

# Kelington Group Bhd

## Just a Timing Hiccup

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### INVESTMENT MERIT

- **Potentially earnings underperformance in FY14 due to longer-than-expected contracts completion date.** The expected completion date of the group's single largest contract - Kang Hui Maternity Center Services (with outstanding orderbook value of RM99m) is likely to be delayed to end-FY15 from 4Q14 as targeted previously due to the upgrades and changes in design and layout of the building requested by the client.
- **Recall that the construction of Kang Hui Maternity Center had been put on hold during 2Q14 and 3Q14** while waiting for the medical license approval from the related authorities. While all these could lead to lower earnings recognition this year, we are not overly concerned as we understand this is only a matter of timing of the earnings recognition. Moreover, the shortfall would be partly cushioned by the additional contract secured from one of the world's largest chip manufacturers (from orderbook value of RM23m to RM50m due to new job secured in 2Q14).
- **Outstanding orderbook remains strong** at c.RM191m currently, which consists of other contracts such as the UHP system design for TTE Engineering contracts of c.RM8m and remaining contracts value of c.RM48m from other semiconductors, O&G, and plantation players. Note that c.50% of the current outstanding contracts is expected to last until FY15. Meanwhile, on the tenderbook front, management remains optimistic in securing the Taiwan's biodiesel contract (worth RM100m currently, from RM35m previously) by 4Q14, although the tender process has yet to be finalised. All in all, we understand that Kelington has tendered for at least a total worth of RM185m in projects.
- **EPS for FY14E adjusted to 3.3 sen post bonus shares issuance**, where the group's share base has ballooned to 215.8m (from 160.7m) post the 1-for-3 bonus issue (which went ex on 11<sup>th</sup> June). Meanwhile, the group has also rewarded its shareholders with 1-for-3 free warrants in June (to be staggered over 5-year) to address its low liquidity issue. We have also introduced FY15E NP of RM9.1m and FY15E EPS of 4.0sen (+19% YoY driven by the projects mentioned above).
- **Maintain TRADING BUY; with a revised TP of RM0.52 (ex-bonus)** after rolling-over our valuation base year to FY15E with a targeted PER of 13.0x (close to its 1-year forward average PER). **Our FY14E NP, however, was reduced to RM7.6m (-17%)** to account for the slower-than-expected earnings recognition from Kang Hui Maternity Center Services. We view that the recent share price weakness is unjustified, due to its current strong orderbook and earnings visibility of up to 1 year. All in, we see a total return upside of 25% from here on top of a 3.7% of expected net yield in FY15, based on a conservative 40% dividend payout.

	Rating	Fair Value
Last Price	-	RM0.43
Kenanga Consensus	Trading Buy	RM0.52
	Buy	RM0.55

### Stock Information

Stock Name	KELINGTON GROUP BHD
CAT Code	0151
Industry	Engineering & Construction
Industry Sub-sector	Engineering/R&D Services
YTD stock price chg	33.33%
Market Cap (RM m)	92.77
Issued shares (m)	215.75
52-week range (Hi)	0.495
52-week range (Low)	0.315
3-mth avg daily vol:	1955853
Free Float	21%
Beta	0.71
Altman's Z-score	3.24

### Major Shareholders

PALACE STAR	46.45%
LEMBAGA TABUNG ANGKA	12.36%
SUN LEAD INTERNATIONAL	9.19%

### Financials

FYE Dec (RM'm)	2013A	2014E	2015E
Revenue	117.4	196.0	205.5
EBIT	3.4	10.6	12.3
PBT	1.6	7.9	9.5
Net Profit (NP)	1.6	7.6	9.1
Adjusted EPS (sen)	0.9	3.3	4.0
BV/Share (RM)	0.31	0.25	0.28
PER	45.4	13.1	10.9
Price/BV (x)	1.4	1.7	1.6
Gross Gearing (x)	0.4	1.1	0.7
NDPS (sen)	0.5	1.3	1.6
Dividend Yield (%)	1.2	3.1	3.7

