



# SARAWAK CABLE

(SCB.MK, SACB.KL)

9 August 2011

*Strong cables, solid lines*

**BUY**

(Initiation)

**Hoy Ken Mak**

mak-hoy-ken@ambankgroup.com

+603 2036 2294

*Rationale for report: Initiation*

Price	RM1.84
Fair Value	RM2.86
52-week High/Low	RM0.94/RM2.36

**Key Changes**

Fair value	initiation
EPS	initiation

YE to Dec	FY10	FY11F	FY12F	FY13F
Revenue (RMmil)	129.5	380.3	646.5	870.6
Net profit (RMmil)	5.5	21.4	45.1	64.6
EPS (Sen)*	4.1	14.1	29.7	42.6
EPS growth (%)	(46.1)	n/m	111.0	43.1
Consensus EPS (Sen)		n/a	n/a	n/a
DPS (Sen)	2.5	3.0	4.0	5.0
PE (x)	25.0	13.1	6.2	4.3
EV/EBITDA (x)	12.7	8.5	4.5	3.3
Div yield (%)	2.5	1.6	2.2	2.7
ROE (%)	5.2	13.5	22.7	25.1
Net Gearing (%)	Net Cash	7.7	16.6	16.0

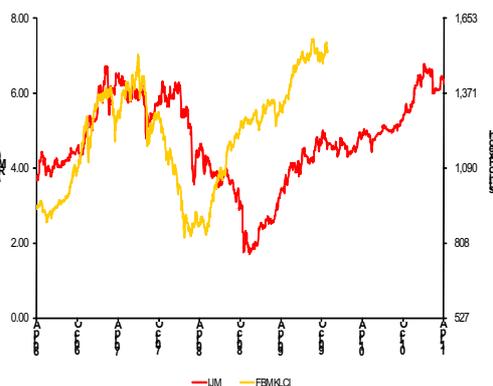
**Stock and Financial Data**

Shares Outstanding (million)	135
Market Cap (RMmil)	248.4
Book value (RM/share)	0.79
P/BV (x)	1.3
ROE (%)	5.2
Net Gearing (%)	Net Cash

Major Shareholders  
 SEB (21.6%)  
 Dato Sri Mahmud Abu Bekir Taib (19.3%)  
 Leader Universal (15.4%)

Free Float (%)	31.2
Avg Daily Value (RMmil)	1.6

Price performance	3mth	6mth	12mth
Absolute (%)	+61.5%	+52.2%	+122.2%
Relative (%)	-3.3%	+16.3%	+29.7%



PP 12247/06/2012(030106)

**Investment Highlights**

- We initiate coverage on Sarawak Cable Bhd (SCB) with a BUY on a sum-of-parts-based fair value of RM2.86/share. SCB is direct but deeply under-appreciated play on Sarawak Energy Bhd's (SEB) RM22bil capex programme.
- Firstly, SCB is the largest maker of power cables & wires in Sarawak – with a 33% share of the East Malaysian market in 2009.
- Secondly, the buying-up of Sarwaja Timur and strategic acquisition of Trenergy Infrastructure raises SCB's bargaining leverage when bidding for future contracts on a complete package. Such a move reinforces SCB's firm belief in the booming prospects of Sarawak's nascent power transmission line supply chain.
- Thirdly, the injection of Trenergy – at an implied PE of only 3x – is significantly value-accretive and would double SCB's orderbook to ~RM384mil. Trenergy is a specialist in transmission works and has undertaken several high-profile projects in Sarawak in recent years, including the ongoing 275kV Bakun-Samalaju line.
- Fourthly, SCB is fast emerging as the only local integrated power solutions provider – with supply & lay expertise for transmission lines of up to 500kV. The group secured its first major transmission contract – the RM99mil Murum-Murum Junction line in November 2010.
- Reflecting its deepening progression in Sarawak, SCB has also moved quickly by teaming up with leading power specialist ABB to bid for the Samajaya sub-station.
- Fifthly, SCB is solidly backed by strategic shareholders – SEB and the Leader group. It also has a strong technical partner in Austin Corp – which specialises in project management for power transmission lines.
- SCB's business model is highly scalable – with the FY10 average utilisation for its power & cables plant at only ~45%. Demand for its fabricated products is also bursting at the seams – prompting SCB to take delivery of new machinery costing ~RM1mil at the end of last month to cope with the current backlog of orders.
- SCB is on the cusp of an explosive earnings inflection point. With capex already frontloaded, earnings momentum is expected to accelerate further in the coming quarters following a 2.7x YoY jump in 1QFY11 net profit.
- The stock trades at alluring FY12F-13F PEs of 4x-6x vs robust three-year EPS CAGR of 118% and a strong balance sheet (FY11F net gearing: 0.1x). Underpinning our bullish view, we have assumed higher new contracts of RM300mil-RM800mil for FY11F-13F versus FY10's ~RM117mil).

## INVESTMENT SUMMARY

We initiate coverage on Sarawak Cables Bhd (SCB) with a sum-of-parts-derived fair value of **RM2.86/share**.

In our view, SCB represents a direct leverage to Sarawak Energy Bhd's (SEB) accelerated capex cycle of RM22bil over the next 10 years. We put forth five key reasons supporting our view:

- (1) SCB is the largest manufacturer of power cables & wires in Sarawak – garnering a 33% share of the East Malaysian market in 2009.
- (2) We view SCB's recent corporate manoeuvres as shrewd moves that would help solidify the group's growing prowess within Sarawak's expanding power footprint:
  - (a) **The buying-up of the balance 25% stake in Sarwaja Timur Sdn Bhd** from Austin Corp Malaysia Sdn Bhd (Austin) for RM11mil through the issuance of 5mil new SEB shares at RM2.12/share on 8 August. Sarwaja is seen as a strategic fit with SCB's core activities as a producer of power cables. Sarwaja is a leading fabricator and hot-dipped galvaniser (HDG) in Sarawak – with an annual capacity of ~8,128 tonnes.
  - (b) **The injection of transmission line specialist, Trenergy Infrastructure Sdn Bhd** – proposed on the same day as the Sarwaja announcement. The purchase consideration of RM24mil would be satisfied via the issuance of 12mil in new SCB shares at RM2.12/share. We believe the deal is significantly value-accretive – at an implied acquisition PE of only 3x.
  - (c) Just last month, SCB announced that it would team up with ABB to bid for the Samajaya substation.

**Poignantly, all of these game-changing moves provide a solid platform for the SCB group to competitively bid for future transmission projects in Sarawak on a complete package.**

- (3) SCB is fast emerging as the only local integrated power solutions provider – with supply & lay expertise for transmission systems of up to 500kV.

Reflecting its deepening progression in Sarawak, SCB has secured major overhead transmission contracts such as the supply of cables for the Bakun-Samalaju line and more recently, the construction and commissioning of the RM99mil Murum-Murum Junction line.

- (4) SCB is solidly backed by strategic shareholders (SEB and the Leader group). It also has a strong technical partner in Austin Corp – which specialises in project management for power transmission systems.

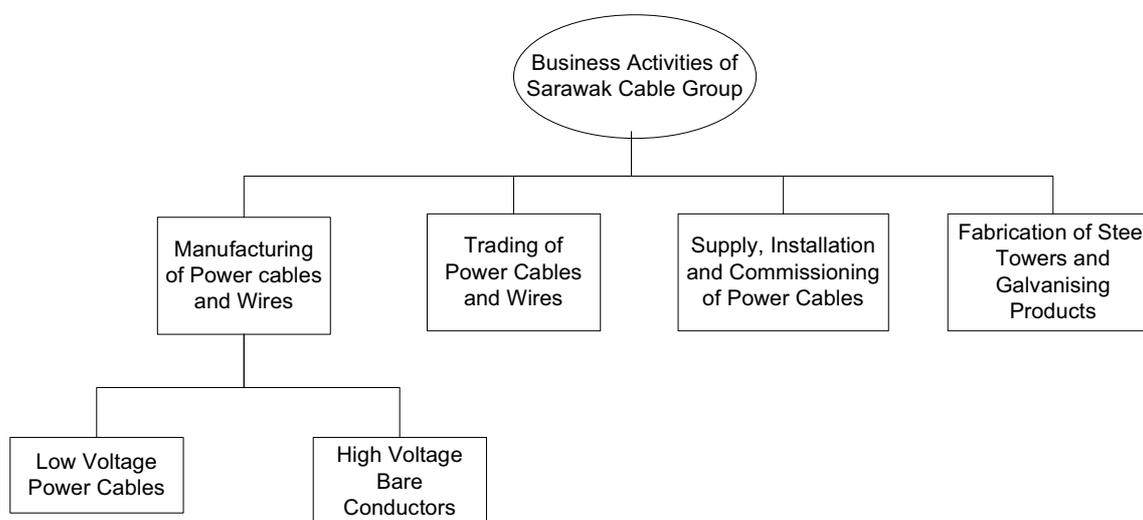
Fifthly, SCB's business model is highly scalable – with the FY10 average utilisation for its power & cables plant at only ~45%.

Demand for its fabricated products is also bursting at the seams. This has prompted SCB to take delivery of new machinery costing ~RM1mil by month-end to cope with the current backlog of orders.

SCB's orderbook replenishment prospects are highly encouraging. We highlight some of the group's potential contract flows in the near-term:

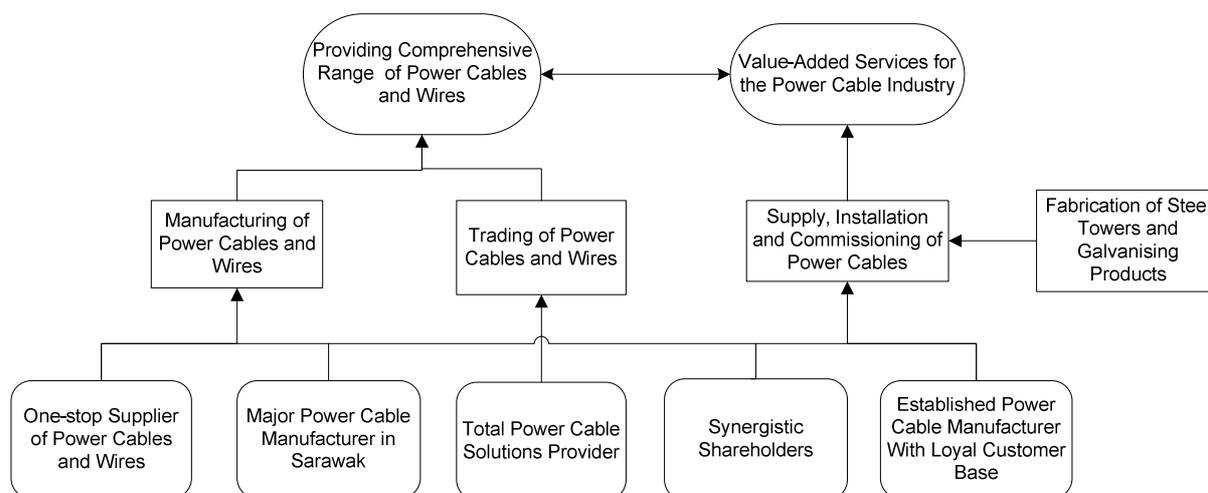
- (i) 500kV backbone line (spanning over 600km: Bintulu-Kuching);
- (ii) Multi-year orders from East Malaysia's rural electrification scheme (RES) programme – one of the Federal government's National Key Results Area (NKRA) targets;
- (iii) ASEAN inter-connection masterplan – involving the

## CHART 1: BUSINESS ACTIVITIES



Source: SCB, AmResearch

CHART 2: BUSINESS MODEL



Source: SCB, AmResearch

export of Sarawak's power to Indonesia, Brunei as well as neighbouring state, Sabah. The group is awaiting the results for the 40km transmission line linking Miri to north Brunei and the 275kV transmission line to West Kalimantan.

- (iv) Upgrading of existing transmission networks – including linkages to the proposed 500kV backbone line.
- (v) New opportunities in substation works – spearheaded via tie-ups with established foreign outfits (e.g. ABB).

SCB is on an accelerated growth path. With its capex spend already frontloaded, earnings momentum is expected to accelerate further in the coming quarters (1QFY11: +2.7x YoY at RM3mil, QoQ: +6%).

SCB is a deeply under-appreciated and under-researched play on SEB's massive RM22bil plan to upgrade Sarawak's power infrastructure.

The stock trades at compelling FY11F-13F PEs of 4x-6x against robust three-year EPS CAGR of 118% and strong balance sheet (FY11F net gearing of only 0.1x).

Underpinning our bullish view, we have assumed higher new contract assumptions of RM300mil-RM800mil for FY11F-13F against ~RM117mil secured in FY10.

## FAIR VALUE METHODOLOGY

We present below the basis for our fair value:

- (i) **Cable manufacturing division** – mainly held under its main unit - 100% owned subsidiary Universal Cable (Sarawak) Sdn Bhd [UCS]. We have applied a target PE of 5x to the division's average three-year manufacturing net profit (including minor contributions from trading activities).

This represents a discount to market leader Leader Universal Holdings Bhd's forward PE of 6x.

- (ii) **Fabrication division:** Valuations are arrived at after pegging a target PE of 11x to the division's average three-year earnings, mainly through 75%-owned Sarwaja.

This reflects Sarwaja's dominant position as a leading supplier of steel fabrication and HDG products for the power industry in Sarawak.

- (iii) **Engineering Procurement and Commissioning (EPC) division.** Likewise, we have ascribed a target PE of 12x in valuing the EPC-related projects that the group takes under its wings.

Our valuations are backed by SCB's growing prowess as an emerging power solutions provider. With both Sarwaja and Trenergy under its stable, SCB is able to offer turnkey solutions under one roof – i.e. supply, installation and commissioning of power transmission lines.

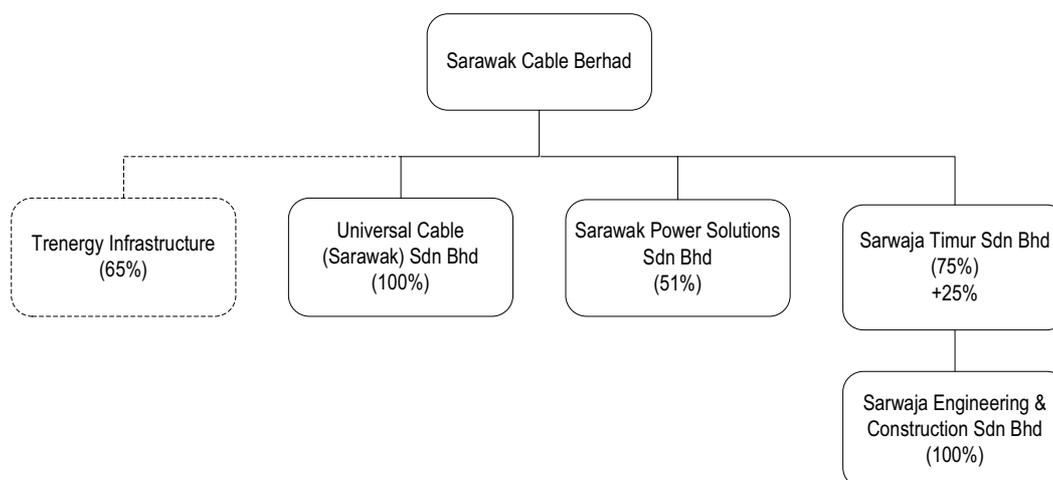
- (iv) **Net debt:** Based on SCB's FY11F net debt position of RM12mil.

**Going forward, we see a significant PE expansion upon stronger contract delivery – as the market gravitates towards identifying well-known proxies to ride on SEB's accelerated capex cycle.**

## MORPHING INTO AN INTEGRATED POWER PLAYER

**Barely months after its listing in June 2010, SCB has moved quickly to embark on an acquisition trail to position itself as an integrated power player within Sarawak. The latest being corporate proposals involving both Sarwaja and Trenergy.**

CHART 3: POTENTIAL ENLARGED GROUP STRUCTURE



Source: SCB, AmResearch

### (1) Sarwaja

#### □ Fabricating Sarawak's future

Earlier this week, SCB announced that it has proposed to buy-out the remaining 25% stake it does not own from Austin for RM11mil. The acquisition would be concluded via an issuance of 5mil new SCB shares at RM2.12/share.

Based on the acquisition price of RM29mil, the implied acquisition PE for Sarwaja is approximately 8x – based on the latter's audited net profit of RM5mil for the financial year ended 31 December 2010. We believe the valuations are fair, given Sarwaja's strategic importance to the SCB

group.

Sarwaja is one of Sarawak's leading fabricators. It manufactures an extensive range of products that are widely used by various industries, including the power sector.

These would include low/high-tension distribution steel poles, street lighting column & highway guardrails, structural steel, towers/poles, steel bridges and structural steel construction (including buildings).

Complementing the fabrication business is its HDG facility that has the capability to galvanise steel structures ranging

TABLE 1: DERIVATION OF FAIR VALUE

Division	Stake (%)	Value (RM mil)	Value (RM/share)	% of Basis	
Cables&Wires	100.0	77.7	0.5	17.9	5x PE on average three-year net profit
Galvanized steel & towers	100.0	73.7	0.5	17.0	11x PE on average three-year net profit
Project	various	294.8	1.9	67.9	12x PE on average three-year net profit
Net cash/(debt)		(12.1)	(0.1)	(2.8)	FY11F forecast
<b>SOP</b>		<b>434.1</b>	<b>2.86</b>	<b>100.0</b>	
No of shares (mil)		151.7			
<b>SOP/share (RM)</b>		<b>2.86</b>			
<b>Capital gain (%)</b>		<b>55.5</b>			
FY11F yield (%)		2.2			
<b>Total return (%)</b>		<b>57.7</b>			

Source: SCB, AmResearch

TABLE 2: PRODUCTION FACILITIES

Main Functions	Built-up Area (sq ft)	Address
Head office, manufacturing and warehousing	123,600	Lot 767, Block 8 Muara Tebas Land District Demak Laut Industrial Estate Phase III Jalan Bako 93050 Kuching Sarawak
UCS branch office and warehousing	2,100	Lot 35 Kolombong Light Industrial Ce 88450 Kota Kinabalu Sabah
Sarwaja Timur: Steel fabrication and galvanising plant	Total land area: 784,080 (18 acres)	Lot 342, Block 8, MTL D, Jalan Kampung Sejingkat, Off Jalan Bako 93050 Kuching

Source: Company

from a kettle size of 10 metres (long) x 1.5 metres (wide) x 2.5 metres (depth) to large steel sections of up to 17 metres in length.

The Sarwaja group's facilities are located on 794,080 sq ft of land (~18 acres) at Sejingkat – just a five minutes' drive away from SCB's main headquarters/manufacturing site in Kuching.

## (2) Trenergy

SCB sprung another pleasant surprise when it proposed to acquire a controlling stake in Trenergy on the same day of the Sarwaja announcement.

Trenergy is principally involved in the construction of power transmission lines and telecommunication towers.

Under the deal, SCB would purchase a 65% stake in Trenergy from Dato Sri Mahmud Abu Bekir Taib (45%) and Austin (20%). The Leader group – SCB's other major shareholder – would retain the balance 35% stake in Trenergy.

Total consideration paid by SCB is RM24mil – to be satisfied through the issuance of 12mil new SCB at RM2.12/share.

As Dato Sri Mahmud's effective stake – together with parties acting in concert (PACs) – would increase to 42% post-acquisition from 35% currently, they would collectively seek the Securities Commission's approval to exempt themselves from having to undertake a Mandatory General Offer (MGO) in the SCB group.

The entire corporate exercise should be completed by end-September.

**Taken together, we are positive about both deals on several counts:**

- (1) The inclusion of both Trenergy and Sarwaja would undoubtedly solidify SCB's rising status as an

integrated outfit – and improves its bargaining leverage when bidding for future contracts.

