

Company Result

2 March 2015

Kelington Group Bhd
4Q14: Shocking Loss

HOLD
DOWNGRADED

Share Price	RM0.41
Target Price	RM0.44

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)	215.75
Par Value (RM)	0.10
Market cap. (RM'm)	83.06
52-week price Range	RM0.31 – 0.50
Beta (against KLCI)	0.88
3-m Average Daily Volume	0.22m
3-m Average Daily Value [^]	RM0.08m

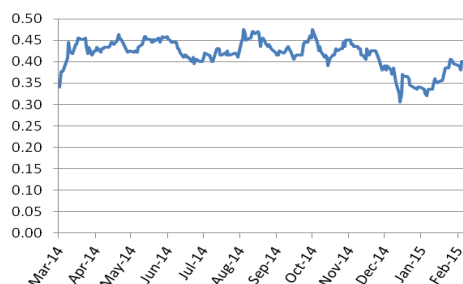
Share Performance

	1m	3m	12m
Absolute (%)	-2.5	13.2	18.0
Relative (%-pts)	-4.6	-1.8	19.1

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@jfapex.com.my

Result

- **Kelington recorded net loss of RM0.98m for its 4Q14 results, compared to a net profit of RM0.04 mill a year ago. As compared to last quarter, the earnings dropped by 146.69%. Meanwhile, revenue stood at RM43.71 mill in 4Q14, down by 10.69% qoq and 13.63% yoy.**
- For 2014, net earnings were registered at RM5.18mil, jumped by 221.03% y-o-y. Revenue also expanded by 61.52% to RM189.66mill.
- **The Group's 2014 earnings came below our expectation, only reached 60.44% of our full year forecast, mainly due to write off for Taiwan's biodiesel project.**

Comment

- **Disheartening quarterly result** – We are negatively surprised by the Group's write off for Taiwan's Biodiesel project, worth RM1.44mill, where the project has to be put on hold due to slump in oil price. This contributed to its net loss of RM0.98 mill, compared to net earnings of RM2.10 mill reported in 3Q14.
- **Earnings rebounded in 2014** – Still, the Group managed to awake from last year's dismal performance after registering a massive earnings growth of more than 200% thanks to the Group's operations in Malaysia, China and Singapore. These countries remained as the main drivers for the Group's revenue. Meanwhile, Taiwan's revenue declined due to slower attainment of new jobs.
- **Domestic projects contributed the most.** As compared to 2013, the Group's operation in Malaysia reported revenue of RM95.47 mill, increased by 104.82% due to services rendered for wafer, chemical processing industry and oil and gas plant projects. Meanwhile, as for China's operation, the Ultra High Purity (UHP) mechanical & electrical services, and medical system for a healthcare project managed to lift the revenue by 31.63% to RM45.99 mill. As for Singapore, topline growth by 62.46% to RM46.33 mill was underpinned by pharmaceutical industry and research & development complex projects.
- **New order book in the pipeline** – The Group has diversified its operation to healthcare and process plant industries from semiconductor, which enabled them to secure another new order book of RM 45.30 mill during the 4Q14.

Earnings Outlook/Revision

- **We increased our earnings forecast for FY15 to RM11.31 mil (Previous: RM10.77mil),** backed by the current outstanding order book of RM199.84 mill.

Valuation & Recommendation

- **Downgraded to HOLD from BUY with lower target price of RM0.44 (Previous: RM0.55)** as we believe the current challenging economic outlook could jeopardise its chances to secure more local projects as industries may hold off their capex expansion this year. Our revised target price is pegged at 8x 2015 PE (with EPS of 5 sen), which is equivalent to valuation of small-cap stocks.

Quarterly Figures

Year to 31 Dec	4Q14	3Q14	4Q13	QoQ	YoY	2014	2013	YoY
	(RMm)	(RMm)	(RMm)	% chg	% chg	(RMm)	(RMm)	% chg
Revenue	43.71	48.94	50.61	-10.69%	-13.63%	189.66	117.42	61.52%
Operating Profit	4.03	2.11	0.26	91.22%	1444.44%	10.75	2.41	346.04%
Pre-tax Profit	-0.81	2.01	0.09	-140.52%	-1057.65%	5.50	1.65	233.47%
Profit After Tax	-0.99	2.08	0.03	-147.38%	-4044.00%	5.12	1.61	218.00%
Net Profit	-0.98	2.10	-0.01	-146.69%	7430.77%	5.18	1.61	221.03%
Operating Margin (%)	9.22%	4.31%	0.52%	4.91ppt	8.71ppt	5.67%	2.05%	-0.76ppt
Profit Before Tax Margin (%)	-1.86%	4.10%	0.17%	-5.97ppt	-2.03ppt	2.90%	1.40%	-8.87ppt
Profit After Tax Margin (%)	-2.26%	4.25%	0.05%	-6.51ppt	-2.31ppt	2.70%	1.37%	-9.21ppt
Nat Profit Margin (%)	-2.24%	4.28%	-0.03%	-6.52ppt	-2.21ppt	2.73%	1.37%	-9.25ppt

(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	189.66	235.64
Operating profit	8.74	8.69	9.88	7.44	2.41	359.74	28.96
Net profit	8.07	8.54	8.73	6.08	1.66	5.18	11.31
EPS (sen)	0.04	0.04	0.04	0.03	0.01	0.02	0.05
P/E (x)	11.04	10.44	10.21	14.66	53.60	17.22	7.88
P/BV (x)	2.59	2.22	1.77	1.66	1.65	1.50	1.39
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%	-58.00%	-111.22%
ROE (%)	23.45%	21.22%	17.32%	11.30%	3.08%	8.73%	17.66%

(Source: Company, JF Apex)

JF APEX SECURITIES BERHAD – CONTACT LIST

JF APEX SECURITIES BHD

Head Office:

6th 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:

15th 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)

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)
Azfar Bin Abdul Aziz (Ext 822)
Tan Heng Cheong (Ext 111)

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)
Low Zy Jing (ext 754)

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

JF APEX SECURITIES BERHAD – DISCLAIMER

Disclaimer: The report is for internal and private circulation only and shall not be reproduced either in part or otherwise without the prior written consent of JF Apex Securities Berhad. The opinions and information contained herein are based on available data believed to be reliable. It is not to be construed as an offer, invitation or solicitation to buy or sell the securities covered by this report.

Opinions, estimates and projections in this report constitute the current judgment of the author. They do not necessarily reflect the opinion of JF Apex Securities Berhad and are subject to change without notice. JF Apex Securities Berhad has no obligation to update, modify or amend this report or to otherwise notify a reader thereof in the event that any matter stated herein, or any opinion, projection, forecast or estimate set forth herein, changes or subsequently becomes inaccurate.

JF Apex Securities Berhad does not warrant the accuracy of anything stated herein in any manner whatsoever and no reliance upon such statement by anyone shall give rise to any claim whatsoever against JF Apex Securities Berhad. JF Apex Securities Berhad may from time to time have an interest in the company mentioned by this report. This report may not be reproduced, copied or circulated without the prior written approval of JF Apex Securities Berhad.

Published & Printed By:

JF Apex Securities Berhad (47680-X)
(A Participating Organisation of Bursa Malaysia Securities Berhad)