

KNM mulls M&As to move up value chain

By **LEONG HUNG YEE**
hungyee@thestar.com.my

PUTRAJAYA: KNM Group Bhd is "continuously looking" for merger and acquisition (M&A) opportunities, says group managing director Lee Swee Eng.

"M&As are abundant and cheap. We will revisit the corporate exercise if such opportunity arises," he said after its AGM yesterday.

Lee said any M&A had to fit into KNM's growth model, and the group was looking for companies that could help it move up the value chain as well as enhance its earnings and geographical presence.

"Discussion is always ongoing. However, the questions remain whether the deal will be realised or not," he said.

Lee said the group had a healthy cash of RM400mil to RM500mil and if it were to embark on M&As, it would use part of its reserves.

When asked about its management buyout plan, Lee said: "Based on the current market situation, it (management buyout) is not a feasible option."

Securing funding would be very tough in the current economic conditions, he said, adding that KNM's priority now was to consolidate its operations.

Meanwhile, KNM expects its



Lee Swee Eng ... 'Discussion is always ongoing. However, the questions remain whether the deal will be realised or not'.

financial performance for the current financial year ended Dec 31 (FY09) to be "comparable" to earnings in FY08, as oil and gas exploration activities have started to pick up again.

For FY08, KNM posted a net profit of RM336.3mil on revenue of RM2.53bil compared with RM188.1mil and RM1.23bil respec-

tively in FY07.

Lee said the oil and gas activities stopped when oil prices dipped to US\$30 per barrel.

"The demand has stopped or has been put on hold then while companies made reassessment of their projects. Many projects have been revived recently as oil prices have started to rise again," he said.

The industry was "positive again," he said, and many companies had started to call KNM for negotiations on projects.

"There will be some pressures on the margins. However, 55% of our projects are high end; therefore, the impact on margins will not be as severe," he said.

He added that US\$60 to US\$70 per barrel of oil prices were a "profitable level".

"Currently, the Middle East is very active as the cost of developing oil is affordable. Activities in Brazil and Australia have also started to pick up," Lee said.

The group was said to be tendering for about RM18bil worth of projects as at end-March.

On the performance of its shares, chairman Datuk Mohamad Idris Mansor said: "There's nothing much we can do. We don't manage the share price, we manage the company."

"Fundamentally, we've no issues. In terms of financial, we have a healthy cash balance and our gearing is only 0.5 times."

KNM was the darling of the industry with strong followers from retail and institutions buyers, he said, adding that the sell-down of its share price was mainly due to the exit of foreign funds and market sentiments.