

2 February 2010

HOLD
RM0.74

Target Price: RM0.79

Stock data

Market cap (RMm):	2,943.2
Issued shares (m):	4,004.4
52-week range:	RM0.32-RM1.09
3-mth avg daily volume:	35,710,313 shrs
Bloomberg code:	KNMG MK
YTD price chg:	-4.6%
YTD KLCI chg:	-1.1%
Est. free float:	67.1%
Major shareholders:	
Inter Merger:	20.5%
EPF:	12.4%

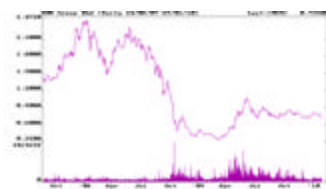
KLCI	FBM70	FBM100	Syariah	Hijrah
No	No	Yes	Yes	Yes

Consensus

FYE 31 Dec	2009E	2010E
Net profit (RMm):	293.6	318.9
EPS (sen):	7.2	7.8

Forecast revision

FYE 31 Dec	2009E	2010E
Prev. net profit (RMm):	293.9	316.7
Revision (%):	-	-
Revised net profit (RMm):	293.9	316.7

Share price chart

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KNM Group

Heading for Mainland China

KNM announced last week that it is expanding the supply of Borsig's ball valves and compressors to the Chinese market via three subsidiaries, KNM China Pte Limited ("KNM China"), BORSIG Valves (China) Pte Limited ("BVC") and BORSIG Compression (China) Pte Limited ("BCC"). KNM China is wholly owned by KNM Group Berhad, while both BVC and BCC are 70% owned by KNM China and 30% owned by Borsig GMBH.

- **China play not new.** We had previously mentioned that KNM is eyeing at least a potential USD600m worth of valve market in China (Report dated 6 October 2009). Valves are devices that regulate flow fluids and basically make up part of pipe fittings. While the Chinese is believed to have large production capacities, they are however limited in technological know-how thus opening opportunities for players like KNM to forge tie-ups.
- **Pipelines galore.** According to EIA's China Country Brief, China National Petroleum Corporation (CNPC), quotes that domestically China has about 11,245 miles of total crude oil pipelines (69 percent managed by CNPC) and nearly 3,000 miles of oil products pipelines in its domestic network. While for natural gas pipelines there was an estimated 16,150 miles at the end of 2008.
- **Positive on venture.** We are positive on their China which is expected to be a significant oil and gas player underpinned by strong economic growth. No further guidance from management on the potential Chinese projects they are bidding for and the potential margins such projects could yield. But as Borsig is a specialist in compressors, and it guides that it is one of the 2 or 3 global manufacturers of large diameter valves, we expect margins to be on the high-end 25%-35%.
- **Maintain HOLD and TP of RM0.79** based on FY10EPS of 7.9sen and 10x PER. We believe it is too early for us to incorporate any earnings revision based on the news above, for now we await their 4QFY09 results, due in February 2010.

Earnings Estimates

FYE 31 Dec	2006	2007	2008A	2009E	2010E
Revenue	909.0	1,230.1	2,528.8	2,236.0	2,312.3
Pretax profit (RMm)	147.5	215.4	453.9	358.4	386.2
Net profit (RMm)	132.5	188.1	336.4	293.9	316.7
Net profit growth (%)	221.8%	42.0%	78.8%	-12.6%	7.8%
Basic EPS	3.3	4.8	8.5	7.3	7.9
Basic EPS growth (%)	222%	42%	79%	-13%	8%
DPS (sen)	0.1	0.3	0.8	0.7	0.8
NTA/share (RM)	0.1	0.1	0.0	0.1	0.2
Net Equity (x)/(Debt)	(0.3)	(0.3)	(0.5)	(0.3)	(0.2)
PER (x)	22.7	16.0	8.9	10.4	9.6
P/NTA (x)	7.5	5.5	65.2	8.6	4.4
Div. Yield (%)	0.2%	0.6%	1.4%	1.3%	1.4%
EV/EBITDA (x)	19.6	14.0	7.1	7.4	6.7
ROAE (%)	47.1%	39.2%	28.3%	15.1%	14.3%

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