Kelington Group

1QFY13 results within expectations

MARKET PERFORM ↔

Price: RM0.52
Target Price: RM0.56 ↑

Period

- 1QFY13/3MFY13

Actual vs. Expectations

- The group reported a 1QFY13 net profit (NP) of RM0.8m which made up of c.8% of ours and the consensus full-year estimates respectively.
- We deem the results to be within expectations as 1Q typically makes up only c.7%-13% of the full-year NP amid the seasonal weakness in the quarter.

Dividend

- A tax-exempt DPS of 2.0 sen has been proposed, which came in below expectations. Notably, ours and the market's DPS projections are 2.6 sen and 2.8 sen respectively.

Key Result Highlights

- **YoY,** the group's 1QFY13 revenue decreased by 10% as the decent growth in its Malaysia operation (+105% on the back of the new revenue contribution from its newly-acquired subsidiary, Puritec Technologies (M) Sdn Bhd) and its China operation (+186% due to the commencement of a key base build project in the LCD industry) were offset by lower revenues in its Taiwan and Singapore operations owing to a slower number of new jobs secured. While the group recorded a lower revenue, its net profit grew by 1% on higher-margin projects clinched. This resulted in a gain of 0.4ppts in its NP margin of 3.4%.
- **QoQ,** the 1QFY13 revenue decreased by 39% amid the seasonal weakness in the 1Q of its financial year. Coupled with the higher effective tax rate of 19%, the group's NP margin shrank to 3.4% (-1.8ppts).

Outlook

- We believe that the industry recovery is likely to be seen in 2HCY13, underpinned by a recovery in the global chip demand amid a better global economic condition.
- The group has an order book of RM63.7m, of which RM39.7m remained outstanding as at 31 March 2013.

Change to Forecasts

- Our FY13 and FY14 NP estimates remained unchanged.

Rating

Maintain MARKET PERFORM

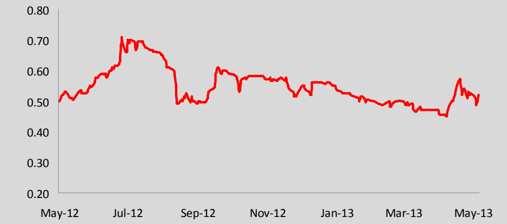
Valuation

- Our TP has been raised from RM0.53 to RM0.56 as we rolled forward our valuation base year from 8.0x FY13 PER to 8.0x FY14 PER (representing a -0.5SD below its 1-year forward average PER)

Risks

- Fluctuation in foreign currencies.
- The industry recovery may falter halfway.
- Delays in new projects.

Share Price Performance



KLCI	1,774.92
YTD KLCI chg	5.1%
YTD stock price chg	-1.9%

Stock Information

Bloomberg Ticker	KGRB MK Equity
Market Cap (RM m)	83.2
Issued shares	160.1
52-week range (H)	0.73
52-week range (L)	0.45
3-mth avg daily vol:	26,673
Free Float	29%
Beta	0.9

Major Shareholders

PALACE STAR	47.0%
LTAT	12.5%
SKY WALKER GROUP L	11.8%

Summary Earnings Table

FYE Dec (RM m)	2012A	2013E	2014E
Turnover	116.4	146.9	158.6
EBITDA	8.5	13.2	14.1
PBT	6.9	11.4	12.4
Net Profit (NP)	**6.0**	**10.3**	**11.2**
Consensus (NP)	-	10.5	11.7
Earnings Revision	-	-	-
EPS (sen)	5.6	6.4	7.0
EPS growth (%)	-30.8	14.0	9.2
NDPS (sen)	2.0	2.0	2.8
BVPS (RM)	0.3	0.5	0.4
PER	9.2	8.1	7.4
Price/NTA (x)	1.0	1.4	1.2
Dividend Yield (%)	7.7	3.8	7.7

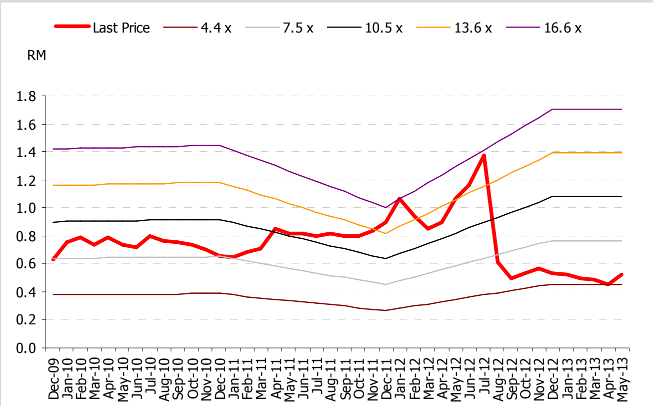
The Research Team
research@kenanga.com.my
Tel: 603-2713 2292

Result Highlight

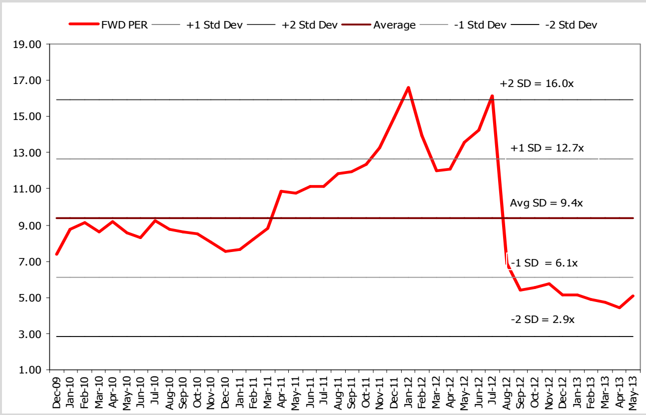
FYE Dec (RM'm)	1Q FY13	4Q FY12	QoQ Chg	1Q FY12	YoY Chg	3M FY13	3M FY12	YoY Chg
Turnover	**24.0**	**39.2**	**-38.7%**	**26.7**	**-10.1%**	**24.0**	**26.7**	**-10.1%**
EBIT	1.2	2.4	-51.0%	1.0	12.1%	1.2	1.0	12.1%
PBT	1.0	2.2	-53.7%	1.0	0.6%	1.0	1.0	0.6%
Taxation	-0.2	-0.1	48.8%	-0.2	1.6%	-0.2	-0.2	-1.6%
Net profit	**0.8**	**2.0**	**-60.0%**	**0.8**	**1.1%**	**0.8**	**0.8**	**1.1%**
EPS (sen)	0.5	1.5	-65.5%	1.0	-48.5%	0.5	1.0	-48.5%
DPS (sen)	2.0	0.0		4.0		2.0	4.0	
EBIT margin	4.9%	6.1%		3.9%		4.9%	3.9%	
Pretax margin	4.2%	5.5%		3.7%		4.2%	3.7%	
NP margin	3.4%	5.2%		3.0%		3.4%	3.0%	
Effective tax rate	18.7%	5.8%		19.1%		18.7%	19.1%	

Source: Company, Kenanga Research

Fwd PER Band



Fwd PER SD



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

Chan Ken Yew
Head of Research