

# KNM Group (KNMG MK)

Share Price: MYR0.75

MCap (USD): 0.4B

Malaysia

Target Price: MYR1.50 (+101%)

ADTV (USD): 5.0M

Oil &amp; Gas

**BUY**

(unchanged)

## Proposes rights issue

- Plans a 1-for-5 rights issue plus 1 warrant for every 2 rights.
- We advocate shareholders to subscribe to the rights issue.
- Reiterate BUY. Recent share price weakness is an opportunity to accumulate. Our MYR1.50 TP is on 0.7x EV/backlog.

### What's New

KNM has proposed a 1-for-5 renounceable rights issue together with 1 free detachable warrant B (with a 5-year exercise period) for every 2 rights. The rights price and entitlement date will be determined later. CEO and major shareholder, Ir Lee Swee Eng will fully subscribe to his 21.2% stake. This exercise is expected to be completed by 1Q15.

### What's Our View

This exercise would immediately increase KNM's share base by 20%, from 1,615.4m shares to 1,938.4m shares after the rights issue, and by 30% to 2,100m shares post the exercise of all proposed new warrant (warrant B), assuming all existing warrant A are not exercised by the ex-date. We think this is a likely scenario.

We understand that KNM aims to raise about MYR230m-MYR250m, which implies an issue price range of MYR0.71-MYR0.77 per rights. KNM's announcement to Bursa cited an indicative issue price of MYR0.72. Based on the rights price range and last Friday's closing price, the theoretical ex-price would be MYR0.74-MYR0.75.

KNM, in our view, plans to use the majority of the proceeds for its RAPID and Peterborough waste-to-energy (WTE) projects. As these two projects will anchor KNM's prospects over the next few years, we advocate shareholders to subscribe to the rights issue.

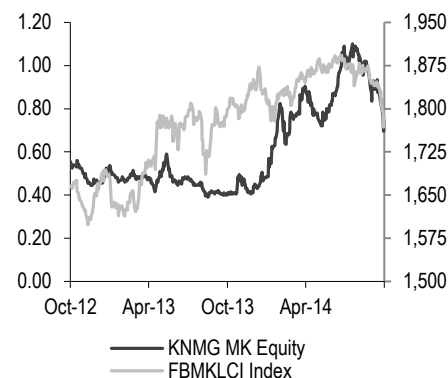
KNM's fundamentals are intact. While it has secured c.USD300m of contracts directly from RAPID, more are forthcoming. It is still in contention for several sizeable RAPID works (i.e. sub-cons, new tenders) worth several billion ringgit and we expect KNM to secure up to USD1b from RAPID alone. Meanwhile, kick-off to the Peterborough WTE project is nearing with a Dec 2014 deadline.

FYE Dec (MYR m)	FY12A	FY13A	FY14F	FY15F	FY16F
Sales	2,386.3	1,984.0	2,005.3	3,333.2	3,400.7
EBITDA	43.4	144.9	170.2	305.9	318.1
Core net profit	12.9	18.0	67.9	172.0	182.4
Core EPS (sen)	0.9	1.2	4.4	10.7	11.3
Core EPS growth (%)	(107.6)	39.3	260.2	141.6	6.0
Net DPS (sen)	0.0	0.0	0.0	0.0	0.0
BVPS (MYR)	1.24	1.40	1.47	1.49	1.58
Core PER (x)	85.3	61.2	17.0	7.0	6.6
EV/EBITDA (x)	25.3	7.6	6.8	4.0	3.8
Net dividend yield (%)	0.0	0.0	0.0	0.0	0.0
P/BV (x)	0.6	0.5	0.5	0.5	0.5
Net debt/equity (%)	40.9	33.0	19.6	13.1	4.5
ROE (%)	4.1	1.0	3.1	7.4	7.4
ROA (%)	0.1	2.5	3.1	6.0	5.9

### Key Data

Shariah status	YES
52w high/low (MYR)	1.14/0.4
Free float (%)	66.9
Issued shares (m)	1,615
Market capitalization	MYR1.2B
Major shareholders:	
INTER MERGER SDN BHD	16.4%
AVEDA ASSETS CAPITAL	5.6%
EMPLOYEES PROVIDENT	5.5%

