

19 December 2013

Kelington Group Bhd 9M13 Misses, Rebound in FY14

INVESTMENT MERIT

- 9M13 results below expectation...** Kelington's 9M net profit (NP) which contracted 60% to RM1.6m, accounted for only 17% of our FY13E NP of RM9.6m. The key negative deviations were: (i) slower attainment of new jobs in Malaysia, China and Taiwan; and, (ii) lower margins for the current project mix.
- ...but FY14 could be a turnaround story given the upcoming new contracts.** While we are cognisant of the slower job recognition and attainment this year, we believe that upcoming contracts could turn around the group's fortune. Besides, its outstanding orderbook of RM44.6m, the group has recently received a Letter of Award to provide Ultra High Purity mechanical and electrical services and medical system for Kang Hui Maternity Center Services (Shanghai) Co. We gather that this contract which is worth USD46m (or c.RM148m) will commence soon this month and is expected to be completed by October 2014. While the final acceptance of the award is still pending the official approval by the financial institution (for the application of banking facilities), we are confident that the final approval would likely go through as per management guidance.
- Tender book updates.** Management remains optimistic in securing the Taiwan Biodiesel's RM35m contract by January 2014. Together with the ongoing 2+1 year contract with one of the world's largest chip manufacturers, total contracts that could be secured in 2014 could be c.RM200m, 37% higher than the expected contract value of RM146m secured in FY13.
- A minimum 25% dividend payout policy remains unchanged.** Kelington has finally turned to net cash position and this, we believe, allows the group to opt for higher dividend payout going forward. If we were to err on the conservative side by taking a 40% DPR from our FY14E EPS estimate of 6.0 sen (note that Kelington declared a 2.0 sen DPS for FY12, which was c.52% of DPR), this would imply a 2.4 sen DPS, translating into a c.5.1% of net dividend yield.
- TRADING BUY with a lower TP of RM0.52 (from RM0.58).** Post-update, we have downgraded our FY13 earnings estimate by 77% in conjunction with the group's current performance. Nonetheless, we only trimmed our FY14 earnings estimate by 15% to reflect the lower margin arising from the project mix. We value the stock at RM0.52 @ 8.7X FY14 PER, which is at -0.5SD level below its 1-year forward average PER. Even with our conservative valuation, the TP warrants a capital upside of 11%. Accumulate on current price weakness.

TECHNICALS

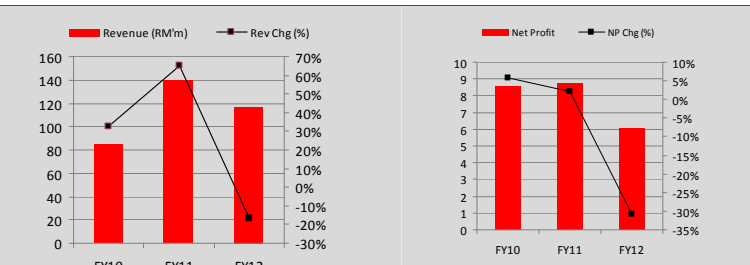
- Resistance:** RM0.495 (R1), RM0.545 (R2)
- Support:** RM0.445 (S1), RM0.400 (S2)
- Comments:** Recently, the share price has rebound from a sharp decline since earlier of the month. Chart-wise, a breakout above psychological resistance @RM0.500 could stage a return of the upcycle towards RM0.545 and potentially RM0.590 next in a range bound cycle. Indicator wise, the chart remain positively bias in the short-term for potential rebound from the oversold condition.



Source: Bloomberg

	Rating	Fair Value
Last Price	-	RM0.47
Kenanga	Trading buy	RM0.52
Consensus	-	-

FINANCIALS



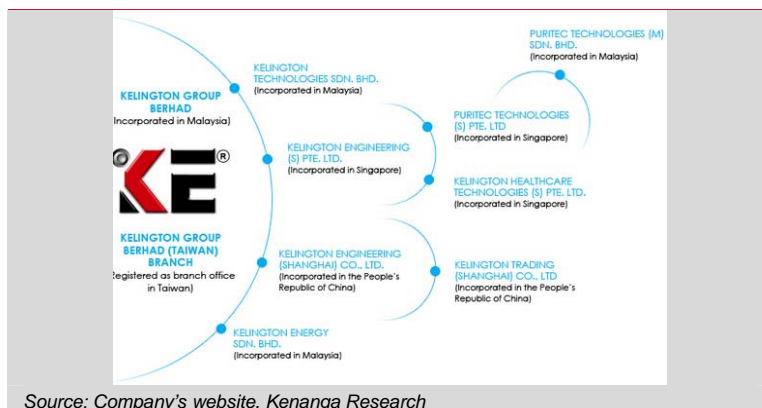
FYE DEC	FY12	FY13	YoY	2Q13	3Q13	QoQ
Revenue	116.4	93.8	-19%	23.1	19.7	-14%
PBT	6.9	2.5	-64%	0.6	0.0	-103%
Net Profit	6.0	2.2	-63%	0.8	0.1	-92%
EPS (sen)	5.4	1.4	-74%	0.5	0.0	-98%
DPS (sen)	1.0	2.0		0.0	0.0	

