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KNM Group Bhd believes German-based process equipment manufacturer Borsig Beteiligungsverwaltungsgesellschaft mbH could become the group's jewel in the crown.

Group managing director Lee Swee Eng said the potential spillover from cross selling and cross manufacturing would make Borsig a major contributor to the group.

KNM has proposed to buy the entire stake of Borsig for RM1.7bil, which it expects to conclude by mid-year.

With the acquisition, Lee told *StarBiz* that KNM now stood among the top ten process equipment players in the world and poised to be in the top five ranking by 2010.

The German manufacturer will bring in an order book of RM1.5bil to KNM's existing RM2.4bil.

As Borsig's manufacturing facilities in Germany was already running at full capacity, some of the Malaysian capacities would be allocated to Borsig's higher-end products, Lee said.

He added that this would reduce further the production of lower end products.

"Malaysia's cost is much lower compared with Europe and this will result in significant improvement in cost efficiencies, which will boost sales and bottom line," he said.

"This has been our business model to grow the business organically by increasing capacity as well as moving up the value chain," he noted.

Furthermore, Borsig and KNM could leverage on each other's strong network of customer base and cross-sell products, Lee said. Borsig has a strong presence in Europe and the Middle East while KNM's biggest revenue contributor

# KNM sees Borsig as a jewel in the crown

## The potential spillover from cross selling and cross manufacturing will make Borsig a major contributor to the group



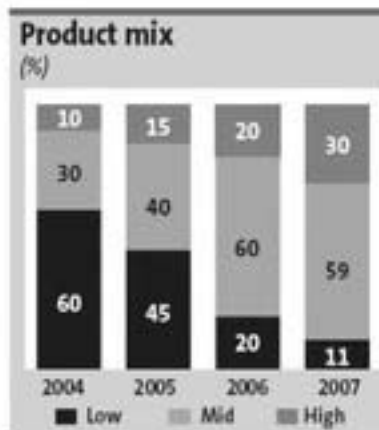
Lee Swee Eng

is Asia.

Besides the four new products, KNM would also be exposed to new sectors brought in by Borsig, namely power, chemical, steam generation

and environment.

"The power industry in China is booming and we can take the opportunity to sell Borsig's products to meet the growing demand," Lee said.



Borsig's technology in the membrane system to remove carbon dioxide would be beneficial to address the growing concerns on environmental issues, he noted, adding that the German company was also strong in after sales services.

KNM has made little changes to the companies that it bought previously and does not intend to be different with Borsig.

"The company already has a strong management team and technology expertise. We will help to expand its international sales, global procurement as well as fund raising activities," Lee said.

After the completion of the proposed acquisition, the group would focus on integrating Borsig and building it organically.

"After 2010, we will look at other (acquisition) candidates," he said.

On KNM's purchase of Ellimetal NV for 20 million euros, Lee said it

was to cater to the need to have a presence in Brazil.

"The Brazilian acquisition is more for asset purposes as we needed a ready shop," he said, adding that its own plant in Brazil was in the process of development.

On the other hand, the first phase of its manufacturing plant in Canada is likely to be completed by mid-year. Lee said the group had secured some orders and would take on more when the plant is commissioned.

The first phase has an annual capacity of 10,000 tonnes while the second, which would be developed next year, would have up to 20,000 tonnes of annual capacity.

Meanwhile, KNM expects more opportunities from the mining industry, as demand remains strong on the back of limited supply.

The mining sector contributed about 12% of revenue in year ended Dec 31, 2007 and this was anticipated to rise to about 15% in the current fiscal year, Lee said.

The rising cost of raw materials like steel did not affect margins as prices were set to account for such fluctuations, he said, adding that volatility in currency exchange was also included.

While a potential slowdown in world economies would dampen oil prices, capital expenditure allocation for oil exploration should still be strong, Lee said.

"As long as oil prices do not fall too far below US\$50 a barrel, global demand should continue to remain firm," he said.