



CABLE & POWER

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Corporate News Flash

Private Circulation Only

Leader Universal

| | |
|---------------------|-----------------|
| BUY | Maintain |
| Price | RM1.03 |
| Target Price | RM1.73 |

TNB to Replace Old Cables

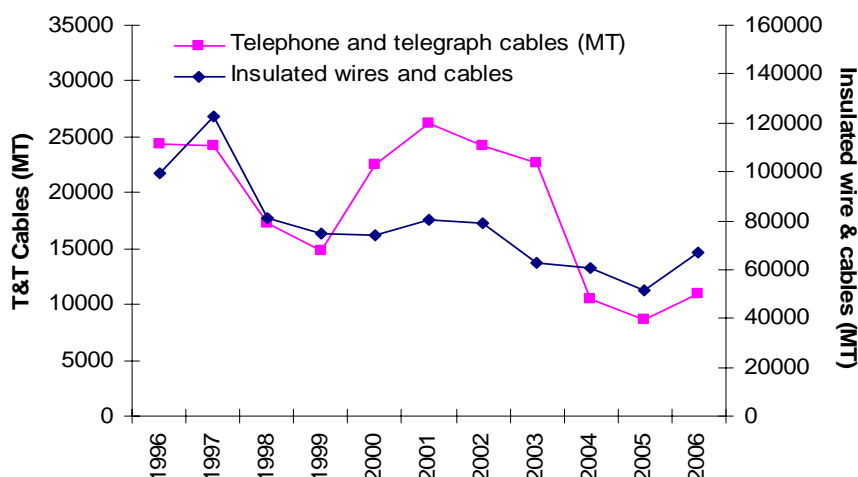
Energy, Water and Communication Minister Datuk Seri Dr Lim Keng Yaik has instructed Tenaga Nasional Bhd (TNB) to replace its old substation and cables to prevent frequent power supply breakdowns. The problems have been attributed to the distribution level and TNB does not have enough capital to service rundown substations and replace old cables. However, with the 12% power tariff increase from June 2006, the Minister is confident that TNB will have enough capital to solve the problem in two to three years.

COMMENTS

Belief reinforced. With the commitment shown by the government to replace old cables to resolve power disruptions, we are further reassured of the sustainability of power cable demand over the next three years. Leader Universal (LUH) leads one of three consortiums to supply power cables to TNB, and is expected to be the main beneficiary of the increased spending.

More roll out by TNB? Presently, TNB is LUH's single largest customer accounting for approximately 9% of sales for cables and wires. We have observed encouraging national production of insulated cables & wires in 2006 and 1Q07 production (refer Figure 1) is equivalent to 26.7% of last year numbers despite being a seasonally slower quarter. Our recent chat with a TNB engineer also reaffirms our view on the sustainability of TNB's spending over the next few years. Reason being- substantial new power transmission lines being laid out nationwide, commissioning of new power plants and TNB to gradually change its existing 275kV power network in Peninsular Malaysia to 500kV in order to cater for escalating national power demand.

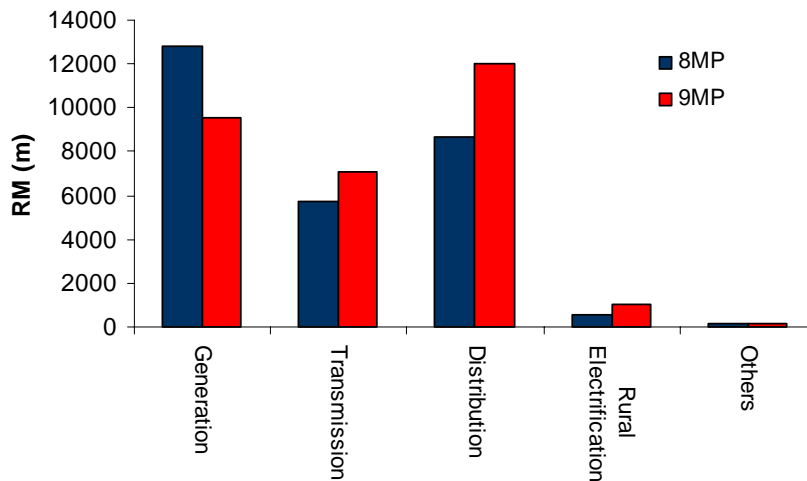
Figure 1: National Production for Cable & Wire



Source: Department of Statistic

More to come... As demand for cable & wire is highly dependent on infrastructure projects, the introduction of Eastern Corridor, Iskandar Development Region (IDR) and Northern Corridor recently may spur demand for cables and wires. Apart from that, of the lot of 9MP projects, the Bakun – Peninsular power transfer projects costing RM9bn must be the most eagerly anticipated. Though LUH is unlikely to participate in the submarine cable project, we are hopeful the company to participate in the 600km long overhead or underground cable connecting Bakun to Kuching.

Figure 2: Development Expenditure & Allocation for 2000 to 2010



Source: OSK Research

A solid show ahead? Based on the strong set of quarterly results (45.4% and 48.4% higher y-o-y and q-o-q respectively) reported by PIE Industries (partly involved in low to medium voltage cable & wire business) yesterday, we suspect LUH may deliver encouraging set of 2Q results scheduled for release by end of this month. Meanwhile, we are maintaining our **BUY** recommendation with **12-months target price tagged at RM1.73**.

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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