

KNM sticks to target despite slowdown

It wants to be in top-five list of process equipment makers by 2010

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WHEN the storm hits, many lose sight of the road ahead. The same, perhaps, could be said of investors in KNM Group Bhd, which was one of the most heavily traded stocks on Bursa Malaysia in the last couple of weeks.

The selling pressure is not entirely company specific. The broader market, like its regional peers, has been badly hurt by weak sentiment, fuelled by the financial crisis in the US which has spread to Europe and affected all stock markets in the world.

Concerns over the health of the global economy has also dampened crude oil prices.

Last week, crude oil traded on New York Merchantile Exchange fell to US\$80.69 per barrel on Friday. It hit a low of US\$78.61.

KNM's share price hit a low of 95 sen before recovering to close at 95.5 sen on Friday. It lost 59% in year-to-date.

Group managing director Lee Swee Eng, however, was unperturbed by the company's share performance on Bursa Malaysia.

He told reporters recently that the company's fundamentals had not changed and it would continue to grow capacity and move up the value chain.

These are not new strategies, as they have always been advocated by Lee over the past four years.

His vision is to put the company on the top-five list of process equipment companies by 2010.

Notwithstanding that, he believes KNM's balance sheet remains healthy and gearing manageable at a ratio of 0.5%.

"Our operations generate about RM300mil in cashflow a year and it is on a growing trend.

"We're confident of servicing our interest payments and paring down debts," he told *StarBiz*, adding that its order book was some RM4.7bil.

Currently, KNM has a 3% share of the world's process equipment market, which is dominated by American companies.

Tracking the progress, KNM has been making strategic acquisitions and partnerships over the last couple of years to enlarge its product range, widen its market segments and boost capacity.

The selected companies for acquisitions and partnerships are mostly leading players and with whom KNM already has a working relationship.

For example, in 2004, it bought a stake in FBM-Hudson Italiana SpA's plant in Dubai and secured the exclusive marketing and manufacturing rights for FBM's products in South-East Asia and China.

In 2006, KNM bought over FBM for RM7.9mil.

KNM's latest partnership is with Prosernat SA of France, which is fully owned by IFP, a public-sector research and training centre specialising in developing technologies and materials in the fields of ener-

KNM's strategic acquisition/partnership				
Company	Country of origin	Type of venture	Value (RM mil)	Expertise/purpose
Hudson Products Pacific Pty Ltd	Australia	Acquisition	11.25	<ul style="list-style-type: none"> ❑ Technologies to manufacture process and heat exchange equipment using titanium, zirconium, incolloy, hastelloy and inconel for the mineral processing sector. ❑ Thermal and mechanical design expertise.
FBM-Hudson Italian-Spa	Italy	Acquisition	30.40	<ul style="list-style-type: none"> ❑ Design and manufacture of air-cooled heat exchangers and process equipment for the oil, gas and petrochemical industries
Themar Aqaria Ltd Co	Saudi Arabia	Joint venture	-	<ul style="list-style-type: none"> ❑ Design, manufacture and fabricate process equipment for O&G and petrochemical industries in Saudi Arabia.
Ellimetal NV	Belgium	Acquisition	96.3	<ul style="list-style-type: none"> ❑ Manufacturing of process equipment, which includes pressure vessels, storage tanks and silos for the oil and gas, petrochemical and chemical industries.
Borsig	Germany	Acquisition	1,670	<ul style="list-style-type: none"> ❑ Technologies in waste heat recovery systems, quenched coolers and membrane technology.
David K Stevens	US	Joint venture	-	<ul style="list-style-type: none"> ❑ Sulphur removal and recovery and provide services to clients in the oil, gas and energy/power industries.
Prosernat SA	France	Joint Venture	-	<ul style="list-style-type: none"> ❑ Full range of processing units including phase separation, gas dehydration, natural gas liquids recovery, gas compression, gas sweetening, sulphur plants, modular units and carbon dioxide capture.

Source: Bursa Malaysia, company websites



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gy, transport and the environment.

Prosernat is one of the top four players in the world for gas processing and treatment solutions.

The French company has expertise in crude oil production plants, gas dehydration technologies and natural gas sweetening processes.

KNM's and Prosernat's joint-venture company, KPN Gas Technology Sdn Bhd, will tap into the potential of the gas sector in South-East Asia and Oceania.

According to EnergyAsia, natural gas is the fastest growing energy source in the Asia-Pacific, as consumption is likely to rise by an average of 2.6% per annum between 1999 and 2020.

HwangDBS Vickers Research, in a recent report, said the prospect for KPN was promising, given the rising number of gas projects to be implemented over the next few years.

The research house added that capital expenditure (capex) within the oil and gas sector was still intact despite the price of crude oil falling below US\$90 per barrel from a high of US\$145, as production cost was about US\$40 per barrel.

Lee shared similar sentiment, saying: "When oil was US\$30 per barrel, there was business. So, at US\$80, it's still pretty good."

He said the price correction was expected, given that there were

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insufficient supplies in the market while deliveries were delayed because players were struggling to manage the "crazy demand".

"Everyone was overbooked and this caused a shortage in resources that led to late delivery," he said.

Prosernat president Jean-Noel Meary, after the signing with KNM last week, told reporters that gas prices were more resilient than oil.

Furthermore, he said, capex for the sector in South-East Asia was fuelled by the new gas field developments in countries like Thailand, Myanmar and Cambodia.

Meanwhile, KNM's short-term bridging loan taken from Maybank to finance the Borsig purchase is currently being negotiated to convert into long-term debt.

"We have until June next year to do that, so we're not under pressure," Lee said.

He added that the company expected to hear from Maybank soon.

The inclusion of Borsig into the group has generated an immediate earnings contribution.

KNM attributed the jump in profit for its second quarter ended June 30, which was up 78% to RM54.1mil from the first quarter, to the consolidation of Borsig in early June.