

NEW ISSUE OF SECURITIES (CHAPTER 6 OF LISTING REQUIREMENTS) : FUND RAISING KNM GROUP BERHAD ("KNM" OR "COMPANY") PROPOSED PRIVATE PLACEMENT OF UP TO 10% OF THE ISSUED ORDINARY SHARES IN KNM

KNM GROUP BERHAD

Type	Announcement
Subject	NEW ISSUE OF SECURITIES (CHAPTER 6 OF LISTING REQUIREMENTS) FUND RAISING
Description	KNM GROUP BERHAD ("KNM" OR "COMPANY")

PROPOSED PRIVATE PLACEMENT OF UP TO 10% OF THE ISSUED ORDINARY SHARES IN KNM

On behalf of the Board of Directors of KNM, M&A Securities Sdn Bhd wishes to announce that the Company proposes to undertake a private placement of up to 10% of the issued ordinary shares in KNM ("Proposed Private Placement").

Further information on the Proposed Private Placement is disclosed in the attachment herein.

This announcement is dated 29 September 2020.

Please refer attachment below.

Attachments

[KNM - Proposed Private Placement.pdf](#)

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KNM GROUP BERHAD ("KNM" OR "COMPANY")

PROPOSED PRIVATE PLACEMENT OF UP TO 10% OF THE ISSUED ORDINARY SHARES IN KNM

1. INTRODUCTION

On behalf of the Board of Directors of KNM ("**Board**"), M&A Securities Sdn Bhd ("**M&A Securities**") wishes to announce that the Company proposes to undertake a private placement of up to 269,184,800 new ordinary shares in KNM ("**KNM Shares**" or "**Shares**"), representing not more than 10% of the issued ordinary shares in KNM ("**Proposed Private Placement**").

The Proposed Private Placement will be undertaken in accordance with the general mandate pursuant to Sections 75 and 76 of the Companies Act 2016 ("**Act**") and the "Additional Temporary Relief Measures To Listed Issuers" granted by Bursa Malaysia Securities Berhad ("**Bursa Securities**") on 16 April 2020 which increase the limit prescribed under Paragraph 6.04 of the Main Market Listing Requirements of Bursa Securities ("**Listing Requirements**") from 10% to 20% until 31 December 2021 ("**20% General Mandate**").

The Company had obtained the shareholders' approval on the 20% General Mandate at its 18th Annual General Meeting ("**AGM**") convened on 13 August 2020, whereby the Board had been authorised to issue and allot new ordinary shares in KNM ("**KNM Shares**") not exceeding 20% of the total number of issued shares of the Company. The 20% General Mandate, unless revoked or varied by the Company at a general meeting, shall continue to be in force until the conclusion of the next Annual General Meeting of the Company.

Further details of the Proposed Private Placement are set out in the ensuing sections.

2. DETAILS OF THE PROPOSED PRIVATE PLACEMENT

As at 24 September 2020, being the last practicable date preceding the date of this announcement ("**LPD**"), KNM has:

- (a) an issued share capital of RM1,961,443,778.58 comprising 2,691,848,980 KNM Shares (excluding 29,841,275 Shares held as treasury shares by the Company) ("**Treasury Shares**"); and
- (b) 75,501,800 outstanding employees' share option scheme ("**ESOS Options**").

The Proposed Private Placement will entail the issuance of up to 269,184,800 new KNM Shares ("**Placement Shares**"), representing not more than 10% of the existing number of issued Shares as at the LPD (before the exercise of ESOS Options and excluding Treasury Shares). For the avoidance of doubt, any increase in the number of issued Shares arising from the resale of Treasury Shares or exercise of the ESOS Options will not affect the number of Placement Shares to be issued under the Proposed Private Placement.

Subject to the prevailing market conditions and depending on investors' interest at the point of implementation, the Proposed Private Placement may be implemented in a single or multiple tranche(s) within 6 months from the date of approval of Bursa Securities for the Proposed Private Placement or such other approved extended period.

