



Kelington Group Bhd

Seasonally Low 1Q Performance

TP: RM0.66 (+26.9%)

Last traded: RM 0.52

BUY

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Review

- Kelington Group Berhad's (Kelington) 1Q13 net profit accounted for 8% of our full-year forecast. However, we consider this within expectation as we expect more contract win in 2H13. Note that based on the past performance, Kelington's earnings tend to grow stronger in Q2 to Q4 in tandem with increased contract flow.
- 1Q13 earnings increased by a marginal 1.1% YoY to RM0.8mn and this was underpinned by better project mix. In term of breakdown, the company derived the bulk of earnings from projects in Malaysia and China, especially from those semiconductor wafer fabrication facilities.
- For QoQ comparison, earnings contracted by 60% due to seasonality effect. Note that Kelington's first quarter earnings are usually the lowest as compared to other quarters due to festivities. During this period, work progress and contract flow tend to slow down especially in China and Taiwan in conjunction with Chinese New Year.

Impact

- We are keeping our FY13-15 earnings unchanged, pending guidance from management in a meeting next Tuesday.

Outlook

- For 1Q13, Kelington secured approximately RM23nm new jobs, boosting its order book to RM40mn. Although the total contract win may seem too low as compared to our new jobs assumptions of RM160mn, we reiterate that contract flow in 1Q is usually slow due to festivities. Also, as we expect the growth in global economy to gain further strength in 2H13 and the capex upcycle to continue in the semiconductor industry, we believe our new job assumptions of RM160mn are achievable.
- Currently, the company has an order book of RM40.0mn, comprising pipe installation works for Solar, Wafer, Electronics and LCD plants. Over the immediate term, we expect the company to secure installation works for a bio-diesel plant in Taiwan, which it has obtained a letter of offer. The indicative value of this bio-diesel project is RM36mn.

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 27%, we reiterate our **Buy** recommendation on Kelington.

Share Information

Bloomberg Code	KGRB MK
Stock Code	0151
Listing	Main Market
Share Cap (mn)	160.1
Market Cap (RMmn)	83.3
Par Value	0.1
52-wk Hi/Lo (RM)	0.725/0.45
12-mth Avg Daily Vol ('000 shrs)	133
Estimated Free Float (%)	22.7
Beta	0.86
Major Shareholders (%)	
	Palace Star - 47.0
	LTAT - 12.5
	Sky Walker - 11.8
	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)	11.9	9.4
ROE (%)	18.6	18.9
NTA/Share (RM)	0.4	0.4
Price/NTA (x)	1.4	1.2

Scorecard

	% of FY	
vs TA	8.0	Within
vs Consensus	na	na

Share Performance (%)

Price Change	KGB	FBM KLCI
1 mth	14.3	3.3
3 mth	4.0	8.4
6 mth	(8.8)	10.2
12 mth	(1.9)	12.3

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



Source: Bloomberg

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)	9.3	14.4	7.8	6.9	5.7
GDPS (sen)	2.0	1.5	3.0	3.0	3.5
Div yield * (%)	3.8	2.9	5.8	5.8	6.7
Core ROE (%)	19.3	12.1	18.6	18.9	20.1

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

1QFY13 Results Analysis (RMmn)

FYE Dec	1Q12	4Q12	1Q13	QoQ%	YoY%
Revenue	26.7	39.2	24.0	(38.7)	(10.1)
EBIT	1.0	2.4	1.2	(51.0)	12.1
Interest costs	(0.1)	(0.2)	(0.2)	(25.7)	235.3
PBT	1.0	2.2	1.0	(53.7)	0.6
Taxation	(0.2)	(0.1)	(0.2)	48.8	(1.6)
Net profit	0.8	2.0	0.8	(60.0)	1.1
Core net profit	0.8	2.0	0.8	(60.0)	1.1
EPS (sen)	0.5	1.3	0.5	(59.8)	1.0
DPS (sen)	0.0	0.0	0.0	nm	nm
				%pts	%pts
EBIT margin (%)	3.9	6.1	4.9	(1.2)	1.0
PBT margin (%)	3.7	5.5	4.2	(1.3)	0.4
Net margin (%)	3.0	5.2	3.4	(1.8)	0.4
Tax rate (%)	19.1	5.8	18.7	12.8	(0.4)

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