

# Lee's cautious approach helps KNM ride out storm

Executive director and CEO is in overdrive mode but more disciplined after having learnt his lesson in 2008



by Doreen Leong

KNM Group Bhd's executive director and CEO Lee Swee Eng (*pic below*) is busier than ever these days although he has been keeping a low profile for the past two years.

With many oil and gas (O&G) companies feeling the heat from the uncertainties shrouding the global oil market, he is working in overdrive to ensure KNM is not badly affected.

Having been chastened by his struggles during the 2008 global financial crisis, the 60-year-old Lee is taking a more disciplined business approach in the current O&G slump. And it seems to be paying dividends.

In fact, many believe the company will post better results this year as it is likely to secure more contracts from Pengerang Integrated Petroleum Complex (PIPC) related projects and the renewable energy sector.

The ability of the process equipment manufacturer to stay ahead of the pack stems largely from Lee's drive and determination.

## 'A driven man'

"He is quite driven. The company is still securing jobs. He is more cautious now as he learnt a bitter lesson during the 2008 downturn. At that time, he didn't cut losses at places like Brazil and Australia, probably due to sentimental reasons. He was also affected by margin calls previously," says an industry observer.

In 2008, KNM's share price nosedived due to the forced selling of over 70 million of Lee's shares, following the collapse in the share price and margin calls, and a subsequent sell-down by Fidelity.

During KNM's heyday when the shares were trading at a peak of RM8 in January 2008, Lee was the 13th richest man in Malaysia, according to *Forbes*.

At that time, the company was in an aggressive expansion mode with the

## KNM GROUP BHD

### KEY BOARD MEMBERS AND MANAGEMENT

Datuk Ab Halim Mohyiddin (chairman)  
Lee Swee Eng (executive director/CEO)  
Gan Siew Liat (executive director)

### MAJOR SHAREHOLDERS

Lee Swee Eng 21.8%  
EPF 5.63%

MARKET CAP (Sept 2) RM901.61m  
SHARE PRICE (Sept 2) 46 sen  
52-WEEK HIGH RM1.03  
52-WEEK LOW 39 sen

### FINANCIAL RESULTS (Q2 ended June 30, 2015)

REVENUE RM381.3m  
NET PROFIT RM6.12m

stock a darling in the O&G sector. But it ran into cash-flow problems due to wrongly-timed expansion at the height of the global financial crisis in 2008.

In 2010, Lee, who now owns about 21.8% of KNM, attempted to take the company private for RM3.5 bil, or 90 sen per share, but it fell through.

Lee founded the KNM Group in 1990, specialising in fabrication and manufacturing of process equipment for the O&G industry. He developed it into a global leading manufacturer of process equipment not only for the oil, gas and petrochemical industry but also in the mineral processing, power, desalination and environmental sectors.

Lee graduated in 1979 with a Bachelor of Science in Mechanical Engineering from the University of Strathclyde in Glasgow, Scotland. He had an impressive track record in the O&G sector prior to setting up KNM. He served with Exxon in 1976 as a production specialist and with Petronas from 1979 to 1985. At the national oil corporation, he served in various capacities from production engineer, project development engineer and resident engineer to project leader for major O&G development projects.

## Overseas stints

He also worked with US firm John Brown E & C Inc as a project engineer on international assignments for its San Miguel project, Bakersfield California in 1986. He then joined Technip Group's Malaysian subsidiary, Technip Geoproduction (Malaysia) Sdn Bhd, as director and eventually, managing director from 1986 to 1990.

For now, it appears that the worst is over for KNM. "The company has cut its Australia and Brazil operations in the last two years. Now, he is more disciplined



with financials and costs are leaner now. There is no underbidding for jobs, he undertook a restructuring of its operations and moved into renewable [energy] business, going into more independent power producer (IPP) business.

"The company is undertaking the build-operate-own model for renewable [energy] business unlike previously where it was mainly engineering, procurement, construction and commissioning jobs," says an industry observer.

One example is the renewable energy project in Thailand, which is expected to contribute to KNM's earnings in the financial year ending Dec 31, 2016. In March, KNM said it intended to purchase a 72% stake in a biofuel project in Thailand for RM88.5 mil and to pay for that in cash and shares.

The plant in Thailand will produce 200,000 litres of ethanol per day during the first phase and has a capacity of up to 400,000 litres per day.

## Banking on Rapid

The company's strategic plan is to increase its recurring income to 35% of its total income from 2018 through green energy projects. They include the multi-billion-ringgit 80%-owned Peterborough project in the UK and the 72%-owned biofuel project in Thailand.

The industry observer says KNM's present approach of seeking partnerships instead of mergers and acquisitions in the past is sensible from a financial and operational perspective.

Lee has been reducing KNM's debt level, improving cash flow and adopting good cost management, which are a tangible testament to his commitment to a more disciplined business approach.

In the past 12 months, KNM has strengthened its capital base via a private placement and rights issue, raising a total of RM264 mil. The proceeds were used to reduce debt and for working capital purposes. It plans to raise another US\$300 mil via a multi-currency bond issuance mainly to finance its renewable energy projects in the UK and Thailand.

Analysts believe KNM should be one of the main beneficiaries of Petronas' RM60 bil Refinery and Petrochemical Integrated Development (Rapid) project, which is one of the mega-projects within PIPC.

"KNM has Rapid to provide support while its overseas operations, Borsig and Italy-based FBM are still doing well," says an analyst.

In 2008, KNM acquired German engineering and manufacturing supplier Borsig for RM1.7 bil. The acquisition took place just as the global financial crisis began unravelling.

When KNM announced plans to buy Borsig, many believed it was biting off more than it could chew, having acquired several companies within a short period. Nevertheless, Borsig has been KNM's cash cow throughout the crisis. Orders for Borsig were sustainable while others fell.

Although KNM's revenue more than doubled in the year of acquisition and its net profit leapt 80%, its profit margin dipped from 15.2% to 13.3% and its return on equity almost halved from 34% to 19%. Sales in Europe fell from RM1.49 bil in 2008 to a low of RM1.07 bil in 2010.

However, the company recovered to reach a five-year record revenue of RM2.39 bil and a net profit of RM70.35 mil in the financial year ended Dec 31, 2012. In FY14, KNM posted lower net profit and revenue of RM39.75 mil and RM1.86 bil, respectively.

## Is there a succession plan?

Year-to-date, the company has secured about RM204 mil worth of jobs. Of these, RM180 mil worth was secured from Toyo Engineering, related to projects in Pengerang. Another RM20 mil worth was also secured from Toyo Engineering for jobs in Turkmenistan.

Its orderbook is RM4 bil, including jobs from the Peterborough project worth RM2 bil. It is bidding for over RM13 bil worth of jobs of which RM4-5 bil are related to the Rapid project.

After helming KNM for more than two decades, Lee is showing no signs of taking it easy. However, many wonder if there is a succession plan in place for the company. "It is not clear if there is a succession plan but Lee's children are already working for the company," says an industry observer.

Lee's wife Gan Siew Liat, a KNM executive director, is responsible for the group's human capital functions. She has been with KNM since 1990 and was appointed executive director on June 14, 2003. **FocusM**

