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PETALING JAYA: KNM Group Bhd is setting up a manufacturing facility in Saudi Arabia - to feed the demand boom for oil and gas (O&G) equipment in the Middle East.

The group announced yesterday its unit, KNM International Sdn Bhd, had formed a joint venture (JV) with local partner Themar Aqaria Ltd Co to design, manufacture and fabricate process equipment for O&G and petrochemical industries in Saudi Arabia.

"The JV with a local partner will enable us to secure more jobs in Saudi Arabia.

"Our plan to set up a plant in Saudi Arabia is because our plant in Dubai will not be able to cope with the rising demand," KNM group managing director Lee Swee Eng told *StarBiz*.

KNM International holds 51% equity interest in the JV, with the balance held by diversified group Themar, which is run by former oil company personnel.

The group is expanding its manufacturing plant capacity in Dubai from 12,000 tonnes per annum currently to 18,000 tonnes by year-end.

But Lee said the additional capacity would not be sufficient to meet future orders, which were expected to peak in 2009.

According to him, the Saudi Arabian government has approved many O&G projects this year. So

KNM sets up plant in Saudi

Firm in JV to secure more O&G contracts

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LEE SWEE ENG



demand for process equipment should emerge in the later stage of the projects in late 2008 and 2009.

Lee said the initial investment in Saudi Arabia was estimated at RM40mil. The plant's capacity

would be 10,000 tonnes per annum in the first phase.

He expected profit contribution from the JV to start in 2009.

Investment analysts viewed the JV positively and agreed that the part-

nership with a local party would allow them to penetrate the Middle East market easier. They expected this to be another leg of growth for KNM.

AmResearch had forecast compounded annual growth rate of 40% on KNM's net profit in the next three years, prior to the latest JV. KNM made a net profit of RM133.6mil on revenue of RM917.2mil for financial year ended Dec 31, 2006.

The group currently has manufacturing facilities in Malaysia, Australia, Italy, China, the United Arab Emirates, Indonesia and Canada.

"We are positive on the group. The management has proven themselves," said OSK Investment Bank analyst Chris Eng.

However, he noted with concern that perhaps the group had expanded too fast. "We would prefer to see some consolidation before further expansion," said Eng.