

06 November 2017

Investment Idea

Kelington Group Bhd

Major contract win

BUY

Price: RM0.66

Target price: RM0.91

By Kenny Yee | Kenny.Yee@rakutentrade.my; Vincent Lau | Vincent.Lau@rakutentrade.my

We remain positive on Kelington Group Bhd ("KGB") from their recent major contract win which is expected to boost earnings over the next 2 years. We are upgrading our target price to RM0.91 based on average 13x PER FY18 FBM KLCI Small Cap Index.

Since our initial coverage report on 2 October 2017, KGB share price has risen from RM0.605 to RM0.66. The company has had recently secured RMB102.62m (RM65.4m) – the single largest contract this year from China's Chengdu Construction Engineering Corp to supply and install bulk gas system and distribution piping for GEXIN (Chengdu) Integrated Circuit Manufacturing.

Year-to-date, KGB has secured up to RM246m worth of contracts, with its orderbook ballooning to RM271m. KGB is set to benefit from China's chip expansion to increase manufacturing capacity of memory chips and integrated circuits under the "Made in China 2025" government initiative. According to SEMI's China IC Industry Outlook 2017, spending on semiconductor fab equipment is forecast to surge to USD12bn with 15 new fab projects announced since 2017.

KGB is currently trading at an attractive 9.3x PER FY18 and we are upgrading our FY18 earnings estimate by 6% from the new contract win which will contribute to FY17 and FY18 earnings hence we revised our target price to RM0.91 pegging it at 13x PER of the FBM KLCI Small Cap Index.

Technically Speaking

Resistance level	RM0.71
Support level	RM0.65
Take profit level	RM0.90
Cut loss level	RM0.61



Source: Thomson Reuters

KLCI	1,740.93
YTD KLCI change	+6.04%
YTD stock price change	131.58%

Stock Information

Market Cap (RM m)	151.69
Issued shares	229.83
52-week range (H)	0.75
52-week range (L)	0.24

Major Shareholders

Palace Star Sdn Bhd	41.46%
Sun Lead International Ltd	8.62%
Lembaga Tabung Angkatan Tentera	4.48%

Summary Earnings Table

FY Dec (RM'm)	2015A	2016A	2017F	2018F
Turnover	206.4	343.3	360.0	425.0
EBIT	3.5	18.3	21.0	25.5
PBT	(2.1)	10.1	13.0	17.5
Net Profit	(2.5)	8.7	11.0	16.0
Consensus	-	-	-	-
EPS (sen)	4.9	3.9	4.7	6.9
EPS growth (%)	-	-	20.0	46.8
DPS (sen)	0.5	1.0	1.1	1.6
PER (x)	-	16.9	13.8	9.5
BV/Share (RM)	0.27	0.30	0.33	0.40
ROE (%)	10.8	13.0	14.1	17.0
Net Div Yield (%)	0.8	1.5	1.6	2.4

Source: Company & Rakuten Trade Research

06 November 2017

COMPANY	Definition
Buy	The stock return is expected to exceed the KLCI benchmark by more than 10% over the next 6-12 months.
Trading Buy	Short-term positive development on the stock that could lead to a re-rating in the share price and translate into an absolute return of 10% over the next 3-6 months. Trading Buy is generally for investors who are willing to take on higher risks.
Take profit	The stock return previously recommended has gained by >10%
Hold	The stock return is expected to be in line with the KLCI benchmark (+/- 5%) over the next 6-12 months.
Sell	The stock return is expected to underperform the KLCI benchmark by more than 10% over the next 6-12 months.
SECTOR	
Overweight	Industry expected to outperform the KLCI benchmark, weighted by market capitalization, over the next 6-12 months.
Neutral	Industry expected to perform in-line with the KLCI benchmark, weighted by market capitalization, over the next 6-12 months.
Underweight	Industry expected to underperform the KLCI benchmark, weighted by market capitalization, over the next 6-12 months.

This document has been prepared for general circulation based on information obtained from sources believed to be reliable but we do not make any representations as to its accuracy or completeness. Any recommendation contained in this document does not have regard to the specific investment objectives, financial situation and the particular needs of any specific person who may read this document. This document is for the information of addressees only and is not to be taken in substitution for the exercise of judgement by addressees and further shall not be re-distributed to any other third party. Rakuten Trade Sdn Bhd accepts no liability whatsoever for any direct or consequential loss arising from any use of this document or any solicitations of an offer to buy or sell any securities. Rakuten Trade Sdn Bhd and its associates, their directors, and/or employees may have positions in, and may affect transactions in securities mentioned herein from time to time in the open market or otherwise, and may receive brokerage fees or act as principal or agent in dealings with respect to these companies.

Published:

RAKUTEN TRADE SDN BHD (266701-P) (formerly known as EB Global JV Sdn Bhd)
 Level 7, Kenanga Tower, 237, Jalan Tun Razak, 50400 Kuala Lumpur, Malaysia
 Telephone: (603) 2110 7188 Website: www.rakutenrade.my



Kenny Yee Shen Pin
 Head of Research