### Share Price Performance



	1 Mth	3 Mth	12 Mth
Absolute (%)	(14.9)	(30)	86.3
Relative to country (%)	(11.8)	(25)	86.8

### Maybank vs Market

	Positive	Neutral	Negative
Market Recs	3	0	0
	<b>Maybank</b>	<b>Consensus</b>	<b>% +/-</b>
Target Price (MYR)	1.50	1.42	5.3
2014 Net Profit (MYR m)	68	67	1.3
2015 Net Profit (MYR m)	172	155	11.0

Source: Bloomberg; Maybank

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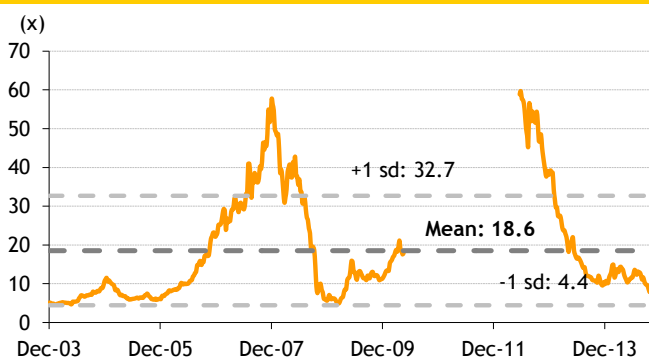
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## Enlarged share base

Outstanding is 488.9m warrant A, which is out-of-the-money at this juncture with an exercise price of MYR1.00 and an exercise period of up to 15 Nov 2017. In addition, there are also 24.9m ESOS outstanding, exercisable by 24 Jul 2015.

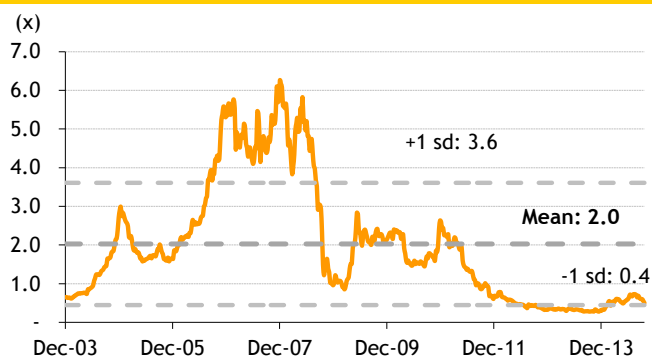
- KNM's share base would increase by 20%, from 1,615.4m shares now (ex- 23.3m treasury shares) to 1,938.4m shares after the proposed rights issue assuming all the existing warrant A are not exercised by the ex-date for the exercise. We think this is a likely scenario. Post exercise of all proposed warrant B, its enlarged paid-up capital will be 2,100m shares (+30% from existing).
- Assuming all warrant A and ESOS are exercised and all treasury shares are resold - both by the ex-date, then KNM's paid-up capital will balloon to 2,582.9m shares (before any exercise of the proposed warrant B), and to 2,798.2m shares (post the exercise of all proposed warrant B).

KNM: Historical PER band



Source: Bloomberg, Maybank KE

KNM: Historical P/BV band



Source: Bloomberg, Maybank KE

## INCOME STATEMENT (MYR m)

FY Dec	2013A	2014F	2015F	2016F
Revenue	1,984.0	2,005.3	3,333.2	3,400.7
EBITDA	144.9	170.2	304.7	316.2
Depreciation & Amortisation	(46.2)	(46.2)	(46.2)	(46.2)
<b>Operating Profit (EBIT)</b>	<b>98.7</b>	<b>123.9</b>	<b>258.4</b>	<b>270.0</b>
Interest (Exp)/Inc	(50.6)	(33.4)	(29.1)	(26.8)
Associates	(3.5)	0.0	0.0	0.0
One-offs	1.9	0.0	0.0	0.0
<b>Pre-Tax Profit</b>	<b>46.5</b>	<b>90.6</b>	<b>229.3</b>	<b>243.2</b>
Tax	(26.6)	(22.6)	(57.3)	(60.8)
Minority Interest	0.0	0.0	0.0	0.0
<b>Net Profit</b>	<b>19.9</b>	<b>67.9</b>	<b>172.0</b>	<b>182.4</b>
<b>Recurring Net Profit</b>	<b>18.0</b>	<b>67.9</b>	<b>172.0</b>	<b>182.4</b>
Revenue Growth %	(16.9%)	1.1%	66.2%	2.0%
EBITDA Growth (%)	233.8%	17.5%	79.0%	3.8%
EBIT Growth (%)	NA	25.6%	108.5%	4.5%
Net Profit Growth (%)	(71.7%)	241.3%	153.1%	6.1%
Core Net Profit Growth (%)	39.3%	278.2%	153.1%	6.1%
Tax Rate %	57.2%	25.0%	25.0%	25.0%

