

K1-WB's intrinsic value gains from ringgit weakness



by Alan Voon

THE share price of K-One Technology Bhd (K1) surged to a multi-year high of 58 sen in the middle of last month as investors were encouraged by the strong profit growth achieved by the company. K1's profitability is growing rapidly again after two years of losses – in 2011 and 2012. The company returned to the black in 2013 and saw its profit grow substantially last year, benefiting from the weaker ringgit. Nevertheless, weak market sentiments towards the end of last month have seen the share price of K1 corrected somewhat to a low of 48 sen earlier last week before rebounding slightly to close at 51 sen on May 6. Its warrant, K1-WB, was last traded at its intrinsic value of 29 sen

K1 is an integrated total one-stop technology solution provider for companies requiring design, development,

K-ONE TECHNOLOGY BHD (as of May 5)

Warrant price:	29 sen
Share price:	51 sen
Exercise price:	22 sen
Warrants expiry date:	11/12/2015
Premium:	0%
Gearing:	1.76
Underlying historical volatility:	43.4%
Warrant's implied volatility:	n/a
Delta:	1.00
Effective gearing:	1.76

project management and manufacturing solutions. K1's niche is in the mobile phone accessories, computer peripherals, consumer technology products, automotive aggregates and healthcare/medical devices market segments. The company is seen as positioning itself at the high value-end of the manufacturing chain which is low capital, non-labour intensive and asset-light with high



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intellectual capital, differentiating itself from the typical electronic manufacturing services (EMS) companies.

For the financial year ended December 2014, K1 reported a net profit of RM11.86 mil, which is a growth of more than ten times over the net profit of RM1.01 mil recorded in 2013. This was despite K1 registering only a 9% growth in turnover to RM186.1 mil compared to RM171.25 mil in 2013. According to the company CEO's review of operation in its latest annual report, the significant increase in profit was achieved on the back of materials cost-reduction, productivity improvement, overheads and expenses control, launching of new products with better margins for both existing and new customers and sales increased over the preceding year.

In the notes accompanying the latest results, K1 anticipates to sustain and grow through tapping the existing customers in mobile phone accessories, surveillance cameras, consumer electronic products and automotive aggregates plus targeting emerging markets such as the healthcare wearables and medical devices industries. Furthermore, the company expects to enhance its growth by leveraging on its track record in mobile phone accessories and consumer electronic products' innovation by focusing on new customers in these sectors. K1 has been a beneficiary of the stronger US dollar as more than 90% of its sales are exported and denominated in US dollars. Nevertheless, it may suffer if the strength of the US dollar reverses.

K1-WB is currently trading at its intrinsic value or zero premium. This is not surprising as the warrant will expire in December. There have been a steady stream of exercise of K1-WB over the last few months as the warrant moves into the last few months of its lifespan. There were also warrant holders exercising into the mother share ahead of the share dividend entitlement at the end of March.

With a gearing of 1.76 times, K1-WB still provides attractive gearing for investors who hold the view that the share price of K1 would increase significantly over the next six months. Shareholders of K1 may also consider swapping the mother share for warrant to free up some capital while targeting higher percentage gains with K1-WB. **FocusM**

The writer is CEO of Warrants Capital Sdn Bhd.