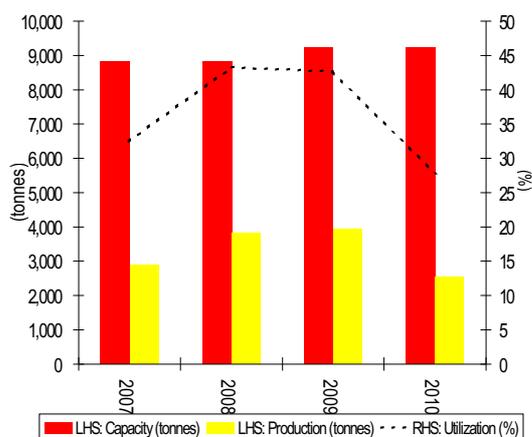
Such a move reinforces SCB's firm belief in the booming prospects of Sarawak's nascent power transmission supply chain, apart from plugging minority earnings leakages at Sarwaja level.

- (2) The injection of Trenergy paves the way for SCB to gain an immediate foothold in the power transmission industry. Via Trenergy – and to a lesser extent, Sarwaja's wholly owned unit Sarwaja Engineering & Construction Sdn Bhd – SCB would immediately possess the necessary expertise in construction & commissioning works for power transmission lines.
- (3) The acquisition of Trenergy is significantly value-accretive – at an implied acquisition PE of only 3x based on Trenergy's audited net profit of RM1.1mil for the financial year ended 31 December 2010.
- (4) Together with the 100% consolidation of Sarwaja, we estimate that SCB's FY12F net profit would rise to RM45mil or +112% YoY – with the filtering through of full-year contributions from the Trenergy group.
- (5) We estimate that the SCB group's outstanding orderbook would double to RM384mil – after the inclusion of ongoing projects under Trenergy.
- (6) As a former unit of SEB, Sarwaja has over the years established itself as a major supplier of fabricated steel and HDG products for Sarawak's power industry.
- (7) Multiple synergies could be further enhanced, as both parties already enjoy a healthy working relationship with SCB as well as with each other:
  - Trenergy has been roped-in as a contractor for its ongoing 275kV Murum-Murum Junction transmission line – while Sarwaja would supply steel towers & stubs for the project.
  - Sarwaja is also major customer of SCB's aluminium/aluminium alloy power cables & wires. These would include the supply of Aluminium Conductors Steel Reinforced (ACSR) for the 275kV Engkilili-Entinggan overhead transmission project.
  - On the other hand, Trenergy actively sources for transmission steel towers, poles and high/low tension galvanised steel structures from Sarwaja for the construction of power transmission and distribution lines.

## STEALING A MARCH ON ITS RIVALS

**We believe SCB represents a direct play on the Sarawak government's renewed push to develop its massive renewable energy potential under SCORE. Here, we put forth several key factors supporting our view:**

CHART 4: OPERATING STATISTICS - CABLES &amp; WIRES



Source: SCB, AmResearch

#### □ Integrated power solutions provider

In the previous section, we had highlighted that one of SCB's key value propositions is its ability to offer a full range of services within the entire power transmission line supply chain.

SCB's integrated approach enables the group to be highly competitive when bidding for contracts under a complete package – i.e. on a supply & lay basis.

Prior to this, SCB's share of the Sarawak transmission line market was largely confined to the supply of power cables & wires.

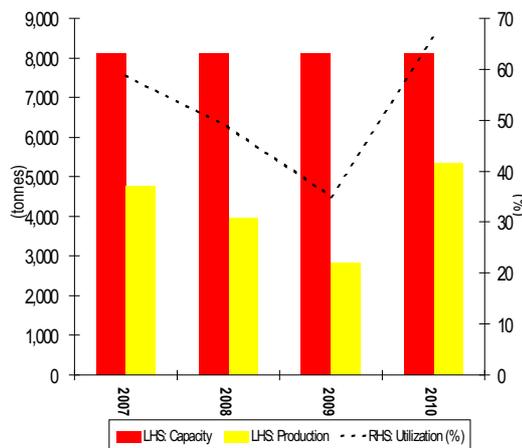
It did undertake several smaller turnkey projects for the supply, installation and commissioning of cables/circuits for Syarikat SESCO Sdn Bhd – a wholly-owned subsidiary of SEB. These included:

- Double Circuit 48MVA 33kV systems for Salim 132kV substation to Alan Road 33kV substation Sibul (2002);
- 33kV underground cable linking Sejingkat 132kV to Sejingkat substation & Port Senari substation (2002);
- Cable laying works from 33kV Astana substation to Santubong (2002);
- Turnkey underground cable laying project from Matang 275/132/33kV substation to Samariang new township 33/11kV substation (2003);
- Supply and installation of submarine cables for Simunjan and Igan (2006); and
- Supply, installation and commissioning of cables & circuits across the Baram River at Marudi.

**Fast-forward to today, SCB is now able to extend its range of services with both Sarwaja and Trenergy under its stable.**

Sarwaja manufactures an extensive range of fabricated products used for power transmission lines (e.g. steel

CHART 5: OPERATING STATISTICS – FABRICATION



Source: SCB, AmResearch

poles, transmission towers, testing towers) and substations.

In addition, Sarwaja's steel poles are much sought after for rural electricity projects – for which the group is one of the largest fabricators and HDG operators in the state.

On the other hand, Trenergy is a fast-emerging transmission line specialist capable of supplying, laying, constructing and commissioning transmission lines of up to 500kV.

Since its incorporation back in 1996, the group has secured over RM1bil worth of contracts.

Trenergy has taken on several high-profile jobs in Sarawak – including the Bakun-Samalaju 275kV overhead transmission line, where the Naim-Sinohydro JV is the main contractor.

Apart from Sarawak, Trenergy is also involved in several ongoing projects in Peninsular Malaysia. These include the 275/132kV double circuit into PMU Mahkota Cheras (RM96mil), 275kV Ulu Jelai Overhead transmission line (RM40mil) and 275kV double circuit line PMU Cahaya Baru to Bahru Stainless substation (RM18mil).

In recognition of its growing prowess, Trenergy has since successfully renewed and upgraded its registration with Pusat Khidmat Kontraktor (PKK) and Construction Industry Development Board (CIDB) to Class 1 and Grade 7 respectively.

**As testament to the group's deepening progression, SCB had successfully tendered for the RM99mil Murum-Murum Junction contract in November 2010 – the first and largest major transmission line project it has secured on its own.**

The contract was clinched via a JV between UCS and Sinohydro. Scope of works include the design, supply, delivery, erection & commissioning of the 275kV power line for SEB's proposed Murum Dam that would eventually link up to the Sarawak state's grid.

TABLE 3: PROJECTS CURRENTLY IMPLEMENTED BY TISB

Projects	Client	Location	Contract value (RM mil)	Commencement date	Completion date
Mahkota Cheras project: 275/132kV double circuit loop in/out into Mahkota Cheras substation from existing line at Bandar Tun Razak-Serdang/Balakong	TNB	Kuala Lumpur/Selangor	95.6	17-Oct-08	29-Feb-12
Bakun Package B project: 275kV overhead transmission line for Bakun-Similajau transmission system	Sarawak Energy	Sarawak	195.5	4-Jan-10	3-Jan-12
Murum-Murum junction project: 275kV transmission line	Sarawak Energy	Sarawak	93.7	15-Nov-10	14-Jun-12
Kemantan-Kapit project: 132kV transmission line	Sarawak Energy	Sarawak	109.6	11-Oct-10	30-Jun-11
Cahaya Baru project: 275kV double circuit overhead line from Cahaya Baru substation to Bahru Stainless substation	TNB	Johor	18.1	4-Jul-11	3-Jan-13
Ulu Jelai project: 275kV overhead line from point A to Ulu Jelai temporary-mainhead B	TNB	Pahang	39.6	3-Aug-11	2-Jun-12

Source: Bursa Announcement

At the same time, SEB has also awarded UCS with a related cable supply contract worth RM19mil for this project.

#### □ *Leadings supplier of power cables in Sarawak*

Via UCS, SCB holds a duopolistic stranglehold in the supply of power cables in Sarawak.

Based on market research by independent researcher Vital Factor, SCB was ranked first in Sarawak based on revenue in 2009. During the same period, UCS garnered 33% of the estimated market size of the power & cables industry in East Malaysia worth RM272mil.

#### □ *Highly scalable model*

##### (1) Power cables & wires division

SCB's power cables & wires products can be generally broken down into two major segments - i.e. low voltage and high voltage bare conductors.

The group is currently embarking on an expansion of its manufacturing facility. When completed, this would result in a near 47% increase in its annual capacity to 12,963 tonnes from 8,829 tonnes previously.

The investments – mainly in additional machinery and equipment – involve a total outlay of RM3.5mil that was raised via its IPO back in May 2010.

In line with its expansion plans, SCB has also introduced two new products – low voltage aerial bundled cables and low voltage two-core twisted cables.

**More importantly, we reckon that SCB's business model is highly scalable, supplemented by the introduction of new products.**

**With its FY10 average utilisation rate at only ~45% currently, we believe SCB has significant scope to ramp-up production ahead of an imminent re-acceleration of power transmission projects.**

##### (2) Fabrication division

Since SCB took over the reigns of Sarwaja in October last year, management has instituted some positive changes to strengthen its new unit.

These changes involve a minimal outlay of capital, and instead centre on operational efficiencies. Apart from strengthening the day-to-day running of Sarwaja's plant, the group has tripled its number of shifts of eight-hourly each.

On top of that, our recent conversation with management indicated that there has been a marked increase in demand for its street poles arising from Sarawak's RES initiatives to improve electricity coverage within rural areas.

#### □ *Solid backing from strategic shareholders, partners*

Augmenting SCB's rising profile within Sarawak's expanding power landscape is the solid backing of its strategic shareholders and partners.

TABLE 4: PROJECTS RECENTLY COMPLETED BY TISB

Projects	Client	Location	Contract value (RM million)
Olak Lampit project: 275kV transmission line from Tuanku Jaafar power station to Olak Lampit substation	TNB	Selangor/Negeri Sembilan	72.7
Selangau Mukah project: 132kV transmission line	Syarikat SESCO Berhad	Sarawak	70.7
Sabah East-West grid interconnection project: 275 kV double circuit transmission line from Telupid to Sime Darby substation	Sabah Electricity Sdn Bhd	Sabah	52.1
Bakun Package A project: 275kV overhead transmission line for Bakun Similajau transmission system	Sarawak Energy	Sarawak	214.1

Source: Bursa Announcement

### (1) SEB

SEB, SCB's major shareholder, is a state-owned utility monopoly. Together with its subsidiaries, SEB supplies electricity to the entire state of Sarawak.

Specifically, SEB is responsible for the procurement and development of power infrastructure from electricity generation plant-up right up to the last mile hook-up (i.e. end-users).

This creates a space for synergies, as SEB and its unit SESCO are major buyers of SCB's power cables – accounting for 5% of the group's total revenue in FY09.

### (2) Leader Universal

Another major shareholder, Leader – through its subsidiaries Universal Cable (M) Sdn Bhd [UCM] and Alpha Industries – has over the years, provided a steady source of supply to complement SCB's product range of power cables & wires.

Leader has two representatives that sit on the board of SCB – i.e. Dato' Seri H'ng Bok San and Mr. Kon Ted Liuk (alternative director to Dato' Seri H'ng).

Noteworthy is the fact that Leader is the largest manufacturer of power cables & wires in ASEAN, and by extension, Malaysia.

Along with SEB, Leader formed part of the original shareholders of UCS.

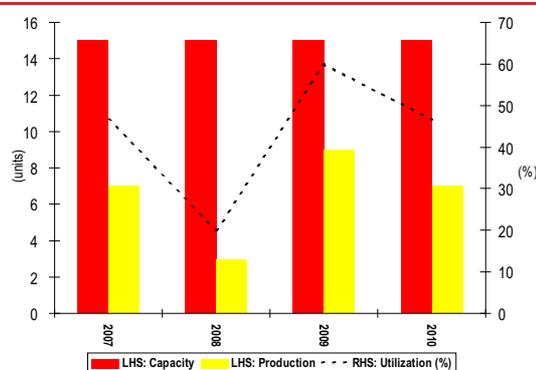
Leader was instrumental in providing technical as well as other operational support during UCS' formative years.

Flipside, Leader has also successfully teamed up with SCB to clinch a number of contracts. The latest major contract is the supply package for the Bakun-Samalaju overhead transmission project.

Under the deal signed in November 2008, Leader's unit UCM awarded the conductor portion of the contract to UCS – i.e. for the manufacture & supply of high voltage bare conductors.

### (3) Austin

CHART 6: OPERATING STATISTICS – TESTING TOWERS



Source: SCB, AmResearch

SCB has been engaging Austin's extensive experience in providing project management services for its power transmission contracts.

This is crucial in mitigating execution risk – especially for overhead transmission systems that sometimes have to negotiate rough weather or hilly terrains.

This healthy relationship is set to solidify further via Austin's potential emergence as a shareholder in SCB. This could materialise soon – as Austin's disposal of its existing stakes in Trenergy (20%) and Sarwaja (25%) to SCB could result in the former ending up with a direct 6% stake in SCB.

**Stacking it up, SCB's holistic approach with strong backing from its shareholders and partners – enables the group to remain ahead of its competitors when bidding for transmission projects.**

Due to the lack of local expertise, we understand that its main rivals in Sarawak are usually foreign engineering outfits from Japan, China as well as Europe.

Apart from its dominant position as the largest cables & wires supplier in Sarawak, SCB maintains an edge in sourcing local steel plates at far more competitive prices compared to its foreign rivals that have to pay duties for the same amount of materials.

In addition, we do not preclude the possibility of SCB expanding its repertoire of skill-sets to include the construction of sub-stations via partnerships with select foreign experts (e.g. the newly-minted SCB-ABB Malaysia Sdn Bhd JV that is bidding for the Samalaju sub-station contract).

## SCORE: HARNESSING SARAWAK'S DEEP HYDRO POTENTIAL

### □ *Bakun to supercharge development of Sarawak's power landscape*

On 2 June, 2011 SEB signed a Power Purchase Agreement (PPA) with federal-backed Sarawak Hidro Sdn Bhd – the owner and operator of the Bakun Hydroelectric Dam. SEB is to pay Sarawak Hidro 6.25 sen/kWh at an escalating rate of 1.5% p.a.

As highlighted earlier, state-backed SEB plays a crucial role in the development of Sarawak's nascent power infrastructure network.

SEB has a monopolistic hold on the entire power supply chain within the entire state of Sarawak. Via SESCO, SEB is involved in power generation, transmission, distribution as well as sale of electricity for the whole of Sarawak.

**In our view, the landmark PPA between SEB and Sarawak Hidro could be a precursor of more things to come.**

In early June, the Sarawak government had successfully initiated the first trial run of the RM7bil Bakun Dam after resolving the long-standing impasse over tariffs.

SEB is now set to fire the first of eight turbines of 300MW

each at the dam on August 6. Thereafter, the remaining seven turbines would be commissioned within a three-month interval until it is fully commissioned by mid-2013.

The 2,400MW Bakun Dam is the largest hydropower dam within ASEAN. It also earns the distinction as the world's second tallest rock-filled dam.

As construction of the dam started in 2006, the cost of constructing Bakun Dam is cheaper at around US\$1mil/MW against projected cost of US\$2mil/MW to US\$3mil for future hydro projects.

**Indeed, Bakun Dam is central to the Sarawak government's aim to market SCORE as a prime investment destination.**

**A main draw card of SCORE is its ability to offer attractive and sustainable hydro energy on a long-term basis to various energy-intensive industries.**

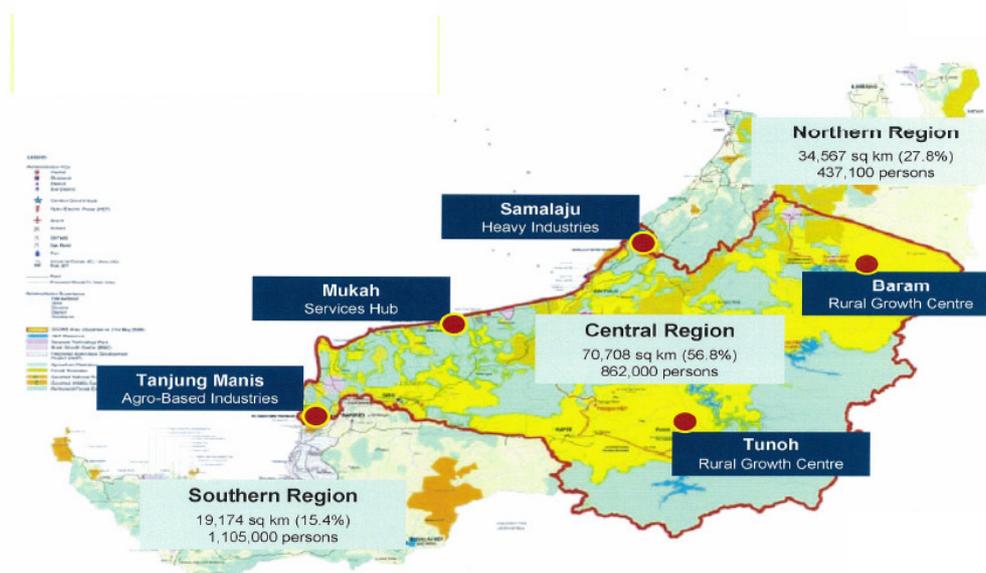
With its imminent debut, Bakun Dam is to supply power through a dedicated substation that can handle up to 4,000MW. This will eventually be linked up to the heavy industries situated at an industrial park in Samalaju – one of the five major growth nodes within SCORE.

Equally, we believe the commercialisation of Bakun would enable SEB to competitively repackage its bundled PPA packages at attractive rates.

Therefore, we reckon the attractive base power tariff of 6.25 sen/kWh that SEB has secured from Sarawak Hidro for Bakun power would translate into a significant reduction in its overall generation cost.

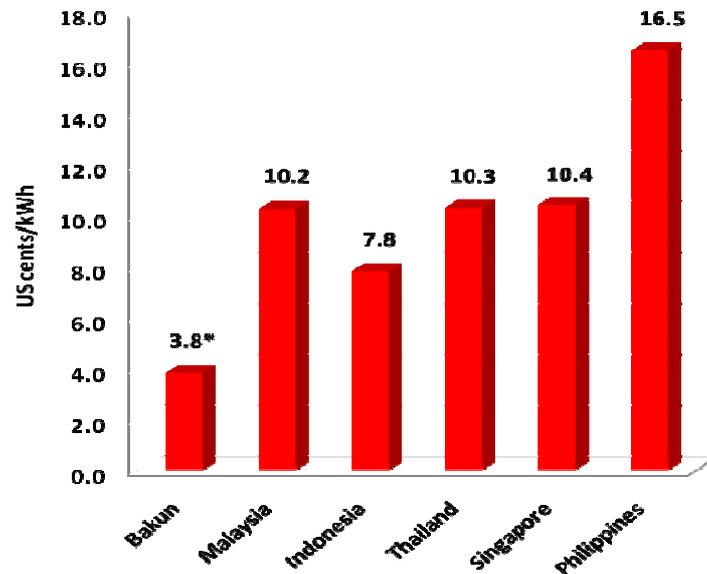
**Via a competitive cost base, our channel checks**

PICTURE 1: FIVE MAJOR GROWTH NODES OF SCORE



Source: Sarawak government, AmResearch

CHART 7: BAKUN – CHEAPEST ELECTRICITY TARIFFS WITHIN ASEAN



Source: Bloomberg, AmResearch\* /Based on AmResearch estimate of 11.5 sen/kWh

indicate that SEB is looking at selling power to the first batch of SCORE investors at 11 sen/kWh to 12 sen/kWh (~US\$0.037 sen to US\$0.04/kWh) [See Chart 8].

They are expected to commence operations at the 6,000ha Samalaju Industrial Park between 3Q 2012 and 2013.

□ *SEB's massive plant-up programme – 7,000MW by 2020*

According to SEB's original masterplan, Sarawak has the potential to harness up to 28,000MW of its energy potential – with hydropower resources accounting for 71% (or 20,000MW).

Apart from Bakun, SEB is in the midst of constructing the 944MW Murum Dam - now about 44% completed. Both plants combined are expected to boost Sarawak's new hydro capacity to ~3,444MW.

