Kelington sees better prospects ahead

BY **KANG SIEW LI**

Kelington Group Bhd hopes losses will be a thing of the past as it turned around in the financial year just ended after a year in the red. Furthermore, its expansion into turnkey engineering services is expected to see it ride the cyclical nature of the semiconductor industry.

The group turned in a net profit of RM8.69 million in the financial year ended Dec 31, 2016 (FY2016) from FY2015's net loss of RM2.55 million, lifted by its two project packages amounting to S$36 million (RM106 million) for the expansion of Micron Technology's flash memory fabrication facility in Singapore.

The group is expecting net profit and revenue to see a double-digit percentage growth this year.

"We're not looking back," says group president and chief operating officer Steven Ong Weng Leong in an interview with *The Edge*.

Its group chairman and CEO Raymond Gan Hung Keng says Kelington suffered losses in FY2015 primarily due to a change in the accounting treatment as the group recognised impairment losses on certain projects, trade receivables and amounts owing by contract customers during the year.

"Going forward, you will still see (allowances for) impairments being made now and then because we want to be more prudent. But at the end of the day, our full-year profit will still be up," he adds.

On its two ongoing lawsuits against Taiwan's Hui Neng Mechanical & Electrical Engineering Co and Australian Marine Technology Pty Ltd — the latter for works done for a project in Dubai, the United Arab Emirates — Gan says the group had made impairment allowances on the two projects. "If we win the cases, it will be a bonus for us."

In the past four years or so, Kelington has been busy pursuing its next phase of growth, providing turnkey engineering, procurement and construction services for projects in the downstream oil and gas and oleochemicals industries.

"We have not deviated from our core business of providing ultra-high purity (UHP) gas and chemical delivery solutions for high-technology industries (such as wafer fabrication, flat panel display manufacturing, solar energy, light emitting diode and storage media). It's just that we have increased our engineering capabilities and expanded our services to provide process engineering solutions and general contracting works," says Gan, adding that the process engineering solutions projects will provide the group with consistent earnings and revenue.

SAM FONG/THE EDGE

Ong (left) and Gan expect Kelington's net profit and revenue to see double-digit growth this year

He cited the acquisition in 2012 of Singapore-based Puritec Technologies (S) Pte Ltd, a company specialising in the design and installation of delivery systems for exhaust, as part of its strategy to expand its scope of services.

Exhaust is a waste material produced by high-technology manufacturers during production processes.

Gan believes this strategy has worked well and will move the group to the next level of growth.

"We are beginning to be seen as a serious (process engineering solutions) player. We have laid the foundation (and we expect) to take our business to the next level of growth from this year onwards," he says.

Gan expects process engineering projects will account for about 60% of the group's revenue in FY2017, while UHP gas and chemical delivery solutions projects will contribute the rest.

"We foresee that the UHP gas solutions business will continue to grow as smartphones continue to get better and as such, the need for wafer fabrication will still be there. The only thing is that the frequency of wafer fabrication will be much slower. But, every now and then when new technology comes along, you will need to set up a new fabrication facility to do that," says Gan.

As at Dec 31, 2016, Kelington has a total order book of RM546.9 million, of which RM206.7 million is outstanding.

Apart from Malaysia, it has also expanded its operations in China, Taiwan, Singapore, the Philippines and Indonesia.

In FY2016, Singapore accounted for 39% of the group's total revenue of RM340.23 million, followed by Malaysia (30%), China (15.6%) and Taiwan (10.4%).

"We will remain focused on these markets this year. We expect the Micron projects in Singapore, as well as Intel and Semiconductor Manufacturing International Corp (SMIC) projects in China, to continue to contribute to this year's revenue as they have ongoing expansion there," says Ong.

Meanwhile, the falling value of the ringgit is not all bad news. According to Ong, Kelington benefited from the weaker ringgit as its overseas projects are billed in US dollars. For the quarter ended Dec 31, 2016, the group recorded a foreign exchange gain of RM1.67 million.

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joy the business growth," she adds.

Lei Cheng, however, declines to discuss this matter and says, "The management will assess various opportunities when the time is right." E

HITI stake buy to boost Kelington's engineering works

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Kelington's cash and cash equivalents stood at RM31.92 million as at Dec 31, 2016, while its total borrowings was at RM24.85 million.

"We have just acquired a 49% stake in HITI Engineering (M) Sdn Bhd (which is involved in the trading, design and construction of clean room and high technology plants for RM303,121). We want to tap its project reference and networking so that we can build further on our process engineering business.

"If things get better, then probably we may acquire more (shares) in the company," says Ong.

On Feb 2, Lembaga Tabung Angkatan Tentera, which became a major shareholder of Kelington in January 2012 with a 12.6% stake, ceased to be a substantial shareholder of the company after disposing of two million shares.

Palace Star Sdn Bhd is the single largest shareholder in Kelington, with a 45.83% stake as at March 25, 2016. According to the Companies Commission of Malaysia, Palace Star is owned by Gan and Ong with a 30% stake each, while Cham Teck Kuang holds the remaining 40%.

Kelington's share price has risen 65% over the past year to close at 43 sen last Thursday, giving it a market capitalisation of RM95.1 million. E