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# Uphill task but Kanger feels at home

China-based bamboo products maker sees potential in Malaysia, intends to attract high net-worth investors

By LIZ LEE

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**W**ITH a disapproving perception towards China-based stocks to battle with and a little known industry to promote, Kanger International Bhd may need to amp up its efforts to win over retail investors in Malaysia.

However, the bamboo products manufacturer is not fazed by what seems to be the odds stacked against it. It says it is focused on attracting "high net-worth individual investors."

The company launched its prospectus yesterday, with the initial public offering (IPO) on Dec 23.

From its IPO proceeds of RM20mil, Kanger intends to use 10% for research and development, 5% for capital expenditure, 41% for working capital, 27% for repayment of borrowings and 16.5% for the listing exercise.

Kanger's IPO price is set at 25 sen, confirming *StarBizWeek's* story that the listing would likely be priced between 24 and 26 sen.

In the report last month, it was quoted that the IPO would be well-received because of its local ties – not only through the establishment of a local plant but also the Perlis royalty's 6% shareholding.

Kanger's public issue comprises an issuance of 11 million new Kanger shares offered to the public and 69 million new Kanger shares for private placement. Its market capitalisation upon listing is RM107.5mil while its total enlarged issued and paid-up share capital after listing would be RM43mil.

Kanger's 2013 estimated price-to-earnings ratio (PE) was 21 times, based on the 2013 annualised diluted net earnings per share of 1.17 stated in its prospectus.

A check on *Bloomberg* shows that the average PE of companies in similar home improvement businesses was 34 times.

Its profit after tax (PAT) for the first half ending June 30, 2013 was RM2.5mil, while its full financial year (FY12) PAT was RM6.37mil. Its revenue for the two periods were RM21.38mil and RM38.56mil, respectively.

The company targets a 20% growth in revenue in FY14.

For chief executive officer and managing director Leng Xingmin, Malaysia has good potential for a bamboo industry, given its

natural resources. Leng will be a 67% major shareholder in the listed entity.

Kanger's main business is producing bamboo flooring planks for the construction industry. It has also begun venturing into making wall panels which will be marketed from next year.

Leng stresses that unlike other China stocks listed on Bursa Malaysia which have no assets, operations or end users in Malaysia, Kanger actually has ties with a local organisation – through its collaboration with the Forest Reserve Institute of Malaysia (FRIM).

"We are not a company that's coming in to raise money from investors to fund far-away operations back in China. We have collaborated with Malaysians before and would continue to do so," Leng tells *StarBizWeek* in an earlier interview.

In 2011, Kanger already entered a joint venture with FRIM to collaborate on bamboo research. From that, the China company has been involved in technology transfer with FRIM.

"We have used FRIM as a marketing channel as it endorses our products. Our testings are done in FRIM too," the 43-year-old Jiangxin Province native says.

To further enhance this collaboration, Kanger plans to set up its research and development pilot plant in Malaysia, utilising RM2mil of its IPO proceeds. The local plant will be used for Kanger's research on local bamboo species similar to those in China that the group uses as raw material for its semi-finished flooring products.

The venue for this investment has not been finalised.

Corporate advisor Christopher Goy says at a media conference after launching the prospectus that Kanger intends to start a full-capacity production plant in one to two years.

He points out that the local bamboo is not fully utilised currently, limited mostly to making local rice dish "lemang" and decoratives only.

Goy adds that Kanger's research on local bamboo species in collaboration with FRIM is already 70% complete. Once completed, Kanger will decide on what facilities and

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equipment it needs for its Malaysian factory.

To that, Leng said Kanger wants to set up a factory "in an area with lots of bamboo growth." The location, however, has also not identified.

Kanger already has two plants in China – a manufacturing plant in Ganzhou and a raw material manufacturing plant in Yanshan.

When quizzed during the interview if Kanger has difficulty seeking loans or funding in China, Leng denies, explaining that the IPO in Malaysia is purely to raise its corporate profile and not because it is fund-starved.

Leng says that while Kanger has a couple of competitors in Malaysia, the local technology in this industry is 10 to 15 years behind what the bamboo industry in China has advanced to.

The bamboo industry has been around for three decades in China, currently valued at about 10 billion yuan in sales.

"The industry is very competitive in China and it all depends on who can outshine the others," Leng notes. "Demand for bamboo products has also risen recently, as more people become aware of green materials and bamboo is a renewable alternative to wood."

Kanger is among the top 20 bamboo flooring manufacturers in China, he says, adding: "We see more demand coming from other countries as the awareness for environmentally-friendly materials increases in the property and construction industries."

Aside from flooring and wall panels, the

semi-finished bamboo products can be sold as material to make furniture and decoratives. Goy explains that Kanger is marketing its products as premium material. "Of course we cannot compare with wood like teak but our bamboo products are more expensive than the laminated wood flooring."