SEB had in April signed separate PPA term sheets with a group of four investors for potential supply of long-term power of ~1,300MW. They are Press Metal Bhd, Tokuyama of Japan, Asia Minerals Ltd and OM Materials Ltd (a unit of Australia's OM Holdings Ltd).

Furthermore, SEB was believed to have been in advanced negotiations with other potential investors for another 400MW-500MW of electricity needs.

During the same month, Gulf International Investment Group (GIIG) and Aluminium Corp of China (Chalco) inked an MoU to jointly-develop a US\$1.6bil aluminium smelter in Samalaju.

The market was subsequently abuzz with news of another mega investment in SCORE – this time an RM18bil proposal between 1Malaysia Development Bhd (1MDB)

and Abu Dhabi's Mubadala Group to develop an integrated aluminium facility in Sarawak.

Just last month, Indonesia became the fifth official signatory that has committed to a PPA term sheet with SEB for supply of up to 230MW of electricity to West Kalimantan by mid-2014.

**Taken together, we estimate that this pioneer group of investors have committed to ~1,530MW or roughly 86% of the firm capacity of 1,771MW for Bakun Dam.**

On the other hand, Sarawak can only count on Bakun and Murum for fresh supply of hydropower over the next three years – in the absence of any new plants.

**Poignantly, a key takeaway from a presentation by SEB that we hosted last month is that demand for power within SCORE has already exceeded what SEB is able to supply at this juncture.**

To be sure, the number of potential investors that SEB is in discussions with has since risen to 25 from 16 back in April 2011.

TABLE 5: ALUMINIUM SMELTER PROPOSALS IN SCORE

Smelter	Area	Owner	Annual Capacity (tonnes p.a.)	Est.Power offtake (MW)	Est. starting PPA rate (sen/KwH)	Capex (US\$mil)	Status
(1) Press Metal							
- Press Metal Mukah	Mukah	Press Metal - 80% Sumitomo - 20% <sup>1</sup>	Phase 1: 120,000	Up to 680: Phase 1: 200 Phase 2: 480	11-12	900 Phase 1: 300 Phase 2: 600	- Fully operational by 2011. - Phase 2A: To be commissioned by 3Q12 - Phase 2B: To be commissioned by 2Q13
- Press Metal Sarawak	Similajau	Press Metal - 100%	Phase 2: 240,000		11-12		- Signed PPA term sheet with SESCO in late-April 2011. Final negotiations to be completed by July-2011.
(2) Smelter Asia Sdn Bhd	Similajau	GIIG-Chalco JV <sup>2</sup>	Initial: 370,000 Up to 700,000	Initial: 600	11-12	1,500	- Construction to start in 2H 2011. Production to commence in 1H 2015. - Signed PPA term sheet with SESCO in late-April 2011. Final negotiations to be completed by July-2011.
(3) Sarawak Aluminium Company Sdn Bhd (SALCO)	Similajau	Rio Tinto Alcan-CMS JV <sup>3</sup>	Initial: 720,000 tonnes Up to: 1.5 million tonnes	Initial: 900MW-1200MW	11-12	2,000	- Construction period: two to three years
(4) Sarawak Aluminium	Sarawak	1MDB-SGCC JV <sup>4</sup>	n/a	n/a	n/a	n/a	Part of US\$11bil co-operation framework to invest in the energy sector in Sarawak signed in January 2010. Includes the construction of three hydro dams and an aluminium smelter.
(5) 1MDB-Mubadala JV	Sarawak	(5) 1MDB-Mubadala JV	n/a	n/a	n/a	18,000	Aluminium smelter - RM12.7bil Downstream operations - RM5bil

Notes: <sup>1</sup> Sumitomo has the option to invest in 20% of both Phases 1 & 2 of Press Metal's smelting capacity in Sarawak (with the option for another 5%). The investments also correspond to an offtake of equal amounts in smelting capacity.

<sup>2</sup> Gulf International Investment Group Holdings Sdn Bhd (GIIG): A JV between Tan Sri Syed Mokhtar Al-Bukhary and prominent UAE-based businessman, Mohamed Ali Rashed Alabbar. Chalco (Aluminium Corp of China)

<sup>3</sup> Rio Tinto Alcan is the aluminium product group of the Rio Tinto Group.

<sup>4</sup> SGCC: State Grid Corp of China - China's leading transmission and distribution company.

Source: Various, AmResearch

With the first batch of industries due to kick-off operations at Samalaju by the third quarter of next year, rising demand for power may prompt the Sarawak government to expedite the roll-out of more hydro dam projects.

**Top of the agenda is the construction of five more hydro dams as well as one or two other coal-fired power plants.**

SEB had previously initiated feasibility studies on other potential hydro dams apart from the two mentioned above. They are:

- Baram 1 (1,200MW)
- Baram 3 (300MW)
- Linau (297MW)
- Belepeh (114MW)
- Pelagus (411MW)

- Baleh (1,300MW)
- Limbang 1 & 2 (245MW)
- Lawas (87MW)

Our channel checks indicate that SEB has lined up a couple of new plant-up programmes to boost its generation capacity to ~7,000MW by 2020 from the existing capacity of 1,328MW.

This follows reports last July indicating that SEB is close to making a final decision on investment in a new 600MW coal-fired plant in Balingan, Mukah division. The plan is scheduled for completion by 2015.

**Based on SEB's current estimates, hydropower would constitute roughly 69% of Sarawak's generation mix by 2020.**

On top of that, the Sarawak government is also busy putting in place all the necessary logistics to support these massive investments.

TABLE 6: OTHER MAJOR SCORE PROPOSALS

Industry	Owner/s	Capex (RM mil)	Location	Production p.a. (tonnes)	Targeted		Notes
					Construction	Operation	
Polycrystalline silicon for solar panels	Tokuyama Corp. (Japan) - 100% <sup>1</sup>	2,388	Similajau	Phase 1: 6,200 Phase 2: 13,800	1Q11 2Q12	2Q13 1Q15	Groundbreaking on February 2011. Main contractor: Chiyoda Corp. Total investments may reach RM5bil
Zinc electro refinery plant <sup>2</sup>	Bintulu Development Authority ZincOx Resources Plc (England)	11,900	Bintulu	300000 of zinc	n.a.	n.a.	n/a
Acacell pulp mill project	Acacia Cellulose International Sdn Bhd Sarawak Planted Forest Sdn Bhd	n/a	Bintulu	750,000 of Bleached Acacia Kraft Pulp	n/a	n/a	3.2 million cu m of pulpwood to Accacell. Entire project are: 800ha in Tatau - for the pulp & paper industry.
Multi-feedstock biodiesel plant, feedstock plantation and associated clean development mechanism projects <sup>3</sup>	Carbon Capital Corporation Sdn Bhd -51% Carbon Mercantile Co Ltd (Japan) - 49%	924	Tg Manis	240,000	n/a	n/a	For renewable bio-fuel and energy projects within SCORE.
Integrated aquaculture project	Konsortium Galdasar Sdn Bhd Yuh Yow Fisheries (Taiwan)	100	Tg Manis	n/a	n/a	n/a	To be developed on 800 ha of land in Tg. Manis. Includes the setting up of a hatchery, production centre, R&D centre, processing of aquaculture produce and marketing.
Deep sea shipbuilding	Konsortium Galdasar Sdn Bhd Shei Chui Oceanic Enterprise Co Ltd (Taiwan)	40	Tg Manis	n/a	n/a	n/a	Shipbuilding projects in Tg. Manis, the building of tuna and deep sea fishing vessels, repair & maintenance.
ASSAR Senari Biofuels Complex Dua Fac	Assar Senari	n/a	Tg Manis	n/a	n/a	n/a	Supply of biodiesel from the Senari Biodiesels plant to the central Sarawak region.
Fully integrated steel cluster <sup>4</sup>	CMS MMC Corp Pan Kingdom Investment Co	4500	n/a	n/a	n/a	n/a	Includes a palletising plant, direct reduction plant, melt shop, slab, bloom, billet casters and rolling mill.
Portland cement plant	n/a	736	Kuching	n/a	n/a	n/a	n/a.
Aluminium and glass substrates plant	n/a	160	Kuching				Muara Tabuan Free Trade Zone.
Organic compost fertiliser	n/a	123	Miri	n/a	n/a	n/a	n/a.

Notes: <sup>1</sup> Total capex outlay as at August 2009: \$65 billion (Total RM5.5bil according to MIDA)

<sup>2</sup> Planned outlay US\$350mil as at March 2008

<sup>3</sup> Planned outlay: US\$308mil as at March 2008

<sup>4</sup> Planned outlay: US\$1.5bil as at March 2008.

Source: Various, AmResearch

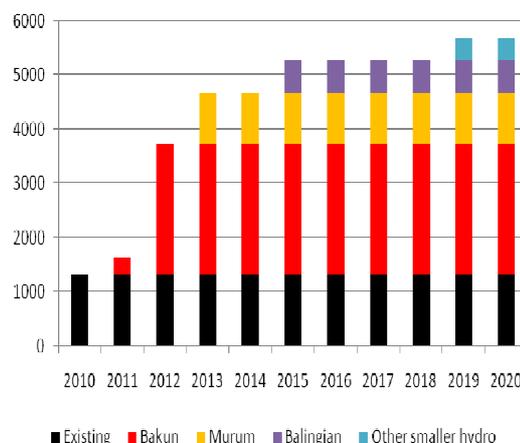
Bintulu Port Holdings Bhd (BPHB) is pushing through its agenda to develop a new port at Samalaju – some 60km away from Bintulu town – where the main thrust of SCORE's energy-intensive industries will be located.

An independent report by PriceWaterhouseCoopers (PWC) on the viability of the new port was to have been completed last month.

If approved, BPHB would likely be given the mandate to build, own and operate the Samalaju Port on 450ha of land.

From our channel checks, the entire capex programme could reach RM1.2bil – although we are unsure if this includes allocations for future movable assets (e.g. rubber tyre gantry cranes [RTGs], tugboats). Should construction work proceed by year-end, we expect the port to be ready by 2014.

CHART 8 : PART OF SEB'S NEW PLANT-UP TARGET BY 2015



Source: Sarawak government, AmResearch

TABLE 7: SARAWAK'S CURRENT GENERATION MIX

Type	Location	Capacity (MW)
Gas combined cycle	Tg. Kidurong, Bintulu	317
Coal	Kg. Goebilt, Kuching	100
Coal	Kg. Goebilt, Kuching	110
Coal	Matadeng, Mukah	270
Hydro	Batang Ai	94
Gas	Bintulu	192
Gas	Miri	79
Diesel	Sg. Biawak	114
Hydro	Lundu, Penindin, Sebako, Sg. Pasir	2
Diesel/Hydro	Non-grid	50
<b>Total</b>		<b>1,328</b>

Source: Sarawak government, AmResearch

## DIRECT PLAY ON SARAWAK'S EXPANDING POWER FOOTPRINT

### □ 'Blue ocean' growth potential

Post-Sarawak state elections, we detect a renewed urgency among the Sarawak government to put in place a strong power network to support SCORE's massive development potential.

Sarawak is at the early stages of an infrastructure super-cycle – underpinned by a rising proliferation of mega investments that are fast taking shape within SCORE.

**To be sure, SEB is currently embarking on a massive RM22bil fund raising programme to accelerate the development of Sarawak's fledgling power infrastructure over the next 10 years.**

Out of this total, SEB is set to raise ~RM15bil through its Sukuk Musyarakah programme.

**We gather that part of this allocation would be used to upgrade its transmission system and associated components (e.g. substations, testing towers, street poles).**

By and large, the need to expand and strengthen Sarawak's nascent power infrastructure is obvious.

Firstly, Sarawak requires a strong system that can sustain the huge power loads that are expected to come on-stream. It serves as an enabler to connect electricity supply from the energy sites within SCORE to end-users.

Secondly, the establishment of a solid transmission network is vital to ensure a sustainable and consistent supply of power to the various energy intensive industries – especially within Samalaju. This is crucial, as losses from power outages can run into millions of ringgit per day – especially for energy-guzzling users.

At the moment, average power consumption in Sarawak is approximately 6,000gWh. The split between domestic and commercial/industrial users is roughly 80:20.

Based on SEB's projections, Sarawak is expected to generate between 30,000gWh and 50,000gWh of new capacity over the next 10 years under its aggressive plant-

TABLE 8: PLANNED FUTURE GENERATION CAPACITY IN SARAWAK BY 2020

Dam Projects	Capacity (MW)	Type	Status
Bakun	2,400	Hydro	Completed
Baleh	1,300	Hydro	Feasibility studies
Baram 1	1,200	Hydro	Feasibility studies
Murum	944	Hydro	Ongoing
Balingan, Mukah	600	Coal	Awaiting final decision
Pelagus	411	Hydro	Feasibility studies
Baram 3	300	Hydro	Feasibility studies
Linau	297	Hydro	Feasibility studies
Limbang 1 & 2	245	Hydro	Feasibility studies
Belepeh	114	Hydro	Feasibility studies
Lawas	87	Hydro	Feasibility studies
<b>Total</b>	<b>7,898</b>		

Source: Sarawak government, AmResearch

up programme. Customers within SCORE are expected to take up 90% of this new capacity.

With the imminent arrival of new industrial load in Samalaju, power demand in Sarawak is expected to register a four-fold increase by 2020.

Stacking it up, power consumption in Sarawak is expected to grow at an average of 6% between 2011 and 2015, and 4%-5% in 2016-2020.

Most importantly, the SCORE magnate is likely to trigger a multi-year re-rating for companies that are leveraged to SEB's accelerated capex cycle.

**This is where we believe SCB would emerge as a main beneficiary – given its strategic positioning within Sarawak's power industry that is solidified by a strong parent and strategic partners.**

**Here, we highlight key areas that will likely support our bullish conviction on SCB's contract flows going forward:**

### □ Upgrading of existing 275kV power transmission systems

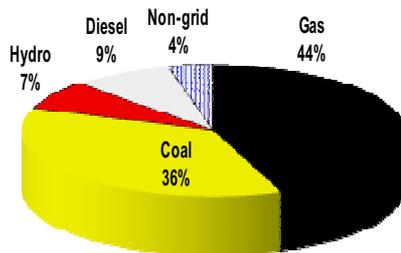
Presently, Sarawak is connected to a 275kV transmission line system linking more than 500,000 customers. Going forward, we understand that SEB is planning to raise up to RM22bil to improve its power infrastructure.

Part of this amount would be used to expand and strengthen its existing 275kV network – as well as other smaller systems (e.g. 132kv/33kv/1kv)

This would include the construction of new transmission systems that would eventually tap into a new 500kV 'backbone'. Such a move would provide a solid base for the transfer of power loads from power stations into the state grid.

Also, the transmission system would be routed within designated land corridors that are strategically located to ensure:

CHART 9: SARAWAK'S CURRENT GENERATION MIX



Source: Sarawak government, AmResearch

- Future transmission systems can be developed in an orderly manner; and
- Maximum transmission efficiency of bulk generation to the load centres can be achieved.

For a start, SEB is the midst of constructing two new transmission systems that would be deployed within SCORE

#### (1) Bakun-Samalaju line (275kV)

Back in January 2010, Naim announced that the group had secured a 275kV overhead transmission line under the Bakun-Samalaju transmission system (Package B).

The contract worth RM209mil with SEB was awarded to the Naim-Sinohydro JV on a 40:60 basis over a two-year period.

Briefly, the Bakun-Samalaju transmission system can be broken down into two packages – i.e. A and B – that runs parallel to each other.

Both the transmission lines are linked to the Bakun switchyard, which is then connected to the Bakun Power House.

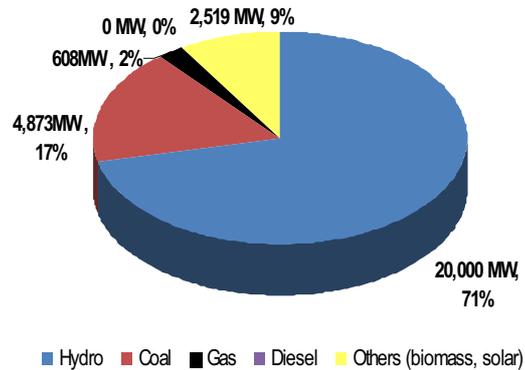
The scope of work includes the building of transmission lines, as well as overhead towers and cables.

Construction works for Package A kicked-off in September 2008. Sinohydro Corp Sdn Bhd – a local unit of Beijing-based hydropower engineering and construction company Sinohydro Corp – was its main contractor. Interestingly, Trenergy was appointed as the project's main sub-contractor.

Package A consists of two main lines measuring a total of 135km. The first 110km Line 1 links Bakun Dam to a sub-station located nearby the junction of Bakun Road-Bintulu/Miri Road.

The remaining 25km under Line 2 links the sub-station to Samalaju Industrial Park.

CHART 10: SARAWAK'S LONG-TERM GENERATION MIX



Source: Sarawak government, AmResearch

Both the lines under Package A provide electricity to run the Bakun dam. The project was completed last July – roughly two months ahead of schedule.

As for Package B (139km), construction work on the 118km-long transmission line commenced early last year ahead of its targeted commissioning in January 2012.

Our ground checks indicate that Trenergy is also involved in sub-contracting work after helping Sinohydro complete the job on Package A. Work progress for Package B has since crossed the 90% mark.

This major transmission line forms part of Sarawak's grid – where the bulk of its power would be used for energy-intensive industries operating within Samalaju Industrial Park.

These industries would receive their respective electricity supply from a proposed Samalaju sub-station – to be completed by June next year.

#### (2) Murum-Murum Junction (275kV).

The contract to build the 275kV line was awarded in November 2010 to a joint venture between UCS and Sinohydro.

UCS is a wholly owned subsidiary of SCB. Total contract value is estimated at RM99mil and is to be completed by 3Q 2012.

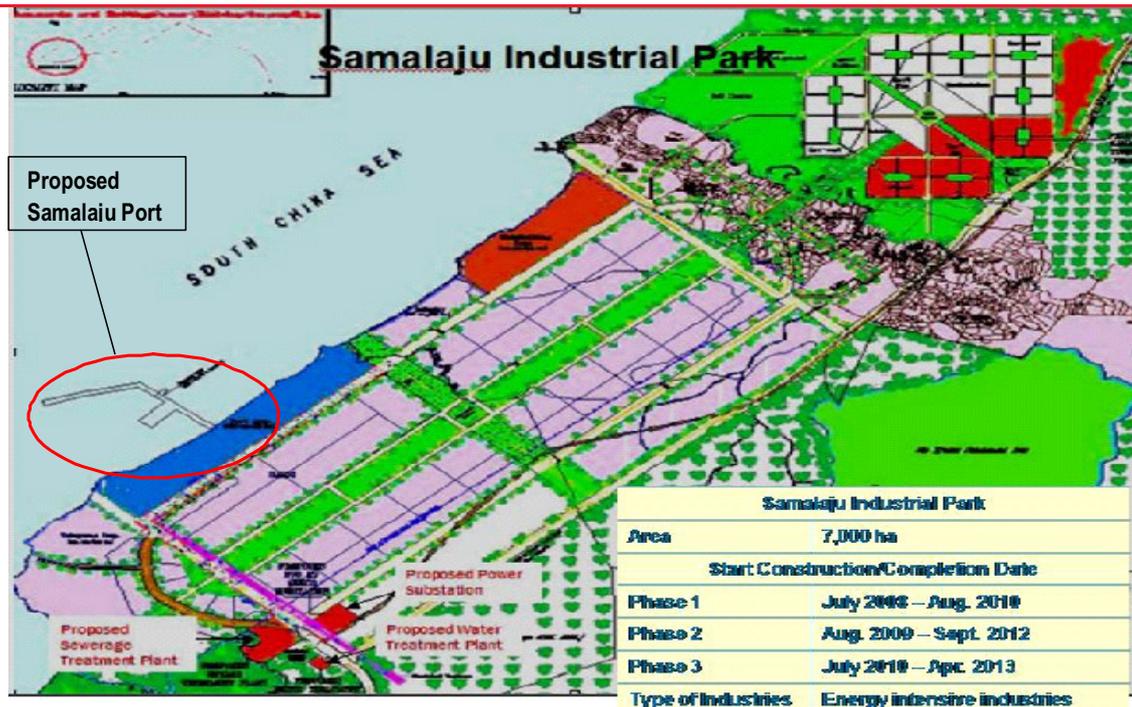
The scope of work includes the design, supply, delivery, erection and commissioning of 275kV transmission line that would link up power from the 944MW Murum dam.

