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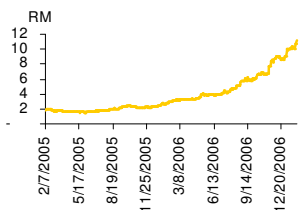
**Potential Catalyst**  
Growing demand for oil & gas,  
minerals and petrochemicals

**Company Description**  
Process equipment manufacturer

Shares Issued (m) 258.4  
Market Cap (RM m) 2,867.7  
3-mth Avg Daily Volume (m) 1.0

**Major Shareholders** %  
Inter Merger Sdn Bhd 28.0

**Price Chart (RM12.10)**



**Price Performance**

52-week High/Low RM12.30 / RM3.01

1-mth	3-mth	6-mth	1-yr	YTD
22.0	71.8	137.7	289.4	38.6

## KNM Group Berhad

**Strong Buy**

(Unchanged)

**Ties-up with Crown Iron Works**

**Target Price: RM14.00**

*Current Price: RM12.10*

- KNM Group Berhad (KNM) has entered into an exclusive 60:40 JV with Crown Iron Works Company (Crown) to tap into the biodiesel, oleochemical, refining & oilseed extraction process equipment market in South East Asia and Oceania.
- We are positive on this tie-up. Crown is one of the reputable technology designers for biofuels & seeds extraction plants in the world. We estimate that the addressable biodiesel market to be at RM4.5b, based on 5m MT planned biodiesel capacities in Malaysia and Indonesia.
- Maintain **STRONG BUY** and RM14.00 target price, pegged to 14x FY08 earnings.

**The 'Crown' jewel.** Crown is a global leader in oil seed processing, supplying state-of-the art solvent extraction plants for all types of oil seeds. It is one of the three reputable technology designers for biofuels & seeds extraction plants in the world. Its methyl ester technology is setting standards for petroleum-replacing 'green' applications, including detergent substitutes and biodiesel for alternative fuel markets.

**A symbiotic fit.** Under the agreement, KNM and Crown will jointly bid for projects in 13 countries: Malaysia, Indonesia, Thailand, Vietnam, Singapore, Myanmar, Laos, Cambodia, the Philippines, Brunei New Zealand, Australia and New Guinea. Crown will provide the technical design and track record whilst KNM will provide the manufacturing facilities and fabrication activities.

**We are positive on the tie-up,** as the JV opens a new window of opportunity for KNM to venture into the biodiesel process equipment market, backed by a proven technology partner. Apart from Crown, Lurgi and Ballestra are the other technology providers that are highly sought after by biodiesel producers in the market.

**Addressable biodiesel market in SEA = ~RM4.5b.** We gather that up to 6m MT of biodiesel plants are expected to be built in the South East Asian region (SEA) over the next two years. The addressable market (in value terms) for biodiesels process equipment that KNM could potentially capture amounts to RM4.5b, based on the projected capex of RM80m per 100,000MT capacity.

Year End Dec	FY04A	FY05A	FY06F	FY07F	FY08F
Turnover	172.1	343.9	930.6	1,430.0	1,995.0
EBITDA	16.8	62.7	163.3	252.3	357.5
Pretax Profit	12.9	53.1	173.7	221.4	319.9
Net Profit	14.5	41.2	141.4	170.5	246.3
Net Profit ex. EI	14.5	40.5	107.5	170.5	246.3
EPS - FD (sen)	6.6	18.6	58.7	66.7	96.4
EPS - FD (sen) ex. EI	6.6	18.3	44.6	66.7	96.4
Net profit Gth (%)	-	176.7	143.9	49.6	44.4
PE (x)	183.1	66.2	27.1	18.1	12.6
EV/EBITDA (x)	170.7	46.3	19.3	13.3	9.4
DPS (sen)	2.0	3.4	5.0	10.1	15.4
Div Yield (%)	0.2	0.3	0.4	0.8	1.3
Net Gearing (%)	111.7	58.4	40.9	38.6	25.2
ROE (%)	15.0	30.3	50.9	35.6	36.5
Book Value (RM)	0.52	0.71	1.65	2.19	3.08
P/Book Value (x)	23.2	17.0	7.3	5.5	3.9

**Capturing a 10% market share of new biodiesel demand = RM448m.** Hypothetically-speaking, capturing a 10% share of the addressable biodiesel production market in SEA (c.560m MT of biodiesel capacity) could land KNM RM448m in sales and RM32m in net profit (based on NP margins of 12% and its 60% equity stake in the venture). We understand that KNM is already in talks with several clients to build a 'Crown-based technology' biodiesel plant in Malaysia. Operationally, it only takes about 8-months to fully construct a biodiesel plant.