Source: Bloomberg, Company

	2012A	2013F	2014F
PER (x)	9.2	37.0	8.7
PBV (x)	1.0	1.5	1.4

Source: Bloomberg, Company

CORPORATE STRUCTURE



Source: Company's website, Kenanga Research

BUSINESS OVERVIEW

- Kelington** is a leading ultra-high purity (UHP) gas and chemical delivery solutions provider with operations in Malaysia, China, Taiwan and Singapore. Throughout the years, it has also diversified into other areas of system design and modeling, fabrication and installation, quality testing and certification, control and instrumentation and maintenance for various foundries (semiconductor / flat panel display). In 2012, the acquisition of Singapore-based Puritec Technologies (S) Pte. Ltd has further strengthen its capability of becoming a one-stop facility solution provider encompassing the delivery of gas, chemical and exhaust.

BUSINESS SEGMENT

The group offers a comprehensive range of services as below:

- UHP system design:** Includes procedures such as ground and site analysis, feasibility studies, delivery system conceptualisation and so on.
- Fabrication and installation:** Involves the physical construction and fabrication of the UHP delivery system.
- Gas and chemical delivery equipment:** It is either manufactured in-house or sourced externally according to design specifications.
- QA and QC services:** Generally encompass tests done on the air quality and the particle size and quantity observed at the end point of use.
- Control and instrumentation:** It is responsible for the constant monitoring any Wafer Fabrication or FPD Fabrication Plant.
- Maintenance and servicing:** Mainly for equipment such as Gas Cabinet, VMB/VMP, and Abatement System.

KELINGTON GROUP BHD

Industry: Engineering&Construction

Industry Sub-Sector: Engineering/R&D Services

Currency: MYR

Exchange: Bursa Malays

Stock ID	Price @	% Chg 1 yr	% Chg 3 mth	% Chg 1 mth	% Chg 5 day	\$ Chg 1 day	\$ Chg YTD
0151	19-Dec-13						
KGRB MK	0.470	-9.62	3.30	1.08	-4.08	10.59	-11.32
KLCI	1847.50	10.92	3.04	2.23	0.25	-0.18	9.39

Kelington Group Bhd designs, fabricates and installs ultra-high purity gas and chemicals delivery systems.

Ownership Statistics	Ownership Type
Institutional Ownership	77.2%
Retail Ownership	22.3%
Insider Ownership	0.5%

Financial Stats	FY11	FY12	FY13F	FY14F
FYE December				
Revenue	139.6	116.4	93.8	255.6
EBITDA	11.0	8.5	3.8	13.2
OP	9.9	7.3	2.8	10.7
Pretax	9.8	6.9	2.5	10.6
Net Profit	8.7	6.0	2.2	9.6
EPS (SEN)	11.0	5.4	1.4	6.0

Balance Sheet	FY11	FY12	FY13F	FY14F
Non-CA	8.2	15.0	15.5	16.9
CA	90.7	94.3	72.9	122.9
Total Assets	98.9	109.3	88.5	139.8
CL	45.2	39.2	31.7	76.8
Non-CL	3.3	16.0	1.3	1.8
Shareholders fund	50.4	54.1	55.4	61.2
Minority interest				
Total Equity & Liabilities	98.9	109.3	88.5	139.8

Cash Flow	FY11	FY12	FY13F	FY14F
Operating CF	3.9	(13.0)	22.5	12.3
Investing CF	(0.5)	(4.3)	(1.4)	(3.8)
Financing CF	3.1	19.1	(15.2)	(3.8)
Change in Cash	6.5	1.9	5.8	4.6

Valuation Stats	FY11	FY12	FY13F	FY14F
PER (x)	6.4	9.2	37.0	8.7
P/BV (x)	1.7	1.0	1.5	1.4
EV/EBITDA	5.5	9.9	17.1	4.5
DPS (SEN)	0.0	0.0	0.6	2.4
Dividend Yield (%)	0%	0%	1%	5%
ROE (%)	17%	11%	4%	16%
ROA (%)	9%	6%	3%	7%
EPS Growth (%)	2%	-51%	-74%	327%
Revenue Growth (%)	65%	-17%	-19%	172%
OP Margin (%)	7%	6%	3%	4%
NP Margin (%)	6%	5%	2%	4%