2.1 Basis of arriving at the issue price of the Placement Shares

The issue price of each tranche of the Placement Shares, where applicable, shall be determined separately and fixed by the Board at a later date after obtaining the relevant approvals for the Proposed Private Placement. The Board will take into consideration amongst others, the prevailing market conditions and the provisions of Paragraph 6.04(a) of the Listing Requirements, in determining the issue price of the Placement Shares at a discount of not more than 10% to the volume weighted average market price of KNM Shares for the five (5) market days ("**5D-VWAMP**") immediately preceding the price fixing date(s).

For illustrative purposes, assuming the Placement Shares are issued at an indicative issue price of RM0.19 per Placement Share ("**Indicative Issue Price**"), this represents a discount of approximately 7.95% to the 5D-VWAMP of KNM Shares up to and including the LPD of RM0.2064 per KNM Share. Based on the Indicative Issue Price, the Proposed Private Placement will raise gross proceeds of RM51,145,112. The mechanism to determine the issue price of each tranche of the Placement Shares shall be determined separately in accordance with market-based principles.

2.2 Placement arrangement

The Placement Shares will be placed to independent investor(s) ("**Placees**"), where the Placees shall be person(s) or party(ies) who/which qualify under Schedule 6 and Schedule 7 of the Capital Markets and Services Act 2007, who shall be identified at a later date.

In accordance with Paragraph 6.04(c) of the Listing Requirements, the Placement Shares will not be placed to the following parties:

- (a) the interested director, interested major shareholder, interested chief executive of KNM or a holding company of KNM, or interested persons connected with such director, major shareholder or chief executive of KNM; and
- (b) nominee corporations, unless the names of the ultimate beneficiaries are disclosed.

2.3 Ranking of the Placement Shares

The Placement Shares shall, upon issuance and allotment, rank *pari passu* in all respects with the then existing issued KNM Shares, save and except that the holders of the Placement Shares shall not be entitled to any dividends, rights, allotments and/or other forms of distributions that may be declared, made or paid to the shareholders of the Company, for which the relevant entitlement date is prior to the date of allotment and issuance of the Placement Shares and the Placement Shares will be subject to all the provisions of the Constitution of the Company relating to transfer, transmission and otherwise.

2.4 Listing of and quotation for the Placement Shares

KNM shall make an application to Bursa Securities for the listing of and quotation for the Placement Shares on the Main Market of Bursa Securities.

2.5 Utilisation of proceeds

For illustrative purposes, the placement proceeds to be raised from the Proposed Private Placement of RM51,145,112 (based on the Indicative Issue Price) are expected to be utilised by KNM and its subsidiaries ("KNM Group" or "Group") in the following manner:

Details	Notes	Amount RM'000	#Expected timeframe for utilisation of proceeds
Payment for procurement of raw materials and consumables, payment to sub-contractor/suppliers for fabrication and site works, professional services and logistic expenses	(a)	49,965	Within 6 months
Estimated expenses for the Proposed Private Placement	(b)	1,180	Within 1 month
Total		<u>51,145</u>	

Notes:

From the listing date of Placement Shares on the Main Market of Bursa Securities.

(a) The proceeds of RM49.97 million to be raised from the Proposed Private Placement has been earmarked to finance the ongoing fabrication works of the Group's process equipment contracts secured, in the following manner:

No.	Details	RM'000
(i)	Purchase of raw materials and consumables such as steel plates used to fabricate the pressure vessels, fitting, forgings, electrodes for welding, sand blasting materials, industrial gas and related components for its fabrication works	30,000
(ii)	Payment to subcontractors and other suppliers engaged by KNM Group for performing fabrication and site works as well as related services in the process equipment contracts secured, such as project management fees, product certification fees, engineering design cost, non-destructive testing and other related services	10,000
(iii)	Payment of logistical expenses for shipping of raw materials and delivery of process equipment which includes port clearance charges, forwarding and shipping fees, transportation cost and other related costs	9,965
	Total	<u>49,965</u>

(b) The estimated expenses consist of fees payable to the relevant authorities, advisory and placement fees as well as other miscellaneous expenses to be incurred pursuant to the Proposed Private Placement.

