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WHEN the oil & gas (O&G) play started on Bursa Malaysia four years ago, KNM Group Bhd wasn't among the preferred stock picks.

Like it or not, investors who took a big bet on some of the then hot stocks have had a nail-biting experience when the companies failed to deliver the expected "exciting" earnings and their share prices collapsed.

But KNM shareholders, especially those who have kept their shares since the IPO exercise in August 2003, are actually laughing all the way to the bank.

Based on last week's closing price of RM12.90, the 1,000 shares that cost RM1,480 during the IPO is now worth RM58,050!

After two rounds of bonus issues and a share split exercise, the 1,000 shares subscribed during the IPO have now become 4,500 shares.

Investors have more shares in hand. KNM's share price (after adjustment for bonus issues and share split) has surged nearly nine times against its IPO price of RM1.48.

Given such a huge profit, investors are definitely tempted to sell the shares now, if they have not done so.

Still, there are reasons to hold onto their investments for even better gains tomorrow.

"KNM is a gem of a stock that should be in the portfolio of every investor who is scouting for growth stocks," said TA Securities head of research Kaledher Govindan.

Being the manufacturer of process equipment and turnkey storage facilities for the O&G and petrochemical industries, KNM is seen as a proxy to the energy sector.

Unlike some O&G companies listed on Bursa Malaysia, the group does not rely heavily on local contracts.

KNM is in fact a global player serving the world's O&G industry.

The group has established plants in eight countries, including China, Australia, Italy, Brazil, Canada and UAE. It is also setting up production

KNM shareholders make hefty gains

The group's share price has surged nine times against its IPO price



facilities in Saudi Arabia to ride on the oil boom there.

KNM's order book is about RM1.4bil.

Meanwhile, the group is bidding for RM9bil worth of contracts around the world. Its historical successful rate is about 25%.

Kaledher said KNM's growth prospects were still "aplenty" judging from its quest to capture a 3% of the global process equipment market share or US\$850mil (RM2.9bil) sales by 2010.

"We would not undermine KNM's ability as it is expected to hit the sales target of US\$600mil (RM1.47bil) one year ahead in financial year (ending Dec 31) 2008," Kaledher added.

In the last financial year ended Dec 31, the group's net profit soared 224% to RM133.5mil from RM41.17mil a year ago while revenue jumped 167% to RM917.2mil from RM343.9mil.

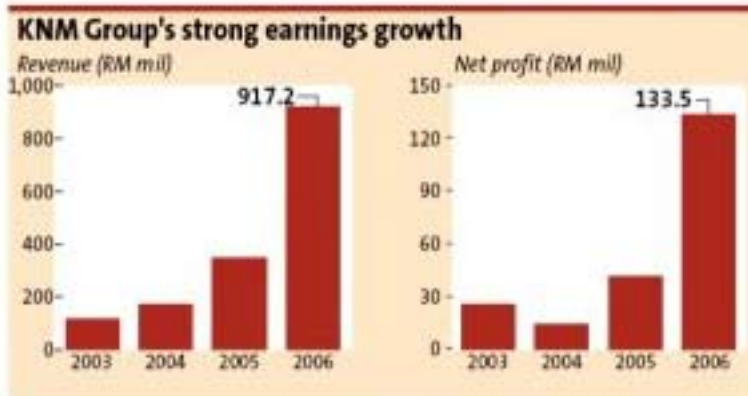
Earnings per share shot up to 54.56 sen versus 17.67 sen previously.

KNM achieved a compounded annual growth rate of 51% on net profit and 94% on revenue between 2003 and 2006.

Such strong earnings growth is evidence that the group has captured the spending cycle in the glob-



Source: Annual report



al O&G industry.

More money is expected to flow into the sector in the wake of high crude oil prices and growing fuel consumption.

That in turn means more contracts for KNM to grab and possible increase in earnings.

Analysts believe KNM's solid four years of track record speaks volumes for its prospects.

The group manages to replenish its order book at a consistent rate of RM120mil to RM150mil per month, according to analysts.

KNM recently announced that it had won new contracts in Columbia, Peru and Thailand. The combined value of the contracts is RM121mil.

"We have been tracking this stock since July 2004. So far, there is no disappointment. It always delivers good earnings," said OSK Investment



The group's delivery of order for Alcan Gove Alumina Refinery in Australia

Bank equity research analyst Chris Eng.

Nonetheless, KNM's quick pace of expansion does raise concerns on over stretching the group's human capital, although the acquisitions are generating good income.

The co-founder Lee Swee Eng,

who is seen as the group's "mastermind", is a hands-on managing director who travels around the globe to clinch deals.

Analysts noted it might be time for KNM to start thinking about succession planning as it takes time to nurture human talent.