



## Kelington Group Bhd

Turning the Tide in 2014

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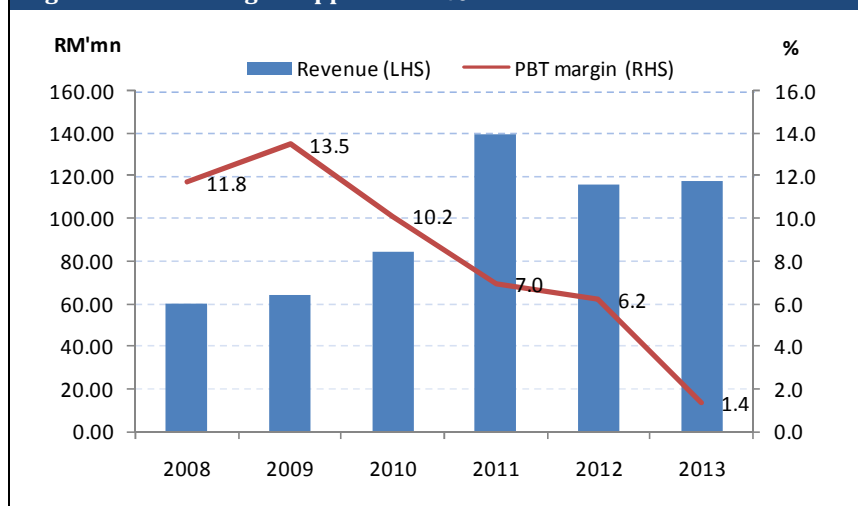
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2013 was a washout year for Kelington as net profit plunged to the record low of RM1.6mn due to pricing pressure. However, 2014 is expected to turn the tide as the group has secured a significant contract from International Healthway Corporation worth USD46mn in late-2013. Valuation wise, pegging a PE multiple of 10x CY14 EPS, the indicative fair value works out to RM0.64/share.

**Challenging market condition.** 2013 was a tough year for Kelington due to inadequate contract awards in the UHP gas industry as major clients in the semiconductor industry cut capex considerably. As a result FY13 pretax profit plunged to RM1.6mn (down 78% YoY) while the pretax margin slipped to 1.4% (see Figure 1).

According to management, the drop in margin in FY13 can be attributed to those low margin contracts secured in 1H13, which the company has to undercut pricing amid challenging market conditions. Based on our estimates, we believe Kelington has completed the bulk of these low-margin contracts in 2013.

Figure 1: 2013 margin slipped to 1.4%



Source: Kelington & TA Research

**The dismal performance is not likely to repeat in 2014.** Toward the end of 2013, Kelington secured a significant contract worth USD46mn from International Healthway Corporation. The job scopes include the provision of UHP mechanical and electrical services and medical system for Holland Village Project in Shanghai, which are expected to be completed by Nov-14. Besides, the company secured a number of small contracts in Jan-Feb/14 (see Figure 2) worth RM31mn to fuel 2014 earnings growth.

TP: RM0.64 (+24.3%)

Last traded: RM 0.515

NOT RATED

### Share Information

Bloomberg Code	KGRB MK
Stock Code	0151
Listing	Main Market
Share Cap (mn)	159.7
Market Cap (RMmn)	82.2
Par Value	0.1
52-wk Hi/Lo (RM)	0.59/0.40
12-mth Avg Daily Vol ('000 shrs)	114.8
Estimated Free Float (%)	10.6
Beta	1.01

### Major Shareholders (%)

Palace Star	- 47.07
LTAT	- 12.5
Sky Walker Group Ltd	- 11.6
Sun Lead International	- 11.6

### Forecast Revision

	FY14	FY15
Forecast Revision (%)	-	-
Net profit (RMmn)	10.3	10.8
Consensus	-	-
TA's / Consensus (%)	na	na