The actual proceeds to be raised from the Proposed Private Placement are dependent on the issue price of the Placement Shares and actual number of Placement Shares issued. Any excess of the actual proceeds raised will be adjusted against the utilisation for the working capital requirements of the Group.

Pending the full utilisation of the proceeds raised from the Proposed Private Placement, the Company intends to place these proceeds (including accrued interest, if any) or the balance thereof in interest-bearing deposit accounts with licensed financial institutions or in short-term money market instruments. The interest derived from the deposits with financial institutions or any gains arising from the short-term money market instruments will be used as additional working capital of the Group.

3. RATIONALE

The Proposed Private Placement will enable the Group to raise additional funds as set out in Section 2.5 above.

After due consideration of the various options available, the Board is of the view that the Proposed Private Placement is the most appropriate avenue to raise funds for the Group due to the following reasons:

- (a) the Proposed Private Placement will enable the Group to raise funds mainly for the Group's ongoing fabrication works for the process equipment contracts secured expeditiously and in a more cost-effective manner as opposed to other fund raising options;
- (b) the Proposed Private Placement is expected to strengthen the shareholders and capital base of the Group;
- (c) the Proposed Private Placement will serve as additional source of funding for the Group without incurring interest expenses as compared to borrowings; and
- (d) the Proposed Private Placement will improve the liquidity and financial flexibility of the Group by strengthening its financial position.

Save as disclosed below, the Board confirms that the Company has not implemented any other fund raising exercise within the 12 months preceding the date of this announcement:

- (a) The Company has raised a total amount of RM12,791,548 arising from the exercise of the 116,286,800 ESOS Options into 116,286,800 KNM Shares from 26 September 2019 up to the LPD. The proceeds raised arising from the exercise of the ESOS Options has been utilised in the following manner:

<u>Details</u>	<u>Amount (RM'000)</u>
Repayment of bank borrowings	11,277
Working capital requirements	1,515
Total	<u>12,792</u>

4. PROSPECTS AND OUTLOOK OF THE KNM GROUP

4.1 Outlook and prospect of the oil and gas ("O&G") and petrochemicals industries

The U.S. Energy Information Administration ("EIA") in its Short-Term Energy Outlook September 2020 forecasts that consumption of petroleum and liquid fuels globally will average 93.1 million barrels per day for all of 2020, down 8.3 million barrels per day from 2019, before increasing by 6.5 million barrels per day in 2021. EIA also forecasts the monthly Brent spot prices will average USD44/barrel during the fourth quarter of 2020 and rise to an average of USD49/barrel in 2021 as oil markets become more balanced.

Although the outbreak of the new coronavirus (COVID-19) has added a major layer of uncertainty to the global economy outlook, the current low crude oil price offers an opportunity for the petrochemical companies to lower their crude-oil-based raw-material purchase costs and cushion the impact from these economic uncertainties.

The global petrochemicals market size was predicted at USD 476.2 billion in 2020 and is anticipated to witness a compounded annual growth rate ("**CAGR**") of 5.0% over the forecast period until 2027. The growth of the market for petrochemicals will be driven by rising demand for downstream products from end-use industries and capacity additions in the base chemical industry.

(Source: Petrochemicals Market Analysis Report published in February 2020 by Grand View Research)

With its strategic location at key shipping lanes as well as its strong economic fundamentals in China, India and within South East Asia, Malaysia has a definite advantage as a key player in the O&G industry in Asia. As such, the country is always committed to ensuring a sustainable and successful O&G industry through pro-business policies.