## CASH FLOW (MYR m)

FY Dec	2013A	2014F	2015F	2016F
Profit before taxation	19.9	67.9	172.0	182.4
Depreciation	46.2	46.2	46.2	46.2
Net int receipts/(payments)	50.6	33.4	29.1	26.8
Working capital change	97.9	(1.0)	(63.8)	(3.2)
Cash tax paid	(26.6)	(22.6)	(57.3)	(60.8)
Others (incl'd except items)	(55.7)	(10.7)	28.2	34.0
<b>Cash flow from operations</b>	<b>132.4</b>	<b>113.1</b>	<b>154.4</b>	<b>225.4</b>
Capex	(2.5)	(25.0)	(25.0)	(25.0)
Disposal/(purchase)	0.0	0.0	0.0	0.0
Others	(5.6)	0.0	0.0	0.0
<b>Cash flow from investing</b>	<b>(8.1)</b>	<b>(25.0)</b>	<b>(25.0)</b>	<b>(25.0)</b>
Debt raised/(repaid)	10.6	(55.0)	(29.0)	(27.6)
Equity raised/(repaid)	0.0	146.7	0.0	0.0
Dividends (paid)	0.0	0.0	0.0	0.0
Interest payments	0.0	0.0	0.0	0.0
Others	(58.3)	0.0	0.0	0.0
<b>Cash flow from financing</b>	<b>(47.7)</b>	<b>91.7</b>	<b>(29.0)</b>	<b>(27.6)</b>
Change in cash	76.5	179.8	100.4	172.8

## BALANCE SHEET (MYR m)

FY Dec	2013A	2014F	2015F	2016F
Fixed Assets	822.7	801.5	780.2	759.0
Other LT Assets	1,418.9	1,384.4	1,349.8	1,315.3
Cash/ST Investments	268.3	448.1	548.5	721.3
Other Current Assets	1,555.6	1,561.0	1,899.2	1,916.4
<b>Total Assets</b>	<b>4,065.5</b>	<b>4,195.0</b>	<b>4,577.8</b>	<b>4,712.0</b>
ST Debt	492.8	312.0	312.0	312.0
Other Current Liabilities	749.1	753.5	1,027.9	1,041.8
LT Debt	454.3	580.0	551.0	523.5
Other LT Liabilities	288.2	288.2	288.2	288.2
Minority Interest	(0.2)	(0.2)	(0.2)	(0.2)
Shareholders' Equity	2,059.8	2,261.5	2,398.9	2,546.7
<b>Total Liabilities-Capital</b>	<b>4,043.9</b>	<b>4,195.0</b>	<b>4,577.8</b>	<b>4,712.0</b>
Share Capital (m)	1,466.7	1,540.1	1,613.4	1,613.4
Gross Debt/(Cash)	947.0	892.0	863.0	835.5
Net Debt/(Cash)	678.7	443.9	314.5	114.1
Working Capital	582.1	943.7	1,107.9	1,283.9

## RATES &amp; RATIOS

FY Dec	2013A	2014F	2015F	2016F
EBITDA Margin %	7.3%	8.5%	9.1%	9.3%
Op. Profit Margin %	5.0%	6.2%	7.8%	7.9%
Net Profit Margin %	1.0%	3.4%	5.2%	5.4%
ROE %	1.0%	3.1%	7.4%	7.4%
ROA %	0.5%	1.6%	3.9%	3.9%
Net Margin Ex. El %	0.9%	3.4%	5.2%	5.4%
Dividend Cover (x)	NM	NM	NM	NM
Interest Cover (x)	1.9	3.7	8.9	10.1
Asset Turnover (x)	0.5	0.5	0.7	0.7
Asset/Debt (x)	4.3	4.7	5.3	5.6
Debtors Turn (days)	73.9	78.2	63.0	77.8
Creditors Turn (days)	78.6	82.0	66.5	82.3
Inventory Turn (days)	17.3	17.4	14.0	17.3
Net Gearing (x)	0.3	0.2	0.1	0.0
Debt/ EBITDA (x)	6.5	5.2	2.8	2.6
Debt/ Market Cap (x)	0.6	0.6	0.6	0.5

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