SCB is also the supplier of power cables and steel towers for the contract – which is to be undertaken on a supply and lay basis.

This is the second major transmission line awarded by SEB after the Bakun-Samalaju line within SCORE - and represents the first and largest ever secured by the SCB group on its own.

**More importantly, it marks SCB's strategic evolution from being merely a supplier of power cables into a**

PICTURE 2 : PROPOSED SAMALAJU INDUSTRIAL PARK



Source: SCORE website, AmResearch

turnkey contractor for transmission systems. This will in turn accelerate the group's deepening progression as an integrated provider of power solutions within Sarawak.

Looking at the broader picture, we expect SEB to step up the rollout of more transmission lines in anticipation of huge power loads coming through within SCORE.

There would also be a concurrent need to develop more sub-stations – that together with the transmission lines help facilitate the transfer of power to the energy sites.

Our conversations with various industry players suggest that over 100 new substations are required for SEB to link up its entire grid system over the next 10 to 20 years.

#### □ *500kV 'Backbone' line*

At the moment, Sarawak does not have a solid structure that provides seamless connectivity within its transmission systems. Indeed, what Sarawak is really lacking is a main trunk line that serves as a connecting point for all the existing lines of up to 275kV that are scattered all over the state.

With fresh demand from new industrial loads coming up under the SCORE development, we believe top on SEB's agenda is the development of a 500kV transmission system.

The 500kV line spans about 600km – linking Bunut to Kuching. It would connect the four major cities of Sarawak – i.e. Miri, Bintulu, Sibul and Kuching.

Importantly, the backbone line will help:

- (i) Integrate the new generation projects coming aboard;
- (ii) Ensure the stability and security of power supply;
- (iii) Efficiently disseminate the massive amount of power to Sarawak's load centres; and
- (iv) Minimise power outages.

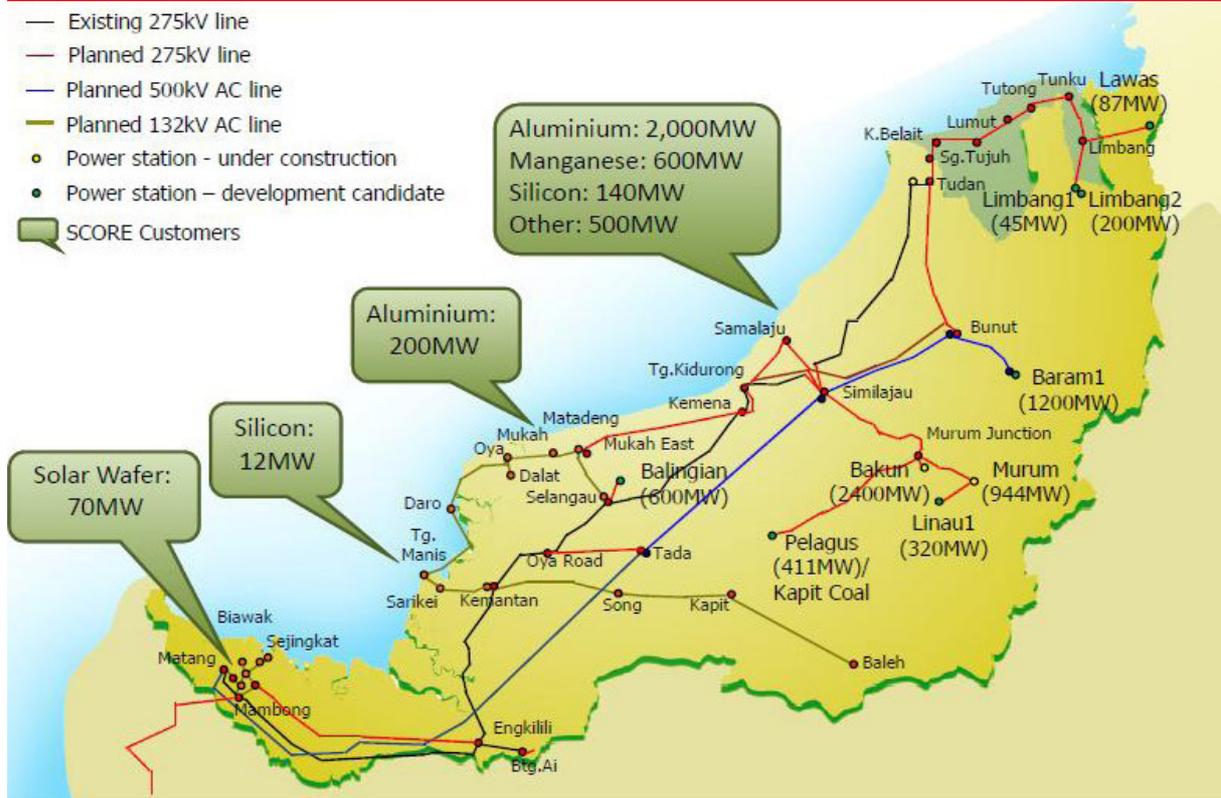
The backbone line would be developed in stages – in co-ordination with SEB's hydropower project development. From our checks on the ground, the entire programme would cost over RM1.5bil.

Pre-qualification for the first phase linking Bintulu to Sibul had commenced some three months ago. This package was given priority – given the increasing frequency of power trips in Sibul, which does not have a major power plant to cater to its power requirements.

We understand that SCB is among the bidders under a consortium that includes international power-related specialist. A firm decision could be known by 4Q11.

#### □ *Rural electrification scheme (RES)*

PICTURE 3 : SARAWAK'S FUTURE TRANSMISSION NETWORK



Source: Sarawak government, AmResearch

Admittedly, basic infrastructure in Sarawak – along with Sabah – remains relatively under-developed compared to the Peninsula states.

Recognising this widening disparity, the Federal government has under its NKRA initiative pledged to allocate a whopping RM5.7bil for Sarawak to carry out various infrastructure projects in mainly remote areas.

**We estimate that at least RM1.7bil or roughly one-third would be used for electricity-related projects.**

For this year, we have learnt that the East Malaysia would receive ~ 78% of the RM6.4bil that is channelled to the Ministry of Rural and Regional Development under the NKRA.

The NKRA for rural development is a three-year programme that kicked off early last year – with specific attention given to East Malaysia that is in urgent need for basic infrastructure.

The focus is on four-core areas: namely housing for the poor, rural roads, rural water supply as well as rural electricity supply.

The broad targets are:

- (i) The RES is supposed to boost electricity coverage in Sabah and Sarawak to 95% by 2012 (currently: Sarawak - 66%). For 2011, this covers 21,792 homes in Sarawak or 80% of the overall national target of 26,882 homes.

- (ii) 24-hour access to electricity for over 140,000 additional households by 2012.

- (iii) Construction of over 7,000km of new and upgraded roads by 2012 – of which 1,900km (27% of Malaysia) are for East Malaysia (Sabah: 1,200km, Sarawak: 700km).

For 2011, 222.95km of rural roads (end-February 2011: 45.57km have been delivered in Sarawak). This represents ~25% of the nationwide target of 905.12km.

- (iv) Increased supply of clean water to rural areas. By 2012, water supply coverage in Sarawak is expected to improve from 57% currently to 90%. For 2011, the target is to provide piped-water to 13,024 houses.

- (v) Housing project for the poor. For 2011 alone, 3,011 houses in Sarawak or 30% of 9,146 homes nationwide are to be built.

Under the 10MP, Sarawak has also been allocated RM4.8bil for development expenditure under the Rural and Regional Development Ministry. Out of this total, RM3bil has been advanced for 2011 alone.

**This is where SCB's strategic acquisition of a 75% stake in Sarwaja in 4Q10 and the recent buying out of the remaining 25% in the latter puts the group in a strong position to benefit from Sarawak's noble drive to improve its rural electricity coverage.**

In particular, Sarwaja has the capacity to produce basic products such as low/high-tension distribution steel poles and street lighting columns that are required for the RES.

Additional capital investment in Sarwaja is minimal, we believe. Since taking over its reign, SCB's management has managed to improve its utilisation rate from an average of 52% over the last four years prior to its pre-takeover to over 80% currently. This is merely achieved by just strengthening its unit's operational efficiencies (e.g. running from one shift to three shifts).

#### □ *Alternative energy*

At the micro level, the Sarawak government is looking at various options to supply electricity to the rural areas from non-grid supplies.

##### **(1) Solar hybrid power generation**

The Sarawak government is looking at solar power stations to solve the problem of supplying electricity to vast settlements across the state.

Solar hybrid power generation is a type of renewable energy that can be used as an alternative to traditional fossil-based energy.

The technology essentially provides off-grid power supply, which are durable and reliable. It also comes with clean drinking water and the capability to provide a telecommunications uplink (e.g. cable TV/ Internet).

The first ever-solar hybrid system called 'Project Sunshine' was tested in a longhouse interior of Betong division in Sarawak on 24 March 2010. IBC Solar Teknik Sdn Bhd undertook the project in collaboration with Carbon Capital Corporation.

For now, solar energy is not commercially feasible due to the lack of economies of scale. However, investors may be attracted to its commercial appeal if the surplus energy can be sold to the main grid.

**Again, we see opportunities for SCB to ride on the Sarawak government's moves to explore alternative and renewable energy – including solar hybrid power generation.**

SCB's management intimated that the group plans to secure some of these upcoming 'green energy' projects through its 51% unit, Sarawak Power.

Sarawak Power is a JV between SCB and Hybrid Energy Services Sdn Bhd (HES), which owns the balance 49% stake.

HES is a technology supplier-cum-consultant for the manufacture of hybrid power inverters. The group has a wealth of experience in the implementation of solar hybrid systems as well as other specific renewable energy projects in Malaysia, India, Indonesia, the United States and Europe.

These hybrid power inverters use a combination of solar as well as other alternative sources of power such as

diesel-powered electricity generators (genset) to provide electricity.

The JV's proposed inverters will also incorporate storage batteries to store excess power that is generated from the solar power system during the day for use during sundown – together with a genset.

Under its proposal, 70% of the total electricity requirements will be provided through solar power – the balance 30% coming from the genset.

The funds raised could in turn be utilised to build an inverted assembly facility for solar hybrid systems. Sarawak Power would assemble, manufacture and provide proprietary conversion and control systems which can coordinate and optimise photovoltaic arrays, wind turbines, battery banks as well as diesel generators for cost effective electrification schemes.

Its target markets? The group has identified several locations in remote areas, villages, schools, clinics, police stations and army camps that are yet to be covered by rural electrification or power grid systems.

##### **(2) Micro hydro electricity solutions**

The Sarawak government plans to use micro hydro electricity solutions to extend the supply of electricity to its inner reaches that are located far away from electricity generation or transmission infrastructure.

Some RM2mil was allocated for four micro hydroelectric projects in Baleh last year. These projects would benefit 177 people from four longhouses.

The academic field has also been roped in for these noble projects – with University Malaysia Sarawak (Unimas) leading the way. The university has been working on several hydro projects to bring electricity to the rural areas. Its pilot project was a 25-door longhouse in Semulong Ulu in Sri Aman – a first in Sarawak.

In recognising its potential, even TNB CEO Datuk Seri Che Khalib Mohamad has said the national utility giant would develop mini-hydro plants to supplement its future generation needs.

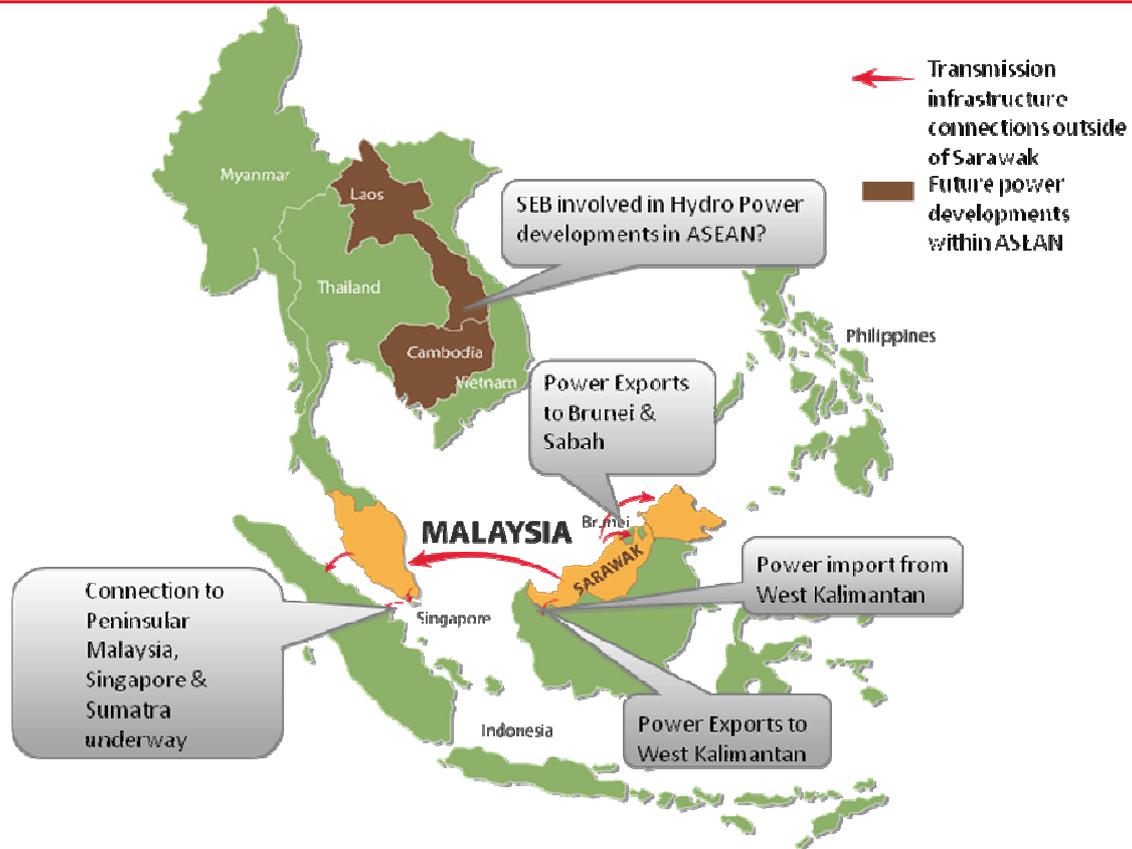
By 2015, TNB aims to produce 330MW of power from biomass. This will be followed by mini-hydro (290MW), biogas (100MW) and solar photovoltaic (65MW).

**Taken together, these new solutions are targeted to account for 17% of new connections for Sarawak's rural areas between 2010 and 2012.**

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**PICTURE 4 : OPPORTUNITIES UNDER THE ASEAN INTERCONNECTION MASTER PLAN**


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Source: Sarawak government, AmResearch

#### □ Substations

We have written in an earlier section of this report that SCB is looking at expanding its repertoire of skill-sets in the power sector. One such area is in substations – which form an integral component of a typical power system. It can be broadly broken down into:

- (i) Transmission substations – for high voltage levels; and
- (ii) Distribution substations – for low voltage levels.

One of the larger sub-stations that have been completed in Sarawak is located within the confines of the Bakun Dam. *The Star* had reported in May that SEB's Similajau substation – designed to handle more than 4,000MW – was completed a month ago and is ready to receive power from Bakun.

The facility forms part of Sarawak's grid – whereby the bulk of its power would be used for energy-intensive industries operating within the Samalaju Industrial Park. Siemens and Areva were its equipment suppliers.

These industries would receive their respective electricity supply from another proposed Samalaju sub-station – to be completed by June next year.

**From our checks on the ground, Sarawak may require as many as 100 new units of substations to keep up with its aggressive plant-up programmes. The estimated cost for each substation would vary based on its size, but the**

**larger variants would require an outlay in excess of RM100mil, we were told.**

Cognisant of its immense potential, SCB has moved quickly to tie up with the Malaysian unit of leading global power Swedish-based company, ABB, late last month to bid for the Samajaya substation.

ABB is a worldwide leader in power and automation technologies in various sectors, including for the power industry.

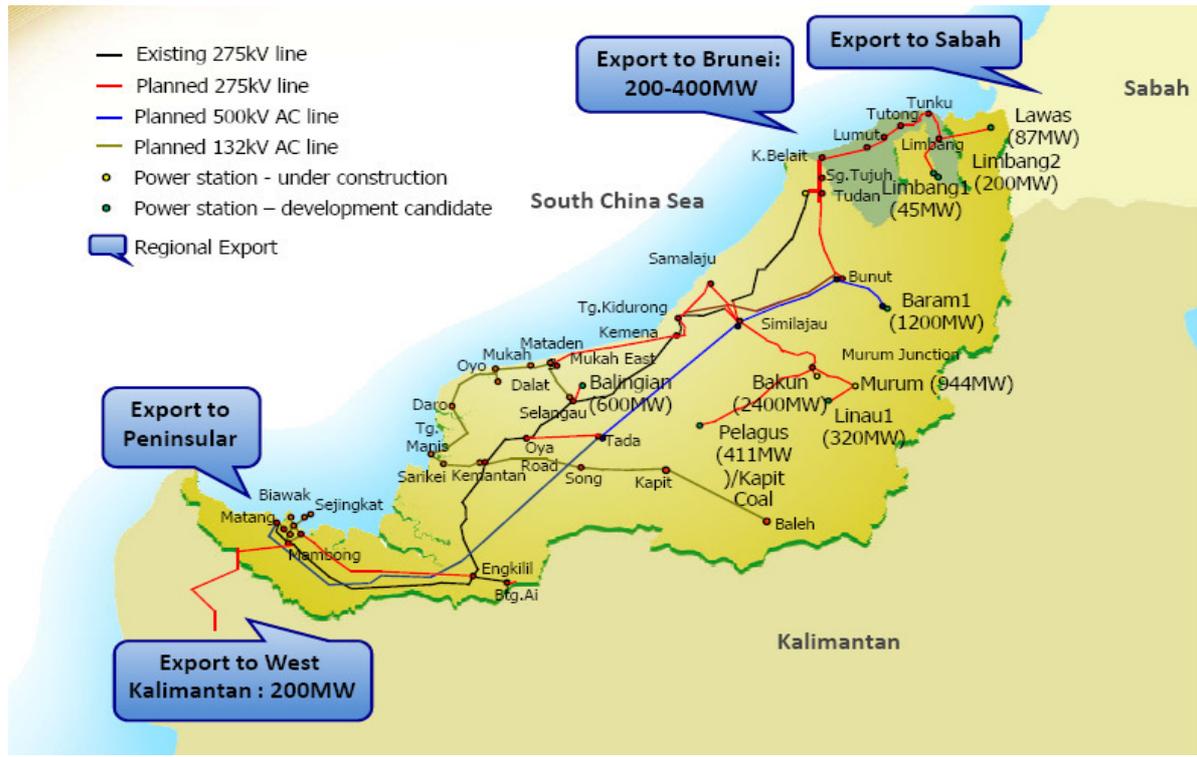
Specifically, ABB provides power products, which comprise key components for transmission and distribution of electricity.

ABB's manufacturing network includes transformers, switchgear, circuit breakers, cables and associated equipment.

ABB also specialises in power systems that offer turnkey systems and services for the power transmission & distribution grids, and power plants. The key areas are in substations as well as substation automated systems.

