

# Kelington Group Bhd

## On Track for A Huge Turnaround

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### INVESTMENT MERIT

- 1Q14 results within expectations.** Kelington reported a 1Q14 net profit (NP) of RM2.08m which accounted for 23% and 22% of our full-year forecast and the consensus estimates, respectively. Given the earnings visibility in FY14, we deem the results to be within expectations although the strong earnings was a tad higher than the historical 1Q NP which only made up c.7-15% of the full-year NP in the past four years (save for FY13 due to weak earnings in the 2H). On a closer look, 1Q14 NP of RM2.08m soared by c.173x QoQ and c.2.6x YoY mainly driven by the contribution from the UHP mechanical and electrical services and medical system for Kang Hui Maternity Centre Services in Shanghai (which was at 50% of total earnings).
- FY14's earnings turnaround on track; to be supported by the strong orderbook.** The decent results reaffirmed our conviction that the outstanding orderbook of c.RM175m (as of 31<sup>st</sup> March 2014) as well as the favourable tech upcycle could turn the group's fortunes around. On a closer look, the current outstanding orderbook of c.RM175m consists of the contracts from: (i) the Ultra High Purity mechanical and electrical services and medical system for Kang Hui Maternity Center Services (Shanghai) Co (remaining value of c.RM99m), (ii) the total facilities management services to one of the world's largest chip manufacturers (remaining value of c.RM18m), and (iii) the UHP system design for TTE Engineering (remaining value of c.RM8m). Meanwhile, the remaining contracts value of c.RM50m is contributed by other semiconductors, O&G, plantation and healthcare players. **The orderbook value of c.RM175m alone is already 2.7x higher than the previous orderbook value of RM63.7m outstanding during May-2013.**
- Tender book updates.** While we gather that the expected rollout date for the Taiwan's biodiesel contract (worth RM35m) has been delayed due to the longer-than-expected approval process, management remains optimistic in securing it by 2H2014. Inclusive of other tender jobs for one of Malaysia's hospitals (c.SGD30m), **the tender book value has already hit RM110m.**
- A minimum 25% dividend payout policy (DPR) remains unchanged.** The financing for the single largest contract - the UHP system provision for Kang Hui Maternity Center, has stretched the group's gross gearing from 0.37x to 1.05x, **but we understand that the group will still maintain its minimum 25% DPR.** Even if we were to assume a conservative side 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 0.5 sen DPS for FY13 which represented c.52% and c.48% of DPR)), **this could still translate to a fair c.3% net dividend yield.**
- Maintain TRADING BUY with an unchanged TP of RM0.68.** We leave our earnings estimates and TP of RM0.68 (based on an unchanged PER of 13.0x (close to its 1-year forward average PER)) unchanged for now. Although the share price has appreciated by 30% since our TB rating (with previous TP of RM0.52) since December 2013, we are still feeling upbeat on the group's outlook in light of the strong orderbook as well as the technology sector upcycle.

	Rating	Fair Value
Last Price	-	RM0.61
Kenanga Consensus	Trading Buy	RM0.68
	Non-rated	RM0.64

### Stock Information

Stock Name	KELINGTON GROUP BHD
CAT Code	0151
Industry	Engineering & Construction
Industry Sub-sector	Engineering/R&D Services
YTD stock price chg	41.86%
Market Cap (RM m)	98.66
Issued shares (m)	161.74
52-week range (Hi)	0.655
52-week range (Low)	0.4
3-mth avg daily vol:	1066637
Free Float	19%
Beta	0.94
Altman's Z-score	3.24

### Major Shareholders

PALACE STAR	46.47%
LEMBAGA TABUNG ANGKA	12.37%
SKY WALKER GROUP LTD	11.48%

### Financials

FYE Dec (RM'm)	2012A	2013A	2014E
Revenue	116.2	117.4	214.0
EBIT	8.6	3.4	13.6
Net Profit (NP)	7.2	1.6	10.0
Adjusted NP	6.1	1.6	9.1
Adjusted EPS (sen)	3.5	0.9	5.2
BV/Share (RM)	0.31	0.31	0.34
PER	17.3	64.5	11.7
Price/BV (x)	2.0	2.0	1.8
Gross Gearing (x)	0.3	0.4	1.0
NDPS (sen)	2.0	0.5	2.0
Dividend Yield (%)	3.3	0.8	3.3

Quarterly Financial Data (RMm)	3Q13	4Q13	1Q14
Revenue	19.73	50.59	53.07
Revenue Growth (QoQ)	-14.4%	156.4%	4.9%
EBIT	0.20	0.26	2.48
OP Margin	1.0%	0.5%	4.7%
Net Profit (NP)	0.06	0.01	2.08
EPS (sen)	0.01	0.00	1.26
EPS Growth (QoQ)	-97.8%	-100.0%	>100%

Peers Comparisons	PER (FY14)	Div. Yld (%)	Mkt Cap (RM'm)
Average	NA	NA	NA
FBMKLCI	16.7	5.9	1.04T

\* Index Level

Daily Charting – Kelington Group Berhad



**Comment:** KGB has been on a range-bound consolidation mode for the past three months. Primary trend of KGB remained positive as the underlying price stays above key all moving averages. However, all key momentum indicators like MACD, Stochastic and RSI are neutral; all flattish and suggesting lack of near-term catalyst and weak buying momentum. In short, we expect KGB to continue on its consolidation mode. Immediate resistance is capped at RM0.62, while support level is set at RM0.58

**About the stock:**

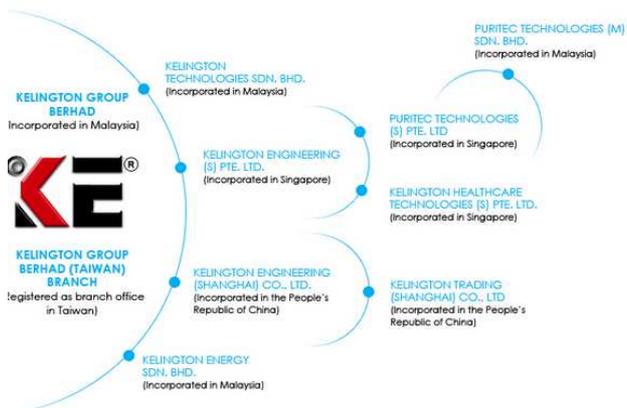
<b>Name</b>	: KELINGTON GROUP BERHAD
<b>Bursa Code</b>	: KGB
<b>CAT Code</b>	: 0151

**Key Support & Resistance level**

Resistance	: RM0.62 (R1)	RM0.67 (R2)	RM0.73 (R3)
Support	: RM0.58 (S1)	RM0.52 (S2)	RM0.43 (S3)
Outlook	: Neutral		

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 has further strengthened 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 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 Sytem.

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