

Analysts bullish on KNM's Borsig deal

The RM1.67 billion acquisition will open up new markets in China for the German Group

By ALFEAN HARDY

KNM Group Bhd's proposed buy of fellow process equipment giant Borsig BBetv mbH has been given the thumbs up by industry analysts who have revised upwards KNM's forecast net profit for fiscal 2008 and 2009 by 20% and 60%, respectively.

Last week, KNM announced details of its RM1.67 billion acquisition of the German group to complement its product lines and to move up the process equipment value chain. The deal, slated for completion in May, will be funded via a combination of internally generated funds and borrowings.

In a recent research note, TA Securities said the exercise was earnings enhancing and fitted well with the KNM's overall group strategy. "We have raised our earnings forecast for the financial years (FY) to Dec 31, 2008 and 2009 by 33.8% and 59.1% to RM455.7 million and RM685.4 million respectively," it said.

"In arriving at our earnings forecast, we have consolidated Borsig's forecast for eight months in FY08, pro-

vided the deal is completed in April FY08 as indicated by KNM's management. FY09 will see a full year consolidation. Besides, this acquisition will open up new markets for Borsig as it has not yet explored the markets in China and Asia," it added.

TA Securities said the deal, which had been consummated at an undemanding FY07 price-earnings ratio (PER) of 9.7x and a cheap FY08 PER of 7x based on an expected FY08 forecast of RM238 million, could not have been better and would allow the company to move up the value chain.

"Borsig is the world leader in the fabrication of process waste heat recovery equipment and has a RM1.6 billion order book. It also fabricates its own carbon dioxide separators, compressors, boilers, heat exchangers and the like," it added.

The research house said KNM's ability and experience in acquiring companies at a cheaper price and transforming them into profitable ventures as it has done in Australia, Indonesia and Italy should minimise future integration risks and it applauded the imposition of a three-

year lock-in on key management personnel.

It said the company had already secured a RM2 billion bridging loan from Malaysian Banking Bhd to satisfy the cash payment and would be settling the loan via an earlier announced one-for-four rights issue and a US\$350 million (RM1.12 billion) convertible bonds issued.

"KNM is not likely to incur additional financial commitment on capacity expansion (capex) or to fund Borsig's future capex needs as it is in a net cash position at company level and has good operating cashflows," it added.

AmResearch has also raised KNM's FY08 and FY09 earnings forecast to RM381 million and RM593 million respectively, up 21% in 2008 and 45% in 2009, given that Borsig's higher-end products fetched higher average selling prices per tonne and that the European market was willing to pay premium prices to ensure quality products.

"With Borsig and FBM-Hudson Italiana SPA (a KNM unit), KNM's leading position in fabrication heat exchangers and heat boilers is entrenched. Post-acquisition, KNM would be in the top two of the world's largest fabricators of heat boilers and exchangers," it said.