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

Unless otherwise defined, the definitions set out in the announcement in relation to the Proposed Private Placement dated 29 September 2020 (“Announcement”) shall apply herein.

Further to the Announcement, M&A Securities on behalf of the Board wishes to announce further information in relation to the Proposed Private Placement as set out in the attachment below.

This announcement is dated 6 October 2020.

Please refer attachment below.

Attachments

KNM - Additional announcement (Final).pdf
168.2 kB

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

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

*Unless otherwise defined in this announcement, all terms used herein shall have the same meaning as those defined in the announcement dated 29 September 2020 in relation to the Proposed Private Placement ("**Announcement**")*

M&A Securities, on behalf of the Board of KNM wishes to announce the following additional information in relation to the Proposed Private Placement:

(a) Commentaries on the financial performances of KNM Group for the past 3 years as well as latest quarterly period

The summary of financial performances of the KNM Group for the financial years ended 31 December ("**FYE**") 2016 to 2019 as well as the quarterly financial results for the financial periods ended 30 June 2019 and 30 June 2020 together with the commentaries on past performances are as follows:

	Audited				Unaudited	
	FYE 2016	**FYE 2017**	**FYE 2018**	**FYE 2019**	**FPE 30 June 2019**	**FPE 30 June 2020**
	RM'000	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**
Revenue	1,646,782	1,362,082	1,432,333	1,632,595	738,408	669,590
Gross profit ("**GP**")	6,469	213,417	117,135	293,780	125,997	132,388
Results from operating activities	(275,497)	8,429	(347,413)	137,279	69,487	60,440
Profit before tax ("**PBT**") / Loss before tax ("**LBT**")	(316,647)	(36,600)	(412,352)	70,414	32,616	33,003
Profit after tax ("**PAT**") / Loss after tax ("**LAT**")	(333,124)	(50,861)	(784,676)	35,057	21,117	26,812
Shareholders' equity / Net Asset ("**NA**") (RM'000)	2,385,418	2,365,210	1,540,778	1,664,069	1,603,404	1,749,951
Number of shares ('000)	2,132,801	2,346,096	2,346,096	2,608,073	2,580,696	2,614,879
Net basic EPS / (Loss per share) (sen)(1)	(15.62)	(2.17)	(33.45)	1.34	0.82	1.03
NA per share (RM)	1.12	1.01	0.66	0.64	0.62	0.67
GP margin (%)	0.4	15.7	8.2	18.0	17.1	19.8

Note:

(1) Derived based on the PAT/LAT divided by the number of ordinary shares.

<u>FYE 2017 vs FYE 2016</u>

The Group registered lower revenue levels by approximately 17.3% or RM284.70 million, which decreased from RM1.65 billion recorded during FYE 2016 to RM1.36 billion during FYE 2017, mainly due to the following reasons:

(i) slow replenishment of new orders from the supply of process equipment in America, Asia and Oceania; and

(ii) lower project percentage of completion recognised from its O&G and petrochemical related projects at the Pengerang Integrated Petroleum Complex, which were either completed or nearing completion.

The Group registered a higher GP margin of 15.7% in FYE 2017 as compared with GP margin of 0.4% in the preceding financial year, which was mainly due to the absence of one-off project expenses and impairment of fixed assets incurred in FYE 2016 and the cost savings arising from significant scale down of the Canadian process equipment fabrication operations, which were affected by the lacklustre development in the oil sand and shale gas industries in North America.

Although the Group recorded operating profits of approximately RM8.43 million, the Group recorded LAT position of approximately RM50.86 million during FYE 2017 after taking into consideration the finance cost of RM47.85 million and tax expenses of RM14.26 million .

As a result of the above, the Group's shareholders' fund stood lower at RM2.37 billion as at 31 December 2017 as compared with RM2.39 billion as at 31 December 2016. Consequently, the NA per share decreased marginally from RM1.12 as at 31 December 2016 to RM1.01 as at 31 December 2017.

FYE 2018 vs FYE 2017

The Group's overall revenue levels increased by approximately 5.2% or RM70.25 million, which increased from RM1.36 billion during FYE 2017 to RM1.43 billion during FYE 2018. This was mainly due to the improvements in the performance of its supply of process equipment business segment in Europe, which increased by 6.6% or approximately RM76.02 million, from RM1.15 billion during FYE 2017 to RM1.23 billion during FYE 2018.