**Leveraging on its partner's strong technical expertise and proven track record, we believe the SCB-ABB tie-up could be a precursor for more future partnerships, to bid the proliferation of substation works in Sarawak.**

PICTURE 5 : EXPORTING SARAWAK'S DEEP RENEWABLE ENERGY POTENTIAL



Source: Sarawak government, AmResearch

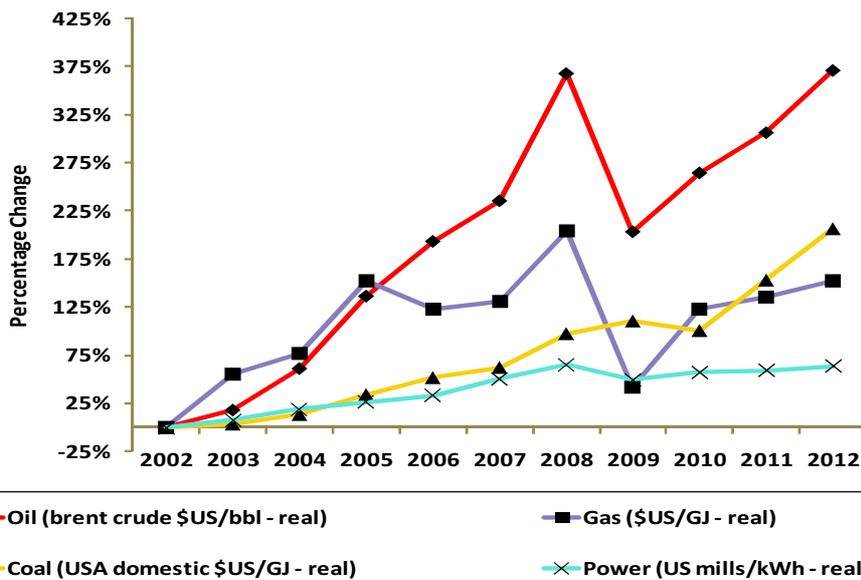
ASEAN inter-connection master plan

Apart from local demand, we understand that the Sarawak government has held several discussions to export power

to its neighbours – particularly Brunei and Indonesia in three to four years' time (i.e. 2014-2015).

This has materialised via the formation of the ASEAN

CHART 11 : SKYROCKETING FOSSIL-BASED ENERGY PRICES



Source: CRU, AmResearch

Interconnection Master Plan.

**Not surprisingly, we understand that SCB is positioning itself for upcoming cross border transmission opportunities – pending further progress on negotiations between the Sarawak government and its ASEAN neighbours.**

#### (1) Brunei

We understand that the Sarawak government has completed feasibility studies on Limbang and Lawas dams as part of SEB's plans to develop its power infrastructure within the Borneo state's northern region.

The Limbang dam will have an estimated capacity of 245MW and Lawas, 87MW. Both hydroelectric dams would take about four years to complete, although the actual rates that Sarawak would charge Brunei for supply of power has yet to be fixed.

Brunei's total installed electricity capacity is around 759MW – mainly from thermal sources. Our checks indicate that the oil-rich nation may require up to 500MW of additional electricity in the near future.

We understand that the Brunei government already has the option to buy competitively priced electricity from Sarawak's 275kV grid from specific hydroelectric projects.

**Of more importance is the fact that an agreement is already in place for the Sarawak government to supply 100MW of power to Brunei. Brunei would then purchase another 50MW-100MW in subsequent phases.**

This evolved from an MoU signed between both the Brunei and Sarawak governments to explore opportunities on the sharing of power supply between the two neighbours.

Specifically, the Brunei government has requested for Sarawak to expedite hydroelectric initiatives to secure 100MW of electricity for its light industries in Temburong.

Apart from Limbang and Lawas, we gather that Brunei is also keen to receive supply of power from Miri first. In a report by *The Star* last February, SEB was expected to build a 40km power transmission line linking Miri to the northern part of Sarawak within two years to facilitate the export of electricity to Brunei.

Sarawak Public Utilities Minister Datuk Amar Tengah Ali Hassan was quoted in the report then as saying that the project would take 18 months to complete.

The first phase would be consummated via Tudan in Miri – connecting to Brunei from the border point at Kuala Belait. Connection will be via a 275kV transmission line of about 13km between Tudan and Sg. Tujuh first – before reaching Kuala Belait.

On the Brunei front, plans are underway to develop a 275kV transmission line linking its coastal areas up north so that future electricity generated from the first phases of the Limbang and Lawas dams in Sarawak can be linked up with its own grid.

#### (2) West Kalimantan

In a previous section of this report, we state that the Indonesian government has emerged as the fifth signatory of a PPA with SEB to purchase up to 230MW of electricity for West Kalimantan by mid-2014.

We gather that the Indonesian government is working with SEB to develop a US\$150mil (RM450mil) West Kalimantan-Sarawak interconnection project, although its launch will likely be pushed back a year to 2013.

It consists of high-voltage 275kV alternative current (AC) connections that connects Bengkayang substation in West Kalimantan to the Mambong substation in Sarawak.

Indonesian state electricity firm PT PLN will build an 82km-line in West Kalimantan. PLN will also build 60km of 159kV AC power lines from the Bengkayang substation to the Singkawang substation, also in West Kalimantan.

This would take at least two years to complete and requires a minimum of two substations. Realistically, the maiden supply of power from Sarawak to Indonesia is expected to be ready by 1Q 2014.

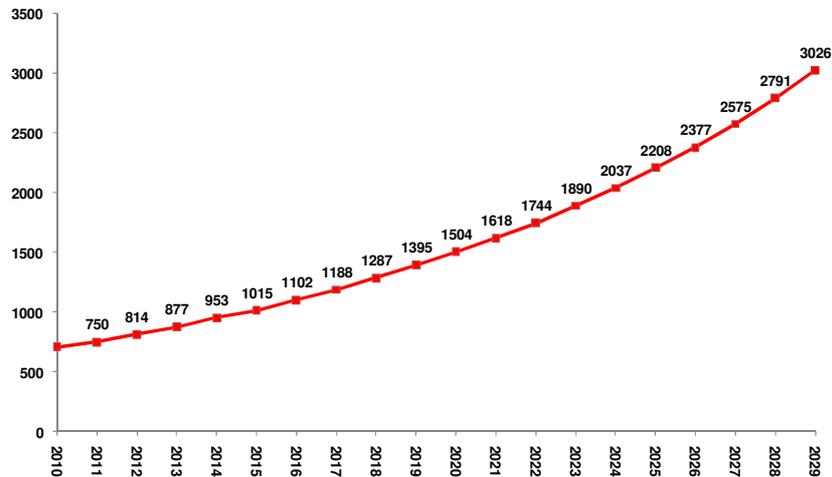
**On Sarawak's part, we gather from SEB that the state would need to construct a new 275kV line (~38km) costing over RM100mil to hook up power supply to Kalimantan. This project would likely take one year to complete.**

The West Kalimantan-Sarawak collaboration is one of two projects given priority under the ASEAN interconnection masterplan. The project is expected to increase the reliability of the West Kalimantan power grid as well as reduce oil consumption – as existing plants are diesel-fuelled.

Prior to this, both SEB and PLN had already started cross border power supply in 2009 for the transmission of small-capacity electricity to towns and villages in Kalimantan like Sajingan and Badau.

Another proposed hydropower project between Malaysia and Indonesia is the US\$490mil Malacca-Pekanbaru interconnection – which involves 600MW high voltage direct current to be implemented in two phases.

CHART 12 : SABAH ELECTRICITY DEMAND



Source: Sabah Electricity Sdn Bhd, AmResearch

Indonesia continues to express its interest in getting power from the Bakun Dam. From our discussions with several industry players, opportunities abound for the supply of power to Kalimantan.

We understand that a majority portion of West Kalimantan (including its state capital Pontianak) still relies on genset or other oil-fired plants to satisfy its electricity needs. These sources of fuel are not only uneconomical but also highly polluting.

### (3) Sabah

Part of the proposed Inter-ASEAN interconnection grid also extends to the distribution of power from Sarawak to neighbouring Sabah. As things stand, Sabah continues to be saddled with a shortage of power and associated bouts of power trips.

Sabah Electricity Sdn Bhd (SESB) is the state-owned power utility company supplying electricity to 413,983 customers over a wide and mountainous area of 73,997 sq km.

A fully integrated grid linking the West Coast Grid to the East Coast Grid of Sabah was completed in July 2007 – whereby 90% of its customers are now connected to this integrated grid.

Currently, SESB's total generation capacity is approximately 866MW – half of it through electricity purchased from IPPs.

Under the NKRA target, the Malaysian government continues to provide allocations to improve electricity coverage within Sabah – especially its rural areas. Sabah is set to receive an allocation of RM3bil to improve its basic infrastructure this year alone.

Based on an average electricity demand growth of 6.7% p.a. (2010E: 7.7%) as projected by the Energy Commission, electricity consumption in Sabah is expected

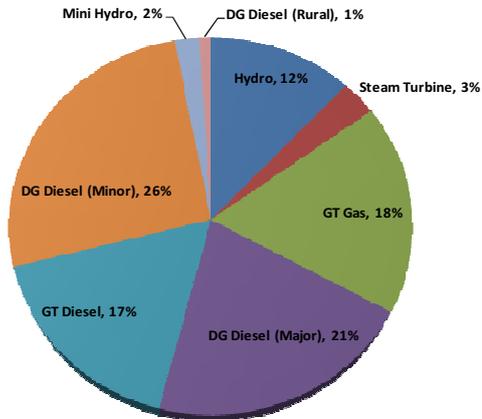
to reach 1,476MW by 2020 – almost doubling the base demand today.

In order to reduce over-dependence on oil, SESB is looking at developing alternative sources of energy for power generation.

Hence, SESB has since embarked on a long-term plan (2010-2018) to improve on its System Average Interruption Duration Index (SAIDI) – a measure of interruptions experienced by its customers in a year.

Just last year, the Ranhill Powertron II Combined Cycle Gas-Fired Power Plant was partially completed via the commissioning of 2 units of gas turbines of 65MW each in March 2010 and July 2010, respectively.

A total of 80MW Canopy Gensets have also been introduced in five locations – i.e. Melawa, Tg. Aru, Sim-Sim Sandakan, Pasir Putih Tawau and POIC Lahad Datu – to alleviate generation outages.

**CHART 13: INSTALLED CAPACITY (SESB) – BY PLANT TYPE**

Source: Sabah Electricity Sdn Bhd, AmResearch

Over the medium-to-longer term, SESB has identified several new plant-up programmes to meet Sabah's future power requirements. These include:

- (i) **Ranhill Powertron II 60MW.** This IPP operator was to have commissioned the third unit of its turbines by March this year in Sepanggar.
- (ii) **300MW Kimanis Combined Cycle Gas-Fired.** In May 2011, Kimanis Power Sdn Bhd signed a contract to develop a RM1.5bil 300MW gas-fired power plant in Kimanis, some 65km away from Kota Kinabalu.

Kimanis Power is a 60:40 JV between PETRONAS Gas Bhd (P Gas) and Yayasan Sabah's unit, NRG Consortium (Sabah) Sdn Bhd.

Construction work was slated to start from 1 April – right up to the commercial operation date in December 2013 (32 months).

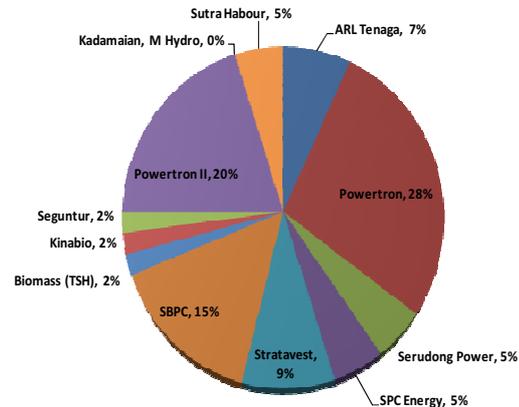
Total investments required are estimated at RM5.5bil for the gas pipeline. It will pipe 1bil cu ft of natural gas daily off the western shores of Sabah to the Sabah Oil & Gas terminal in Kimanis.

The Kimanis power plant project was included as one of the Public-Private Partnership (PPP) projects announced under the 2011 Malaysian Budget that is eligible for the Federal government's facilitation fund.

The contract to build the plant was awarded to a consortium comprising Taiwan's CTCI Corp and two Malaysian companies – i.e. Synerlitz (Malaysia) Sdn Bhd and SCHB Engineering Sdn Bhd (a subsidiary of state-backed Suria Capital Holdings Bhd).

100MW of electricity under the first generation block would be available in two years – i.e. December 2013 – and up to 300MW by 2014. The subsequent completion dates for the remaining two-generation blocks are February 2014 and April 2014.

In addition, the plant can be expanded by another 100MW to 400MW.

**CHART 14: SEB IPP INSTALLED CAPACITY (BY STATION)**

Source: Sabah Electricity Sdn Bhd, AmResearch

Power produced from the Kimanis plant would be transmitted through the state-grid to most parts of Sabah – especially power-starved Sandakan along the east coast.

The nearby Sabah Oil & Gas Terminal (SOGT) project in Kimanis would be receiving 750mil standard cu ft (scf) of gas from the north field. Out of this total, at least 250mil scf would be retained in Sabah.

Kimanis has been earmarked as the terminal for the landing of the gas. The facility at Kimanis will also serve to undertake the treatment, separation as well as compression of the gas.

The gas would be subsequently piped to Sipitang before being diverted to Bintulu. The choice of Sipitang was due to its natural water depth of 20 metres and its location inside the Brunei Bay.

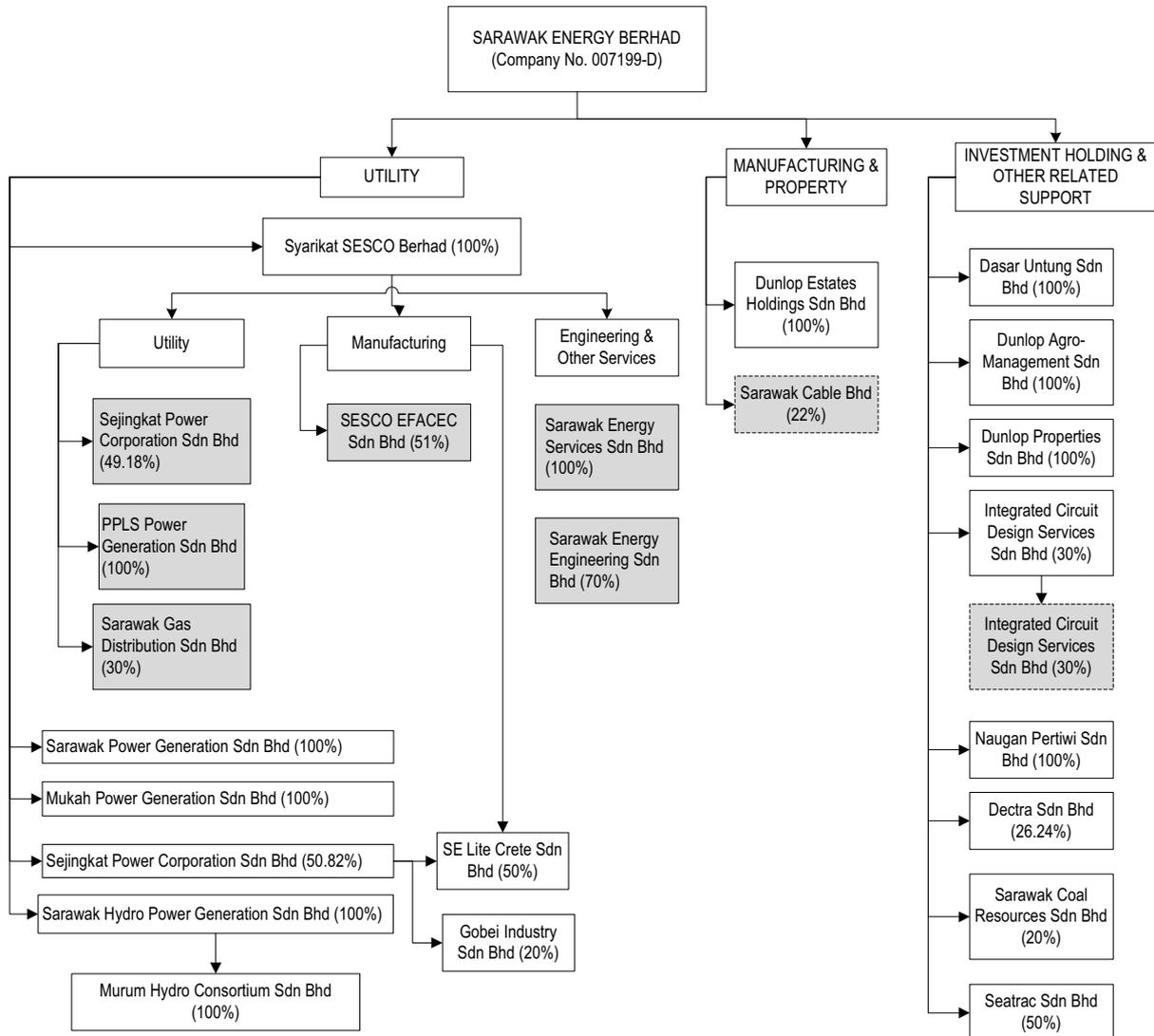
All these measures are aimed at supporting rising power consumption in Sabah – where various large-scale industries are currently being lined up. These include a proposed RM5.3bil solar panel plant, factories to build automotive parts, rubber products as well as pharmaceuticals that are expected to take off within Kota Kinabalu Industrial Park.

PETRONAS Chemicals Group Bhd will also build a RM4.5bil urea fertiliser complex at Sipitang that has a capacity of 1.2mil tonnes p.a. The project – also known as the Sabah Ammonia-Urea plant – would kick-off in the second quarter of 2012 for its scheduled completion in 2015.

- (iii) **SPR Energy Plant.** The 100MW plant currently being developed by SPR Energy Bhd is due to be commissioned by 2013. It is supposed to supply another 100MW of power within Kimanis. Combined with another 400MW from Kimanis, the area would have up to 500MW of electricity when both plants are fully completed.

- (iv) **300MW Sandakan Natural Gas power plant.** Negotiations are ongoing between the Sabah

CHART 15 : SEB CORPORATE STRUCTURE



Source: SEB, AmResearch

government and PETRONAS that may see the latter supplying LNG to fire a planned 300MW power plant in Sandakan.

This follows the scrapping of a RM1.3bil 300MW coal-fired power plant in Lahad Datu in March by the Sabah government.

While the source of the LNG has not been confirmed, the power plant in Sandakan would need at least 60mil standard cu ft of gas.

The power plant is required by 2015 to prevent a shortfall of 40% in the electricity supply to the east Coast of Sabah.

Local reports indicated that the Sabah government has mooted the idea of constructing a landing point within the Lahad Datu Palm Oil Industrial Cluster

(POIC) for the LNG required for the Sandakan power plant. A minimum area of 50 acres may be required to build the facility.

Gas placed in Lahad Datu could easily be piped to the power plant. It is also seen as a more cost-effective way of supplying the LNG compared to the preliminary suggestions of piping the gas from the SOGT in Kimanis to Sandakan.

(v) **Upper Padas Hydro (150MW) and Liwagu Hydro (150MW)**. Both the proposed hydro plants are due to be ready by 2017 and 2018, respectively.

(vi) **Renewable energy (RE)**. To diversify its generation mix, we gather that the Sabah government is exploring new opportunities from RE involving the use of hydro, biomass as well as geothermal with the total

potential of up to 108MW. This is in addition to the existing 37MW of energy from RE sources.

**In line with its plant-up programme, the Sabah government is also focusing on reinforcing existing systems to improve the stability and reliability of its existing transmission and distribution systems.**

It had earlier upgraded the 132kV network in Northern Sabah as well as established the 275kV East-West Grid that serves as the transmission system backbone.

**Going forward, we gather that plans are afoot for the development of a Southern Transmission Link under the 10MP to enable SESB to import power from Sarawak in the near future.**

For a start, we gather from SEB that Sarawak may be looking at supplying between 10MW and 20MW of electricity to Sabah to meet the state's short-term needs – as most of the latter's new plant-ups are only expected to be ready in two years' time. This may involve the construction of a 6km-transmission line linking both states.

## BACKGROUND

### □ *Listed in May 2010*

SCB debuted on the Main Board of Bursa Malaysia on 25 May 2010 - with an IPO price of RM0.70/share. The IPO exercise consisted of:

- (i) An offer for sale of 19mil existing SCB shares from its promoters – i.e. Central Paragon, Leader and SEB – via private placement to identified Bumiputera investors approved by the Ministry of International Trade and Industry (MITI); and
- (ii) Public issue of 13mil new SCB shares to the Malaysian public as well as eligible directors, employees and business associates of the SCB group.