In implementing these policies, Malaysia has in recent years created a vibrant ecosystem which offers competitive rates and skilled manpower to support the growth of the upstream and downstream sectors. Overall, there are over 3,500 O&G businesses in the country comprising international oil companies, independents, services and manufacturing companies which support the needs of the O&G value chain both domestically and regionally. Many major global machinery and equipment (M&E) manufacturers have also set up bases in Malaysia to complement home-grown M&E companies, while other Malaysian oil and gas companies are focused on key strategic segments such as marine, drilling, engineering, fabrication, offshore installation, and operations and maintenance (O&M).

Meanwhile, the declining global crude oil price which began in June 2014 has triggered a wave of cost reduction strategies/tactics among upstream businesses. Global oil and gas companies slashed capital expenditures by about 40 percent, and projects that were not profitable were either cancelled or deferred. As the Malaysia Regulator for the O&G industry, PETRONAS has introduced many cost-cutting measures such as CORAL 2.0, and it also encourages mergers & acquisitions. Indeed, in this 'new normal' of low oil price environment, O&G companies have to prepare themselves by optimising operations, improving efficiency, and reducing costs so as to sustain profitability.

Notwithstanding, a total of 13 projects with investments of RM3.28 billion were approved by Malaysian Investment Development Authority ("**MIDA**") in 2019. Five of the approved projects were for the midstream terminal storage of natural gas and petroleum products worth RM2.40 billion, three were projects for upstream O&G services worth RM67.77 million, four project for O&G machinery and equipment worth RM88.05 million and one project for O&G equipment maintenance, repair and overhaul (MRO) worth RM729.11 million. The MRO project involves the establishment of an integrated MRO centre for the oil, gas, petrochemical and power generation industries at the Bintulu Integrated Energy Hub, Sarawak. Out of the total, RM2.80 billion were from domestic sources and RM482.21 million were from foreign sources. These projects were expected to create 972 employment opportunities in the oil and gas sector.

Thus in spite of the global trends in the O&G industry, it continues to play a significant role in the economic development of Malaysia.

(Source: Extracted from MIDA website)

4.2 Outlook of Pressure Vessels & Heat Exchangers market

The global pressure vessel (e.g. boilers, reactors, separators, heat exchangers, drums, columns, and towers) market size is projected to reach USD53.3 billion by 2025 from an estimated USD42.7 billion in 2020, at a CAGR of 4.5% during the forecast period. Changes in power generation technology, increasing demand for petrochemicals and chemicals leading to refinery construction, and the growing fertilizer industry are driving the market growth. By end-user, the chemicals & petrochemicals segment is expected to grow at the fastest rate during the forecast period in the global pressure vessel market. The chemicals industry is growing globally owing to increasing consumption of goods such as fertilizers & other agrochemical products, LED lightings, coatings & adsorbents, plastics & human-made fibers, and research laboratory chemicals.

(Source: Pressure Vessel Market Report published in May 2020 by Markets and Markets)

4.3 Prospect of the KNM Group

The Company envisaged its business and earning visibility to gradually recover from the slowdown caused by the global outbreak of COVID-19, the implementation of Movement Control Order in Malaysia as well as the slump of global crude oil prices. This is due to the positive development on the containment efforts of COVID-19 outbreak in Malaysia, as well as the series of stimulus package as implemented by the Government to facilitate the revival of economy.

The economic slowdown and market uncertainty arising from COVID-19 has led to delays in the award and implementation of some process equipment contracts that were expected to have materialised. Payments from customers have also been slow and are anticipated to remain so as companies strive to rebuild their income streams.

Notwithstanding the above, the Company remains cautious and aims to maintain its profitability during this challenging period by improving its operational efficiency through process improvement and operational savings from leaner outfit.