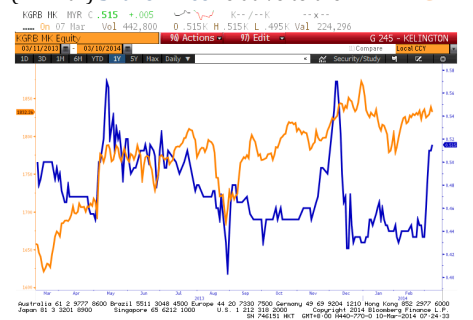
### Financial Indicators

	FY14	FY15
Net Debt/Equity (%)	9.1	6.8
CFPS (sen)	(1.4)	2.3
Price/CFPS (x)	(37.2)	21.7
ROE (%)	17.9	16.5
NTA/Share (RM)	0.4	0.4
Price/NTA (x)	1.5	1.3

### Share Performance (%)

Price Change	KGB	FBM KLCI
1 mth	18.4	(0.2)
3 mth	19.8	(1.9)
6 mth	14.4	3.6
12 mth	6.2	9.6

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



Source: Bloomberg

**Figure 2: Order book**

Clients	Country	Sector	Outstanding value
International Healthway Corporation	China	Healthcare	132
World leading semiconductor manufacturer	Malaysia	Wafer	20
Ibiden/TTE Engineering*	Malaysia	Electronic	12
Merck/Lend Lease*	Singapore	Pharmaceutical	8
PT Technic*	Malaysia	O&G	6
Schlumberger*	Singapore	Gas	6
Biocon	Malaysia	Pharmaceutical	4
Q Cell*	Malaysia	Solar	4
Soxal	Singapore	Industrial Gas	1
Rolls Royce	Singapore	Aerospace	2
Hueng Luei*	Singapore	Wafer	2
Cargill	Malaysia	palm oil refinery	2
Others			2
<b>Total</b>			<b>201</b>

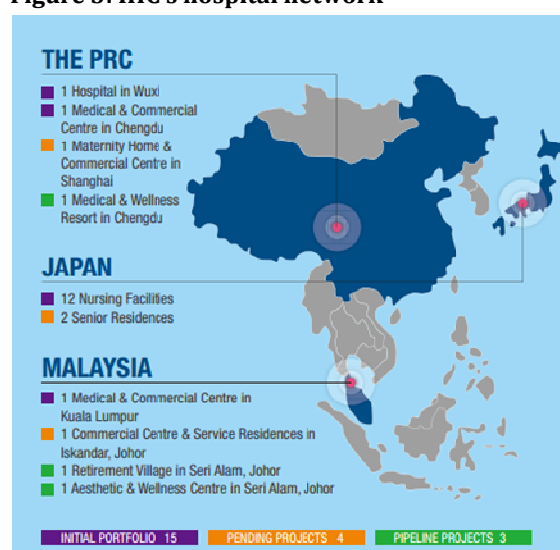
\* New contracts secured in 2014

Source: Kelington & TA Research

**Margin recovery.** The recovery of profit margin is important to FY14 earnings growth. Especially, the profit margin for the Holland Village project is the key to 2014 profit as the contract value represents 66% of the company's existing order book. This will lead to margin recovery from a low base of 1.4% in 2013.

**Focusing on project execution.** Kelington has rolled up its sleeve on Holland Village project execution as project satisfaction, ie: project completion on time and within budget, could serve as a catalyst in generating new contracts for the group. Note that International Healthway Corporation (IHC), the owner of Holland Village project, has undergone initial public offering in Singapore in July-13 and has planned to expand its network further. It has 3 pipeline projects, ie: a retirement village and a aesthetic & wellness centre in Seri Alam Johor, Malaysia, and a medical & wellness resort in Chengdu, China (see Figure 3), which will require UHP gas supply. Kelington would stand to benefit as the construction and design works for UHP base build and hook up services for these facilities could be given to the company. In fact, for one of IHC's on-going projects in Malaysia, ie: 33-storey mixed-development comprising specialized medical suites, retail space and service residences at Jalan Kia Peng, Kelington will be tendering for the contract of which the award is expected to be in 2015.

**Figure 3: IHC's hospital network**



Source: IHC's prospectus

Besides those abovementioned jobs, Kelington is expected to secure a contract for a biodiesel project in Taiwan in which the company has secured the letter of intent. The job scope basically involves the installation of piping systems for a contract value of NTD350mn.

