

Analysts: Acquisitions will contribute positively to group

KNM Group Bhd's share price has slipped more than 30% year-to-date but group managing director Lee Swee Eng remains unfazed as "fundamentals have not changed".

"Compared with our global peers, we're currently undervalued," he said.

The counter, along with other oil and gas stocks, were beaten down recently amid weak market sentiment.

A local brokerage said in a recent report that the slew of acquisitions in the past six months were anticipated to start contributing positively to group earnings by year-end.

"We like KNM Group for its penchant for EPS (earnings per share) accretive mergers and acquisitions, trading liquidity and relatively undemanding valuations vis-a-vis global peers," it said.

It noted that Borsig had a 170-year old track record and a global market leader in heat exchangers.

Besides Borsig, KNM has also acquired Pisces Engineering Sdn Bhd for RM50mil, HZM companies for RM50.2mil and Ellimetal NV for RM95.8mil.

The process equipment maker



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LEE SWEE ENG

has proposed to raise about RM2.2bil via rights issue and convertible bonds.

The research house has a target price of RM6.80 on the stock based on price-to-earnings (PE) of 15 times on FY09 forward earnings, which is a slight discount to global sector's PE average of 16 times.

AmResearch said the current demand for process equipment was way ahead of KNM's production capacity with bids to date at RM17bil, including Borsig's.

KNM, including the German unit, at optimum capacity, was projected to generate revenue of about RM4bil to RM4.5bil, it said, noting that the group's diversified product base would also protect against potential down cycle.

The brokerage noted that net gearing could increase to 70% to 80% due to a one-to-two months bridging loan undertaken to fund Borsig deal.

The bridging loan would only be used if the proposed rights issue and convertible bonds were not completed on time.

Based on AmResearch's estimated EPS of 39.8 sen for FY08 and yesterday's closing price of RM5.25, the stock is trading at a PE of 13.2 times.