

**Company Result**

**27 November 2014**

**Kelington Group Bhd  
9M2014: Resilient Growth**

**BUY  
MAINTAINED**

<b>Share Price</b>	<b>RM0.42</b>
<b>Target Price</b>	<b>RM0.55</b>

**Company Description**

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

**Stock Data**

Bursa / Bloomberg code	0151 / KGRB MK
Board / Sector	Main / Trade/Serv
Syariah Compliant status	Yes
Issued shares (m)	215.35
Par Value (RM)	0.10
Market cap. (RM'm)	90.45
52-week price Range	RM0.32 – 0.50
Beta (against KLCI)	0.81
3-m Average Daily Volume	1.11m
3-m Average Daily Value <sup>^</sup>	RM0.49m

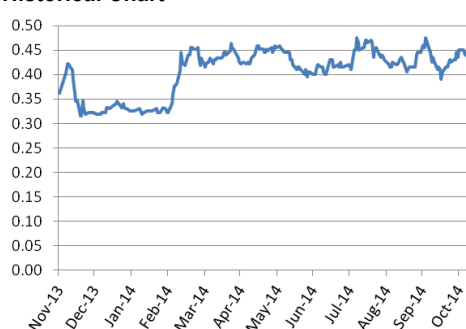
**Share Performance**

	1m	3m	12m
Absolute (%)	-2.3	-7.7	13.1
Relative (%-pts)	-3.0	-3.0	10.4

**Major Shareholders**

	%
Palace Star	46.5
LTAT	12.4
Sun Lead International Ltd	9.2

**Historical Chart**



Source: Bloomberg

**Team Coverage**

**03-87361118, ext. 752**

**Research.dept@jfafpex.com.my**

**Result**

- **Kelington achieved stellar yoy result as 3Q14 net earnings stood at RM2.10 mill, jumped massively by 3337.70% on the back of soaring revenue, +148.03%.** Similarly, the Group also posted better qoq results with net profit up 6.07% as revenue surged 11.42%.
- For 9M2014, net earnings were registered at RM6.15mil, jumped by 278.71% y-o-y. Revenue also expanded by 118.46% to RM145.94mill.
- **9M2014 net profit met our expectation**, reached 71.76% of our full year estimates.

**Comment**

- **Malaysian and Singapore's operations as star performers** – In 3Q14, the Group's operations in Malaysia and Singapore recorded a strong growth of 349.28% and 28.17% to RM36.86 mill and RM9.17 mill respectively. The commendable growth from both countries which were mainly contributed by wafer and chemical processing projects, managed to offset the decline in Taiwan's operation due to slower attainment of new jobs.
- **Strong order book** – Although the delay in the Group's operation for its IHH Healthcare project in China to end of FY-15 as a result of changes in the building's layout and design, the other projects in Malaysia, Singapore and China continued to contribute to the Group's 9M2014 earnings. The Group has strengthened its order book by securing new jobs worth RM56 million for 3Q14. Overall, the Group's recorded an order book of RM344 million of which RM198 million remains outstanding as of 3Q14.

**Earnings Outlook/Revision**

- **We maintain our earnings forecast for FY14 at RM8.57mill (+415%) and FY15 at RM10.8mill (+25.8%),** backed by the Group's promising order book and bright outlook of semiconductor industry.

**Valuation & Recommendation**

- **No change to our BUY call with target price of 55sen. We pegged our target price at 11x 2015F PE (with EPS of 5 sen) which is +0.5 standard deviation above its historical mean.**
- We like the Group for its strong presence in overseas markets as well as diversified business exposures in different industries besides semiconductor. Also, the Group is generous in rewarding shareholders based on its track record with our estimated dividend yield of over 4% for FY14.

### Quarterly Figures

Year to 31 Dec	3Q14 (RMm)	2Q14 (RMm)	3Q13 (RMm)	QoQ % chg	YoY % chg	9M14 (RMm)	9M13 (RMm)	YoY % chg
<b>Revenue</b>	48.94	43.93	19.73	11.42%	148.03%	145.94	66.80	118.46%
<b>Operating Profit</b>	2.11	2.14	0.20	-1.31%	933.33%	6.72	2.15	212.70%
<b>Pre-tax Profit</b>	2.01	1.93	-0.02	3.99%	N/A	6.31	1.56	303.64%
<b>Profit After Tax</b>	2.08	1.97	0.02	5.90%	9359.09%	6.11	1.59	285.18%
<b>Net Profit</b>	2.10	1.98	0.06	6.07%	3337.70%	6.15	1.63	278.71%
<b>Operating Margin (%)</b>	4.31%	4.86%	1.03%	-0.56ppt	3.27 ppt	4.61%	3.22%	-5.16 ppt
<b>Profit Before Tax Margin (%)</b>	4.10%	4.40%	-0.10%	-0.29 ppt	4.20 ppt	4.33%	2.34%	-4.62 ppt
<b>Profit After Tax Margin (%)</b>	4.25%	4.47%	0.11%	-0.22 ppt	4.14 ppt	4.19%	2.37%	-4.41 ppt
<b>Nat Profit Margin (%)</b>	4.28%	4.50%	0.31%	-0.22 ppt	3.98 ppt	4.22%	2.43%	-4.43 ppt

