Kelington Group Bhd

Potential Turnaround in FY14

	Rating	Fair Value
Last Price	-	RM0.55
Kenanga	Trading Buy	RM0.68
Consensus	N.A.	N.A.

INVESTMENT MERIT

- **FY13 results below expectation...** Kelington's FY13 net profit (NP) which contracted 73% to RM1.6m accounted for only 75% of our estimate of RM2.2m. The key negative deviations were: (i) slower attainment of new jobs in Malaysia and Taiwan and (ii) lower margins for the current project mix amid the competitive operating environment in Taiwan and Singapore.
- **...but FY14 could be a turnaround story supported by the strong orderbook.** While we are cognisant of the slower job recognition and attainment as well as the razor thin margins in FY13, we believe that the current outstanding orderbook of c.RM201m as well as the favourable tech upcycle could turn around the group's fortune. To recap, the orderbook currently consists of the contracts (i) to provide Ultra High Purity mechanical and electrical services and medical system for Kang Hui Maternity Center Services (Shanghai) Co (remaining value of c.RM132m), (ii) total facilities management services to one of the world's largest chip manufacturers (remaining value of c.RM20m), and (iii) UHP system design for TTE Engineering (remaining value of c.RM12m). Meanwhile, the remaining contracts value of c.RM37m is contributed by other semiconductors, O&G, plantation and healthcare players. ***Looking at the YTD orderbook value of c.RM201m alone (as of end-Feb 2014), this is already 3x higher than the previous orderbook value of RM63.7m outstanding during the 1QFY13 period.***
- **Tender book updates.** Management remains optimistic in securing the Taiwan Biodiesel's contract (worth RM35m) by 1H2014. Coupled with the other tender jobs for a Malaysian hospital (c.SGD30m), the tenderbooks value is already standing at RM113m to date.
- **Higher earnings visibility with more recurring contracts secured.** Note that the group's earnings visibility is now higher with 25:75 contract mix for recurring vs. project-based contracts (from previously being a pure project-based contractor. Delving deeper, the 25% portion of recurring contracts was mainly awarded by the world's two largest semiconductor manufacturers, which have engaged Kelington their turnkey subcontractor for facility management.
- **A minimum 25% dividend payout policy (DPR) remains unchanged.** While the financing for its single largest contract - the UHP mechanical and electrical services and medical system for Kang Hui Maternity Center, has stretched the group's gross gearing from 0.37x to 1.05x (nonetheless this will be pared down in FY15 according to the management), we understand that the group will still maintain its minimum 25% DPR. If we were to err on the conservative side by assuming a 2.0 sen DPS which implies 38% of DPR based on our FY14E EPS estimate of 5.2 sen (recall that Kelington declared a 2.0 sen DPS for FY12 and FY13, which represented c.52% and >100% of DPR), this could translate into a c.4% of net dividend yield.
- **Maintain TRADING BUY with a higher TP of RM0.68 (from RM0.52).** Post-results, although we have trimmed our FY14 earnings estimate downward marginally by 4% for house keeping purposes, our TP has been increased from RM0.52 to RM0.68 based on a higher PER of 13.0x which is close to its 1-year forward average PER (from previously -0.5SD below its 1-year forward average PER) in light of the strong orderbook as well as the technology sector upcycle. Although the share price has appreciated by 17% since our TB rating (with previous TP of

Stock Information

Stock Name	KELINGTON GROUP BHD
CAT Code	0151
Industry	Engineering&Construction
Industry Sub-sector	Engineering/R&D Services
YTD stock price chg	27.91%
Market Cap (RM m)	87.82
Issued shares (m)	159.67
52-week range (Hi)	0.59
52-week range (Low)	0.4
3-mth avg daily vol:	355027.1
Free Float	11%
Beta	1.01
Altman's Z-score	3.24

Major Shareholders

PALACE STAR	47.07%
LEMBAGA TABUNG ANGKA	12.53%
SKY WALKER GROUP	11.63%

Financials

FYE Dec (RM'm)	2012A	2013A	2014E
Revenue	116.2	117.4	214.0
EBITDA	8.6	3.4	13.6
PBT	7.2	1.6	10.0
Net Profit (NP)	6.1	1.6	9.1
EPS (sen)	3.5	0.9	5.2
BV/Share (RM)	0.31	0.31	0.34
PER	15.6	58.1	10.5
Price/BV (x)	1.8	1.8	1.6
Gross Gearing (x)	0.3	0.4	1.0
NDPS (sen)	2.0	2.0	2.0
Dividend Yield (%)	3.6	3.6	3.6

Quarterly Financial Data	2Q13	3Q13	4Q13
Revenue	23.05	19.73	50.59
Revenue Growth (QoQ)	-4.0%	-14.4%	156.4%
EBIT	0.78	0.20	0.26
OP Margin	3.4%	1.0%	0.5%
Net Profit (NP)	0.75	0.06	0.01
EPS (sen)	0.46	0.01	0.00
EPS Growth (QoQ)	-11.5%	-97.8%	-100.0%

Peers Comparisions	PER (FY14)	Div. Yld (%)	Mkt Cap (RM'm)
Average	NA	NA	NA
FBMKLCI	15.94	5.77	-

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RM0.52) in December 2013, it is still trading at an undemanding valuation of 10.5x FY14 EPS, which is close to -0.5SD below its 3-year average PER.

Daily Charting – Kelington Berhad

Comment: KELINGTON's technical picture looks bullish, as it stays above all 3 major SMAs (20,50,100). A "Bullish Marubozu" candlestick has taken shape on the daily chart, signalling that there is no letting down of buying momentum and we believe that KELINGTON could extend its gains over the next few days. From here, we expect KELINGTON to retest its channel resistance at RM0.60, where tough resistance could be felt.

About the stock:

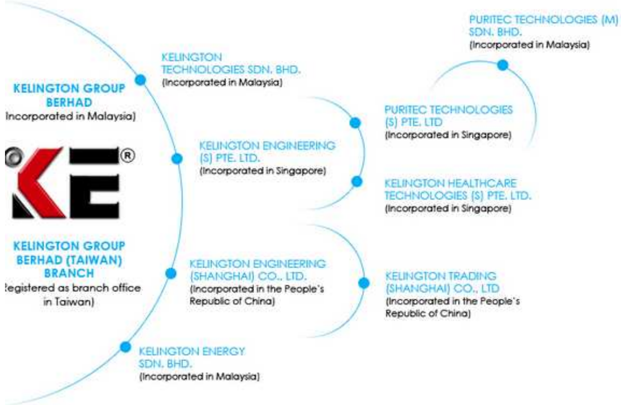
Name	:	Kelington Group Bhd
Bursa Code	:	KELINGTON
CAT Code	:	0151

Key Support & Resistance level

Resistance	:	RM0.55 (R1)	RM0.60 (R2)	RM0.70 (R3)
Support	:	RM0.50 (S1)	RM0.43 (S2)	RM0.40 (S3)
Outlook	:	Neutral-Bullish		

Source: Kenanga Research

CORPORATE STRUCTURE



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 further strengthen its capability of becoming a one-stop facility solution provider encompassing the delivery of gas, chemical and exhaust.

BUSINESS SEGMENTS

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.
- 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 contant monitoring any Wafer Fabrication or FPD Fabrication Plant.
- Maintenance and servicing: Mainly for equipment such as Gas Cabinet, VMB/VMP, and Abatement Sytem.

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