Domestic Peers Comparison (CY12)	PER	P/BV	P/NTA	P/CF	Div Yield Mkt Cap
KELINGTON GROUP BHD	#N/A	0.94	1.54	#N/A	75
FTSE Bursa Malaysia Small Cap Index	12.05	0.95		4.31	

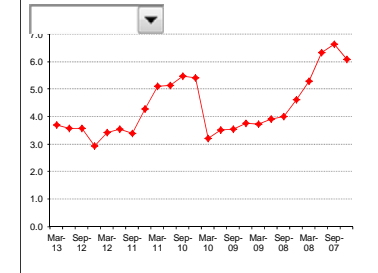
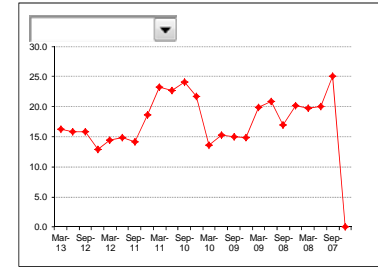
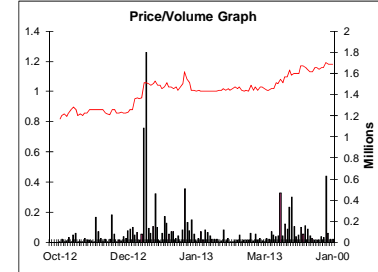
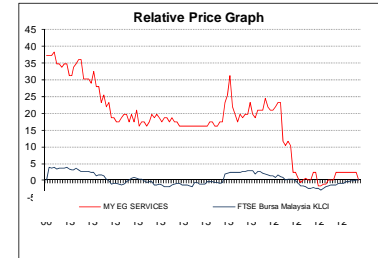
Market Cap (mil)	75.1	Return on Capital (%)**	13.9
Total Debt (mil)**	1.3	Return on Assets (%)**	8.2
Total Assets (mil)**	88.9	Return on Common Eqy (%)**	13.9
Total Capital (mil)**	54.8	Sales Growth **	-25.3
Tot Debt/Tot Asst (%)**	1.5	Diluted EPS Cont Ops**	0.01
Tot Debt/Tot Cap (%)**	2.4	Current Qtr EPS Est	N/A
Tot Debt/Com Eqy (%)**	2.4	Current Yr EPS Est	N/A
Tot Debt/EBITDA (x)**	0.14	Beta (x)	1.04
Book Value (x)**	0.34	Relative Index	FTSE Bursa Malaysia KLCI
Number of Shares Outstanding (mil)	159.7	Index Weighting	N/A
Avg 6M Daily Vol Traded (mil)	0.2	Alt. Relative Index	FTSE BURSA MALAYSIA EMAS
Avg 6M Daily Value Traded (mil)	0.1	Alt. Index Weighting	N/A
Net Gearing (x)	0.3	2nd Alt. Relative Index	FTSE Bursa Mal Small Cap
Free Float (%)	10.6	2nd Alt. Index Weighting	N/A
Share Price 52 Week High	0.59	Consensus Target Price	N/A
Share Price 52 Week Low	0.40	Target Price (H)	N/A
Altman's Z-Score	3.2	Target Price (L)	N/A
Interest Coverage Ratio	35.6	Consensus Recommendation	2/27/2014
Top 3 Major Shareholders:	%	Expected Earnings Report Date	2.0
PALACE STAR	47.1	Last Gross DPS (sen)	2.0
LEMBAGA TABUNG ANGKA	12.5	Last Net DPS (sen)	2.0
SKY WALKER GROUP LTD	11.6	Last Dividend EX Date	7/11/2013

**Trailing numbers as of the most recent quarter End: 2012 Y

Quarterly Financial Data	3Q12	4Q12	1Q13	2Q13	3Q13
Revenue	26.4	39.2	24.0	23.1	19.7
OP	2.0	2.4	1.2	0.8	0.2
Pretax	1.9	2.2	1.0	0.6	0.0
Net Profit	1.5	2.0	0.8	0.8	0.1
EPS (sen)	1.20	1.30	0.50	0.50	0.00
EPS Growth (QoQ)	13.2%	8.3%	-61.5%	0.0%	-100.0%
Revenue Growth (QoQ)	#DIV/0!	48.3%	-38.7%	-4.0%	-14.4%
OP Margin	7.6%	6.1%	4.9%	3.4%	1.0%

Revenue Breakdown	2010	2011	2012
Engineering Services	84.5	100%	139.6
			116.2
			100%
Total	84.5	139.6	116.2

Geographic Breakdown - Revenue	2010	2011	2012
Malaysia	40.7	48%	43.8
Singapore	11.2	13%	29.0
Taiwan	15.9	19%	34.5
PRC	16.7	20%	25.9
Others	-	0%	6.4
Total	84.5	139.6	116.2



Source: Bloomberg, Kenanga Research

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Published and printed by:

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