CIMB acted as the group's adviser, underwriter and placement agent.

## 'POWER-PACKED' STRUCTURE

## SHAREHOLDING

**SCB is blessed with the backings of its strategic and solid set of shareholders. They are SEB (22%), Dato Sri Mahmud Abu Bekir Taib (19%) and Leader Universal (15%).**

### □ *SEB*

SEB is a wholly-owned company of the Sarawak government. It enjoys a monopoly as the only integrated electric utility that is responsible for the transmission, generation and distribution of electricity within Sarawak.

SEB plays a major role in assisting the Sarawak government in harnessing renewable energy that is vital in the development of SCORE, the state's energy-intensive growth corridor.

To meet soaring power demand within SCORE, SEB has put together an impressive masterplan to revitalise its power infrastructure – with the ambitious objective of elevating itself into a major renewable energy giant within ASEAN.

Dato Sri Mahmud Abu Bekir Taib

Dato Sri Mahmud is the group's non-independent non-executive chairman. He holds positions in various entities – including deputy group chairman of conglomerate CMS.

He is primarily responsible for overseeing the infrastructure arm within the CMS group and also sits on the boards of several of the conglomerates' key subsidiaries – namely CMS Cement Sdn Bhd, PPES (Works) Sdn Bhd and CMS Resources Sdn Bhd.

### □ *Leader Universal*

Leader holds the distinction as the largest cable & wire producer within ASEAN – and by extension, Malaysia. The group has accumulated over 35 years of experience producing an extensive range of products. These include

telecommunication cables (e.g. copper & optical fibre cables), bare conductors as well as insulated power cables from low, medium to high voltage.

Upstream, Leader manufactures products that are made of copper and aluminium rods/wires - key inputs used to make power cables.

Downstream, the group has ventured into the IPP business via two concessions with a combined capacity of 135MW in Cambodia.

Apart from being its third largest shareholder, the Leader group was instrumental as a founding member and technical partner of SCB's main subsidiary – UCS.

Two of Leader's units – i.e. UCM and Alpha Industries – are among SCB's major suppliers of mid-to-large sized power cables & wires in a relationship that has spanned over 20 years.

## ONE-STOP POWER SOLUTIONS PROVIDER

### □ *The real deal*

SCB was first incorporated in January 1998 as a public limited company under the name of UCS Holdings Bhd.

Following a corporate exercise in September 2008, the group commenced operations as an investment holding company for two of its subsidiaries – i.e. 100%-owned UCS and 51%-owned Sarawak Power.

UCS is a market leader in the supply of power & cables in Sarawak. Another subsidiary, Sarawak Power, will spearhead the group's ventures into hybrid power invertors.

UCS is principally involved as a producer of power cables and wires in Sarawak. From its formation back in 1980 as a trader of power cables and wires, UCS has since grown from strength to strength.

In 1982, UCS progressed into the manufacturing of its own products – with a renewed focus on low voltage multi-core power cables and wires that have the capabilities of supporting up to 1kV.

In 2002, UCS reached another milestone when SESCO – a unit of SEB – awarded some of its first few turnkey projects. The contracts are for the supply, installation and commissioning of cables and circuits.

To broaden its offerings, SCB acted swiftly to acquire a 75% stake in Sarwaja from SEB for RM29mil back in October 2010.

Sarwaja helps broaden SCB's product base in the production of steel and associated products used in the power industry (e.g. low/high tension distribution steel poles, testing towers).

These were quickly followed by the twin proposals to buy-out the remaining the stake in Sarwaja and to acquire a

65% stake in Trenergy earlier this week. In our view, the acquisition of Trenergy especially provides SCB with an immediate foothold in undertaking the construction of transmission systems.

**Together with its strategic partner Austin Corp, this paves the way for SCB to morph into an integrated provider of power solutions within Sarawak.**

## SARAWAK'S LEADING POWER CABLES SUPPLIER

### □ *One-stop centre*

Headquartered in Kuching, UCS is Sarawak's leading manufacturer and trader of power cables & wires.

Apart from its core operations, UCS also provides:

- (i) Supply, installation & commissioning of power cables for the power industry. UCS is a registered Grade 7 Mechanical & Electrical licence holder under the Construction Industry and Development Board (CIDB). This allows the group to tender for contracts of unlimited value.
- (ii) UCS primarily trades in medium- to high-voltage power cables with a rated capacity from 11kV up to 132kV. The group sources from external parties such as UCM to supplement its own range of in-house products.

Currently, UCS has a total of seven production lines located at the Demak Laut Industrial Estate Phase III in Kuching, Sarawak.

The total built-up area of its factory – which also houses a head office and warehouse – measures approximately 123,600 sq ft (~3 acres).

The group commenced operations at its present manufacturing facility in 2Q07 – when it started the production of high-voltage bare conductors, namely All Aluminium Alloy Conductor (AAAC).

Subsequently, UCS transferred all of its manufacturing operations to Demak Laut by 3Q08 – when it started the commercial production of ACSR cables in October 2008.

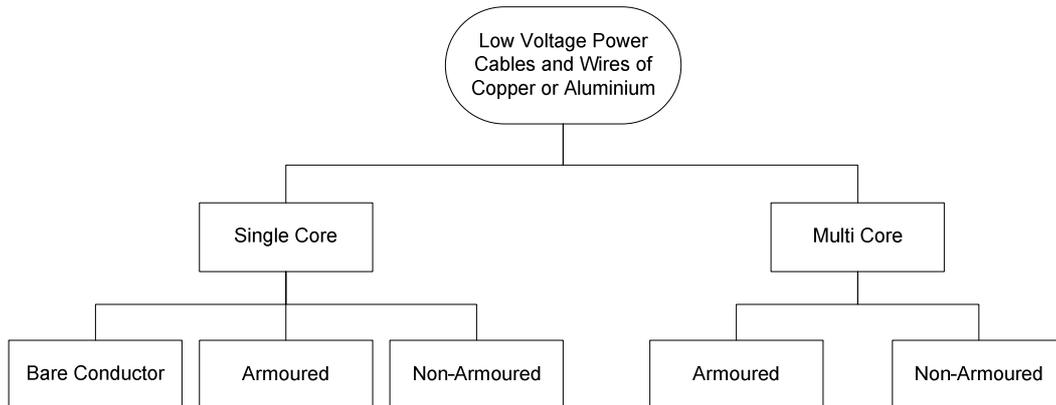
Post its IPO in May 2010, the group has forked out RM3.5mil as part of its expansion programme that included the introduction of two new low-voltage products.

**Taken together, this further cements the SCB group's increasing value proposition as a leading one-stop supplier of power cables & wires in Sabah & Sarawak.**

### □ *Main products*

UCS produces a wide spectrum of products used in the power cables & wires industry – i.e. from low- to high-voltage variants.

CHART 16 : LOW VOLTAGE CABLE TYPES



Source: SCB, AmResearch

The group's products can be further broken down into two main categories:

#### (1) Low-voltage power cables.

UCS' low voltage power cables are mainly used as distribution lines, inside end-user homes, offices as well as factories.

These products are made of copper or aluminium – with a carrying capacity of up to 1kV. They can also come in either a single core or multi-core unit (i.e. more than one core conductor within a cable that is insulated or sheathed).

#### (2) High-voltage bare conductors

UCS began to move up the value chain some four years ago – with the production of high-voltage bare conductors such as ACSR and AAAC.

These types of bare conductors are single core variants that are made up of aluminium or aluminium alloy minus any insulation – and can support voltage in excess of 33kV.

UCS' plants have the capabilities to manufacture steel-reinforced bare aluminium conductors with a range from 7 strands to 91 strands, and bare aluminium or copper conductors with a range from 7 strands to 127 strands.

#### □ Sarwaja – fabrication and HDG services

As one of Sarawak's leading fabricators, we reckon that Sarwaja fits hand-in-glove with SCB's core business of power cables & wires manufacturing. It manufactures an extensive range of products:

- Low/high-tension distribution steel poles,
- Street lighting columns & highway guardrails,
- Structural steel, towers/poles, steel bridges; and
- Structural steel construction (including buildings).

In addition, Sarwaja also provides HDG facilities that have the capability to galvanise steel structures ranging from a kettle size of 10 metres (long) x 1.5 metres (wide) x 2.5 metres (depth) to large steel sections of up to 17 metres in length.

The Sarwaja group's facilities are located on 794,080 sq ft of land (~18 acres) at Sejingkat – just a five minutes' drive away from SCB's main headquarters/manufacturing site in Kuching.

Following its proposed acquisition of the balance 25% stake not held by SCB, Sarwaja will soon become a wholly-owned unit of the group.

#### □ Trenergy – transmission specialist

If its corporate exercise is approved, Trenergy would be the latest and most interesting addition to the SCB group's stable of companies. Poignantly, the allure of Trenergy is immense – and immediate.

Trenergy has the necessary track record and pre-requisites in supplying, laying, and constructing and commissioning power transmission lines on a design & build basis.

Trenergy first began active operations in 2002 and had secured its first big break through a turnkey subcontract package for the 275kV Sabah East-West grid interconnection overhead transmission lines worth RM52mil.

In 2003, Trenergy partnered Pembinaan Tajri Sdn Bhd for the implementation of a 275kV transmission line from Tuanku Jaafar power station to Olak Lempit substation (RM71mil).

Trenergy is today one of the leading major local players in the overhead transmission line sector in Malaysia. The group clientele base includes the likes of TNB, SEB, Sinohydro Corp (M) Sdn Bhd, Transmission Technology Sdn Bhd, Transpro Sdn Bhd and Malaysian Resources Corp Bhd (MRCB).

TABLE 9: TYPES OF SINGLE CORE POWER CABLE

Types of Cables	Common Applications
Single Core 450/750V, PVC insulated, non-sheathed, copper or aluminium conductor	PVC insulated cables for low voltage power distribution, which are used for building wiring, appliance wiring and machine tool wiring.
Single core 300/500V and 600/1000V, PVC or XLPE insulated, PVC sheathed, copper or aluminium conductor	Power cables for low voltage power distribution and electricity supply. The PVC sheathing serves as an additional outer protection to the cables insulation.
Single core 600/1000V, XLPE insulated, PVC extruded bedding, aluminium wire armoured, PVC sheathed, copper conductor	Power cables for low voltage power distribution, which are suitable for underground wiring or buried wiring.
Single core 250/650V, PVC insulated non-sheathed, aluminium conductor	PVC insulated cables for low voltage power distribution or electricity supply which are used for overhead distribution lines
Single core 600/1000V, bare or PVC insulated, non-sheathed, hard drawn copper conductor	Power cables which are used as earth wires in distribution lines.

Source: SCB, AmResearch

TABLE 10: TYPES OF BARE CONDUCTORS

Types of Bare Conductors	Common Applications
All Aluminium Conductor (AAC)	AAC is commonly used in distribution where transmission lines are short but high conductivity is required. Due to its poor strength-to-weight ratio, AAC is not normally used as transmission lines.
All Aluminium Alloy Conductor (AAAC)	AAAC is commonly used for overhead transmission lines and other primary and secondary distribution lines due to its higher strength-to-weight ratio, which minimizes sag due to its own weight. AAAC also has higher corrosion resistance and less conductive losses compared to ACSR.
Aluminium Conductors Steel Reinforced (ACSR)	ACSR is usually clad or bunched together in steel wires to strengthen the whole cable and have high tensile strength, which is equivalent to steel. ACSR is used as mass conductors and reinforcement of aluminium conductors for overhead lines and primary and secondary distribution lines. ACSR is also used in armouring optical ground wires due to its good electrical conductivity.

Source: SCB, AmResearch

With renewed push from a new set of controlling shareholders, Trenergy has quickly made its mark in Sarawak by garnering several high-profile construction jobs. These include the ongoing 275kV Bakun-Samalaju overhead transmission line as well as the 275kV Murum-Murum junction line.

Aside from Sarawak, Trenergy has already established a presence as a reliable and efficient contractor for power lines within Peninsular Malaysia. Currently, it has ongoing jobs in the Klang Valley, Pahang as well as Johor.

We estimate Trenergy's existing contracts at ~RM205mil - and this could potentially double the enlarged SCB's outstanding orderbook at close to RM385mil.

#### □ *Enjoys duopolistic position in Sarawak*

**UCS is one of only two local suppliers of power cables & wires in Sarawak (the other being privately-held Sasa Cables Sdn Bhd) – and the largest in terms of revenue in 2009.**

UCS derives virtually its entire revenue stream from East Malaysia – where the split is roughly 90:10 between

Sarawak and Sabah. UCS adopts multiple distribution channels to market its products.

During the same period, UCS' market share of power cables & wires in East Malaysia was approximately 33% out of the estimated apparent consumption totalling RM272mil for East Malaysia.

TABLE 11: TYPES OF MULTICORE POWER CABLE

**Types of Cables**

Multicore 300/500V and 600/1000V, PVC or XLPE insulated, PVC sheathed, copper or aluminium conductor

Multicore 600/1000V, PVC or XLPE insulated, PVC sheet wrapped or PVC extruded bedding, steel wires armoured, PVC sheathed, copper and aluminium conductor

Twin twisted 450/750V and 600/1000V, PVC or XLPE insulated aluminium conductor wires which comprise two (2) separated single core wires twisted together

**Common Applications**

Multicore power cables for low voltage electricity supply where two (2) or more cores of cables are bundled together with PVC sheathing as protection.

Multicore power cables for low voltage electricity supply where two (2) or more cores of cables are bundled together with PVC sheathing as protection and/or steel wire armouring as mechanical protection. These cables are commonly used for underground burial and as earth wires.

Low voltage power cables for electricity supply whereby its lightweight properties are suitable for overhead distribution lines specifically in rural areas.

Source: SCB, AmResearch

### □ *Ranked 9<sup>th</sup> overall in Malaysia*

According to an independent report by Vital Factor, UCS was ranked 9<sup>th</sup> out of 30 manufacturers of power cables & wires in the country – where the industry's estimated market share was RM1.4bil in 2009.

**We stress that the revenue-based rankings may not be an accurate yardstick of UCS' deep potential, particularly within the East Malaysian market – which is at the embryonic stage of its growth cycle.**

Also, we emphasise that other companies surveyed under the independent report may be engaged in the manufacturing/trading of other non-power related products (e.g. telecommunications cables, automotive cables, instrument cables and computer wire harnesses).

### □ *Multiple sales channels*

Under its direct distribution strategy, UCS engages directly with customers that include building contracting companies, power utility companies, project owners, electrical works and tradespersons.

This set of customers will typically use the power cables and wires as a key input for their respective construction and wiring works.

Indirectly, UCS utilises re-sellers – leveraging on their wide distribution network to increase its market coverage. The re-sellers include trading companies, hardware shops and do-it-yourself (DIY) shops.

As at 31 December 2009, UCS has a total of 90 resellers operating within East Malaysia.

Further out, we gather that the group has set aside close to RM1mil to open more showrooms and sales outlets within the cities of Kuching and Kota Kinabalu.

## MAJOR SUPPLIERS

### □ *Aluminium-based cables*

As it is primarily a manufacturer of cables & wires, UCS has a list of preferred suppliers – the top four accounted for between 76% and 82% of its total purchases for FY07-09.

Topping the list is UCM. Between FY07-09, UCM contributed between 30% and 43% of the group's major procurement that mainly relates to aluminium alloy rods, aluminium rods and cables.

An alternative source of supply for aluminium alloy rods and aluminium rods comes from Indonesia's PT Terang Kita.

### □ *Copper wires*

To mitigate supply risk, UCS has a policy of sourcing from at least three suppliers. Alpha Industries and Metrod are UCS' top two suppliers. Both have transacted with the group for 24 years and 15 years, respectively.

Apart from both Alpha Industries and Metrod, UCS also purchases copper wires from Tawin.

SCB adopts a proactive approach in managing its inventories. It has a dedicated team that actively monitors the fluctuations of base commodity prices such as aluminium and copper – including trends from the London Metal Exchange (LME).

Rather than consuming large positions, management prefers to keep its inventories at a minimum (i.e. between one and two months) under a 'just-in-time' policy – unless there is a window of opportunity to buy on dips.

Stacking it up, the group's key raw materials are copper rods, aluminium rods, steel wires and PVC compounds. Collectively, they make up 81% of the group's total raw material costs in FY09 (including finished products).

TABLE 12: MAJOR SUPPLIERS

Customers	Country	Length of relationship Years	← FYE 31 December →					
			2007		2008		2009	
			RM'000	%	RM'000	%	RM'000	%
Universal Cable (M)	Malaysia	28	25,243	29.6	53,007	42.6	19,435	3
Alpha Industries	Malaysia	23	20,804	24.4	26,052	20.9	4,535	
Metrod	Malaysia	14	20,537	24.1	21,459	17.2	12,059	1
Tawin	Malaysia	8	1,007	1.2	1,696	1.4	10,897	1

Source: SCB Prospectus

## RAISING CAPITAL TO SPUR ORDERBOOK EXPANSION

### □ Capex already frontloaded

Out of the RM9mil that was raised during its IPO (roughly half have been utilised to-date), SCB had allocated 38% or ~RM3.5mil for additional machinery and equipment. These included:

- (i) One unit of rigid stranding machine;
- (ii) One unit of aluminium/aluminium alloy rod breakdown machine; and
- (iii) One unit of medium copper wire drawing machine.

**We wish to highlight that these new machineries would boost SCB's total production capacity of cables & wires by approximately 47% to 12,963 tonnes.**

Importantly, the front-loading of capex puts SCB in a strong position to benefit from an expected upswing in power infrastructure projects in Sarawak under SEB:

- (i) Part of the new capacity would be deployed to develop two new products: i.e. low voltage aerial bundled cables as well as low voltage two-core twin twisted cables.

Specifically, this new production line would help SCB cater to increasing market demand for power supply lines used to enhance rural electricity coverage within East Malaysia.

- (ii) The additional capacity would also ensure that SCB would be sufficiently prepared to ramp-up its production in anticipation of stronger demand for high-voltage power cables & wires required for Sarawak's 500kV backbone project.

## VALUATION AND RECOMMENDATION

### □ Explosive growth potential: FY12F-13F PEs of 4x-6x vs three-year EPS CAGR of 118%

For 1QFY11 results, SCB recorded a 2.7x YoY jump in net profit to RM3mil. QoQ, it rose by a commendable 6% - as the first quarter is normally slower due to seasonal festivities/holidays.

Most importantly,, we expect SCB's sequential earnings momentum to improve considerably in the coming

quarters. Near-term improvements would come from the staggered consolidation of contributions from its new units – i.e. Sarwaja and Trenergy.

Further out, stronger contract flows – coupled with operational synergies and cost savings harnessed within the enlarged SCB group – would likely lend a significant kick to its earnings trajectory.

SCB is on the cusp of an explosive earnings inflection point. We project FY11F net profit at RM21mil (FY10: RM5mil) – rising to RM45mil-RM65mil in FY12F-13F, respectively.

This is backed by rising new contract flows of RM300mil-RM800mil during this period against ~RM117mil in FY10.

We have also incorporated upfront new contributions from the proposed acquisition of Trenergy. These would include an estimated 9% increase in the group's share base (at 147mil) to account for new SCB shares to be issued to facilitate the acquisition.

### □ Best leverage to SEB's super capex cycle

Despite the recent share price gains (+ 52% ytd), SCB continues to be a deeply under-appreciated play at forward FY12F-13F PEs of 4x-6x against robust three-year EPS CAGR of 118%.

We believe this is unjustified, given its:

- (i) Unique status as the only integrated local power transmission specialist capable of delivering systems on a supply & lay basis in Sarawak (and possibly, Malaysia);
- (ii) Strategic positioning as a direct play to Sarawak's burgeoning power transmission industry; and (iii) Backing from a strong parent and strategic partners/shareholders.

