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Kelington to expand markets

Company may undertake private placement and rights issue to finance its capital needs

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SHAH ALAM: Kelington Group Bhd may embark on more fund-raising to finance its expansion across Asia and to tap new markets for its products.

Its CEO Raymond Gan said the ACE Market-listed company, which is seeking a transfer to the Main Market, could undertake private placement and rights issue to finance its capital needs.

He said the company may also look into bonds and warrants. The company fabricates and installs ultra-high purity gas and chemical infrastructure.

"Kelington is still a growth company," Gan told *The Edge Financial Daily* in an interview recently.

Gan said "growth is mainly in Asia," as US and European companies shift their production capacity to the region. Kelington already has full-fledged operating units in Malaysia, Singapore, Taiwan and China and the company plans to grow its presence in Vietnam, Indonesia and the Philippines, apart from India and the Middle East, he said.

He said the company would initially undertake jobs in potential markets to familiarise itself with the dynamics before establishing full-fledged operating entities in the countries. Kelington's ultra-high purity gas and chemical infrastructure facilitate the use of industrial gases and chemicals in various industries. These are semiconductor fabrication, liquid crystal display and light-emitting diode (LED) and solar energy.

According to Gan, the company with an order book of RM136.31 million as at August this year, is targeting new users in the food and bioscience markets to diversify its earnings base. Kelington is also expanding its services portfolio to existing customers in the semiconductor sector where the company could offer its expertise in areas involving water and vacuum functions, he said.

"We are a regional player," he said, adding that an upgrade to the Main Market would enhance Kelington's profile to tender for larger projects and to have wider access to the capital markets.

He said the company could see more institutional funds in its shareholding base as foreign and local investors had expressed interest in the company's prospects. According to Gan, several institutional investors want to participate in the company's growth story but are not able to do so as Kelington is still an ACE Market-listed entity.

Palace Star Sdn Bhd is the single largest shareholder in Kelington with a 50.23% stake, followed by Sky Walker Group Ltd's 12.17%. Gan and Kelington's chief operating officer Ong Weng Leong are substantial shareholders in Palace Star, according to the company's annual report.

In February, Kelington announced to Bursa Malaysia its intention to undertake a private placement of up to 7.47 million new shares to finance its working capital needs and increase the market capitalisation of the company. As at March 31, a total of 4.4 million shares were placed out at 65 sen each, raising RM2.86 million.

In June, Kelington said it would seek a transfer from the ACE Market to the Main Market of Bursa Malaysia. The exercise is due for completion by the end of this year.

The company, which has been profitable since 2004, was listed on the ACE Market in November 2009 at 53 sen a share.

Kelington financials have improved. Net profit rose 77% to RM3.47 million in 2QFY11 ended June 30, from RM1.96 million in FY10, as revenue more than doubled to RM36.75 million from RM15.58 million.

Revenue increased as the company raked in higher income from its local and overseas operations, according to the company's latest financials. Malaysian operations made up 37% of Kelington's first-half cumulative revenue of RM56.1 million.

As at June 30, Kelington had cash of RM24.79 million against debt obligations of RM1.56 million, translating into net cash of RM23.23 million or 29 sen a share. The company has an issue base of 79.11 million shares.

In FY10 ended Dec 31, Kelington's net profit climbed 6% to RM8.54 million from RM8.07 million a year earlier as revenue rose 32% to RM84.51 million from RM63.84 million.

Kelington is rewarding shareholders with a final and tax exempt three sen a share dividend involving RM2.37 million. This translates into 28% of its net profit for FY10.

Gan said the company is in a position to embark on mergers and acquisitions by virtue of its strong balance sheet to complement the group's organic expansion. He said the company would adopt a "balanced" approach to ensure that shareholders are rewarded and at the same time the firm has enough cash resources to finance its growth.

An analyst from Kenanga Investment Bank Bhd said Kelington's order book is "short-lived" due to the average duration of nine months for the secured jobs, limiting the company's earnings visibility. The analyst said Kelington's business hinges on the direction of the global economy by virtue of the company's exposure to the cyclical semiconductor fabrication sector.

"Semiconductor companies' capital expenditure is the growth for Kelington," he told *The Edge Financial Daily*.

The analyst said Kelington's potential upgrade to the Main Market may spark interest in the stock.

"We are maintaining our recommendations for the stock for now," said the analyst, who has a "buy" call with a target price of RM1.04.

In a note dated Aug 5, Kenanga indicated that demand may peak in the second half in tandem with the outlook for the semiconductor sector while longer-term prospects are still uncertain. This comes against the backdrop of still-weak economic fundamentals in the US.

"Nonetheless, the immediate catalyst (for Kelington) will be the Economic Transformation Programme projects' rollout for five wafer fabrication plants in Kulim with an investment range from RM250 million to RM1 billion," said Kenanga.

The research house has forecast revenues of RM95 million and RM104.5 million for Kelington in FY11 and FY12 ending Dec 31 respectively. Kenanga expects Kelington to post a net profit of RM8.5 million and RM9.7 million for both years respectively.

Kelington fell 0.5 sen to close at 79.5 sen last Friday. The stock has gained 20% so far this year, outperforming the FBM KLCI's 10% decline.