

Company Result

29 August 2014

**Kelington Group Bhd
1H14: Strong Growth**

**BUY
MAINTAINED**

Share Price	RM0.44
Target Price	RM0.55

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)	93.85
52-week price Range	RM0.30 – 0.50
Beta (against KLCI)	0.80
3-m Average Daily Volume	1.67m
3-m Average Daily Value [^]	RM0.74m

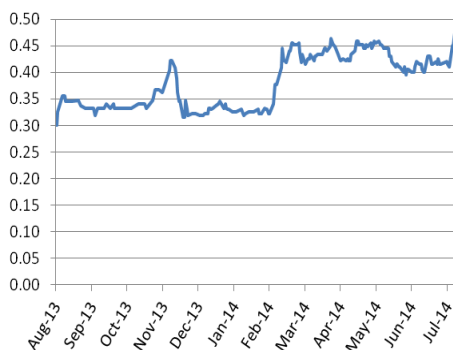
Share Performance

	1m	3m	12m
Absolute (%)	4.8	7.4	43.2
Relative (%-pts)	5.0	-6.3	30.2

Major Shareholders

	%
Palace Star	46.5
LTAT	12.4
Sky Walker Group Ltd	11.5

Historical Chart



Source: Bloomberg

Team Coverage

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Result

- **Kelington's 2Q14 net earnings were registered at RM2.0mill, soared 162.5% yoy. However, earnings were declined marginally by 5% qoq.** Meanwhile, revenue stood at RM43.9mill, jumped 90.5% yoy, but declined 17.2% qoq.
- For 1H2014, net profit was registered at RM4.1mil, jumping massively by 159.4% y-o-y. Revenue also expanded by 106.1% to RM97mill.
- **1H2014 net earnings met our expectations**, reaching 48% of our forecast.

Comment

- **On Track for earnings turnaround in 2014** – The resilient earnings posted by the group in 1H14 meets our expectation that the group is on track for its turnaround in 2014. This is backed by the strong orderbook of RM288.10mill, of which RM191.1m remained outstanding as of 30 June 2014.
- **Better yoy earnings.** The higher earnings of 1H14 were mainly contributed by the group's projects such as: 1) UHP mechanical & electrical services and medical system project in China; 2) total facility management contract, O&G plant project and oleo chemical project locally; and 3) higher project volumes of Puritec Technologies Singapore.
- **Lower qoq earnings** – The lower qoq earnings was mainly due to the lower contribution of the Ultra High Purity mechanical and electrical services and medical system project in China.

Earnings Outlook/Revision

- **We maintain our earnings forecast for FY14 at RM8.57mill (+415%) and FY15 at RM10.8mill (+25.8%),** backed by the group's promising order book and favorable semiconductors and healthcare industry.

Valuation & Recommendation

- **Maintain BUY call, with target price of 55sen. We pegged our target price at 11x 2015F PE (with EPS of 5 sen) which is +0.5 standard deviation above its historical mean.**
- We like the group for its unique business model which is a provider of Ultra High Purity gas and chemical delivery solutions in the region that is not well represented in any companies listed under Bursa Malaysia. We also impressed by its strong presence in overseas, managed to secure sizeable contracts in competitive markets such as China, Taiwan and Singapore.

Quarterly Figures

Year to 31 Dec	2QFY14 (RMm)	1QFY14 (RMm)	2QFY13 (RMm)	QoQ % chg	YoY % chg	6M14 (RMm)	6M13 (RMm)	YoY % chg
Revenue	43.9	53.07	23.1	-17.2%	90.5%	97.0	47.1	106.1%
Operating Profit	2.1	2.48	0.8	-13.8%	174.6%	4.6	1.9	137.2%
Pre-tax Profit	1.9	2.37	0.6	-18.5%	229.7%	4.3	1.6	171.9%
Profit After Tax	2.0	2.06	0.8	-4.8%	161.0%	4.0	1.6	157.5%
Net Profit	2.0	2.08	0.8	-5.0%	162.5%	4.1	1.6	159.4%
Operating Margin (%)	4.9%	4.7%	3.4%	0.2ppt	1.5ppt	4.8%	4.1%	-4.6ppt
Pre-Tax Margin (%)	4.4%	4.5%	2.5%	-0.1ppt	1.9ppt	4.4%	3.4%	-4.5ppt
PAT Margin (%)	4.5%	3.9%	3.3%	0.6ppt	1.2ppt	4.2%	3.3%	-3.6ppt
Nat Profit Margin (%)	4.5%	3.9%	3.3%	0.6ppt	1.2ppt	4.2%	3.3%	-3.6ppt

(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	186.20	224.40
Operating profit	8.74	8.69	9.88	7.44	2.41	18.97	27.58
Net profit	8.07	8.54	8.73	6.08	1.66	8.57	10.77
EPS (sen)	0.04	0.04	0.04	0.03	0.01	0.04	0.05
P/E (x)	11.04	10.44	10.21	14.66	53.60	10.41	8.28
P/BV (x)	2.59	2.22	1.77	1.66	1.65	1.53	1.42
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%	-28.76%	-29.37%
ROE (%)	23.45%	21.22%	17.32%	11.30%	3.08%	14.69%	17.10%

(Source: Company, JF Apex)

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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

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Published & Printed By:

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