5. EFFECTS OF THE PROPOSED PRIVATE PLACEMENT

5.1 Share capital

The pro forma effects of the Proposed Private Placement on the issued share capital of the Company are set out below:

	No. of KNM Shares '000	RM'000
Issued share capital as at LPD	2,691,849	1,961,444
Placement Shares to be issued pursuant to the Proposed Private Placement	269,185	⁽¹⁾ 51,145
Enlarged issued and paid-up share capital	2,961,034	2,012,589

Note:

(1) Based on the Indicative Issue Price.

5.2 Net assets ("NA") and gearing

The pro forma effects of the Proposed Private Placement on the NA and gearing of the Company is set out below:

	Audited as at 31 December 2019	⁽¹⁾Subsequent events	After the Proposed Private Placement
	RM'000	RM'000	RM'000
Share capital	1,924,046	1,961,444	⁽²⁾ 2,012,589
Treasury shares	(53,425)	(54,403)	(54,403)
Reserves	(206,552)	(234,020)	⁽³⁾ (235,200)
Shareholders equity/NA	1,664,069	1,673,021	1,722,986
Non-controlling interest	(14,215)	(14,215)	(14,215)
Total equity	1,649,854	1,658,806	1,708,771
No. of Shares ('000) (excluding treasury shares)	2,608,073	2,691,849	2,961,034
NA per share (RM) ⁽⁴⁾	0.64	0.62	0.58
Total borrowings (RM'000)	1,467,611	1,467,611	1,467,611
Gearing (times) ⁽⁵⁾	0.89	0.88	0.86

Notes:

- (1) After adjusting the following subsequent events since 31 December 2019 up to the LPD, as follows:
 - (a) On 9 March 2020, KNM had re-purchased 6,500,000 KNM Shares from the open market at a cost of RM978,315 or RM0.159 per KNM Share. These Shares have been treated as Treasury Shares of the Company;
 - (b) Issuance of 90,275,700 new KNM Shares from the exercise of ESOS Options since 1 January 2020 up to the LPD;
 - (c) Reversal of warrants reserve for outstanding warrants-B, which expired on 21 April 2020, amounted to approximately RM27.49 million; and
 - (d) Cancellation of 146,717,001 ESOS Options on 24 September 2020 as the KNM Shares have predominantly been trading below the exercise price of RM0.65 per ESOS Option.
- (2) Based on the Indicative Issue Price.
- (3) After adjusting for the estimated expenses relating to the Proposed Private Placement of approximately RM1.18 million.
- (4) Computed by taking the total NA of the Company divided by the number of Shares in issuance.
- (5) Computed by taking the total borrowings over the total equity of the Company.

5.3 Earnings and Earnings per Share ("EPS")

Save for the dilution in EPS as a result of the increase in the number of Shares to be issued pursuant to the Proposed Private Placement, the Proposed Private Placement is not expected to have any immediate material effect on the consolidated earnings/ losses of the Group.

For illustrative purposes, assuming that the Proposed Private Placement was effected at the beginning of the financial year ended (“**FYE**”) 31 December 2019 of KNM, the pro forma effects on the earnings and EPS of KNM Group are as follows:

	FYE 31 December 2019	After the Proposed Private Placement
Profit after taxation (RM'000)	35,057	⁽¹⁾ 33,877
No. of KNM Shares ('000)	2,608,073	2,691,034
EPS (sen)	1.34	1.26

Note:

- (1) After deducting the estimated expenses of the Proposed Private Placement of RM1.18 million.

