

# Company Focus

## KNM Group

Bloomberg: KNMG MK | Reuters: KNMP.KL

Malaysia Equity Research PP 11272/04/2009(021317)

7 Aug 2008

**BUY RM1.77** KLCI : 1,133.59

**Price Target** : 12-Month RM 2.80

**Reason for Report** : Company update

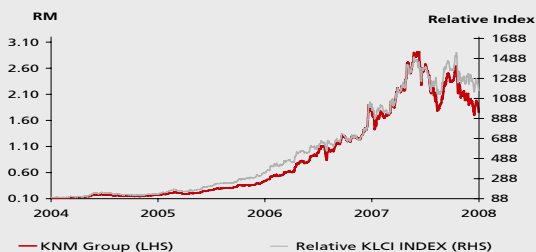
**Potential Catalyst**: Growing demand for oil & gas, minerals and petrochemicals infrastructure.

### Analyst

June Ng +603 2711 2222

june@hwangdbsvickers.com.my

### Price Relative



### Forecasts and Valuation

FY Dec (RM m)	2007A	2008F	2009F	2010F
Turnover	1,230	2,676	4,064	4,589
EBITDA	239	582	915	1,030
Pre-tax Profit	216	488	837	934
Net Profit	188	424	732	817
Net Pft (Pre Ex.)	188	424	732	817
EPS (sen)	18.2	10.7	18.5	20.7
EPS Pre Ex. (sen)	18.2	10.7	18.5	20.7
EPS Gth Pre Ex (%)	76	(41)	73	12
Diluted EPS (sen)	18.2	10.7	18.5	20.7
Net DPS (sen)	2.9	1.0	1.1	1.1
BV Per Share (sen)	54.0	24.1	41.6	61.2
PE (X)	9.7	16.5	9.6	8.6
PE Pre Ex. (X)	9.7	16.5	9.6	8.6
P/Cash Flow (X)	8.9	15.8	9.3	8.4
EV/EBITDA (X)	8.3	13.8	9.1	8.2
Net Div Yield (%)	1.6	0.6	0.6	0.6
P/Book Value (X)	3.3	7.3	4.3	2.9
Net Debt/Equity (X)	0.3	1.1	0.8	0.6
ROAE (%)	39.6	56.0	56.3	40.2
<b>Earnings Rev (%)</b> :		0.0	0.0	0.0
<b>Consensus EPS (sen)</b> :		12.5	22.8	27.7

**ICB Industry** : Oil & Gas

**ICB Sector**: Industrial Engineering

**Principal Business**: Process equipment manufacturer

## RM463m new contracts

**Story**: KNM announced yesterday that it has secured 9 new contracts worth RM463m in total between Jun-Aug 08 for its subsidiaries in Malaysia, Italy and Australia. These contracts are awarded by oil majors for process equipments such as high pressure heat exchangers, slop drums and precipitation tanks for projects located in Canada, Algeria, Malaysia and Australia. The Canadian orders are the first projects to be undertaken by KNM's new facility in Canada. Please refer to Fig.1 for more project details.

**Point**: The new orders have enhanced KNM's orderbook to RM4.5b. The margin for the new projects is likely to be of the higher range as the company is now operating at 90% utilisation rate and new projects are targeting higher selling price with estimated gross margin of between 30-35%. There is no change in our FY08-09F earnings forecast as we have factored in average plant utilization of between 85-95% for FY08-10.

**Relevance**: The awards of projects reinforce our positive view on KNM and we expect more projects to be secured over the next few months. KNM is bidding for RM20b worth of projects, focusing mainly on higher margin projects given its high plant utilization rate. We continue to favour KNM for its strong FY07-10 EPS CAGR of 36% and improving margins. Maintain Buy with target price of RM2.80 based on 15x FY09 PER, in line with regional peers' PE.

