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Corporate News Flash

Leader Universal

More From Sarawak

METAL (CABLES)

BUY ↔
Target
Previous
Price

RM1.160
RM1.160
RM0.865

THE BUZZ

According to media reports, Sarawak Energy Berhad (SEB) plans to build five more hydro-electric dams with a combined power capacity of more than 3000MW over the next five years. It was also reported that SEB expects to build a 40km-long power transmission line to link Miri and Brunei in two years to facilitate the export of electricity.

OUR TAKE

Details sketchy but still good news. The media reports did not give any details or project value on all five planned dams but we note that there have been plans to build the dams since 2007. Nevertheless, we reckon this is a positive catalyst for Leader given that the dam construction will lead to higher demand for cables and wire products. The five dams identified are the Balleh (1400MW), Pelagus (410MW), Baram(1200MW), Limbang(245MW) and Lawas(100MW) dams.

Miri-Brunei transmission line. SEB also plans to build a 40km-long power transmission line linking Miri and Brunei to facilitate the export of electricity to Brunei. As reported, the complete line will pass through Sungai Tujuh, Kuala Belait, Spark, Bukit Panggal and Katok. Although the project value has yet to be determined, we believe this bodes well for Leader as it had previously supplied to similar projects. In our previous reports, we mentioned that Leader is likely to be the main supplier to the Bakun-Similajau Overhead Transmission Line (BSOT). Given that both the Miri-Brunei line and the BSOT projects are similar in that they involve a 275kV transmission line, we see Leader as being qualified to supply to the BSOT.

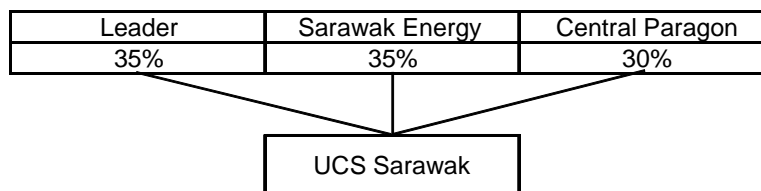
Sarawak Cable. The supply of cable and wires will benefit Leader directly and indirectly. Leader itself can supply directly to the project site while its 26% owned associate company Sarawak Cable can be the indirect supplier. (Sarawak Cable is also partly owned by SEB). SEB's exact stake has however yet to be finalised as Sarawak Cable is in the midst of preparing for a listing on Bursa Malaysia. There are so far tentative dates on when Sarawak Cable will be listed, but we believe it may be sometime in 1H this year.

Looking good. Leader's prospects are positive given that energy-related projects in Sarawak are moving towards implementation. That said, we hold our TP for Leader at **RM1.16** (S-O-P derived) with its **BUY** recommendation intact. At the current share price, the stock should provide an upside of 34%.

HIGHLIGHTS

Briefly on UCS Sarawak. The company is principally involved in the manufacture of electrical wires and cables as well as sub-contract of power and transmission related works. Initially, Leader, Sarawak Energy Berhad (SEB) and Central Paragon SB held 35%, 35% and 30% equity stakes respectively in UCS Sarawak. SEB, which is involved in the generation, transmission and distribution of electricity in Sarawak, has secured approximately RM44.2m worth of power cables under related party transactions from UCS Sarawak, an SEB circular to shareholders dated 7 June 2006 said.

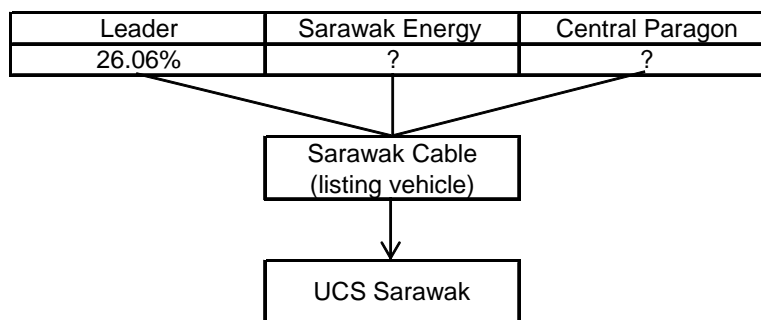
Figure 1: Before proposed listing of UCS Sarawak via Sarawak Cable (listing vehicle)



Source: OSK

Listing of Sarawak Cable. However, as part of a restructuring undertaken pursuant to the proposed initial public offering of Sarawak Cable (a listing vehicle for UCS Sarawak), a series of corporate exercises were initiated in 2008. These included a share disposal, which resulted in Leader disposing of 35% of its total issued and paid-up share capital in UCS Sarawak to Sarawak Cable in exchange for 18,304,999 ordinary RM1 shares in Sarawak Cable. After the subsequent exercises including a share split in Sarawak Cable and two Offers for Sale, Leader eventually ended up with an effective stake of 26.06% in Sarawak Cable. Meanwhile, Sarawak Cable has yet to be floated after the restructuring and we believe its listing may take place sometime in 1H this year.

Figure 2: Current structure of Sarawak Cable



Source: OSK

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 (NR): Stock is not within regular research coverage

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