



03 September 2012

# Kelington Group

## Results below expectations

- Period** ■ 2Q12/1H12
- Actual vs. Expectations** ■ 1H12 earnings of RM2.5m is considered below expectations even though 2H are likely stronger; accounting for 24% each of street's and our full year estimates of RM10.5m and RM10.3m respectively.
- Dividend** ■ No dividend announced.
- Key Result Highlights** ■ YoY, 2Q12 group's revenue decreased 34.5% to RM24.1m due to lower revenue contributions from Malaysia, China, Singapore and Vietnam. But operations in Taiwan increased by 35.7% to RM6.8m due to better sales arising from the key base build project for a touch screen panel application. 1H12 earnings were further dragged down by 40.4% due to operating margins compression of 2.1ppt to 5.8% on increased personnel expense and additional cost arising from the newly acquired subsidiary, Puritech Technologies (S) PL.
- QoQ, 2Q12 group's revenue declined 9.9% to RM24.1m while the PBT increased 83.5% to RM1.8m due to margin expansion of 3.9ppt to 7.6% on higher-margin projects (e.g. touch screen panel application) in the quarter.
- Outlook** ■ The coming quarters may be challenging due to global economic uncertainties, which has adversely affected the earnings visibility of the tech sector.
- As of to-date, the group has secured several new orders amounting to RM43.3m in 3Q12, which has boosted its total order book to RM126m, which was lower than its order book in May 2011 (RM122m). Hence, we believe that the group would have lower earnings for FY12.
- Change to Forecasts** ■ Revised down our FY12-13E NPs by 28.2%-21.7% to RM7.4m-RM9.4m. We lowered overall sales volume from wafer fabrication, solar and touch screen panel.
- Rating** ■ **Downgrade to UNDERPERFORM**
- Since earnings visibility is being affected by uncertainties, we downgrade Kelington's rating to a UNDERPERFORM rating as its total return potential is now below 3% after our TP downgrade below.
- Valuation** ■ Lower TP of RM0.47 (RM0.50 previously) based on unchanged 8x Fwd PER on lowered FY13E EPS of 5.9sen (refer overleaf).
- Risks** ■ Fluctuation in foreign currencies.  
■ Cyclical sector.

## MARKET PERFORMANCE ↓

**Price: RM0.61**  
**Target Price: RM0.47 ↓**

### Share Price Performance



### Stock Information

Bloomberg Ticker	KGRB MK Equity
Market Cap (RM m)	97.2
Issued shares	159.3
52-week range (H)	0.73
52-week range (L)	0.39
3-mth avg daily vol:	239,340
Free Float	28%
Beta	0.5

### Major Shareholders

PALACE STAR	47.2%
LEMBAGA TABUNG A	12.6%
SKY WALKER GROUP L	12.1%

### Summary Earnings Table

FYE Dec (RM m)	2011A	2012E	2013E
Turnover	139.6	135.6	140.8
EBITDA	11.0	9.3	11.6
PBT	9.8	8.3	10.5
<b>Net Profit (NP)</b>	<b>8.7</b>	<b>7.4</b>	<b>9.4</b>
<b>Core Net Profit (NP)</b>	<b>8.7</b>	<b>7.4</b>	<b>9.4</b>
Consensus (NP)	-	10.5	12.2
Earnings Revision	-	-28.2%	-21.7%
Core EPS (sen)	5.5	4.6	5.9
Core EPS growth (%)	2.1	-2.9	18.2
GDPS (sen)	4.0	1.2	1.5
NTA/Share (RM)	0.3	0.3	0.4
Core PER	11.1	13.2	10.4
Price/NTA (x)	1.9	1.8	1.6
Gearing (%)	-44.6	-64.0	-69.7
Dividend Yield (%)	6.6	1.9	2.4

