Coming quarters expected to be bettter for K-One

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ACE Market-listed K-One Technology Bhd, whose share price slumped by half following poor first quarter results, says there is nothing unusual about the slow start and earnings should improve in the coming quarters.

Calling shareholders to exercise patience as the company takes steps to improve its business, executive chairman Edwin Lim Beng Fook points out that the industry of technology solutions are prone to cyclical highs and lows.

He says that based on historical trends, sales in quarter one is normally the weakest and would improve in subsequent quarters, normally peaking in the fourth quarter to cater for year-end festivities.

"This is our business cycle norm and we expect business to improve," he tells StarBizWeek. Even so, Lim admits that the global economic uncertainties are beyond any companies' control and such a scenario can disrupt plans in place. The industry is also highly competitive where rivals cut prices to jockey for advantage and new trends emerge to meet consumer demand.

On a positive note, with the bulk of K-One's products exported, the strength of the US dollar is expected to work in its favour. But Lim says this impact may be softened by the company's hedging process. To mitigate the fluctuations in the US dollar, the company pays its suppliers in US dollar as its incoming remittances are mainly in US dollar.

Going forward, he says the company will continue to focus on growing its sales by winning replacement new product models for its various business segments.

K-One is involved in mobile phone accessories, computer peripherals and surveillance (network) cameras and consumer technology products, namely in electronic headlamps. Besides this, it also supplies automotive aggregates and industrial products such as polishers and liquid dispensers.

According to Lim, K-One is also bidding for new businesses such as wearable electronics for measuring various health parameters (blood pressure, sleep pattern) medical devices and headphones. Meanwhile, operations wise, it will continue to work on bringing materials cost down, manage expenses and overheads prudently and further improve productivity and production yield.

ACE-market stocks rarely attract institutional funds, but K-One stands out for having several in its shareholding list. The downside of this is when a fund decides to exit, it can result in sharp price swings. This is believed to be the case with K-One as it is understood that some local funds have sold down their stakes following an 83% drop in profit to RM520,000 in the first quarter ended March 31. In the previous corresponding quarter, it had made a net profit of RM3.24mil. Its earnings release on May 27, triggered a sell-down on the stock, wiping out half its value in just five trading days to close at 31 sen on June 3.

These funds may taken the opportunity to "take profit" as K-One's share price had risen quite a bit before its fall. It had hit a high of of 64 sen on May 18 - the level one research firm said was its fair value. At Friday's closing, the stock had recouped some of its losses to close 9.68% up to 34 sen.

Bloomberg data lists CIMB-Principal Asset Management with 4.73% and Kenanga Unit Trust Bhd, 2.66%, Other funds in its list of shareholding are OSK UOB Unit Trust with 1.66%, Prudential Unit Trust at 1.35%, while Asia Life Malaysia Bhd has 0.60%.

For now Lim. who is one of K-One's founder and major shareholder with a 15.38% stake, appreciates if shareholders can exercise patience. "The co-founders, being substantial shareholders are doing their level best to ensure that the company does well for the benefit of all shareholders," he says in email replies.

Lim's brother, Lim Soon Seng has 13.14%, while Bjorn Braten holds 10.57%. Bjorn, a Norwegian, had co-founded K-One with the Lim brothers back in 2001.

K-One was listed in 2006 and had sought a transfer to the main market four years ago, but it was rejected by the market regulator.

Just early this year, one research firm had opined that K-One's earnings prospects are expected to be more resilient this year. This follows the award of new orders worth about RM20mil from a world-renowned multinational corporation late last year. The win is seen as a catalyst for it to win bigger orders from other global brands.

But the company had seen worse days. It was loss making in financial years (FY) 2011 and 2012, before returning to profitability in the third quarter of FY2013. It undertook a restructuring that included divestment of its loss-making businesses, rebalancing its product mix and better cost-management.

For FY14 ended Dec 31, it reported a net profit of RM11.85mil from RM1.01mil in FY13, marking a convincing turnaround that it needs to maintain or better to regain investor confidence and ensure that other funds invested stay with it.

As a result of the restructuring, K-One now has a stronger balance sheet with a net cash balance of RM10.7mil as opposed to a net gearing of 0.06 times a year ago. The company has not declared any dividend in the past three years, but its management has said it will form a dividend policy if the company is able to maintain a decent financial performance.