AQUILAS

Creating Market Value

MEDIA CLIPPING

Client :	**Kelington Group Berhad**	**Date :**	**24 December 2011**
Media :	**StarBizWeek**	**Section :**	**Business**
Language :	**English**		

Kelington to bank on overseas ops

Turnkey contractor sees offshore contributions increase to 70% of revenue

By DANIEL KHOO
danielkhoo@thestar.com.my

KELINGTON Group Bhd, which is migrating to the Main Market of Bursa Malaysia from the ACE Market in January next year, will continue to do what has built the company and aims to ride on its revenue and profit growth trajectory experienced thus far since its listing in 2009.

The company, which is presently a turnkey contractor to build and install "ultra high purity" pipes for use in industries, sees contribution from its overseas operations in China, Taiwan and Singapore increasing to 70% of revenue in its 2011 financial year from 50% previously.

"We see an increase in contribution from our overseas units moving forward. We had just established a full-fledged office in Singapore which explains why our costs had increased in the third quarter of our 2011 financial year. The office there has its own human resource and technical support divisions to support operations in Singapore," says chief financial officer Jong Yu Huat in an interview.

Kelington reported an increase in revenue in its third quarter to RM38.17mil from RM24.54mil from the same quarter a year ago while net profit dropped to RM1.97mil from RM2.1mil a year ago.

Chairman Raymond Gan says net profit margins are about 9% for its projects but that depends on the nature of each project.

The company, which currently has a net cash backing of 34 sen per share, says it is looking at the possibility of a horizontal integration to acquire other companies which are similar but servicing different industries.

"We are in a good position to expand but we will also have to keep in mind the economic situation which is expected to deteriorate next year especially with the situation in the United States and European Union. Our strong balance. sheet mean that we are well positioned to face the bleak economic scenario," says president and chief operating officer Ong Weng Leong.

Acquisitions may be on its radar but Kelington will not spend frivolously on just any company.

"Our intention to list back in 2009 was not due to the need for cash as we were in a net cash position since our listing. Even before our listing, we were in a net cash position. Unless a very good opportunity comes by in future which requires us to act, we want to keep it this way," Gan says.

"We wanted a listing on Bursa Malaysia as this will raise our company profile and this will help us when going regional. Thus, this transfer to the Main Market will also help us even further to increase the knowledge of our presence to both our present and potential customers," he adds.

Ong says the future of the business Kelington is in is still bright. It maintains a business relationship

Ong: 'We are in a good position to expand.'

Gan says Kelington's transfer to the Main Market will help raise its profile.

with its clients for five years before its piping infrasture needs updating or replacing to cater for changes in manufacturing design processes or newer technologies.

Kelington is not capital intensive company per se but it still invests in machinery from time to time to expand its project capacity as these machines are portable and can be moved around to its customer's manufacturing sites. Kelington had also seen its total asset base grow from RM18.76mil in 2006 to RM90.84mil in Sept 30, 2011. Most of its assets are current assets, while the property, plant and equipment comprise a minor portion of only RM7.82mil of its total asset base.

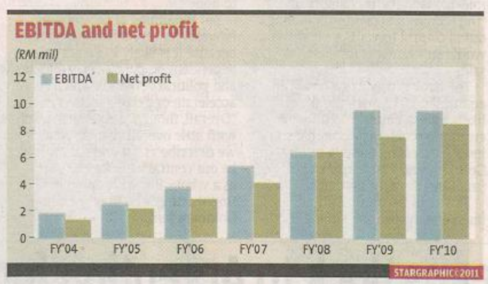
The company says the turnaround time of each project is relatively fast, ranging from three to six months before a new one kicks in.

Its workforce of about 200 people can handle six projects at a single time, depending on the size of each one.

"We bill our customers as we progress, just like your house payment progress today or when you undertake any renovation for your home. We bill progressively as the project completes while we also pay our suppliers and subcontractors progressively when they finish our jobs once we receive these payments from our customers," Gan explains.

As such, the risk of default by its subcontractors are relatively low and the company has an unbilled order book of about RM35.7mil to carry forward into the financial year 2012. It expects to realise and

Kelington assembles and installs 'ultra high purity' pipes for use in industries.



deliver RM26mil of orders in the fourth quarter of 2011 in addition to RM94.3mil already billed for the first three quarters of this year.

The company, which initially started off with a RM10,000 paid-up capital, has a market capitalisation of RM67mil today.

"The company started off as a small outfit as we were former employees from a multinational firm supplying clean gases to industries in Malaysia," says Ong, who joined forces with Gan in 2004.

Kelington had five original shareholders. Gan, who was a passive investor, Lim Hock San and three others back in the year 2000 formed the company. Three had cashed out early on while Ong joined the fray in 2004 to head the overseas operations.

Today the three – Gan, Ong and Lim, owns Kelington though a company named Palace Star Sdn Bhd, which is 46% owned by Lim, 27% by Gan and 27% by Ong.

Relating his experiences in starting the company, Gan says they started off with a single customer, which was his previous employer, a multinational company.

"The management had wanted to start this outfit as a division under the previous employer but the management then did not find it feasible and they decided to outsource the job of fixing these infrastructure. I then resigned and that was how this company started off," Gan recalls.

Today, Gan heads the overall team and the Malaysian operations while Ong, who is well versed with the Chinese language, leads the overseas operations.

"The shareholding structure of Palace Star had remained the same until today. Palace Star owns an effective interest of 46.43% in Kellington presently while the rest of our shareholders include Lembaga Tabung Angkatan Tentera (LTAT), Allied Moral Investments Ltd who are passive investors from Taiwan," Ong says.

"Some semiconductor companies from Taiwan such as Vanguard and Winbond also own stakes in our company through Sky Walker Group Ltd which holds a 12.17% stake in Kelington while the rest of the shares of 26.3% belongs to the public.

"Venture capitalists such as Hantech Venture Capital and Malaysia Venture Capital Management Bhd (Mavcap) are currently and have had been shareholders of our company before," Ong adds.

Mavcap was a shareholder in Kelington since its initial public offering and recently sold their 12.63% stake in the company to LTAT to fulfil the bumiputra shareholding requirements of Bursa Malaysia for companies on the Main Market.

The company shares are thinly traded on the local bourse due to its small market capitalisation and the company expects its move to the Main Market will lead to greater liquidity as more investors have the mandate to invest in Main Market shares as opposed to ACE market companies.

The company is also expanding to serve related industries even on its own where it recently secured an order from a customer in Singapore which processes and makes food additives and Vietnam where its customer manufactures touch screen and solar glass panels which requires working labs which are pure and free of contaminants. It is also currently working on another project in Indonesia.

"This is the beauty of our expertise where we can cater to a wide array of value added high technology industries," Gan says.

Kelington aims to focus on geographical expansion in the region and an acquisition will be able to do fulfil that aspirations. It is evaluating these opportunities as they come by but the management maintains that it needs to study any opportunity closely before it acts.

Whether or not these expansion opportunities are likely to come by either through acquisitions or organically, one thing is certain and that is Kelington is well positioned to take advantage of these opportunities to thrust itself into a regional player as a provider of pipe infrastructure for transporting clean gases.