

KNM has the right skills

Company aims to be among top 10 process equipment manufacturers in the world

BY LIM AI LEEN I

KNM Group Bhd started business 12 years ago, sparked by a chance meeting between founders Lee Swee Eng, an engineer in the oil and gas industry, and Datuk Abdul Rani Mohd Razalli, a retired customs official.

A report by AmResearch dated July 28 describes KNM's products as "organs" of the oil and gas industry — essentially process equipment and turnkey storage facilities for oil, gas and petrochemicals. Examples include pressure vessels for storing petroleum fluids, mounded storage bullets for liquefied gas and flare stacks to burn off excess gas in oil plants.

Benefiting from Petronas' policy in 1990/91 of giving preference to local manufacturers, KNM has

and Sumitomo Heavy Industries Ltd of Japan.

KNM's ambition is to be among the top 10 process equipment manufacturers in the world. So far, it has completed projects in North and South America, Europe, Africa, West and East Asia, and Australia and Oceania.

According to Mayban Securities, the company's forte lies in its engineering expertise and technical skills. The continued growth of the global oil, gas and petrochemical industries is expected to support KNM's efforts to reduce its dependence on the local market and diversify into producing process equipment made of exotic materials.

tise are transferable to non-oil, gas and petrochemical industries like pulp mills and oleochemical industries.

The listing proceeds will be used to repay term loans amounting to RM11.1 million and for RM8.2 million worth of capital expenditure to expand the company's research and development facilities. KNM also expects to benefit from the listing indirectly. Lee says: "We are better accepted overseas if we are a public-listed company."

Lee and Abdul Rani will remain substantial shareholders of the company after listing, with indirect shareholdings of 74.8 per cent. ■

Who is going for listing and when? To keep track of the IPOs, we provide readers with an update on the new kids on the block and an overall view on their fundamentals.



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ABDUL RANI MOHD RAZALLI

grown since its first year of operations, when its turnover was only RM2 million. According to the pro forma consolidated results, the company has seen its revenue nearly double in the last five years — from RM55 million in 1998 to RM107 million in 2002. Net profits have followed suit — from RM3 million in 1998 to RM8.3 million in 2002.

The company has three manufacturing plants in Malaysia — located in Melaka, Gebeng and Bintulu. Its fourth and newest plant in Changshu, China is the largest, with a manufacturing capacity of 11,500 tonnes. According to an analyst at Mayban Securities, this plant will help KNM break into the Japanese, South Korean and Russian markets.

These plants will service the RM141.7 million worth of projects that KNM currently has in hand at home and abroad. “[This] will keep the group busy for the next 12 months,” says the Mayban analyst.

AmResearch is positive on the location of these plants. “[They] are strategically located near sea ports. This minimises the transportation costs, which is a major price factor due to the large size and weight of the equipment,” says its analyst.

According to AmResearch, 45 per cent of KNM’s orders for 2002 came from the overseas market. Based on the first half of this year, 48 per cent of the total orders in hand came from the export market. “We understand from management that revenue growth from overseas business is expected to surpass that of the domestic market. This is based on the growing number of new oil and gas projects in the Middle East, Asean and America,” the report concludes.

KNM counts companies like Petra Perdana and Dialog as its closest local competitors, but it is also keen to distinguish itself from them. “We are very focused and niche in storage and process equipment, whereas only a minority of their business is in process equipment,” Lee observes.

AmResearch says KNM’s foreign competitors include Hyundai Heavy Industries Co Ltd (South Korea)

“Growth will also come from the expansion of its product range via licensing arrangements,” says the analyst with AmResearch. The company has been granted the exclusive right to market German-based JPM Ingenieurtechnik GmbH products and services within Asia-Pacific until July 2005.

KNM GROUP

KNM Group Bhd

IPO details
Second Board
Issue price: RM1.48
Par value: RM1
Paid-up capital: RM44 million
Estimated free float: 25.1 per cent
Controlling shareholder(s):
Inter Merger Sdn Bhd 65.2 per cent,
Tegas Klasik Sdn Bhd 9.7 per cent
Bumiputera allocation: 1.32 million
shares or 30 per cent of Malaysian
public shares
Oversubscribed by: 13.6 times
Fair value: RM2.59 (AmResearch)
Listing date: Aug 11, 2003

EARNING PROJECTIONS

YEAR-END		2001	2002	2003E
DEC RM 'MIL				
Pre-tax profit		7.62	10.61	10.94
Net profit		6.41	8.27	8.5
Net EPS (sen)		14.6	18.8	19.2
Dividend				
per share (sen)		0	0	4.0
Dividend yield				
(per cent)		0	0	2.7

Analysts say, however, that KNM is vulnerable to price fluctuations of the imported raw materials it uses. Steel plates and other iron and steel materials accounted for about 68 per cent of the total raw materials used by the group in manufacturing process equipment last year.

AmResearch also points to KNM’s relative reliance on key customers, where about 50 per cent of all its top 83 customers have been dealing with it for between five and 12 years since inception, with repeat orders. The analyst believes, however, that the effect is mitigated as the group’s business, design and engineering exper-