

Leader's listing of cable associate timely

| BY M SHANMUGAM |

Penang-based Leader Universal Holdings Bhd could not have picked a better time to list its associate company, Universal Cable Sarawak Sdn Bhd (UCS).

Sarawak is where the spending on energy-related activities is going to be in the next few years as the state launches an industrial corridor anchored on energy-intensive industries. In fact, works have already started on one coal-fired power plant and a hydroelectric dam while there are plans for another two hydroelectric dams. These do not include the Bakun Hydroelectric Dam, which is due to start operations in December 2009.

With all these power plants, there will be a need for cables to transmit the electricity, which is where UCS comes in. Besides being the only producer of high-voltage 132Kv cable in Sarawak, Leader's partner in UCS is Sarawak Energy Bhd.

Leader has a 35% stake in UCS while another 35% is held by Sarawak Energy, the state's equivalent of Tenaga Nasional. The remaining interest is held by Central Paragon Sdn Bhd. With Sarawak Energy as a partner, UCS is favoured to land all the jobs for the supply of cables for the state's upcoming power plants.

The biggest cable contract in the state is from Bakun — the distance from the dam to the converter station is estimated to be 600km. Another job is the transmission line from the Mukah coal-fired plant to the load centre, which

is about 150km away. Yet another hydroelectric dam that is going to be built is the Murum Dam but its power is expected to be transmitted to Bakun, some 50km away.

The size of the contracts is not known but will certainly run into hundreds of millions. For instance, the cost of planning up the 600km line from Bakun to the converter station is expected to be about RM500 million, of which the portion to purchase the cables is substantial.

Leader's managing director-cum-CEO, Sean H'ng Chun Hsiang, says UCS is expected to be listed next year, barring unforeseen circumstances and subject to the approval of authorities.

The listing of UCS, based on its latest financials, will not be a major one but it will enable Leader to realise value on its investments. It will also mean that if UCS decides to expand its capacity, it can do so on its own.

According to H'ng, who is the son of Leader's founder Dantuk Seri H'ng Bok San, the cost of investment for the 35% stake in UCS Sarawak was RM6.8 million in December 1994.

But that investment is easily worth six times more, based on UCS' earnings today. For the first six months to June 30, UCS recorded a profit before tax of RM7.4 million. On an annualised basis, this would translate to about RM15 million.

Assuming it is accorded a price-earnings multiple of 10 times, the value of UCS should be about RM150 million and Leader's 35% stake should be about RM52 million.



LEADER UNIVERSAL

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But H'ng says that Leader is not listing to cash out. "We are in UCS for the long term and for the best interest of Leader," he tells *The Edge* via e-mail.

A fund manager says although the listing will not be big, it could be an indirect proxy to Bakun and Sarawak's burgeoning power sector.

"At the moment, apart from Sarawak Energy, there are no companies with direct exposure to the power-generation sector in Sarawak. Sarawak Energy is a longer-term play as its valuations will only go up when its new plants are nearing commercial operation. In the immediate term, the to-be-listed entity of Leader could provide direct exposure," says the fund manager.

Apart from listing UCS, Leader also plans to list its power plants overseas. But H'ng says there are no material developments so far.

At the moment, Leader has a power plant in Cambodia and is finalising discussions with the Cambodian Ministry of Industry, Mines and Energy on a power purchase agreement for a 200mw coal-fired plant in Sihanoukville.

"We have started on financing for the project but actual progress is pending the execution of the agreement," says H'ng.

Leader is also in a joint venture to build a 200Mw heavy fuel oil-fired diesel engine power plant in Pakistan. It has a 49% in the venture, which is still being evaluated.

OSK Research in a note describes Leader's listing of UCS as a positive development as it will increase the visibility of the associate and enable it to raise funds to expand capacity. "We suspect the entire exercise will be utilised for

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Eurobond settled

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capacity expansion. It is also timely as it will ride the potential upsurge of cable demand in Sarawak as the government plans to transform the state into a powerhouse for Southeast Asia," states OSK.

But OSK still maintains its price target of RM1.73 based on Leader's earnings for FY2008.

For the first six months this year, Leader registered a net profit of RM28.1 million on a turnover of RM1.3 billion, which is an improvement compared to the RM1.1 billion turnover and net profit of RM16.9 million recorded in the corresponding period last year.

This April, Leader made its final settlement on a US\$100 million Eurobond that was issued in 1997, which had been a dampener for the stock for a long time. Consequently, its short-term borrowings are down to RM319.7 million.

But Leader had receivables of RM508.6 million as at end-June this year, up from RM450.1 million in the corresponding period last year. Included in the receivables is an amount of about RM60 million that is due from its Cambodian power plant.

"Management is in the midst of finalising with the relevant Cambodian authorities and expects to settle this in the near future," says H'ng.

He says that the receivables turn-

over is well within credit terms and does not foresee any major impairment. "Leader attained revenue of about RM1.3 billion for the six months this year with a stringent and well-managed average collection period of 61 days. This is healthy and better than the overall cable and wire industry," he says.

The settlement of the Eurobond effectively removes Leader from a liability that had weighed down the company for years, particularly after the Asian financial crisis in 1997. It had issued the Eurobond in 1997 and a year later, the ringgit depreciated, causing the company's debt to balloon.

It faced competition in the local cable industry with other, well-connected players penetrating the industry. Its Cambodian power plants also experienced problems due to civil unrest in the country.

Leader Universal Cables celebrated its 30th anniversary last year. In conjunction with the celebrations, founder H'ng, in a message in the company's annual report, detailed the long climb up for the company.

It has been a hard journey indeed for Leader, especially in the past 10 years. The listing of its subsidiaries — which may have little impact on the capital market generally — will provide the company with a breath of fresh air. ■