#### Sensitivity analysis

Addressable biodiesel market in SEA = 5.6m MT p.a. = RM4.5m (in value)

Mkt. share captured (%)	10%	15%	25%	50%
Revenue (RM'm)	448	672	1,119	2,238
Net profit (RM'm)	32	48	81	161
EPS (sen)	13	19	32	63

Source: Aseambankers

**Vickers Hoskins deal may be off.** Separately, we gather that KNM may not proceed with the proposed acquisition of Vickers Hoskins. We are not concerned about this setback as KNM still has Sofinter as its partner in the industrial boilers business. Comparatively, we feel this new tie-up with Crown is a better deal.

**Maintain STRONG BUY and RM14.00 price target.** We are keeping our earnings forecast unchanged. KNM remains our top pick for O&G play. We continue to like its 'steroid growth' story, asset-light business model & strong earnings visibility (2-year earnings CAGR of 32% and ROE of >30%). KNM, in our view is among the better-run companies in the sector, run by a prudent management team.

#### List of Planned Palm Biodiesel Capacities in Malaysia

Company	Capacity (tpa)	Value of investments (RM 'm)	Location	Operational by	Technology Provider	Investors base
Green Biofuels	100,000	n.a	Sandakan, Sabah	4Q07	Lurgi	n.a
Mission Biofuel	100,000	RM100m/ USD28m	Kuantan Port	4Q07	Crown	Malaysia/ Australia
Global Bio-Diesel /Ecosolution Co Ltd	200,000	150	L. Datu, Sabah	4Q07	Ballestra	Malaysia/ S.Korea
SPC Biodiesel	100,000	n.a	L. Datu, Sabah	4Q07	Ballestra	Australia
Zoop Sdn Bhd	100,000	n.a	S. Alam, Selangor	1Q08	Ballestra	n.a
QL Resources	175,000	150	L. Datu, Sabah	1Q08	n.a	Malaysia
Zurex Corp	200,000	180	L. Datu, Sabah	1Q08	Lurgi	UK
IJM Plantations	90,000	74	Sandakan, Sabah	1Q08	CTI	Malaysia/ USA
<b>Subtotal</b>	<b>1,065,000</b>					
Pacific Bio-Energy	100,000	n.a	L. Datu, Sabah	Plan (P) Stage	n.a	n.a
Agro Biotechnology Technovation	250,000	n.a	Port Dickson, NS	P. Stage	Energea, Austria	n.a
Lipid Tech	12,000	n.a	Westport	P. Stage	n.a	Malaysia
Jupiter Biofuels		n.a	Kuantan, Pahang	P. Stage	Ballestra	n.a
AJ Oleo Industries	100,000	n.a	Segamat, Johor	P. Stage	n.a	Malaysia
Bio-D Global	200,000	n.a	L. Datu, Sabah	P. Stage	n.a	n.a
Kempas Edible Oil	100,000	n.a	Pasir Gudang	P. Stage	n.a	Malaysia
Golden Hope	150,000	100	Bintulu, Sarawak	P. Stage	n.a	Malaysia
Boustead	16,262	24	n.a	P. Stage	CTI	Malaysia/ USA
Felcra	50,000	n.a	n.a	P. Stage	n.a	n.a
TSH Resources	100,000	n.a	Kunak, Sabah	P. Stage	n.a	Malaysia
Rimbunan Hijau	150,000	80-90	n.a	P. Stage	n.a	Malaysia
Advanced Biofuel	100,000	SGD50-60m	n.a	P. Stage	n.a	Singapore
IOI Corporation	200,000	n.a	Tg Langsat, Johor	P. Stage	n.a	Malaysia
<b>Subtotal</b>	<b>1,528,262</b>					

