KNM's winning combination

| BY LIM AI LEEN |

"It was a chance meeting 12 years ago," says Lee Swee Eng, managing director of KNM Group Bhd. He is describing how KNM Group was formed by him and Datuk Abdul Rani Mohd Razalli, the executive chairman.

Lee, an engineer in the oil and gas industry at the time, and Abdul Rani, then a retired customs official, have enjoyed a good working relationship right from the start. In fact, it has been good enough to take KNM to a listing on the Second Board of the Kuala Lumpur Stock Exchange.

"We complement each other well," remarks Lee. He takes care of the technical aspects of the business, which is principally the manufacturing of process equipment and turnkey storage facilities for the oil, gas and petrochemical industry. Abdul Rani, on the other hand, handles the government administration side — from liaising with government departments to dealing with import procedures and tax exemptions.

"There was an opportunity for investments in oil and gas industry then. Being at the customs department, I could see that the oil and gas companies were importing most of their equipment," says Abdul Rani.

According to Lee, they spotted a gap in the market — and felt the equipment could be made locally. He explains: "The skills were available in Malaysia. All we needed was the technical and management expertise."

KNM's products include pressure vessels for storing petroleum fluids, mounded storage bullets for liquefied gas and flare stacks to burn off excess gas in oil plants.

Lee concedes, however, that it was not easy convincing the oil and gas giants of their capabilities. "We benefited from Petronas' policy in 1990-91 of giving preference to local manufacturers," he says. KNM also leveraged itself on the track record of the Royal Dutch Machinery Company, which held a minority equity interest in KNM, and from whom the KNM name originated. Lee points out, however, that the Dutch company did not participate actively in the business — and its entire stake was bought out in 1995.

Lee and Abdul Rani believe there is money to be made in oil and gas.

Abdul Rani explains: "Twenty years ago, the government said we have 15 years of oil. They are saying the same thing today. The industry continues to be robust."

Nevertheless, KNM has not limited itself to the domestic market. According to Lee, the need for oil is critical worldwide, and every oil-producing country will develop all the oil they have. Also new technologies are being continually developed to extract oil.

He says: "We want to be amongst the top 10 process equipment manufacturers in the world. To achieve that, we need to go fully global."

KNM has completed projects in North and South America, Europe, Africa, West and East Asia, and Oceania.

Lee, however, declines to state if KNM has found its way to the top 10 list. But he does say that KNM is one of the 15 companies short-listed for a US project, with a Korean company being the only other Asian organisation. "So, you could say we are one of the leaders in Asia," he surmises with a smile.

The main challenge ahead, according to him, is to remain competitive in the world market. "Research and development [R&D] is key," he stresses.

Lee counts companies like Petra Perdana and Dialog as KNM's closest local competitors, but is keen to distinguish KNM from them. "We are very focused and have a niche in storage and process equipment, whereas only a minority of their business is in process equipment," he says.

KNM's prospectus for the public offer of 11.08 million shares at an issue price of RM1.48 each was issued last Friday. The company's issued and paid-up share capital will stand at RM44 million when the listing exercise is completed.

According to the prospectus, KNM has seen its revenue nearly double in the last five years — from RM55 million in 1998 to RM107 million last year. Net profits have followed suit — from RM3 million in 1998 to RM8.3 million in 2002. This is a far cry from when they began. Lee says, "We started small. In our first year, turnover revenue was just over RM2 million."

The listing proceeds will be mainly used to repay term loans amounting to RM11.1 million and for RM8.2 million worth of capital expenditure to expand their R&D facilities. But Lee says that funding is not their main reason for listing.

"As we grow bigger, listing allows us easier access to funding. But this is not the main reason for listing. We are looking for growth and we will be better accepted overseas if we are a public-listed company," he says.

Lee and Abdul Rani will remain substantial shareholders of the company after listing, with indirect shareholdings of 74.8 per cent. The company hopes to list by the third quarter of this year.

Lee (left) and Abdul Rani have a good working relationship