### At A Glance

Issued Capital (m shrs)	3,956
Mkt. Cap (RMm/US\$m)	7,002 / 2,137
Major Shareholders	
Inter Merger Sdn Bhd (%)	19.6
Fidelity Investment (%)	10.7
Employees Provident Fund (%)	6.2
Free Float (%)	60.0
Avg. Daily Vol. ('000)	5,216

**Fig 1: Details on KNM's new orders**

- KNMPS, from KTI Corporation for the modularisation of DSU heaters for the Suncor Firebag Project Stage 3 and 4 in Canada;
- KNMPS, from SNC-Lavalin Inc for FSU settlers and high pressure slop drums for the Fort Hills Froth Treatment Project in Canada;
- KNMPS, from Technip-Hatch for tanks for the Koniambo Nickel Processing Plant in New Caledonia;
- KNMPS, from Kellogg Brown & Root International Inc for refrigeration / demethanisers / deethanisers for the Skikda New
- KNMPS, from Petronas Carigali Sdn Bhd for plate heat exchangers for the Tangga Barat Cluster Development Project in Malaysia;
- FBM, from Tecnicas Reunidas / Petrogal SA / UTE TR Refineria de Sines for shell and tube heat exchangers for the Sines Refinery Conversion Project in Portugal;
- FBM, from GS Engineering and Construction for shell and tube heat exchangers for the Green Diesel Project - Ruwais Refinery, in the United Arab Emirates;
- HEA, from Bechtel Australia Pty Ltd for plates for precipitation tanks for the Worsley Efficiency and Growth Project, Australia.

Source: Company

KNMPS- KNM KNM Process Systems Sdn Bhd, FBM- FBM Hudson Italiana SpA, HEA - HEA Australia Pty Ltd, all wholly owned subsidiaries of KNM

**Fig 2: KNM's regional peers comparison**

Company	Country	Mkt Cap (US\$m)	PE (x)			ROE (%)
			FY08	FY09	FY10	
Natco Group Inc	USA	831.1	15.1	13.1	NA	21.3
Cameron International Corp	USA	9,570.5	18.3	15.6	13.1	26.1
Larsen & Toubro	India	25,530.4	33.7	25.5	19.0	37.8
GEA Group AG	France	5,849.0	12.6	10.9	9.5	7.2
Doosan Heavy Ind	Korea	14,884.2	19.5	15.6	12.8	NA
KNM	Malaysia	1,881.9	16.5	9.6	8.6	48.4
<b>Average</b>		<b>9,757.9</b>	<b>19.3</b>	<b>15.0</b>	<b>12.6</b>	<b>28.2</b>

Source: Bloomberg, DBS Vickers

**Income Statement (RM m)**

FY Dec	2007A	2008F	2009F	2010F
Turnover	1,230	2,676	4,064	4,589
Cost of Goods Sold	(1,007)	(2,114)	(3,170)	(3,580)
<b>Gross Profit</b>	<b>223</b>	<b>562</b>	<b>894</b>	<b>1,010</b>
Other Opng (Exp)/Inc	0	0	0	0
<b>Operating Profit</b>	<b>223</b>	<b>562</b>	<b>894</b>	<b>1,010</b>
Other Non Opg (Exp)/Inc	0	0	0	0
Associates & JV Inc	(1)	0	0	0
Net Interest (Exp)/Inc	(6)	(74)	(57)	(75)
Exceptional Gain/(Loss)	0	0	0	0
<b>Pre-tax Profit</b>	<b>216</b>	<b>488</b>	<b>837</b>	<b>934</b>
Tax	(29)	(59)	(100)	(112)
Minority Interest	2	(5)	(5)	(5)
Preference Dividend	0	0	0	0
<b>Net Profit</b>	<b>188</b>	<b>424</b>	<b>732</b>	<b>817</b>
Net Profit before Except.	188	424	732	817
EBITDA	239	582	915	1,030
Sales Gth (%)	34.1	117.5	51.9	12.9
EBITDA Gth (%)	54.4	143.3	57.1	12.6
Opg Profit Gth (%)	58.3	151.9	59.1	12.9
Net Profit Gth (%)	41.0	125.2	72.6	11.7
Effective Tax Rate (%)	13.4	12.0	12.0	12.0