**We expect a significant PE expansion for the SCB group – upon stronger contract delivery, especially from the fast-emerging SCORE.**

TABLE 13: COMPARISON AGAINST PEERS

Construction												
Company	Share Price (RM)	Core PE (x)			Fair Value (RM)	Upside (%)	EPS CAGR (%)	Market Cap (RM mil)	P/BV (x)	ROE (%)	Div. Yield (%)	Rec
		FY11F	FY12F	FY13F								
Gamuda	3.34	18.1	17.1	14.6	3.81	14.1	16.7	6,896.5	2.0	11.0	3.6	Hold
IJM*	5.48	24.7	17.2	14.8	7.71	40.7	20.3	7,511.7	2.1	6.5	2.0	Buy
WCT	2.81	13.6	12.8	10.8	3.85	37.0	15.0	2,255.2	1.5	14.3	3.4	Buy
Benalec	1.30	10.2	8.0	6.7	1.90	46.2	34.0	949.0	8.7	27.2	1.9	Buy
Kimlun	1.49	7.9	6.9	5.8	2.25	51.0	16.4	341.2	1.6	21.5	3.8	Buy

\*Actual figures for FY11

SCORE												
Company	Share Price (LC)*	Market Cap (USDmil)	EPS (USD)			CAGR (%)	PE (x)			Div. Yield (%)	P/BV (x)	ROE (%)
			FY11F	FY12F	FY13F		FY11F	FY12F	FY13F			
Leader Universal	0.76	109.6	0.05	0.06	0.05	2.5	4.9	4.2	5.4	3.9	0.5	9.8
OM Holdings	0.84	431.9	0.03	0.11	0.16	32.9	31.1	8.1	5.4	0.7	1.4	4.7
Norsk Hydro	31.62	11,919.8	0.49	0.64	0.70	44.1	11.7	8.9	8.2	3.0	0.8	9.4
Tokuyama	340.00	1,543.1	0.30	0.39	0.41	14.9	14.6	11.2	10.8	1.8	0.5	3.5
ABB	133.80	47,728.9	1.56	1.82	2.00	19.1	13.3	11.4	10.3	3.4	2.8	21.9

\* Local Currency

IPP												
Company	Rating	Share Price (LC)	Fair Value (LC)	Market Cap (USD mil)	CAGR (%)	PE (x)			Div. Yield (%)	P/BV (x)	ROE (%)	
						FY11F	FY12F	FY13F				
Tenaga	Hold	5.70	6.00	10,276.1	1.0	25.4	10.1	9.4	1.4	1.0	4.3	
YTL Power	Hold	1.79	2.42	4,305.5	2.9	11.3	10.7	9.8	7.3	1.7	15.4	
Power Assets	not rated	57.75	-	15,786.3	8.2	13.8	13.7	13.6	4.0	2.1	15.3	
CLP Group	not rated	66.95	-	20,632.6	4.1	15.7	14.8	14.2	3.8	1.9	13.0	
Hafslund	not rated	55.50	-	1,167.2	2.8	13.6	12.6	11.5	5.3	1.2	6.2	
Electricity Generatir	not rated	91.75	-	1,615.0	-5.8	7.7	7.9	8.1	5.8	0.8	11.1	

\* Local Currency

Source: Companies, Bloomberg, AmResearch

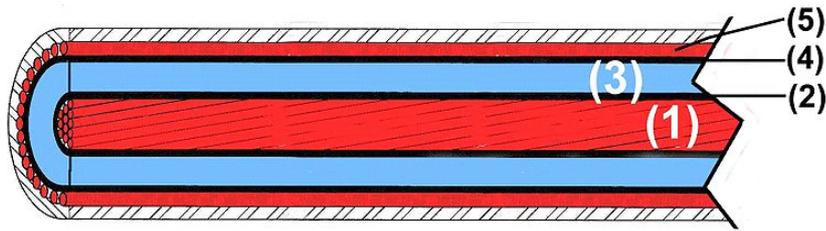
## APPENDIX SECTION

TABLE 14: MAJOR MILESTONES

Year	Achievements and Milestones
1980	<ul style="list-style-type: none"> <li>· Incorporation of Universal Cable (Sarawak)</li> <li>· Commenced business initially in the trading of power cables and wires</li> </ul>
1982	Commenced manufacturing of low voltage single core power cables and wires from our manufacturing plant in Pending, Kuching, Sarawak
1991	<ul style="list-style-type: none"> <li>· Commenced manufacturing of low voltage multicore power cables and wires</li> <li>· Obtained product certification licence MS 136:1987 for "PVC Insulated Cables (non-armoured) for Electricity Power and Lighting" from SIRIM</li> </ul>
1999	<p>Obtained MS ISO 9002:1994 Quality Management System from SIRIM</p> <ul style="list-style-type: none"> <li>· Obtained product certification licence MS 274:1995 for "PVC Insulated Cables for Electricity Supply" from SIRIM</li> <li>· Upgraded product certification licence MS 136:1987 to MS 136:1995 for "PVC Insulated Cable (non-armoured) for Electric Power and Lighting" from SIRIM</li> <li>· Awarded turnkey projects by SESCO for the supply, installation and commissioning of cables and circuits, namely: <ul style="list-style-type: none"> <li>"Double circuit 48MVA 33kV systems from Salim 132kV substation to Alan Road 33kV substation Sibul";</li> <li>"33kV underground cable linking Sejingkat 132kV to Sejingkat substation and Port Senari substation"; and</li> <li>"Cable laying works from 33kV Astana substation to Santubong"</li> </ul> </li> </ul>
2003	<ul style="list-style-type: none"> <li>· Obtained MS ISO 9001:2000 Quality Management System from SIRIM</li> <li>· Awarded a turnkey project by SESCO for the supply, installation and commissioning of cables and circuits, namely the "Turnkey underground cable laying project from Matang 275/132/33kV substation to Semariang new township 33/11kV substation"</li> </ul>
2006	Awarded a turnkey project by SESCO for the supply, installation and commissioning of cables and circuits, namely the "Supply and installation of submarine cables for Simunjan and Igan"
2007	<ul style="list-style-type: none"> <li>· Commenced operations in our new manufacturing plant in Demak Laut Industrial Estate Phase III, Kuching, Sarawak and commenced manufacturing of high voltage bare conductors, namely AAAC</li> </ul>
2008	<ul style="list-style-type: none"> <li>· Commenced operations in our new branch office and warehouse in Kota Kinabalu, Sabah</li> <li>· Commenced manufacturing of ACSR</li> <li>· Awarded a turnkey project by SESCO for the supply, installation and laying of submarine fibre optic cables across the Baram River at Marudi, Sarawak</li> </ul>
2009	Obtained MS ISO 9001:2008 Quality Management System from SIRIM

Source: SCB prospectus, AmResearch

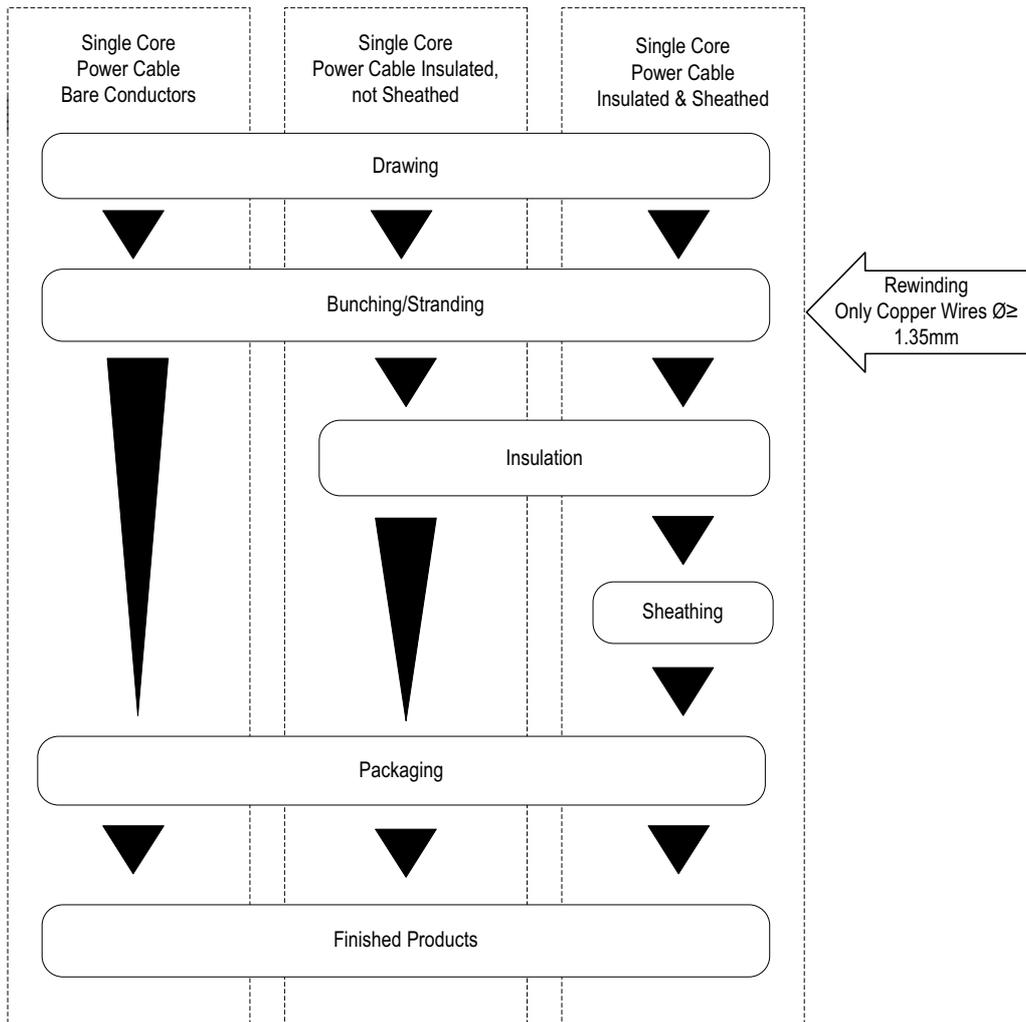
CHART 17 : CABLE CROSS SECTION



Parts		Features	Function
(1)	Conductor	Consists of copper and aluminium wires	Transports the current
(2)	Inner side of insulation	Semi-conducting layers are fused to the insulation	Equalises electrical stress on the cable insulation, prevent air-filled cavities between the metal conductors and the dielectric so that little electric discharges can arise and endanger the insulation material
(3)	Insulation	May consist of cross-linked polyethylene, also called XLPE. It is reasonably flexible and tolerates operating temperatures up to 120 °C	Support or separate electrical conductors without allowing current through themselves
(4)	Outer side of insulation	Semi-conducting layers are fused to the insulation	Equalises electrical stress on the cable insulation, prevent air-filled cavities between the metal conductors and the dielectric so that little electric discharges can arise and endanger the insulation material
(5)	Outer conductor/sheath	Can be bare or have an insulated grounding or bonding wire for connection to earth ground	Serves as an earthed layer and will conduct leakage currents if needed

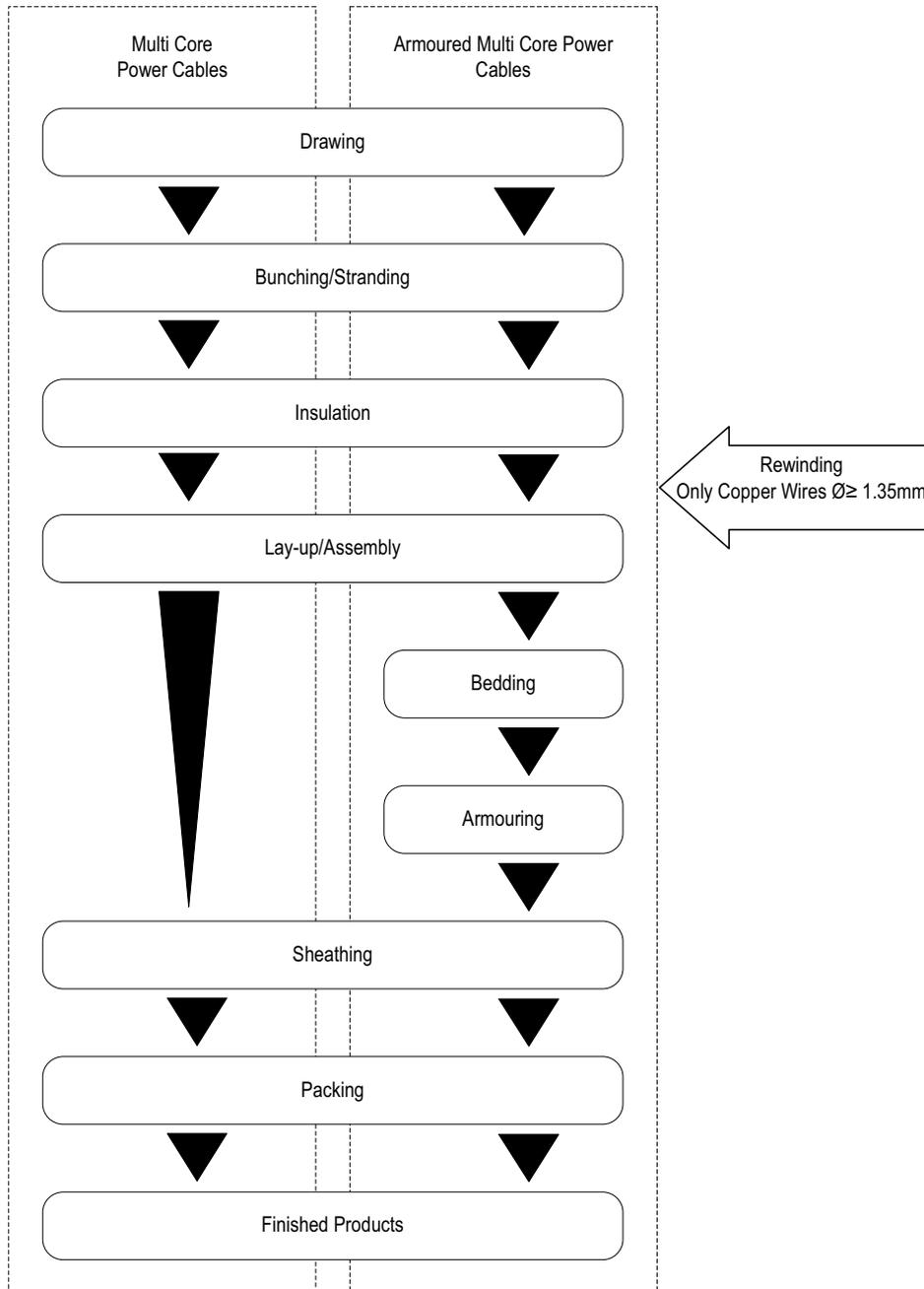
Source: Internet, Wikipedia, AmResearch

CHART 18 : SINGLE CORE CABLE MANUFACTURING PROCESS



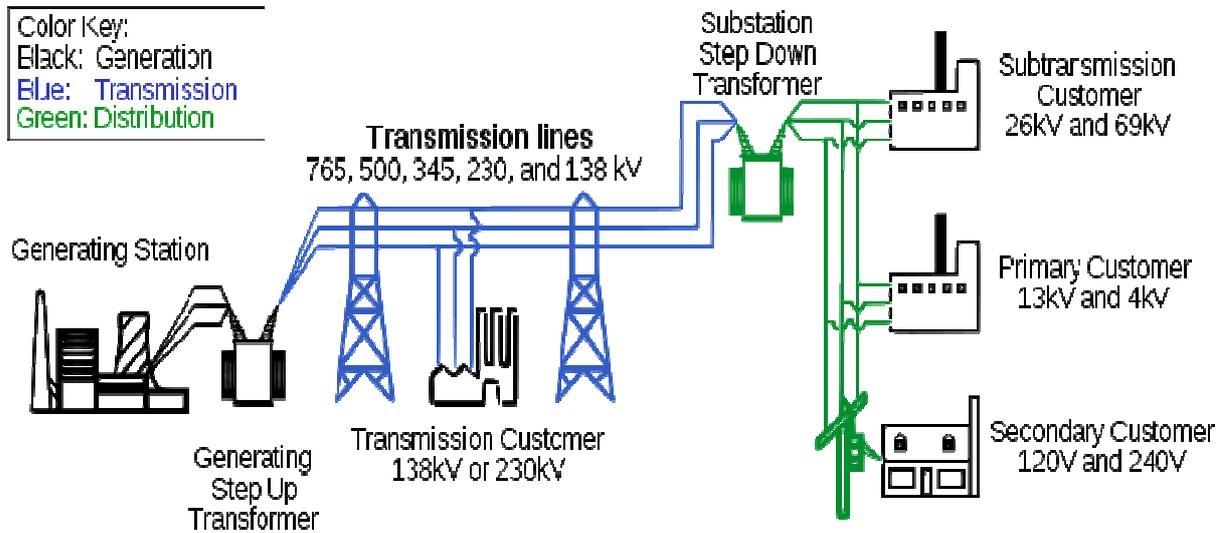
Source: SCB, AmResearch

CHART 19 : MULTICORE CABLE MANUFACTURING PROCESS



Source: SCB, AmResearch

CHART 20 : ELECTRICITY TRANSMISSION



Electricity is first produced at the respective plants or generating stations, usually at low voltages (between 2.3kV and 30 kV). Before it enters the transmission system to be carried to local communities, the electricity goes into a substation with a step-up transformer to be converted to higher voltages (typically between 133kV and 765kV) with a lower current. This is necessary to reduce losses in energy in long distance transmission as less resistance is present in higher voltage electricity lines. These high voltage lines are supported by transmission towers.

As the electricity enters the distribution system, it flows through another substation with a step-down transformer, which increases the current while decreasing the voltage for domestic and commercial distribution (33kV to 132 kV). The distribution system's network of wires can be overhead or underground. Another small transformer on the street or in the neighbourhood may be present to further reduce the voltage to 120V or 240V.

Source: Wikipedia, Canadian Centre for Energy Information, AmResearch

TABLE 15: BRIEF INTRODUCTION ON TRANSMISSION SYSTEMS

**Electric power transmission** is the bulk transfer of electrical energy, from generating power plants to substations located near population centres.

**Electric power distribution** is the local wiring between high voltage substations and customers.

**Power transmission line:** The facility in an electric power system used to transfer large amounts of power from one location to a distant location; distinguished from a sub transmission or distribution line by higher voltage, greater power capability, and greater length.

**Transmission towers** are structures that are used to suspend power lines and lightning-protection cables in overhead power transmission lines. The basic structural components of such towers are posts, footings, cross-arms, cable struts, and guy wires.

**Substations:** Transform voltage from high to low, or the reverse, or perform any of several other important functions. Substations generally have switching, protection and control equipment, and transformers. Substations may be associated with HVDC converter plants, traction current, or interconnected non-synchronous network. Substations are referred to by the main duty they perform.

- i. **Transmission substation** connects two or more transmission lines. They may have transformers to convert between two transmission voltages, voltage control/power factor correction devices such as capacitors, reactors or static VAR compensators and equipment such as phase shifting transformers to control power flow between two adjacent power systems.
- ii. **Distribution substation** transfers power from the transmission system to the distribution system of an area. In addition to transforming voltage, distribution substations also isolate faults in either the transmission or distribution systems.
- iii. **Collector substation** somewhat resembles a distribution substation although power flow is in the opposite direction, from many power generators into the transmission grid. If no transformers are installed for increase of voltage to transmission level, the substation is a switching station.
- iv. **Switching substation** is a substation, which does not contain transformers and operates only at a single voltage level. Switching substations are sometimes used as collector and distribution stations. Sometimes they are used for switching the current to back-up lines or for parallelizing circuits in case of failure.

**A transformer** is an electrical device used to transfer an alternating current from one electric circuit to another by means of electromagnetic induction by either increasing (stepping up) or reducing (stepping down) the voltage. A major application of transformers is to increase voltage before transmitting electrical energy over long distances through wires. Wires have resistance and so dissipate electrical energy at a rate proportional to the square of the current through the wire. By transforming electrical power to a high-voltage (and therefore low-current) form for transmission and back again afterward, transformers enable economical transmission of power over long distances. Transformers are also used to reduce the line voltage to operate low-voltage devices at the domestic level.

