

KNM identifies growth areas

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PETALING JAYA: KNM Group Bhd believes that the power, palm oil and biomass industries are potential growth areas for the company.

Group managing director Lee Swee Eng told *StarBiz* that KNM would build up capacity for these segments, especially in the second phase of the company's China plant expansion.

KNM, via its merchant bank, told Bursa Malaysia last week that it was proposing to buy 90% equity interest in Virgo Pulse Sdn Bhd (VPSB), a producer of industrial boilers.

It said the acquisition would allow the group to expand into new industrial sectors. And the pooling of technical and managerial expertise, it added, would enable KNM to have a wider range of products, including industrial boilers and energy systems in sectors other than oil and gas, petrochemicals and minerals processing.

According to the statement, the acquisition would also facilitate the development and expansion of the Virgo Pulse group's core business of manufacturing industrial boilers using its own "Vickers Hoskins" brand name. It is believed that



Vickers Hoskins was owned by Nam Fatt Corp Bhd until 2004 when the former was sold.

"Vickers Hoskins has a strong market share in these industries, including power, biodiesel and oleochemicals, and will enhance the group's penetration into these high-growth areas," Lee said.

He said the start of operations at the expanded China plant would enable KNM to produce a complete range of industrial boilers and heat recovery steam generators (HRSG) there.

"The proposed acquisition of 90% in Vickers Hoskins through parent



Lee Swee Eng

company VPSB complements and is synergistic to our joint ventures with Sofinter SpA of Italy.

"Sofinter is a world leader in HRSG and industrial boilers under the Macchi brand, covering industries such as oil and gas, petrochemicals, power generation and marine. Vickers Hoskins is the leader in Malaysia for industrial boilers," Lee said.

"Hence, the combination of these

two parties would enable KNM to tap a wider range of industrial boilers and HRSG and also diversify into additional sectors," he added.

Asked whether the group was working on more acquisitions, Lee said KNM was constantly on the lookout for suitable and viable targets that would add value to the group.

KNM shares were one of the biggest gainers at the close yester-

day, ending up 35 sen, or 5.6%, at RM6.60.

Meanwhile, AmResearch Sdn Bhd said in a market strategy report for the second half 2006 that the KNM stock was inexpensive compared with its regional competitors. The stock (RM6 at the time of the report) was trading at a steep 30% discount to the valuation of its regional peers of an average price/earnings ratio (PE) of 20 times this year's earnings.

"The premium against market PE is justified, given KNM's commendable three-year forward net profit compound annual growth rate of 39% and net profit growth forecast of 71% this year," the brokerage said.

It noted that besides KNM's global reputation as a reliable process equipment fabricator, the group had added three recognised brand names to its stable, namely WE Smith, FBM-Hudson and Macchi. Coupled with KNM's expanded plant network, the group's chances of securing new projects would increase.

The group was progressing towards higher-end process equipment, such as air-cooled heat exchangers, waste heat boilers and Macchi boilers, AmResearch added.