

Power hungry

Leader Universal seeks to expand into other power segments

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LEADER Universal Holdings Bhd has acquired a taste for power. About a decade after its maiden foray into electricity generation via a subsidiary in Cambodia, the company is now looking at entering other segments of the power industry.

This is one of the business opportunities the company is exploring over the next two years to strengthen its position as the largest cable and wire manufacturer in the Asean region.

In an interview with BizWeek, group managing director and CEO Sean Hng says: "The power transmission and distribution business is an extension of our existing power generation business. It serves to complement and also create avenues for growth in our cable and wire business."

"We have been supplying and installing cables for power transmission and distribution networks. It makes sense for us to not only supply and install, but to also own and operate such networks. We are looking at building, owning and operating or leasing such networks in the South-East and South Asian countries."

Leader Universal will also continue to seek other concession projects such as power generation and related projects that can generate stable income. "Such a business synergises well with our cable and wire manufacturing business," adds Hng.

He says the company is working to conclude discussions with the turnkey contractor on the engineering, procurement and construction works and with the Government on its 200MW coal-fired power plant project in Sihanoukville, Cambodia.

"We are now in the final stages of finalising the power purchase and implementation agreements with the Cambodian authorities. We expect to wrap up all the financing arrangement and agreements for the contracting works by the end of 2008, so that construction works can begin in early 2009," he adds.

Scheduled to commence commercial operation in 2012, the project is Leader Universal's second power plant in Cambodia.

The first is a 35MW diesel power



The Cambodian power plant operated by Leader Universal and (inset) H'ng

plant in Phnom Penh undertaken through 60%-owned subsidiary Cambodia Utilities Pre Ltd. The plant commenced operations in 1997 and is due to be surrendered to the Cambodian government after 2015.

Recently, the company aborted a plan, which it had announced last March, to build a 200MW coal-fired power plant in Pakistan after having considered various factors, including recent developments in that country.

On its cable and wire manufacturing business, the group plans to expand the production capacity of its plants in line with the expected growth in demand, given the implementation of the infrastructure projects under the Ninth Malaysian Plan (9MP).

The company and its associate companies have eight cable and wire manufacturing plants in Malaysia – four in Johor, one in Sarawak, two in Penang and another in Kedah.

"We will also be installing new facilities soon at the different cable and wire manufacturing sites to increase the product range. This is in anticipation of the needs of mega

projects such as the Bakun submarine cable interconnection project, the multi-billion ringgit Northern, Eastern, and Southern Corridor Economic Region projects, and the Sabah Development Corridor plan," says Hng.

"We also expect strong demand from the oil and gas sectors, as a result of new deep-sea oil and gas exploration projects in the country and in the Middle East, and as well as increase in demand from key customers in the Middle East and Europe."

He adds that the expansion exercise will see the group producing a wider range of cable and wire products, which include lead sheath cables, milkten conductor power cables and optical power ground wires.

"Our cable products are well recognised. Our subsidiary, Leader Cable Industry Bhd, won the Product Excellence Award 2006 from the Ministry of International Trade and Industry for innovative water-sealed power cables. This subsidiary was the first local cable manufacturer to have the capability to make high-voltage water-sealed power cables," he says.

According to H'ng, the group has RM700mil worth of cable orders to deliver next year. Monthly recurring orders normally make up half of the division's revenue.

"We want to grow the export sales of our cable and wire business, which currently contributes 30% of the cable business segment. There is opportunity to grow as there is increasing demand from the Middle Eastern markets," he says.

To stay competitive, H'ng says, the group manufactures its own copper and aluminium wires and rods from copper cathode and aluminium ingot sourced from overseas.

He explains: "Aluminium and copper are key raw materials as they constitute 80% to 90% of the raw materials used in manufacturing cables. We intend to grow further our capacity for producing copper and aluminium rods and wires."

"This will ensure that we continue to get a consistent supply of raw materials for our cable production. Apart from own consumption, we also sell the copper and aluminium rods and wires to other cable and

wire manufacturers, both locally and overseas."

For the first nine months of the 2007 fiscal year, the group posted RM50.6mil net profit on the back of RM2.1bil revenue, compared to RM26.6mil and RM1.7bil achieved in the previous year corresponding period.

For the third quarter ended September 2007, Leader Universal chalked up RM815.9mil sales, an 18.5% increase over the RM688.7mil recorded a year ago.

The improved numbers are largely due to an increase in cable and wire sales, the better cable product mix with higher margins, and the higher output of aluminium-based products.

"The operating profit increased by 44.3% to RM40.7mil from RM28.2mil achieved in last year's corresponding quarter as a result of our ongoing stringent and prudent procurement policy and improvements in production and operational efficiencies," says H'ng.

"Net profit rose by more than 100% to RM22.6mil from RM9.7mil achieved in the previous corresponding quarter."

Leader Universal has declared two interim dividends amounting to 3 sen per share less tax for the current financial year.

In a November report, OSK Research maintains a Buy recommendation for the stock, citing impressive numbers from the cable and wire division, the encouraging 9MP impact and the positive earnings potential from the power divisions.

The research outfit also upgraded its forecast for Leader Universal's 2007 net profit by almost 20% to RM61.7mil and 2008 net profit by 19.6% to RM71.2mil.

Stockbroking firm JF Apex Securities Bhd has also upgraded its forecast for Leader Universal's 2007 results following an upward revision for its cable and wire business segment. According to the report, the 2007 fiscal year results are expected to generate RM65.2mil net profit on the back of RM2.8bil turnover.

Standard & Poor's maintains a Strong Buy recommendation and has raised the 2007 and 2008 net profit forecasts by 6.7% and 3.8% respectively.