**Cash Flow Statement (RM m)**

FY Dec	2007A	2008F	2009F	2010F
Pre-Tax Profit	216	488	837	934
Dep. & Amort.	17	21	21	21
Tax Paid	(29)	(59)	(100)	(112)
Assoc. & JV Inc/(loss)	1	0	0	0
Chg in Wkg.Cap.	(130)	(197)	(21)	148
Other Operating CF	0	0	0	0
<b>Net Operating CF</b>	<b>75</b>	<b>252</b>	<b>736</b>	<b>990</b>
Capital Exp.(net)	(96)	(213)	(1,000)	(200)
Other Invts.(net)	0	(900)	(800)	(800)
Invts in Assoc. & JV	0	0	0	0
Div from Assoc & JV	0	0	0	0
Other Investing CF	0	0	0	0
<b>Net Investing CF</b>	<b>(96)</b>	<b>(1,113)</b>	<b>(1,000)</b>	<b>(1,000)</b>
Div Paid	0	(30)	(39)	(44)
Chg in Gross Debt	60	1,285	50	50
Capital Issues	(27)	0	0	0
Other Financing CF	0	0	0	0
<b>Net Financing CF</b>	<b>33</b>	<b>1,255</b>	<b>11</b>	<b>6</b>
Net Cashflow	12	394	(253)	(4)

**Quarterly / Interim Income Statement (RM m)**

FY Dec	2Q2007	3Q2007	4Q2007	1Q2008
Turnover	262	386	319	331
Cost of Goods Sold	(226)	(312)	(254)	(267)
<b>Gross Profit</b>	<b>37</b>	<b>74</b>	<b>65</b>	<b>64</b>
Other Oper. (Exp)/Inc	0	0	0	0
<b>Operating Profit</b>	<b>37</b>	<b>74</b>	<b>65</b>	<b>64</b>
Other Non Opg (Exp)/Inc	(1)	1	0	0
Associates & JV Inc	0.0	0	0	0
Net Interest (Exp)/Inc	(3)	(3)	0	(3)
Exceptional Gain/(Loss)	0	0	0	0
<b>Pre-tax Profit</b>	<b>34</b>	<b>72</b>	<b>65</b>	<b>61</b>
Tax	2	(12)	(13)	(7)
Minority Interest	2	1	0	0
<b>Net Profit</b>	<b>37</b>	<b>61</b>	<b>52</b>	<b>54</b>
Net profit bef Except.	37	61	52	54
Sales Gth (%)	2.3	0.2	(17.4)	(12.0)
Opg Profit Gth (%)	(19.6)	100	(12.2)	(1.5)
Net Profit Gth (%)	0	64.9	(14.8)	(3.8)
Gross Margins (%)	14.1	19.2	20.3	19.3
Net Profit Margins (%)	14.1	15.8	16.3	16.3

Source: Company, DBS Vickers

**Balance Sheet (RM m)**

FY Dec	2007A	2008F	2009F	2010F
Net Fixed Assets	467	1,473	2,210	2,939
Invts in Associates & JVs	0	0	0	0
Other LT Assets	63	63	56	56
Cash & ST Invts	104	498	245	241
Other Current Assets	611	1,414	2,148	2,426
<b>Total Assets</b>	<b>1,245</b>	<b>3,448</b>	<b>4,659</b>	<b>5,662</b>
ST Debt	220	350	400	450
Other Current Liab	334	940	1,403	1,577
LT Debt	45	1,200	1,200	1,200
Other LT Liabilities	86	0	0	0
Shareholder's Equity	560	953	1,646	2,419
Minority Interests	0	5	10	15
<b>Total Cap. &amp; Liab.</b>	<b>1,245</b>	<b>3,448</b>	<b>4,659</b>	<b>5,662</b>
Non-Cash Wkg. Capital	277	475	746	848
Net Cash/(Debt)	(161)	(1,052)	(1,355)	(1,409)

