



Kelington Group Bhd

Minor Hiccup due to Lesser Jobs Secured

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TP: RM0.66 (+32.0%)

Last traded: RM 0.50

BUY

Review

- Kelington Group Berhad's (Kelington) FY12 net profit came in within our expectations. Similar to FY11, no dividend was declared in Q4 results as the company will only propose a final dividend after all accounts have been audited.
- FY12 earnings dropped 30.7% YoY to RM6.0mn underpinned by a 16.7% decrease in revenue. According to management, the company secured total contracts worth RM156mn for FY12 vs. RM167mn for FY11. The lesser amount of new jobs secured in FY12 has contributed to the drop in revenue and net profit.
- QoQ, 4Q12 net profit surged 32.5% due to higher work progress on those new jobs secured in late-3Q12. The PBT margin declined 1.9%-pts to 5.5% due to unfavourable job mix.

Impact

- Maintained.

Outlook

- For FY12, Kelington achieved RM156mn new jobs orders, which was 6.6% lesser than FY11. We are not surprised as the global semiconductor outlook in 2H12 was overshadowed by the concern of fiscal cliff in the US. Wafer fabrication industry was very cautious about production ramp-up during that period. However, as worries of fiscal cliff dissipate, we expect new orders (from wafer fabrication in Taiwan and Singapore) to come back to the market soon.
- Currently, the company has an order book of RM51.6mn. As far as those potential new jobs (see Table 1) we mentioned in our previous report are concerned, the company has not received any letters of award on these projects. However, we understand that the company has started design works on certain project like Healthway Medical Hospital project in Malaysia and Fusionnopolis project in Singapore. As such, we continue to believe some of these jobs would be secured and keep our new job assumptions at RM150mn for FY13.

New contract	Contract sum (RM'mn)	Remark
Timar Wind Solar Energy, Vietnam	40.0	Phase 1 package is app. RM40mn. Phase 2 & 3 will be larger
Healthway Medical Development, Malaysia	75.0	Design works have started
Fusionnopolis, Singapore	37.5	Design works have started
Water treatment plant, Taiwan	15.9	likely award after CNY
Total	168.4	

Source: Kelington & TA Research

Share Information

Bloomberg Code	KGRB MK
Stock Code	0151
Listing	Main Market
Share Cap (mn)	159.5
Market Cap (RMmn)	79.8
Par Value	0.1
52-wk Hi/Lo (RM)	0.725/0.42
12-mth Avg Daily Vol ('000 shrs)	133
Estimated Free Float (%)	22.5
Beta	0.8
Major Shareholders (%)	
	Palace Star - 47.1
	LTAT - 12.5
	Sky Walker - 11.9
	Allied Moral Inv - 6.0

Forecast Revision

	FY13	FY14
Forecast Revision (%)	0.0	0.0
Net profit (RMmn)	10.7	12.1
Consensus	-	-
TA's / Consensus (%)	na	na
	Buy (maintained)	

Financial Indicators

	FY13	FY14
Net Debt/Equity (%)	Net cash	Net cash
CFPS (sen)	4.4	5.5
Price/CFPS (x)	11.4	9.0
ROE (%)	18.6	18.9
NTA/Share (RM)	0.4	0.4
Price/NTA (x)	1.3	1.2

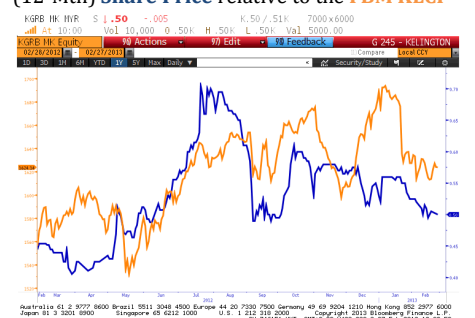
Scorecard

	% of FY	
vs TA	95	Within
vs Consensus	na	na

Share Performance (%)

Price Change	KGB	FBM KLCI
1 mth	(6.5)	(0.8)
3 mth	(13.0)	1.6
6 mth	(20.6)	(1.5)
12 mth	6.4	4.2

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



Source: Bloomberg

- Besides those jobs mentioned above, we understand that Kelington has recently secured a letter of intent for installation of equipment and piping to a biodiesel plant in Taiwan. Based on the contract sum of NT\$350mn (RM34.5mn) and assuming a GP margin of 15%, this job can potentially generate RM5.2mn gross profit, representing 22% of our gross profit estimation for FY13.

Valuation

- We maintain our target price at RM0.66/share for Kelington based on unchanged 10x CY13 earnings, which is at a discount of 5% to the historical average 3-year forward PER of peers. Given the potential upside of 32.0%, we reiterate our **Buy** recommendation on Kelington.

Earnings Summary (RMmn)

FYE Dec 31 (RM'mn)	FY11	FY12	FY13F	FY14F	FY15
Revenue	139.6	116.4	143.0	164.5	190.8
EBITDA	11.1	8.6	13.2	15.3	18.1
EBITDA margin (%)	7.9	7.4	9.2	9.3	9.5
Pretax profit	9.8	6.9	11.9	13.7	16.4
Net profit	8.7	6.0	10.7	12.1	14.4
Core net profit	8.7	6.0	10.7	12.1	14.4
Reported EPS (sen)	11.2	5.4	6.7	7.6	9.1
Adj EPS *(sen)	5.6	3.6	6.7	7.6	9.1
EPS growth (%)	(1.8)	(35.7)	85.8	13.2	19.7
PER (x)	8.9	13.9	7.5	6.6	5.5
GDPS (sen)	2.0	1.5	3.0	3.0	3.5
Div yield * (%)	4.0	3.0	6.0	6.0	7.0
Core ROE (%)	19.3	12.1	18.6	18.9	20.1

* adjusted for 1:1 bonus issue in Aug-12

4QFY12 Results Analysis (RMmn)

FYE Dec	4Q11	3Q12	4Q12	QoQ%	YoY%	FY11	FY12	YoY%
Revenue	45.4	26.4	39.2	48.3	(13.7)	139.7	116.4	(16.7)
EBIT	3.5	2.0	2.4	18.1	(32.0)	9.9	7.3	(25.9)
Interest costs	(0.1)	(0.1)	(0.2)	202.6	173.8	(0.1)	(0.4)	204.9
PBT	3.4	1.9	2.2	10.9	(37.1)	9.8	6.9	(29.3)
Taxation	(0.4)	(0.4)	(0.1)	(69.6)	(66.8)	(1.0)	(0.9)	(17.2)
Net profit	3.0	1.5	2.0	32.5	(33.4)	8.7	6.0	(30.7)
Core net profit	3.0	1.5	2.0	32.5	(33.4)	8.7	6.0	(30.7)
EPS (sen)	2.0	0.8	1.3	61.6	(34.9)	5.6	3.6	(34.8)
DPS (sen)	4.0	0.0	0.0	nm	nm	4.0	0.0	nm
EBIT margin (%)	7.7	7.6	6.1	(1.6)	(1.6)	7.1	6.3	(0.8)
PBT margin (%)	7.5	7.3	5.5	(1.9)	(2.0)	7.0	5.9	(1.1)
Net margin (%)	6.7	5.8	5.2	(0.6)	(1.5)	6.2	5.2	(1.0)
Tax rate (%)	11.0	21.2	5.8	(15.4)	(5.2)	10.7	12.5	1.8

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