Its key market is China, contributing up to 50% of its sales but it also exports to Russia, Turkmenistan, United Arab Emirates, Romania, Germany, France, Australia and the United States. It exports semi-finished bamboo products both as an original equipment manufacturer and under its house brand.

In certain markets, it has also set up outlets to market the Kanger brand bamboo products.

Kanger does not have any sales channel in Malaysia at the moment. Goy says the group wants to complete its R&D before seeking distribution agents.

"We are also exploring opportunities with local property developers and are open to working with the China developers who have projects here," he says.

The group has not fixed any dividend policy but it plans to allocate 20% of its profits for that. "In the next year, we would need the funds to expand first," Goy says.

Kanger will be the 10th China-based stock to be listed here. It is also the only ACE listing and last IPO on Bursa Malaysia this year.

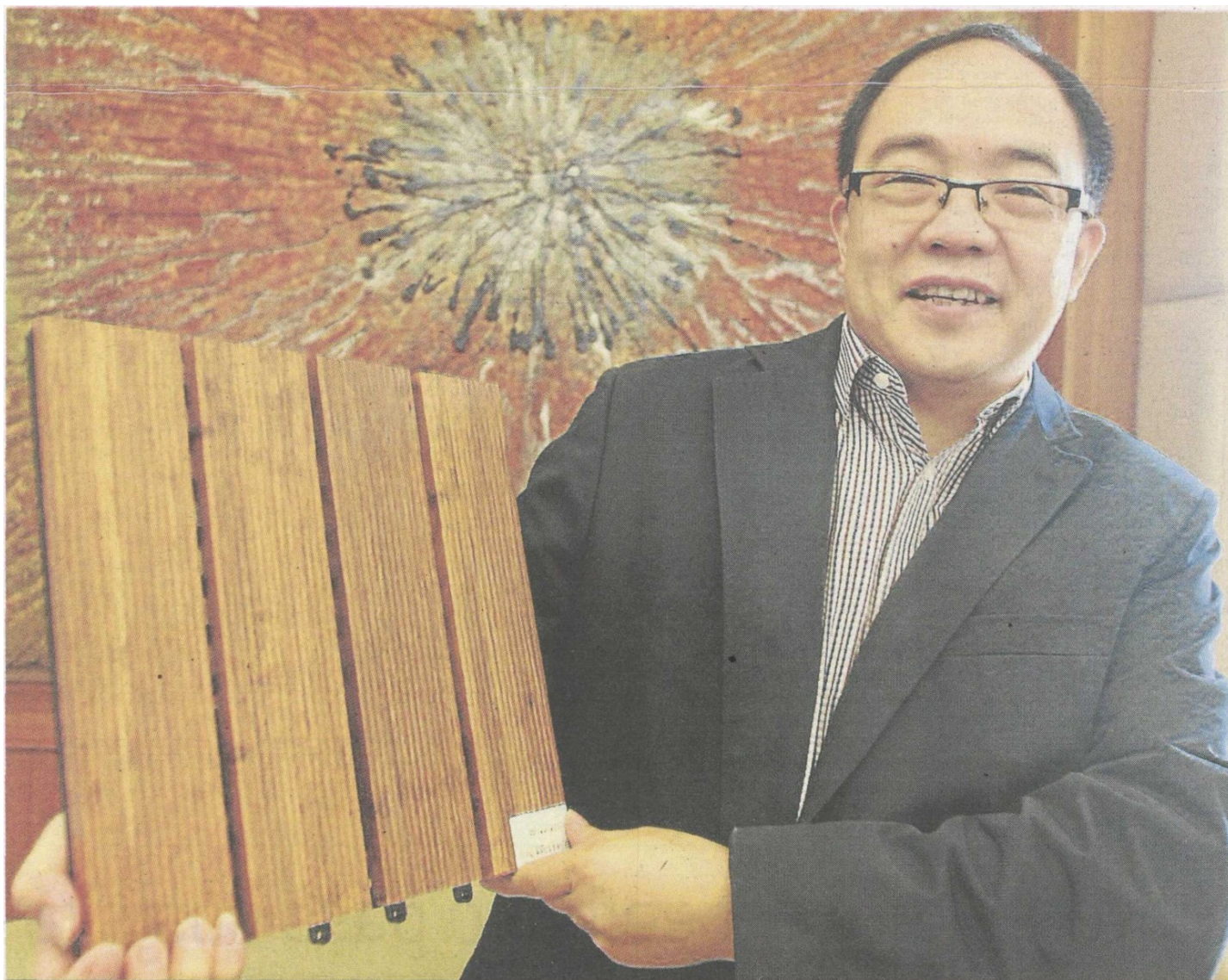
Kenanga Investment Bank is the advisor, sponsor, underwriter and placement agent for the IPO.

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