**Rates & Ratio**

FY Dec	2007A	2008F	2009F	2010F
Gross Margins (%)	18.1	21.0	22.0	22.0
Opg Profit Margin (%)	18.1	21.0	22.0	22.0
Net Profit Margin (%)	15.3	15.8	18.0	17.8
ROAE (%)	39.6	56.0	56.3	40.2
ROA (%)	16.5	18.1	18.0	15.8
ROCE (%)	31.3	36.2	31.3	25.9
Div Payout Ratio (%)	16.1	9.2	6.0	5.4
Net Interest Cover (x)	34.7	7.6	15.7	13.4
Asset Turnover (x)	1.1	1.1	1.0	0.9
Debtors Turn (avg days)	99.7	105.7	151.3	172.1
Creditors Turn (avg days)	109.8	102.7	130.2	147.9
Inventory Turn (avg days)	15.8	12.0	11.1	12.6
Current Ratio (x)	1.3	1.5	1.3	1.3
Quick Ratio (x)	1.2	1.4	1.3	1.3
Net Debt/Equity (X)	0.3	1.1	0.8	0.6
Capex to Debt (%)	36.1	13.7	62.5	60.6
N. Cash/(Debt)PS (sen)	(15.6)	(26.6)	(34.3)	(35.6)
Opg CFPS (sen)	19.8	11.4	19.1	21.3
Free CFPS (sen)	(2.0)	1.0	(6.7)	(0.2)

---

This document is published by HWANGDBS Vickers Research Sdn Bhd ("HDBSVR"), a subsidiary of HWANGDBS Investment Bank Berhad ("HDBS") and an associate of DBS Vickers Securities Holdings Pte Ltd ("DBSVH"). The research is based on information obtained from sources believed to be reliable, but we do not make any representation or warranty as to its accuracy, completeness or correctness. Opinions expressed are subject to change without notice. This document is prepared for general circulation. Any recommendation contained in this document does not have regard to the specific investment objectives, financial situation and the particular needs of any specific addressee. This document is for the information of addressees only and is not to be taken in substitution for the exercise of judgement by addressees, who should obtain separate legal or financial advice. HDBSVR accepts no liability whatsoever for any direct or consequential loss arising from any use of this document or further communication given in relation to this document. This document is not to be construed as an offer or a solicitation of an offer to buy or sell any securities. DBS Vickers Securities Holdings Pte Ltd is a wholly-owned subsidiary of DBS Bank Ltd. DBS Bank Ltd along with its affiliates and/or persons associated with any of them may from time to time have interests in the securities mentioned in this document. HDBSVR, HDBS, DBSVH, DBS Bank Ltd, and their associates, their directors, and/or employees may have positions in, and may effect transactions in securities mentioned herein and may also perform or seek to perform broking, investment banking/corporate advisory and other banking services for these companies. HDBSVR, HDBS, DBSVH, DBS Bank Ltd and/or other affiliates of DBS Vickers Securities (USA) Inc ("DBSVUSA"), a U.S.-registered broker-dealer, may beneficially own a total of 1% or more of any class of common equity securities of the subject company mentioned in this document. HDBSVR, HDBS, DBSVH, DBS Bank Ltd and/or other affiliates of DBSVUSA may, within the past 12 months, have received compensation and/or within the next 3 months seek to obtain compensation for investment banking services from the subject company. DBSVUSA does not have its own investment banking or research department, nor has it participated in any investment banking transaction as a manager or co-manager in the past twelve months. Any US persons wishing to obtain further information, including any clarification on disclosures in this disclaimer, or to effect a transaction in any security discussed in this document should contact DBSVUSA exclusively. DBS Vickers Securities (UK) Ltd is an authorised person in the meaning of the Financial Services and Markets Act and is regulated by The Financial Services Authority. Research distributed in the UK is intended only for institutional clients.



Wong Ming Tek, Head of Research

Published and Printed by  
**HWANGDBS Vickers Research Sdn Bhd** (128540 U)  
Suite 26-03, 26<sup>th</sup> Floor Menara Keck Seng, 203, Jalan Bukit Bintang, 55100 Kuala Lumpur, Malaysia.  
Tel.: +603 2711-2222 Fax: +603 2711-2333 email : general@hwangdbsvickers.com.my