6
Market Capitalisation (RM'm)	79
52 Week Hi/Lo Price (RM)	0.38/0.72
Avg Trading Volume (3-mth)	2,727
Est Free Float (m)	7.3
YTD Returns (%)	18.2
Beta (x)	0.61

Major Shareholders (%)

Palace Star Sdn Bhd	47.5
Sky Walker Group Limited	12.5
LTAT	12.2

1-Year Share Price Performance



Analyst: David Lai

Email: davidlai@interpac.com.my

Resilient despite global slowdown

Highlights:

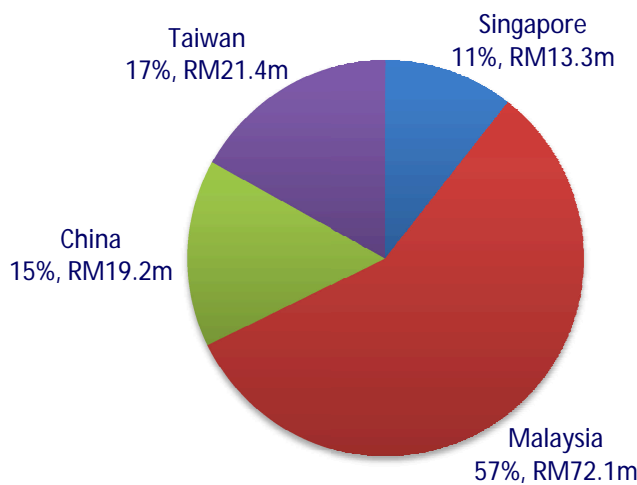
- Revenue was weaker YoY mainly due to a slowdown in China, with a few of Kelington's key clients having delayed some of their expansion to the second half of the year. Kelington posted a fall of 34.6% YoY in revenue from RM36m to RM24m. Despite poor performance in China, revenue from Taiwan and Singapore increased 90.9% and 6% YoY respectively. Revenues are normally lower in 1H during the winter and festive season in China and Taiwan. In this context, with Kelington's outstanding orderbook of RM75m to be recognized over 2H12, FY12 revenue should be no less than RM126m (90% of FY11 revenue).
- During 2Q2012, Kelington managed to secure two new contracts from Ibiden and Tokuyama. It is expected the contracts combined should be worth more than RM40m.
- On 8th August 2012, Kelington completed a 1-for-1 bonus issue. The enlarged issued paid up share capital rose from RM7.9m to RM15.9m

FYE Dec	2007	2008	2009	2010	2011
Revenue (m)	57.2	60.1	63.8	84.5	139.7
Pretax Profit (m)	5.5	7.1	8.6	8.6	9.8
Net Profit (m)	4.1	6.6	8.1	8.5	9.5
EPS (sen)	2.6	4.1	5.1	5.3	6.0
Pretax margin (%)	9.8	11.9	13.7	10.3	7.1
Net Profit margin (%)	7.1	11.0	12.6	10.1	6.8
PER (x)	19.3	12.0	9.8	9.3	8.3
DPS (sen)	NA	NA	1.5	1.5	2
Dividend Yield (%)	NA	NA	3.0	3.0	4.0
ROE (%)	17.2	30.6	23.5	21.2	18.9
ROA (%)	8.6	14.6	14.2	12.3	9.6
Net Gearing Ratio (%)	NetCash	NetCash	NetCash	NetCash	NetCash
BV/Share (sen)	15	13	21	25	31
Price/Book Ratio (x)	3.4	3.7	2.3	2.0	1.6

* Diluted number of shares

FYE 31st Dec (RM m)	2Q2012	2Q2011	YoY chg (%)	1Q2012	QoQ chg (%)	YTD2012	YTD2011	YTD chg (%)
Revenue	24	36.7	(34.6)	26.7	(10.1)	50.8	56.1	(9.4)
Operating expenses	22	33	(33.3)	25.6	(14.1)	47.7	51.7	(7.7)
Operating Profit	1.8	3.6	(50.0)	1	80.0	2.9	4.4	(34.1)
Profit before tax	1.8	3.5	(48.6)	0.9	100.0	2.8	4.3	(34.9)
Tax Expenses	0.1	0.2	(50.0)	0.1	0.0	0.3	0.2	50.0
PAT	1.6	3.3	(51.5)	0.8	100.0	2.4	4.1	(41.5)
PBT margin	7.5	9.5	(21.4)	3.4	122.5	5.5	7.7	(28.1)
PAT margin	6.7	9.0	(25.9)	3.0	122.5	4.7	7.3	(35.4)
EPS (sen)*	2.07	3.91	(47.1)	0.9	130.0	3.05	4.82	(36.7)

Orders secured to date



Takeaways from Kelington briefing on Wednesday 12th Sept 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 when tendering for jobs. As proof of this, since 2009, Kelington has posted double digit revenue growth, demonstrating their growing credibility. In addition, Kelington aims to diversify its business and reduce its dependence on gas services. To date, the group has ventured into the chemical, medical and energy industries.
- ◆ This year February, Kelington acquired Puritec Technologies (S) Pte Ltd for RM5m. The expansion into Singapore was also to diversify revenues away from wafer (34%) and solar services (16%). Puritec Technologies is a one stop total facilities solution for exhaust services. The management expects the new wholly-owned subsidiary to generate SGD \$600k PAT for FY12. In our previous report, we mentioned a legal suit in respect of contested patent rights to its facilities service engineering division's activities. The plaintiff has discontinued their suit against Kelington.

- ◆ Industry prospects remain positive in Taiwan, where the Semiconductor Industry Association data suggest semiconductor billings increased 18%YoY from USD2.7b to USD3.2b. Kelington continues to enjoy the spillover of benefits from the Taiwan semiconductor industry.
- ◆ Kelington recorded higher expenditures in 2Q due to integration costs in respect of Puritec Technologies Pte Ltd.
- ◆ Valuations are at 11.0x 12months trailing PER, and the dividend yield stands at 4% based on FY2011 dividends. Management has committed to a formal dividend policy of a payout ratio at least 25% of net profit.

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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Inter-Pacific Research Sdn Bhd (449005-X)
West Wing, Level 13,
Berjaya Times Square,
No.1, Jalan Imbi,
55100 Kuala Lumpur
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