However, the Group registered lower GP margin of approximately 8.2% during FYE 2018, as compared to GP margin of approximately 15.7% during FYE 2017. The lower GP margin was due to the gross loss position recorded by its operations in America, Asia and Oceania regions arising from the following reasons:

(i) the Group's Canadian process equipment fabrication operations was affected by the lacklustre development in the oil sand and shale gas industries in North America;

(ii) the gross loss position recorded by the Group's operations in the Asia and Oceania region was mainly attributable to a higher unabsorbed fixed overhead due to slow replenishment of new orders in the Group's fabrication operations and the higher plant depreciation cost in Thailand; and

(iii) the Group has taken prudent approaches to recognise unforeseen project costs in relation to the ongoing fabrication projects in the Asia and Oceania regions as well as its Canadian operations.

The Group has taken prudent measures to write down non-profitable investments and other assets, including property, plant and equipment, inventories and long overdue receivables from completed projects held by non-profitable business units located mainly in China, Saudi Arabia and Canada. As a result of the above, the Group recorded one-off write-down amount of RM199.04 million, which resulted in the increase in the Group's other operating expenses by 297.9% or approximately RM234.37 million, from RM78.67 million during FYE 2017 to RM313.04 million during FYE 2018. Consequently, the Group recorded operating loss of approximately RM347.41 million during FYE 2018.

Furthermore, the Group registered a higher LAT position of approximately RM784.68 million as compared with RM50.86 million in the preceding financial year, mainly due to the following reasons:

(i) increase in the Group's overall finance costs incurred by 26.9% or approximately RM12.87 million arising from the increase in the Group's overall borrowings by RM281.64 million, from RM1.19 billion as at 31 December 2017 to RM1.47 billion as at 31 December 2018; and

(ii) higher tax expenses incurred by RM358.06 million during FYE 2018, which was mainly due to the one-off reversal of a non-cash deferred tax assets of RM337.58 million, arising from tax loss carry-forward, unutilised capital allowance and other tax incentives previously granted to a subsidiary of KNM in Malaysia.

As a result of the above, the Group's shareholders' fund stood lower at RM1.54 billion as at 31 December 2018, as compared with RM2.37 billion as at 31 December 2017. Consequently, the NA per share decreased from RM1.01 as at 31 December 2017 to RM0.66 as at 31 December 2018.

FYE 2019 vs FYE 2018

The Group registered overall improvement in its revenue levels, which increased by 14.0% or approximately RM200.26 million, from RM1.43 billion during FYE 2018 to RM1.63 billion during FYE 2019, which was mainly due to higher orders of process equipment received from its customers in Malaysia and Europe regions. The Group's overall GP margin had also improved from 8.2% in FYE 2018 to 18.0% in FYE 2019, due to improvements for the following regions:

(i) GP margins for the Asia and Oceanic regions improved to 10.8% during FYE 2019, as compared to gross loss of 54.4% during FYE 2018; and

(ii) GP margins for the Europe region improved to 20.2% during FYE 2019, as compared to GP margin of 19.4% during FYE 2018.

The improvement in the above GP margin was mainly attributable to rigorous cost controls and better profit margins from new orders of process equipment secured from its customers in Europe, which resulted in lower operating costs for its operations in Europe (particularly from the Group's operations in Germany), Asia and Oceania regions.

As a result of the Group's rigorous cost controls achieved by the Group's operations in Europe, Asia and Oceania, the Group recorded lower overall administrative and other operating expenses, resulting in the Group recording operating profits of approximately RM137.28 million. Consequently, the Group recorded PAT position of approximately RM35.06 million during FYE 2019.

The Group's shareholders' fund stood higher at RM1.66 billion as at 31 December 2019, as compared with RM1.54 billion as at 31 December 2018. This was mainly attributable to the increase in the fair value in revaluation of land and buildings of RM103.55 million, the proceeds raised from issuance of new shares via a private placement exercise undertaken and the exercise of 27,377,300 ESOS Options, which raised approximately RM40.55 million during FYE 2019. This has cushioned the impact arising from unfavourable exchange differences for foreign investments and balances of RM73.34 million in FYE 2019. Consequently, the Group's NA per share position stood slightly lower at RM0.64 as at 31 December 2019.

FPE 30 June 2020 vs FPE 30 June 2019

The Group posted lower revenue levels of approximately RM669.59 million during FPE 30 June 2020, as compared with revenue levels of approximately RM738.41 million achieved in the FPE 30 June 2019, mainly due to temporary closure of the Group's fabrication plants in China and Malaysia as well as reduced production of ethanol in bio-ethanol plant in Thailand following the COVID-19 lockdown restrictions.

The Group registered a higher gross profit margin of approximately 19.8% in the FPE 30 June 2020 as compared with 17.1% in the corresponding period of 2019 mainly due to continuous rigorous cost savings from its supply of process equipment segment.