Thien Ting Ting  
ting.ting.thien@kenanga.com.my  
Tel: 603-2713 2292

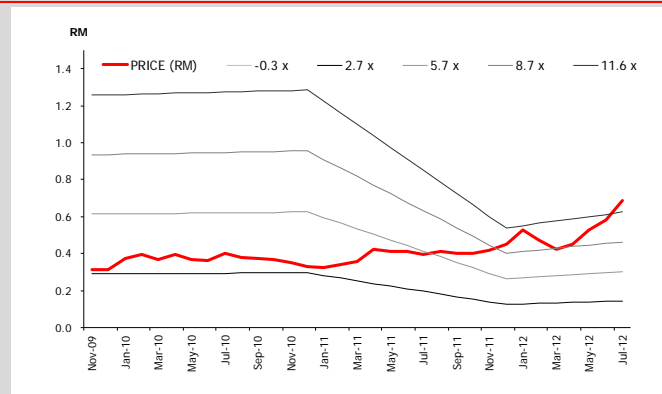
Other Points

**Valuation method.** We opt for 8x Fwd PER which represents +0.75 SD, because of the potentials of the newly acquired subsidiary (Puritech Technologies (S) PL). Although delivery of from the new subsidiary has not translated to stronger earnings so far, we believe it will be a double-digit growth driver for the company in coming years.

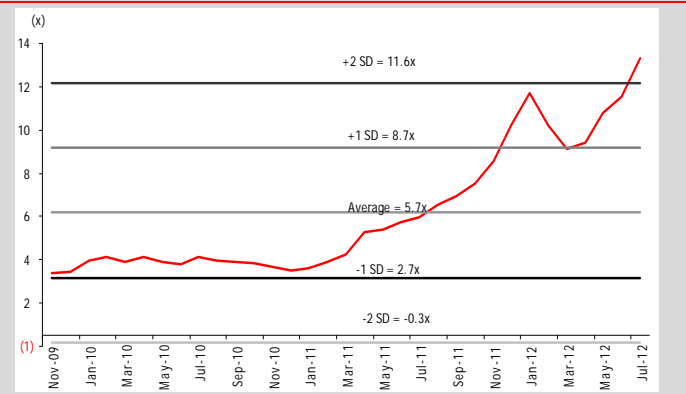
Result Highlight								
Y/E : Dec (RM'm)	2Q	1Q	QoQ	1Q	YoY	1H	1H	YoY
	FY12	FY12	Chg	FY11	Chg	FY12	FY11	Chg
<b>Turnover</b>	<b>24.1</b>	<b>26.7</b>	<b>-9.9%</b>	<b>36.8</b>	<b>-34.5%</b>	<b>50.8</b>	<b>56.2</b>	<b>-9.6%</b>
EBITDA	1.9	1.0	81.8%	3.6	-47.7%	2.9	4.4	-33.9%
PBT	1.8	1.0	83.5%	3.6	-49.4%	2.8	4.4	-36.1%
Taxation	0.1	0.2	-26.5%	0.2	-37.4%	0.3	0.2	38.4%
<b>Net profit</b>	<b>1.7</b>	<b>0.8</b>	<b>109.4%</b>	<b>3.4</b>	<b>-50.2%</b>	<b>2.5</b>	<b>4.2</b>	<b>-40.4%</b>
EPS (sen)	2.1	1.0	109.1%	3.9	-47.1%	3.1	4.8	-36.7%
DPS (sen)	0.0	0.0		0.0		0.0	0.0	
EBITDA margin	7.9%	3.9%		9.9%		5.8%	7.9%	
Pretax margin	7.6%	3.7%		9.8%		5.5%	7.8%	
NP margin	7.0%	3.0%		9.2%		4.9%	7.4%	
Effective tax rate	7.6%	19.1%		6.2%		11.7%	5.4%	
Net Gearing (x)	-0.4	-0.3		-0.5		-0.4	-0.5	
NTA/share (RM)	0.3	0.6		0.6		0.3	0.5	

Source: Company, Kenanga Research

Fwd PER Band



Fwd PER 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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**KENANGA INVESTMENT BANK BERHAD (15678-H)**

8th Floor, Kenanga International, Jalan Sultan Ismail, 50250 Kuala Lumpur, Malaysia  
Telephone: (603) 2166 6822 Facsimile: (603) 2166 6823 Website: [www.kenangaresearch.com](http://www.kenangaresearch.com)



Chan Ken Yew  
Associate Director