Source: Various, Aseambankers

**List of Planned Palm Biodiesel Capacities in Indonesia**

Company	Capacity (tpa)	Value of investments (US\$ 'm)	Location	Operational by	Technology Provider	Investors base
Energi Alternative	300	n.a	n.a	producing	n.a	n.a
Rekayasa & Pertamina	5,000	n.a	n.a	2006	n.a	n.a
Musimas	60,000	n.a	Medan	1Q07	n.a	Indonesia
Wilmar Int'l Ph1	350,000	20.0	Riau	1Q07	ADM	Singapore/ USA
Sinar Mas/Citic	100,000	n.a	n.a	2Q07	n.a	Indonesia
Mopoli	150,000	n.a	n.a	2Q07	n.a	n.a
Wilmar Int'l Ph2	350,000	c.17.5	Riau	2Q07	ADM	Singapore/ USA
Wilmar Int'l Ph3	350,000	c.17.5	Riau	3Q07	ADM	Singapore/ USA
Eterindo Wahanatama	120,000	n.a	Gresik	4Q07	n.a	n.a
Sumi Asih Group	100,000	n.a	West Java	4Q07	n.a	n.a
Musimas	600,000	n.a	Medan, Indonesia	1Q08	n.a	Indonesia
Bakrie Sumatra-Rekayasa Industry	100,000	n.a	n.a	P. Stage	n.a	Indonesia
Darmex Oil	100,000	n.a	n.a	P. Stage	n.a	n.a
Sari Dumai Sejati	100,000	n.a	n.a	P. Stage	n.a	n.a
Indo Bio Fuels	100,000	n.a	n.a	P. Stage	n.a	n.a
Asianagro	150,000	n.a	n.a	P. Stage	n.a	n.a
Government Projects	36,000	n.a	n.a	P. Stage	n.a	n.a
Wahana Abadi Tirta	30,000	n.a	n.a	P. Stage	n.a	n.a
Artha Trans Jaya	1,200	n.a	n.a	P. Stage	n.a	n.a
Makindo Group	100,000	n.a	n.a	P. Stage	n.a	n.a
<b>Subtotal</b>	<b>2,902,500</b>					

Source: Various, Aseambankers

**List of Planned Palm Biodiesel Capacities in the Singapore**

Company	Capacity (tpa)	Value of investments (US\$ 'm)	Location	Operational by	Technology Provider	Investors base
Kulim/ CremerOleo	100,000	40	Jurong	2Q07	Ballestra	Malaysia/ Germany
<b>Subtotal</b>	<b>100,000</b>					

Source: Various, Aseambankers

## Definition of Ratings

Aseambankers uses the following rating system:

<b>STRONG BUY</b>	Total return is expected to exceed 20% in the next 12 months
<b>BUY</b>	Total return is expected to be between 10-20% in the next 12 months
<b>HOLD</b>	Total return is expected to be between above 0% to 10% in the next 12 months
<b>FULLY VALUED</b>	Total return is expected to be between -10% and 0% in the next 12 months
<b>SELL</b>	Total return is expected to be below -10% in the next 12 months
<b>TRADING BUY</b>	Total return is expected to be between 10-20% in the next 6 months arising from positive newsflow e.g. mergers and acquisition, corporate restructuring, and potential of obtaining new projects. However, the upside may or may not be sustainable

## Applicability of Ratings

The respective analyst maintains a coverage universe of stocks, the list of which may be adjusted according to needs. Investment ratings are only applicable to the stocks which form part of the coverage universe. Reports on companies which are not part of the coverage do not carry investment ratings as we do not actively follow developments in these companies.

## Some common terms abbreviated in this report (where they appear):

Adex = Advertising Expenditure	FCF = Free Cashflow	PE = Price Earnings
BV = Book Value	FV = Fair Value	PEG = PE Ratio To Growth
CAGR = Compounded Annual Growth Rate	FY = Financial Year	PER = PE Ratio
Capex = Capital Expenditure	FYE = Financial Year End	QoQ = Quarter-On-Quarter
CY = Calendar Year	Mom = Month-On-Month	ROA = Return On Asset
DCF = Discounted Cashflow	NAV = Net Asset Value	ROE = Return On Equity
DPS = Dividend Per Share	NTA = Net Tangible Asset	ROSF = Return On Shareholders' Funds
EBIT = Earnings Before Interest And Tax	P = Price	WACC = Weighted Average Cost Of Capital
EBITDA = EBIT, Depreciation And Amortisation	P.A. = Per Annum	YoY = Year-On-Year
EPS = Earnings Per Share	PAT = Profit After Tax	YTD = Year-To-Date
EV = Enterprise Value	PBT = Profit Before Tax	

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