### Quarterly Financial Data (RMm)

	4Q13	1Q14	2Q14
Revenue	50.59	53.07	43.93
Revenue Growth (QoQ)	156.4%	4.9%	-17.2%
EBIT	0.26	2.48	2.14
OP Margin	0.5%	4.7%	4.9%
Net Profit (NP)	0.01	2.08	1.98
EPS (sen)	0.0	1.3	1.1
EPS Growth (QoQ)	-100.0%	>100.0%	-12.7%

### Peers Comparisons

	PER (FY14)	Div. Yld (%)	Mkt Cap (RM'm)
Average	NA	NA	NA
FBMKLCI	16.5	3.2	1.03T

\* Index Level

Daily Charting – Kelington Group Berhad



**Comment:** Comment: KGB's share price has been trading range bound in a downtrend channel this year. The primary trend shows a slight uptick as the 20-day SMA has just crossed over the 100-day and is closing in on the 50-day SMA. Momentum indicators are also slowly moving in on the uptrend as the MACD has just crossed over the Signal line while RSI and Stochastics are slowly inching upwards. Should the buying momentum pick up, we expect share price to test immediate resistance at RM0.45, while a strong support is seen at RM0.38.

About the stock:

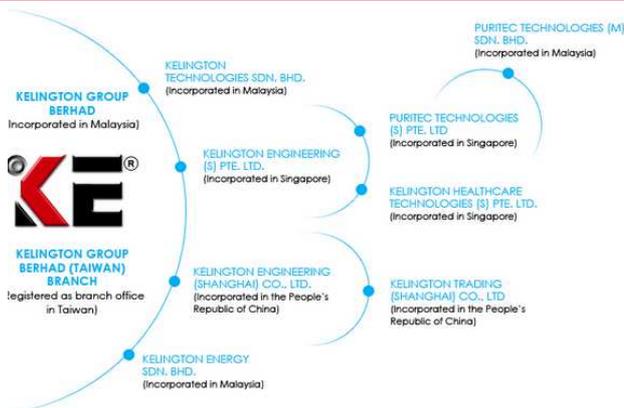
**Name** : KELINGTON GROUP BERHAD  
**Bursa Code** : KGB  
**CAT Code** : 0151

Key Support & Resistance level

Resistance	: RM0.49 (R1)	RM0.54 (R2)	RM0.56 (R3)
Support	: RM0.40 (S1)	RM0.38 (S2)	RM0.36 (S3)
Outlook	: Neutral		

Source: Kenanga Research

CORPORATE STRUCTURE



BUSINESS OVERVIEW

**Kelington** is a leading ultra-high purity (UHP) gas and chemical delivery solutions provider with operations in Malaysia, China, Taiwan and Singapore. Throughout the years, it has also diversified into other areas of system design and modeling, fabrication and installation, quality testing and certification, control and instrumentation and maintenance for various foundries (semiconductor/flat panel display). In 2012, the acquisition of Singapore-based Puritec Technologies (S) Pte. Ltd further strengthened its capability in becoming a one-stop facility solution provider encompassing the delivery of gas, chemical and exhaust.

BUSINESS SEGMENTS

The group offers a comprehensive range of services as below:

- UHP system design: Includes procedures such as ground and site analysis, feasibility studies, delivery system conceptualisation and so on.
- Fabrication and installation: Involves the physical construction and fabrication of the UHP delivery system.
- Gas and chemical delivery equipment: It is either manufactured in-house or sourced externally according to design specifications.
- QA and QC services: Generally encompass tests done on the air quality and the particle size and quantity observed at the end point of use.
- Control and instrumentation: It is responsible for the contant monitoring any Wafer Fabrication or FPD Fabrication Plant.
- Maintenance and servicing: Mainly for equipment such as Gas Cabinet, VMB/VMP, and Abatement Sytem.

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Published and printed by:

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