



Corporate News Flash

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CABLE

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Leader Universal

BUY	Maintain
Price	RM0.95
Target	RM1.81

Riding on SCORE

Sarawak Energy Bhd is going ahead with the development of several big hydroelectric dams to power the energy-intensive industries planned for the Sarawak Corridor of Renewable Energy (SCORE) in the state's central region. SCORE, the country's fifth and last regional development corridor, was launched by Prime Minister Datuk Seri Abdullah Ahmad Badawi in Bintulu yesterday. Planned for full development over 22 years, SCORE covers 70,709 sq km and stretches along the coast of Tanjung Manis (where an integrated timber complex and deepsea fishing port are located) in Sarikei Division to Similajau in Bintulu Division. Plans are already underway to develop the Murum dam (990MW), Balleh dam (950MW) and Pelagus dam (770MW), all in the upper reaches of the Rejang River. Despite these proposed dams are smaller than the federal-funded Bakun dam project (now being built), which could generate up to 2,400MW but energy resources, especially hydro power of 20,000MW, coal deposits of 1.46bn MT and natural gas deposits of 40.9 trillion cu ft, are readily available in the SCORE region. *(Star, Bernama)*

COMMENTS

SCORE = higher cable demand in Sarawak? With the introduction of SCORE, we reckon Sarawak is poised to become a new power house of the country as well as South East Asia Region. Already, 5,110 MW of hydro power projects underway and more is expected given the state's rich energy resources especially hydro power that is expected to reach 20,000MW. Given that, plans for more power plants may also suggest the sustainable huge demand for high voltage power cable moving forward. On top of that, Bakun power transfer to Peninsular Malaysia projects would see Sarawak installing a 600km long overhead or underground cable connecting Bakun to Kuching en-route to Peninsular Malaysia.

Leader has earlier footprint in Sarawak... We think Leader with its established presence in Sarawak via its 35% owned associate company, Universal Cable Sarawak SB (UCS) may potentially be a main beneficiary from the SCORE development. UCS principally involves in the manufacturing of electrical wires and cables as well as sub-contract of power and transmission related works. Leader, SESCO and CPSB jointly owns 35%, 35% and 30% equity stake respectively in UCS Sarawak. SESCO which involves in generation, transmission and distribution of electricity in the State of Sarawak has procured approximately RM44.2m of power cable under related party transaction from UCS Sarawak according to a circular to shareholders dated 7 June 2006 by SESCO. UCS from its strong alliance with SESCO, should be in the forefront for more cable supply contracts.

More to come? Leader has plans to list UCS on the Second Board of the Bursa Malaysia via its SPV, UCS Holdings (UCS). We believe the listing of UCS is to pave way for the associate company's expansion plan to resolve capacity constrain in current plant. It is also timely to ride on the potential upsurge of cable demand in Sarawak as the government plan to translate the state into the power house for South East Asia. Apart from that, we do not discount Leader's role in Sarawak given UCS limited capacity and the shortage of undersea cable may see greenfield investment by Leader with technical support from established overseas player.

Reiterate BUY. With more positive development on the power projects in Sarawak, we are getting more excited on Leader's cable business. We reiterate our BUY recommendation with 12-month target price unchanged at RM1.81 or 90.5% upside. The fair value is derived from a conservative sum of part valuation on FY08 earnings.

Figure 1: Main Grid System in Sarawak



Source: Energy Commission

Figure 2: Sum of Valuation Composition for Leader Universal

Division	Net Profit After MI (FY07)	Peer PER	Total (RMm)
Cable & wire, others	49.4	10.0	493.7
Power (IPP @ DCF)			294.2
Total Sum Of Parts			788.0
No of Shares			436.5
12-Months Targeted Price		RM	1.81

Source: Bloomberg, OSK Research

OSK Research Guide to Investment Ratings**Buy:** Share price may exceed 10% over the next 12 months**Trading Buy:** Share price may exceed 15% over the next 3 months, however longer-term outlook remains uncertain**Neutral:** Share price may fall within the range of +/- 10% over the next 12 months**Take Profit:** Target price has been attained. Look to accumulate at lower levels**Sell:** Share price may fall by more than 10% over the next 12 months**Not Rated:** Stock is not within regular research coverage

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