(Source: Company, JF Apex)

### Financial Summary

Year to 31 March (RMm)	2009	2010	2011	2012	2013	2014F	2015F
Revenue	63.84	84.51	139.59	116.20	117.42	186.20	224.40
Operating profit	8.74	8.69	9.88	7.44	2.41	18.97	27.58
Net profit	8.07	8.54	8.73	6.08	1.66	8.57	10.77
EPS (sen)	0.04	0.04	0.04	0.03	0.01	0.04	0.05
P/E (x)	11.04	10.44	10.21	14.66	53.60	10.41	8.28
P/BV (x)	2.59	2.22	1.77	1.66	1.65	1.53	1.42
Dividend yield (%)	7.32%	7.32%	7.32%	4.88%	12.20%	4.88%	6.10%
PBT margin (%)	13.54%	10.17%	7.00%	6.22%	1.40%	3.51%	5.08%
Net Gearing (%)	-42.71%	-15.03%	-22.98%	4.18%	7.90%	-28.76%	-29.37%
ROE (%)	23.45%	21.22%	17.32%	11.30%	3.08%	14.69%	17.10%

(Source: Company, JF Apex)

**JF APEX SECURITIES BERHAD – CONTACT LIST**
**JF APEX SECURITIES BHD**

**Head Office:**  
 6<sup>th</sup> Floor, Menara Apex  
 Off Jalan Semenyih  
 Bukit Mewah  
 43000 Kajang  
 Selangor Darul Ehsan  
 Malaysia

General Line: (603) 8736 1118  
 Facsimile: (603) 8737 4532

**PJ Office:**

15<sup>th</sup> Floor, Menara Choy Fook On  
 No. 1B, Jalan Yong Shook Lin  
 46050 Petaling Jaya  
 Selangor Darul Ehsan  
 Malaysia

General Line: (603) 7620 1118  
 Facsimile: (603) 7620 6388

**DEALING TEAM**

**Head Office:**  
 Kong Ming Ming (ext 3237)  
 Shirley Chang (ext 3211)  
 Norisam Bojo (ext 3233)  
 Wong Wing Haur, Alvin (ext 3226)

**Institutional Dealing Team:**

Lim Teck Seng  
 Sanusi Bin Mansor (ext 740)  
 Fathul Rahman Buyong (ext 741)  
 Ahmad Mansor (ext 744)  
 Lum Meng Chan (ext 743)  
 Zairul Azman (ext 746)

**PJ Office:**

Mervyn Wong (ext 363)  
 Mohd Hanif Wan Said (ext 111)  
 Fong Jia Wen (ext 822)  
 Nursyazaleen Hazwani (ext 362)

**RESEARCH TEAM**

**Head Office:**  
 Lee Chung Cheng (ext 758)  
 Lee Cherng Wee (ext 759)  
 Jessica Low Jze Tieng (ext 756)  
 Elliya Harisna binti Junaedi (ext 752)  
 Norsyafina binti Mohamad Zubir (ext 755)  
 Teo Chee Chung (ext 753)

**JF APEX SECURITIES - RESEARCH RECOMMENDATION FRAMEWORK**
**STOCK RECOMMENDATIONS**

- BUY** : The stock's total returns\* are expected to exceed 10% within the next 12 months.
- HOLD** : The stock's total returns\* are expected to be within +10% to – 10% within the next 12 months.
- SELL** : The stock's total returns\* are expected to be below -10% within the next 12 months.
- TRADING BUY** : The stock's total returns\* are expected to exceed 10% within the next 3 months.
- TRADING SELL** : The stock's total returns\* are expected to be below -10% within the next 3 months.

**SECTOR RECOMMENDATIONS**

- OVERWEIGHT** : The industry as defined by the analyst is expected to exceed 10% within the next 12 months.
- MARKETWEIGHT** : The industry as defined by the analyst is expected to be within +10% to – 10% within the next 12 months.
- UNDERWEIGHT** : The industry as defined by the analyst, is expected to be below -10% within the next 12 months.

\*capital gain + dividend yield

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