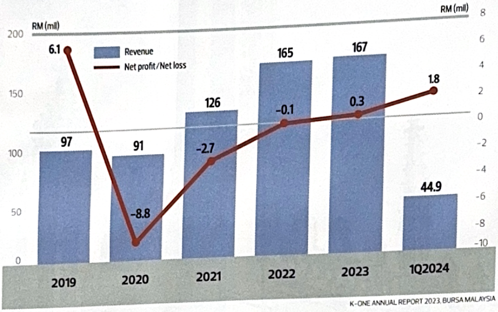
K-One gains traction with data centre-linked jobs

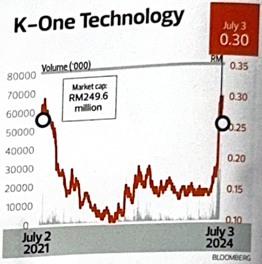
BY **JUSTIN LIM**

Financial highlights (FY2023 ended Dec 31)



K-ONE ANNUAL REPORT 2023, BURSA MALAYSIA

K-One Technology



BLOOMBERG

ACE Market-listed electronics manufacturing services (EMS) firm K-One Technology Bhd (KL:K1) appears to be back on the radar screens of investors, with its share price climbing more than 87% so far this year.

Having traded below 20 sen in the first half of the year, the stock started its upward trend in early June, hitting a three-year high of 30 sen last Wednesday. This gave the company a market capitalisation of RM249.6 million.

K-One co-founder and executive chairman Edwin Lim Beng Fook attributes the share price rally to the company's strategic involvement in data centre-linked jobs. Its electronics manufacturing arm has clinched a job order from a US-based industrial equipment company to manufacture and supply peripherals or controller sub-systems used to control and regulate the cooling system in data centres.

"We have started [production] already, but it is only a small order. The capex for this product is minimal as it is using existing facilities in Ipoh," says Lim, adding that the average utilisation rate of K-One's factory is 75%.

In addition, the rapid expansion of the data centre capacity in Malaysia is creating opportunities for the company's cloud computing business.

"The financial industry and government require local data centre residency. This has opened up a lot of opportunities for us," he says.

Since 2019, K-One has diversified into the cloud computing business via the acquisition of G-AsiaPacific Sdn Bhd (GAP), a fully integrated cloud advisory and brokerage firm that represents four principals: Amazon Web Services (AWS), Google Cloud, Microsoft Cloud and Alibaba Cloud.

Despite the intense competition, Lim believes the company, being a pioneer in Malaysia's cloud computing business, has comparative advantages over its competitors, such as a strong technical team built over the years. In addition, a higher status granted by the principals is a plus point, he highlights.

"For instance, with Google, we hold premier partner status, which represents the highest partnership level. Achieving this status requires the passing of an audit, having a sufficient number of qualified personnel, obtaining customer testimonials and demonstrating financial resources. At the premier level, we benefit from the highest discounts given by Google, which is our advantage," Lim explains.

"Likewise, AWS endorses us as the best. So, technically, we should be chosen and result in a lot of opportunities for us."

He notes that GAP won the "Partner of the Year Malaysia Award" from AWS three times over the last five years. This recognition is based on criteria such as sales performance, sales growth, human resources, capabilities and competencies.

The cloud business accounted for 45% of the group's revenue in the financial year ended Dec 31, 2023 (FY2023). The remaining 55% was contributed by the EMS segment.

"These two will be growth engines over the next five years. The cloud business is a sunrise industry, with a lot of low-hanging fruit. Besides Malaysia, we also have operations in Indonesia, Vietnam and Singapore. And we plan to venture into the Philippines and Thailand," says Lim.

He believes Asia-Pacific offers opportunity for the company to grow its cloud computing business as cloud adoption is at an "adolescent" stage among companies in the region, compared with Europe and the US, which are already at a mature stage.

Furthermore, the influx of data migration from on-premise systems is driving a surge in data centre demand. Lim says the rise of cloud computing goes hand in hand with the growth of data centres, which are the backbone of artificial intelligence (AI) applications.

K-One specialises in AI development, particularly in areas such as cybersecurity and software for AI-powered applications. This expertise allows it to take on a wide range of projects. With the global AI boom, the company is ready to seize opportunities from this major growth potential, he adds.

Notably, K-One's efforts to diversify into cloud computing has borne fruit as it returned to profitability in 2023 after years of being in the red. In FY2023, it posted a net profit of RM351,000 versus a net loss of RM100,000 in FY2022, on the back of higher revenue of RM167.24 million against RM164.85 million previously.

The company attributed its improved performance to the continued growth momentum of its cloud computing business, which achieved record annual sales of RM75.1 million in FY2023 versus RM67.7 million in FY2022.

EMS business sales came in at RM92.1 million in FY2023, down from RM97.1 million in FY2022, on sluggish sales of electronic headlamps and industrial equipment, in addition to the tapering demand for Covid-19 antigen saliva rapid self-test kits amid falling cases of the coronavirus.

In 1QFY2024, K-One saw a net profit of RM1.8 million, compared with a net loss of RM425,000 in 1QFY2023. The gain was driven mainly by a turnaround in its EMS business, which benefited from an improved gross profit as a result of a favourable product mix and drop in material costs.

Quarterly revenue expanded 9.63% to RM44.89 million, from RM40.95 million, owing to a surge in its cloud computing business. It had cash and cash equivalents of RM22.16 million, with no bank borrowings, at end-March 2024.

The outlook for the EMS sector remains compelling, says Lim, pointing to a significant shift in potential business to Malaysia, particularly from the US and European companies that prefer not to manufacture in China.

K-One's strategy in the EMS business is focused on mid-sized international companies, which still represent substantial business opportunities. "Our competitors typically aim for the industry giants. We are not trying to compete with them," he says.

Last month, the company received shareholders' approval for its diversification into the healthcare industry to reduce its reliance on existing business segments. It has started developing and manufacturing medical and healthcare products under its EMS business. It is also pursuing development of its own brand of manufacturing products such as mechanical ventilators. The healthcare products business is expected to contribute at least 25% to net profit.

Lim and his brother Datuk Martin Lim Soon Seng are the company's largest shareholders, with a combined stake of 28.29%. Non-independent, non-executive director Bjorn Braten holds a 3.79% stake. E