**Financial impact.** Including the biodiesel plant, Kelington has an order book of RM236mn to be recognized in 2014. We expect Kelington to chew up to 77% of its order book to generate net profit of RM10.3mn based on a conservative PBT margin of 6%. For 2015, we expect revenue and net profit to grow further at 5% as the semiconductor industry is expected to fare better amid stable global economic growth.

Kelington has secured a financing facility worth USD14mn to kick start the Holland Village project. This facility is short-term in nature and will be substantially pared down in 2014. As such, it would not change the group's capital structure and gearing ratio in a big way. It would also support the group's policy of paying out 25% earnings as dividend.

### Valuation

We like Kelington for its strong balance sheet to safeguard against the unpredictable earnings pattern stemming from short contract duration. Also, Kelington has succeeded in making inroads into the pharmaceutical and medical sector. The company now boasts a list of international companies as its clients, namely Biocom, Merck, International Healthway Corporation.

We arrive at an indicative fair value of 64sen/share, based on 10x CY14 EPS which is at 40% discount to the peers' average PER (see Figure 4). The discount is justifiable given the relatively small market capitalization of Kelington of less than RM100mn. Not Rated.

**Figure 4: Peer comparison**

Peers	Currency	Price	Market cap (RM'mn)	PE (x)
Hanyang Eng	KRW	6636	362.1	21.4
Wholetech System Hitech	TWD	14.45	114.7	15.0
Marketch International	TWD	22.1	348.9	14.0
<b>Average</b>			<b>275.2</b>	<b>16.8</b>

**Profit & Loss (RMm)**

YE Dec 31		2011	2012	2013	2014f	2015f
Revenue		139.6	116.2	117.4	182.0	191.1
EBITDA		11.1	8.7	3.5	12.8	13.4
EBITDA margin (%)		7.9	7.5	3.0	7.0	7.0
Dep. & amortisation		(1.2)	(1.3)	(1.1)	(1.1)	(1.2)
Net finance cost		(0.1)	(0.2)	(0.8)	(0.9)	(0.9)
PBT		9.8	7.2	1.6	10.8	11.3
PBT margin (%)		7.0	6.2	1.4	6.0	5.9
Taxation		(1.0)	(1.2)	(0.0)	(0.5)	(0.5)
Net profit		8.7	6.1	1.6	10.3	10.8
Core net profit		8.7	6.1	1.6	10.3	10.8
Reported EPS	(sen)	11.2	3.8	1.0	6.4	6.7
Adj EPS *	(sen)	5.6	3.8	1.0	6.4	6.7
PER	(x)	9.2	13.5	52.0	8.0	7.7
DPS*	(sen)	2.0	1.5	0.0	1.5	1.8
Div Yield	(%)	3.9	2.9	0.0	2.9	3.5
EV/EBITDA	(x)	5.3	9.6	23.9	6.9	6.5