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5.4 Substantial shareholders' shareholding

The pro forma effects of the Proposed Private Placement on the shareholding of the substantial shareholders of KNM are set out in the table below:

Substantial shareholders	As at the LPD				After the Proposed Private Placement			
	Direct		Indirect		Direct		Indirect	
	No. of Shares	⁽¹⁾ %	No. of Shares	⁽¹⁾ %	No. of Shares	⁽²⁾ %	No. of Shares	⁽²⁾ %
Ir Lee Swee Eng	108,408,838	4.0	171,066,459	⁽³⁾ 6.4	108,408,838	3.7	171,066,459	⁽³⁾ 5.8
Gan Siew Liat	39,045,000	1.5	279,475,297	⁽⁴⁾ 10.4	39,045,000	1.3	279,475,297	⁽⁴⁾ 9.4
Placees (collectively)	-	-	-	-	269,184,800	9.1	-	-

Notes:

- (1) Based on the existing share capital of 2,691,848,980 Shares (excluding Treasury Shares) as at the LPD.
- (2) Based on the enlarged share capital of 2,961,033,780 Shares (excluding Treasury Shares) after the Proposed Private Placement.
- (3) Deemed interested by virtue of his indirect interest in Inter Merger Sdn Bhd, direct interest in Tegas Klasik Sdn Bhd, direct interest in Aveda Assets Capital Inc. and interest of his children in KNM.
- (4) Deemed interested by virtue of her indirect interest in Inter Merger Sdn Bhd, and interest of her spouse in Tegas Klasik Sdn Bhd and Aveda Assets Capital Inc. and interest of her spouse and children in KNM.

5.5 Convertible Securities

As at the LPD, save for the 75,501,800 ESOS Options, the Company does not have any convertible securities in issue.

The Proposed Private Placement will not give rise to any adjustment to the outstanding ESOS Options pursuant to the provisions of the by-laws governing the Company's ESOS Options.

5.6 Dividends

The Proposed Private Placement will not have any effect on the dividend policy of the Company, if any. Future dividends to be declared by the Company will be dependent on, among others the future financial performance as well as cash position of the Group, after taking into consideration the working capital requirements, capital expenditures needed for future growth and business expansion.

6. APPROVALS REQUIRED

The Proposed Private Placement is subject to the approvals being obtained from the following:

- (a) Bursa Securities, for the listing of and quotation for the Placement Shares on the Main Market of Bursa Securities; and
- (b) any other relevant persons or authorities, if required.

The Company had obtained its shareholders' approval for the General Mandate that authorises the Board to issue new KNM Shares from time to time upon such terms and conditions and for such purposes as the Board may in its absolute discretion deem fit provided that the aggregate number of shares to be issued does not exceed 20% of the total number of issued KNM Shares pursuant to Sections 75 and 76 of the Act. The said approval is valid until the conclusion of the next AGM unless revoked or varied by the Company at a general meeting or at the expiry of the period within which the next AGM is required to be held after the approval was given, whichever is earlier. Therefore, the Proposed Private Placement does not require another specific approval from the shareholders of KNM.

The Proposed Private Placement is not conditional upon any other corporate proposals undertaken or to be undertaken by KNM.

7. INTERESTS OF DIRECTORS, MAJOR SHAREHOLDERS, CHIEF EXECUTIVE AND/OR PERSONS CONNECTED WITH THEM

None of the Directors, major shareholders, chief executive of KNM and/or persons connected with them have any interest, whether direct or indirect, in the Proposed Private Placement.

8. DIRECTORS' RECOMMENDATION

The Board, after having considered all aspects of the Proposed Private Placement (including, but not limited to the proposed utilisation of proceeds, rationale and the effects of the Proposed Private Placement), is of the opinion that the Proposed Private Placement is in the best interest of the Group and its shareholders.

9. ADVISER AND PLACEMENT AGENT

M&A Securities has been appointed as the Adviser and Placement Agent to the Company for the Proposed Private Placement.

10. ESTIMATED TIMEFRAME FOR COMPLETION

Barring unforeseen circumstances, the application to Bursa Securities in relation to the Proposed Private Placement is expected to be made within 2 months from the date of this announcement.

Subject to the relevant approvals being obtained and barring any unforeseen circumstances, the Proposed Private Placement is expected to be completed by the fourth quarter of 2020.

This announcement is dated 29 September 2020.