

02 October 2017

Investment Idea

Kelington Group Bhd

More new contracts in the pipeline

BUY

Price: RM0.605

Target Price: RM0.85

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Kelington Group Bhd (“KGB”) growing orderbook of RM205m is expected to see improve further boosting FY18 EPS by 46%. We are recommending a BUY on KGB with a target price of RM0.85 premised on 13.0x PER FY18 FBM KLCI Small Cap Index.

KGB operates in a niche business providing ultra-high purity (UHP) gas and chemical delivery system solutions. It encompasses integrated process engineering solutions with clientele comprising of MNCs within the electronics and semiconductor industry. The company has since expanded into general contracting acting as turnkey contractor from design, process engineering, fabrication and construction of industrial projects. Geographically, KGB major revenue are derived from Singapore (39%), Malaysia (30%), China (16%) and Taiwan (10%). Contributions from China is expected to expand from the push to invest heavily to increase manufacturing capacity of memory chips and integrated circuits. KGB is slated to secure RM200 to RM300m of new contracts annually.

KGB next growth catalyst would be from their new Industrial Gas division which recently secured a RM20m 10-year contract for the onsite supply of nitrogen gas, an underserved segment with much potential. This will provide the recurring income and earnings visibility of up to 10 years. KGB balance sheet is healthy with net cash of RM21.8m allowing them to expand their Industrial Gas division that is capex heavy but commands higher margins hence reinforcing our bullish view on KGB.

Technically Speaking

Resistance level	RM0.65
Support level	RM0.60
Take profit level	RM0.84
Cut loss level	RM0.57



Source: Thomson Reuters

KLCI	1,755.58
YTD KLCI change	+6.93%
YTD stock price change	+112.28%

Stock Information

Market Cap (RM m)	139.05
Issued shares(m)	229.83
52-week range (H)	0.75
52-week range (L)	0.24

Major Shareholders

Palace Star Sdn Bhd	41.46%
Sun Lead International Ltd	8.26%
Lembaga Tabung Angkatan Tentera	4.48%

Summary Earnings Table

FY Dec (RM'm)	2015A	2016A	2017F	2018F
Turnover	206.4	343.3	360.0	400.0
EBIT	3.5	18.3	21.0	25.0
PBT	(2.1)	10.1	13.0	17.0
Net Profit/(loss)	(2.5)	8.7	11.0	15.0
Consensus	-	-	-	-
EPS (sen)	-	3.9	4.7	6.5
EPS growth (%)	-	-	20.0	45.8
DPS (sen)	0.5	1.0	1.1	1.6
PER (x)	-	15.5	12.6	9.3
BV/Share (RM)	0.27	0.30	0.33	0.40
ROE (%)	10.8	13.0	14.1	16.2
Net Div Yield (%)	0.8	1.6	1.8	2.6

Source: Company & Rakuten Trade Research

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COMPANY	Definition
Buy	The stock return is expected to exceed the KLCI benchmark by more than 10% over the next 6-12 months.
Trading Buy	Short-term positive development on the stock that could lead to a re-rating in the share price and translate into an absolute return of 10% over the next 3-6 months. Trading Buy is generally for investors who are willing to take on higher risks.
Take profit	The stock return previously recommended has gained by >10%
Hold	The stock return is expected to be in line with the KLCI benchmark (+/- 5%) over the next 6-12 months.
Sell	The stock return is expected to underperform the KLCI benchmark by more than 10% over the next 6-12 months.
SECTOR	
Overweight	Industry expected to outperform the KLCI benchmark, weighted by market capitalization, over the next 6-12 months.
Neutral	Industry expected to perform in-line with the KLCI benchmark, weighted by market capitalization, over the next 6-12 months.
Underweight	Industry expected to underperform the KLCI benchmark, weighted by market capitalization, over the next 6-12 months.

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