\* Adjusted for 1:1 bonus issue in 2012

**Cash Flow (RMm)**

YE Dec 31		2011	2012	2013	2014f	2015f
PBT		9.8	7.2	1.6	10.8	11.3
Depreciation & Amortisation		1.2	1.3	1.1	1.1	1.2
Changes in WC		(7.4)	0.0	0.0	(11.6)	(6.3)
Others		0.6	(23.7)	(0.3)	(0.5)	(0.5)
<b>Operational cash flow</b>		<b>4.2</b>	<b>(15.3)</b>	<b>2.4</b>	<b>(0.2)</b>	<b>5.8</b>
Capex		(1.1)	(0.5)	(0.4)	(2.0)	(2.0)
Others		(0.1)	(4.6)	0.0	0.0	0.0
<b>Investment cash flow</b>		<b>(1.2)</b>	<b>(5.1)</b>	<b>(0.3)</b>	<b>(2.0)</b>	<b>(2.0)</b>
Debt raised/(repaid)		(0.2)	5.0	(0.1)	28.8	(25.0)
Equity raised(repaid)		1.0	2.0	3.0	4.0	5.0
Dividend		(2.2)	3.2	(3.2)	(2.4)	(2.9)
Others		1.1	(1.4)	(1.0)	(4.0)	(5.0)
<b>Financial cash flow</b>		<b>(0.3)</b>	<b>8.8</b>	<b>(1.3)</b>	<b>26.4</b>	<b>(27.9)</b>
<b>Net cash flow</b>		<b>2.7</b>	<b>(11.6)</b>	<b>0.8</b>	<b>24.2</b>	<b>(24.1)</b>
Free cash flow		3.0	(20.4)	2.1	(2.2)	3.8
<b>FCF/share</b>	(sen)	<b>3.8</b>	<b>(12.8)</b>	<b>1.3</b>	<b>(1.4)</b>	<b>2.3</b>
Closing cash		25.2	14.6	18.8	43.0	18.9
<b>Cash per share</b>	(sen)	<b>33.8</b>	<b>18.5</b>	<b>11.8</b>	<b>26.8</b>	<b>11.7</b>

**Balance Sheet (RMm)**

YE Dec 31		2011	2012	2013	2014f	2015f
PPE		7.7	7.3	6.7	7.6	8.4
Others		0.5	5.3	5.2	5.2	5.2
<b>Total</b>		<b>8.2</b>	<b>12.5</b>	<b>11.9</b>	<b>12.8</b>	<b>13.6</b>
Cash		25.2	14.6	18.8	43.0	18.9
Receivables		36.8	38.4	43.9	69.8	78.5
Others		28.7	41.2	40.4	41.5	41.6
<b>CA</b>		<b>90.7</b>	<b>94.2</b>	<b>103.1</b>	<b>154.3</b>	<b>139.0</b>
<b>Total assets</b>		<b>98.9</b>	<b>106.8</b>	<b>114.9</b>	<b>167.1</b>	<b>152.6</b>
ST debt		1.6	14.7	19.3	2.6	3.6
<b>Payables</b>		<b>34.2</b>	<b>29.9</b>	<b>30.3</b>	<b>45.7</b>	<b>48.3</b>
Other liabilities		11.0	9.3	12.9	12.9	12.9
<b>CL</b>		<b>46.8</b>	<b>53.9</b>	<b>62.5</b>	<b>61.2</b>	<b>64.9</b>
Shareholders' funds		50.4	53.8	53.7	61.6	69.5
LT borrowings		1.2	0.8	0.5	46.0	20.0
Other LT liabilities		0.5	0.6	0.3	0.3	0.3
<b>Total</b>		<b>98.9</b>	<b>109.2</b>	<b>117.0</b>	<b>169.1</b>	<b>154.6</b>

**Ratio**

YE Dec 31		2011	2012	2013	2014f	2015f
<b>Profitability ratios</b>						
ROE		19.3	11.7	3.0	17.9	16.5
Net margin	(%)	6.3	5.2	1.4	5.7	5.7
Asset turnover	(x)	1.7	1.1	1.0	1.3	1.2
Financial leverage	(x)	1.9	2.0	2.1	2.5	2.5
ROA	(%)	10.4	5.8	1.4	7.2	6.7
<b>Liquidity ratios</b>						
Current ratio	(x)	1.9	1.7	1.6	2.5	2.1
Quick ratio	(x)	1.9	1.7	1.6	2.5	2.1
<b>Leverage ratios</b>						
Net cash / (debt)	(RM'mn)	22.5	(0.9)	(1.0)	(5.6)	(4.7)
Net debt / Equity	(x)	Net cash	1.7	1.9	9.1	6.8
Int. Coverage Ratio	(x)	96.2	35.6	3.1	13.2	13.7
<b>Growth ratios (%)</b>						
Sales		65.2	(16.8)	1.0	55.0	5.0
Pretax		13.7	(26.0)	(77.6)	568.1	4.0
Core net earnings		2.2	(30.3)	(73.1)	528.5	5.1
Total assets		42.8	10.4	7.1	44.5	(8.6)

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