The Group posted a marginally higher PBT of approximately RM33.00 million during FPE 30 June 2020, as compared with PBT of approximately RM32.62 million during FPE 30 June 2019. This was mainly due to lower finance cost incurred of RM27.55 million during FPE 30 June 2020 as compared to RM37.29 million during FPE 30 June 2019 due to lower outstanding borrowings. Consequently, the Group recorded PAT position of approximately RM26.81 million during FPE 30 June 2020.

(b) Impact of the Proposed Private Placement and value creation to the Group and its securities holders

The Board is of the view that the Proposed Private Placement will allow the Group to raise funds for the purposes as detailed in Section 2.5 of the Announcement in an expeditious manner without incurring additional interest cost or servicing additional principal payments, thereby minimising any potential cash outflow in respect of interest servicing costs and principal repayments.

As illustrated in Section 5.2 of the Announcement, the Proposed Private Placement is expected to enlarge the issued share capital of the Group and in turn increase its shareholder's equity and enhance its overall financial position. Based on the audited consolidated financial statements of KNM for the FYE 2019 and the Indicative Issue Price, the NA position of RM1.66 billion and gearing level of 0.89 times of KNM Group is expected to improve to RM1.72 billion and 0.86 times respectively, upon completion of the Proposed Private Placement.

However, the increase in the number of issued Shares pursuant to the Proposed Private Placement would result the shareholdings of the Company's existing shareholders to be diluted. It may also dilute the EPS of the Group if the earnings of the Group do not increase in tandem with the increase in the number of KNM Shares issued pursuant to the Proposed Private Placement.

(c) The adequacy of the Proposed Private Placement in addressing the Group's financial concerns

As discussed above, the Group previously recorded LAT position of RM50.86 million and RM784.68 million during FYE 2017 and FYE 2018, respectively, which was mainly due to the following reasons:

(i) slow replenishment of new orders from the supply of process equipment in America, Asia and Oceania regions;

(ii) on-going uncertainties and volatility in the O&G industry during FYE 2016 to FYE 2018, which has affected the Group's operations and profitability levels, especially in its process equipment operations and on-going O&G and petrochemical projects globally;

(iii) higher tax expenses incurred by RM358.06 million during FYE 2018, which was mainly due to the one-off reversal of a non-cash deferred tax assets of RM337.58 million, arising from tax loss carry-forward, unutilised capital allowance and other tax incentives previously granted to a subsidiary of KNM in Malaysia; and

(iv) during FYE 2018, the Group has undertaken prudent measures to write down non-profitable investments and other assets, including property, plant and equipment, inventories and long overdue receivables from completed projects held by non-profitable business units located mainly in China, Saudi Arabia and Canada. As a result of the above, the Group recorded one-off write-down amount of RM199.04 million, which resulted in the increase in the Group's other operating expenses by 297.9% or approximately RM234.37 million, from RM78.67 million during FYE 2017 to RM313.04 million during FYE 2018.

However, the Group turnaround its financial position by recording PAT position of RM35.06 million and RM26.81 million for FYE 2019 and FPE 30 June 2020, respectively. Although the Group has turnaround its financial position, the Board has decided to undertake the Proposed Private Placement as the most appropriate avenue to raise immediate funds to fund its ongoing fabrication works of the Group's process equipment contracts secured by the Group's Malaysian operations, which is worth approximately RM577.54 million.

The Proposed Private Placement will also enable the Group to preserve its existing and future funds for the following purposes:

(i) undertake the exploration of new business opportunities or venture in the O&G and petrochemicals industries with favorable outlook as a way of delivering sustainable value to its shareholders;

(ii) explore new potential business opportunities or venture, particularly in the renewable energy sector, which will further supplement its business activities in the O&G and petrochemical industries. The Company shall make the requisite announcement and/or seek the shareholders' approval, if required by the Listing Requirements, as and when the new business opportunities or venture are confirmed/ identified; and

(iii) the availability of higher cash flow position will strengthen the Group's financial health and consequently enable the Group an additional competitive edge over its competitors in securing new contracts under the current challenging market conditions as its customers places strong emphasis on the service provider's financial strength to execute the contract to be awarded during their tender evaluation.

Based on the above, the Group shall explore and evaluate other suitable funding proposals for the Group's long term financial and funding requirements. In addition, the Company will continue to undertake more stringent cost control measure for its existing business to improve the Group's profitability levels, which include, but not limited to the close monitoring of the developments in the O&G industry and undertaking conservative costing control.

This announcement is dated 6 October 2020.