Source: Wikipedia, thefreedictionary.com, AmResearch

PICTURE 6 : BAKUN DAM



Source: SEB, AmResearch

PICTURE 7: MURUM DAM



Source: SEB, AmResearch

TABLE 16: FINANCIAL DATA

Income Statement (RMmil, YE 31 Dec)	2009	2010	2011F	2012F	2013F
<b>Revenue</b>	<b>89.8</b>	<b>129.5</b>	<b>380.3</b>	<b>646.5</b>	<b>870.6</b>
<b>EBITDA</b>	<b>12.6</b>	<b>10.5</b>	<b>34.3</b>	<b>69.3</b>	<b>98.3</b>
Depreciation	(1.9)	(2.5)	(3.4)	(3.5)	(3.8)
Operating income (EBIT)	10.7	8.0	30.9	65.7	94.5
Other income & associates	0.0	0.0	0.0	0.0	0.0
Net interest	(0.2)	(0.1)	(0.1)	(1.1)	(1.6)
Exceptional items	0.0	0.0	0.0	0.0	0.0
<b>Pretax profit</b>	<b>10.5</b>	<b>7.9</b>	<b>30.8</b>	<b>64.6</b>	<b>92.9</b>
Taxation	(2.4)	(1.6)	(7.8)	(16.3)	(23.3)
Minorities/pref dividends	0.0	(0.8)	(1.6)	(3.2)	(4.9)
<b>Net profit</b>	<b>8.1</b>	<b>5.5</b>	<b>21.4</b>	<b>45.1</b>	<b>64.6</b>
<b>Core net profit</b>	<b>8.1</b>	<b>5.5</b>	<b>21.4</b>	<b>45.1</b>	<b>64.6</b>
<b>Balance Sheet (RMmil, YE 31 Dec)</b>	<b>2009</b>	<b>2010</b>	<b>2011F</b>	<b>2012F</b>	<b>2013F</b>
Fixed assets	37.5	64.2	62.8	62.2	66.4
Intangible assets	0.0	0.0	0.0	0.0	0.0
Other long-term assets	0.0	0.0	0.0	0.0	0.0
<b>Total non-current assets</b>	<b>37.5</b>	<b>64.2</b>	<b>62.8</b>	<b>62.2</b>	<b>66.4</b>
Cash & equivalent	4.4	10.7	29.4	13.6	10.4
Stock	17.6	31.0	45.0	67.6	90.5
Trade debtors	31.3	135.8	202.1	327.7	441.3
Other current assets	0.0	0.0	0.0	0.0	0.0
<b>Total current assets</b>	<b>53.4</b>	<b>177.5</b>	<b>276.5</b>	<b>408.9</b>	<b>542.1</b>
Trade creditors	8.8	110.3	119.8	202.8	271.4
Short-term borrowings	0.0	6.5	41.5	46.5	51.5
Other current liabilities	0.2	1.2	1.2	1.2	1.2
<b>Total current liabilities</b>	<b>9.0</b>	<b>118.0</b>	<b>162.5</b>	<b>250.5</b>	<b>324.1</b>
Long-term borrowings	0.0	0.0	0.0	0.0	0.0
Other long-term liabilities	2.2	5.9	5.9	5.9	5.9
<b>Total long-term liabilities</b>	<b>2.2</b>	<b>5.9</b>	<b>5.9</b>	<b>5.9</b>	<b>5.9</b>
<b>Shareholders' funds</b>	<b>79.5</b>	<b>106.7</b>	<b>158.2</b>	<b>198.7</b>	<b>257.6</b>
Minority interests	0.2	11.2	12.8	16.0	20.9
BV/share (RM)	0.74	0.79	1.04	1.31	1.70
<b>Cash Flow (RMmil, YE 31 Dec)</b>	<b>2009</b>	<b>2010</b>	<b>2011F</b>	<b>2012F</b>	<b>2013F</b>
Pretax profit	10.5	7.9	30.8	64.6	92.9
Depreciation	1.9	2.5	3.4	3.5	3.8
Net change in working capital	(1.0)	(16.3)	(70.9)	(65.1)	(67.9)
Others	17.0	15.3	(8.4)	(16.9)	(23.7)
<b>Cash flow from operations</b>	<b>28.4</b>	<b>9.3</b>	<b>(45.1)</b>	<b>(13.9)</b>	<b>5.1</b>
Capital expenditure	(3.7)	(18.4)	(2.0)	(3.0)	(8.0)
Net investments & sale of fixed assets	0.4	0.1	0.0	0.0	0.0
Others	0.0	0.2	0.6	0.6	0.4
<b>Cash flow from investing</b>	<b>(3.3)</b>	<b>(18.1)</b>	<b>(1.4)</b>	<b>(2.4)</b>	<b>(7.6)</b>
Debt raised/(repaid)	(21.2)	6.5	35.0	5.0	5.0
Equity raised/(repaid)	1.2	15.1	34.2	0.0	0.0
Dividends paid	(2.7)	(2.7)	(4.1)	(4.6)	(5.7)
Others	0.2	(3.9)	0.0	0.0	0.0
<b>Cash flow from financing</b>	<b>(22.4)</b>	<b>15.1</b>	<b>65.1</b>	<b>0.4</b>	<b>(0.7)</b>
<b>Net cash flow</b>	<b>2.7</b>	<b>6.3</b>	<b>18.7</b>	<b>(15.8)</b>	<b>(3.2)</b>
<b>Net cash/(debt) b/f</b>	<b>1.8</b>	<b>4.4</b>	<b>10.7</b>	<b>29.4</b>	<b>13.6</b>
Forex	4.4	10.7	29.4	13.6	10.4
<b>Net cash/(debt) c/f</b>	<b>10.5</b>	<b>7.9</b>	<b>30.8</b>	<b>64.6</b>	<b>92.9</b>
<b>Key Ratios (YE 31 Dec)</b>	<b>2009</b>	<b>2010</b>	<b>2011F</b>	<b>2012F</b>	<b>2013F</b>
Revenue growth (%)	(33.8)	44.2	193.6	70.0	34.7
EBITDA growth (%)	(2.4)	(16.5)	227.3	101.7	41.9
Pretax margins (%)	11.7	6.1	8.1	10.0	10.7
Net profit margins (%)	9.0	4.3	5.6	7.0	7.4
Interest cover (x)	9.7	13.9	17.2	22.1	27.8
Effective tax rate (%)	22.6	20.3	25.2	25.2	25.1
Net dividend payout (%)	33.0	73.6	21.3	12.6	8.8
Debtors turnover (days)	n/a	383	194	185	185
Stock turnover (days)	n/a	354	133	135	135
Creditors turnover (days)	n/a	99	50	45	45

Source: SCB, AmResearch

**AmResearch****Company report**

# PRESS METAL BHD

(PRESS.MK, PMET.KL)

9 August 2011

*Phase 2 on verge of taking off***BUY**

(Maintained)

**Hoy Ken Mak**

mak-hoy-ken@ambankgroup.com

+603 2036 2294

*Rationale for report: Company Update*

Price	RM1.83
Fair Value	RM3.28
52-week High/Low	RM 2.80/RM1.38

**Key Changes**

Fair value	unchanged
EPS	

YE to Dec	FY10	FY11F	FY12F	FY13F
Revenue (RMmil)	1,713.4	2,020.6	2,448.2	3,296.3
Core net profit (RMmil)	63.4	104.7	135.7	254.7
Core FD EPS (Sen)	14.7	15.6	23.4	39.6
Core FD EPS growth (%)	96.1	5.6	50.4	69.0
Consensus EPS (Sen)		n/a	n/a	n/a
DPS (Sen)	2.0	2.5	3.0	3.0
Core FD PE (x)	10.3	11.8	7.8	4.6
EV/EBITDA (x)	8.9	8.2	8.5	5.0
Div yield (%)	1.1	1.3	1.6	1.6
ROE (%)	10.6	12.4	14.1	22.1
Net Gearing (%)	143.6	166.8	234.7	180.0

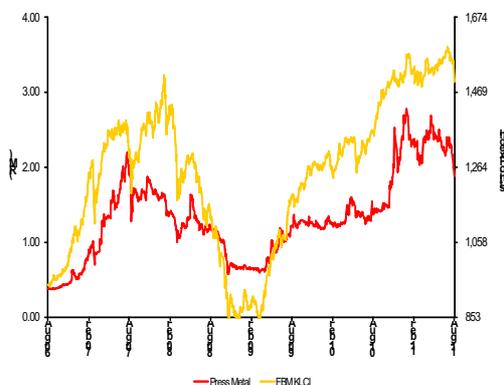
**Stock and Financial Data**

Shares Outstanding (million)	439.3
Market Cap (RMmil)	804.0
Book value (RM/share)	1.85
P/BV (x)	1.0
ROE (%)	10.6
Net Gearing (%)	143.6

Major Shareholders Koon family (37.3%)

Free Float (%)	62.7
Avg Daily Value (RMmil)	1.4

Price performance	3mth	6mth	12mth
Absolute (%)	(15.6)	(6.5)	63.6
Relative (%)	(16.5)	(8.3)	49.6

**Investment Highlights**

- Maintain BUY call on Press Metal Bhd with an unchanged fair value of RM3.28/share. This is pegged to a higher target multiple of 14x (previously: 12x), as we roll-forward our valuation base to FY12F after assuming full dilution from its upcoming RCSSLs/ warrants issue.
- The higher multiple underpins Press Metal's structural growth transformation – with the imminent commissioning of its new 240,000 tonne-aluminium smelter in Sarawak.
- Having signed a landmark PPA term sheet in April, Press Metal is among the first batch of investors that have firmed up a long-term supply of power with Sarawak Energy Bhd.
- Such a move would pave the way for Press Metal to secure 680MW of power that would sufficiently satisfy the energy needs of both Phase 1 & 2 of its expansion programme.
- Construction of its new smelter is progressing on a fast-tracked basis – for which earthworks have started. Phase 2A is to be completed by 3Q 2012 and Phase 2B by 2Q 2013.
- Reflecting our growing conviction, Press Metal has secured a RM400mil term loan facility with a consortium of banks to part-finance the ~RM1bil outlay required under Phase 2A. The balance would come from a RM323mil RCSSLs issuance and shareholders advances (RM300mil).
- We also do not preclude the possibility of Japan's Sumitomo investing in Phase 2, after the latter bought a 20% stake in Press Metal's Mukah smelter last September.
- The imminent commissioning of Phase 2 should solidify Press Metal's deepening progression as an integrated aluminium producer within ASEAN – with a tripling of capacity to 360,000 tonnes.
- To be sure, Alpha Milestone – a vehicle owned by the Koon family (its major shareholders) – has given an undertaking to subscribe for any RCSSLs not taken up by minority shareholders.
- Not unlike its Mukah Smelter, the new smelter at Samalaju would also be accorded with double tax incentives on an estimated total investment of RM1.7bil (~US\$600mil).
- The full impact from Phase 2A would filter through in 2013, resulting in a 16% accretion to FY13F FD EPS with the forward PE improving from 6x to 5x. Furthermore, we estimate that an early redemption of the RCSSLs issue alone may result in a significant 32% expansion in market cap to RM1.1bil.

**MAINTAIN BUY ON PRESS METAL**

□ *Fair value kept at RM3.28/share*

We maintain our **BUY** recommendation on Press Metal Bhd – with an unchanged fair value of **RM3.28/share** – based on a higher target PE of 14x (previously: 12x).

The higher fair value encapsulates:

- (i) Press Metal's transformation as an integrated aluminium player within the booming ASEAN region.
- (ii) The full conversion of up to 147mil Redeemable Convertible Secured Loan Stocks (RCCLS) together with 147mil detachable warrants.
- (iii) Staggered commissioning of Phase 2 of its expansion programme in Sarawak estimated at RM1.7bil. Phase 2A is estimated to cost RM1bil and Phase 2B at RM700mil.  
  
Under Phase 2A, 70% would be funded via a combination of RCCLS and syndicated term loans of RM400mil – the balance coming from shareholders advances.
- (iv) A rollover of our valuation base to FY12F to reflect partial contribution from the scheduled completion of Phase 2A (120,000 tonnes) of its new aluminium smelter in Sarawak by 3Q 2012.

**We put forth five key reasons underpinning our bullish conviction on the stock:**

- (1) The imminent commissioning of Phase 2 would help solidify Press Metal's deepening progression as an

integrated aluminium producer.

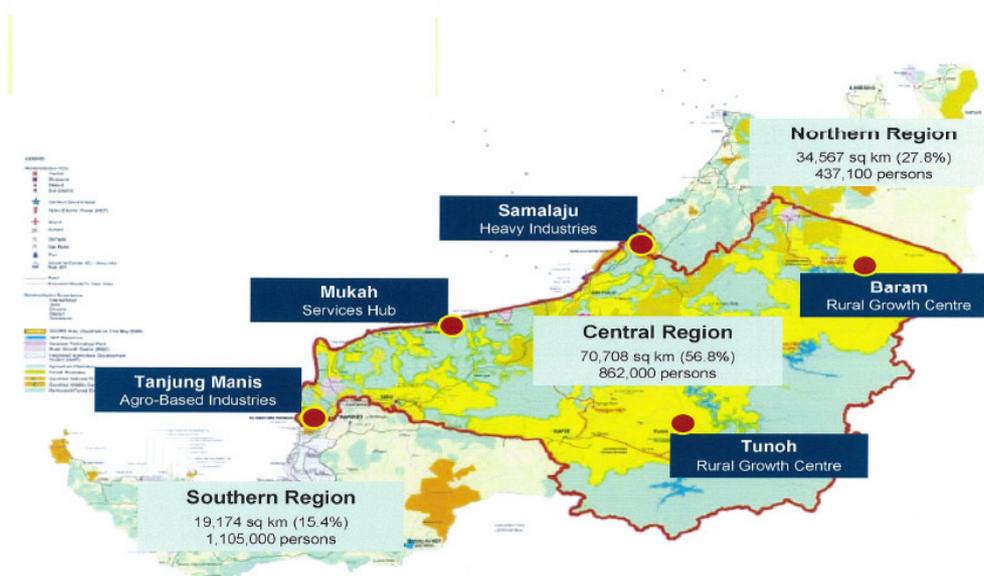
- (2) The new plant in Samalaju would result in a tripling of Press Metal's smelting capacity to 360,000 tonnes. This puts the group in a strong position to benefit from a re-acceleration of aluminium demand within the ASEAN region.
- (3) Just only on an additional 120,000 tonnes from Phase 2A and a one-quarter contribution from Phase 2B, we forecast a 16% increase in our FY13F FD EPS forecast – with forward PE improving from 6x to 5x.
- (4) Backed by a long-term Power Purchase Agreement (PPA) signed with Sarawak Energy Bhd (SEB), Press Metal is the only energy-intensive play currently operational within SCORE.
- (5) Not unlike Phase 1, Press Metal would enjoy double tax incentives through future contributions from the new plant; and
- (6) Even on an FD basis, valuations are compelling at FY11F-13F PEs of 5x-12x against robust EPS CAGR of 39%.

**THE MAKINGS OF A REGIONAL ALUMINIUM GIANT**

□ *Full-steam ahead*

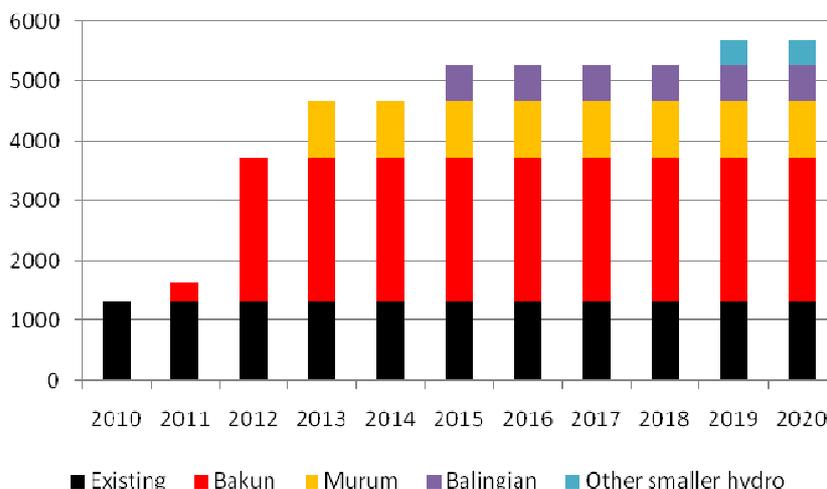
During our meeting with management last Friday, we draw comfort that the group's aggressive Phase 2 expansion programme in Sarawak is fast taking shape. Earthworks and other site preparatory works have commenced and

**PICTURE 1: MAP OF SCORE**



Source: Sarawak government, AmResearch

CHART 1: SEB'S PLANNED CAPACITY BY 2020



Source: Sarawak government, AmResearch

are now running full steam ahead.

The new aluminium facility would be constructed on a 480 acre-parcel of land located within the Kemena Land district at the Samalaju Industrial Park, Bintulu, one of the 11 administrative divisions of Sarawak.

Samalaju is one of five growth nodes within SCORE – where a bulk of its heavy-intensive industries will be located (See Chart 1).

Apart from Press Metal, the other major investors that have already committed within the Samalaju industrial area are OM Holdings Ltd, Asia Minerals Ltd and Tokuyama of Japan.

The entire project – which is estimated to cost ~US\$600mil (RM1.7bil) – is to be developed in several phases over a period of three years. When fully completed, the smelter would have a total capacity of 240,000 tonnes.

Management guided that Phase 2A is on track to be completed by 3Q 2012 – with 120,000 tonnes of new smelting capacity coming on-stream. This would be followed by another 120,000 tonnes under Phase 2B by 2Q 2013.

#### □ *Enhanced competitive positioning via landmark PPA*

One of the key factors that prompted Press Metal to first invest heavily in Sarawak is the state's abundance of hydro potential.

Cognisant of this, the Sarawak government has entrusted state-utility firm Sarawak Energy Bhd (SEB) to embark on a massive RM22bil programme to upgrade its infrastructure over a 10-year period.

The original programme includes the construction of 12 hydro dams with a total capacity of 20,000MW – where SEB is looking to boost its capacity to ~7,000MW by 2020.

This is predicated upon an energy mix of 69%:31% split between hydro and other sources of energy (See Chart 2).

Thus far, two of them have taken off the ground. The Bakun dam – the first and largest of the hydro dams at 2,400MW – was scheduled to start firing its first 300MW of power by August 6.

Meanwhile, the ongoing 944MW-Murum dam is due to be commissioned by the end of 2013. It is about 44% completed at this juncture.

In April, Press Metal was among the first batch of four companies that had signed PPA term sheets with SEB for the delivery of 1,300MW of power. The West Kalimantan government subsequently became the fifth signatory last month - inking a pact with SEB for 230MW of power.

Taken together, these users have collectively taken up ~86% of the Bakun dam's firm capacity of 1,771MW.

Including both phases 1 & 2, Press Metal would require a total of 680MW to fuel its plants.

At the moment, the group's existing smelter in Mukah receives electricity supply from the Mukah coal-fired power plant.

As for Phase 2, initial supply would be transmitted via Bakun dam – which is expected to add 300MW of power loads on a three-month interval until it is fully up and running by mid-2013.

Work on the 275kV Bakun-Samalaju transmission project (RM209mil) that is supposed to supply power from the Bakun powerhouse to the industrial area is due to be completed by January next year.

Most importantly, the PPA pact paves the way for Press Metal to lock-in its long-term power requirements at an attractive rate – and undoubtedly elevate Press Metal's competitive positioning as an integrated aluminium producer.

Enjoying an 'early bird' advantage, we understand that the starting tariffs secured by Press Metal – at between RM0.11/kWh and RM0.12/kWh (US\$0.03/kWh and US\$0.04/kWh) with an annual escalation of 1.5% – rank among the cheapest within SCORE.

To be sure, we understand that that the starting rates received by Press Metal for its power supply are some 50% cheaper than the average power cost of Chinese smelters (See Table 1).

□ *First off the blocks*

With Phase 2 already progressing as scheduled, Press Metal has undoubtedly stolen a march over its rivals as the first smelter operating within Sarawak.

From our channel checks, there are at least five other proposals to set up smelters in Sarawak, particularly within the Samalaju Industrial Park.

Apart from Press Metal, there has only been some tangible newsflow on a pact of an MoU between Gulf International Investment Group Holdings Sdn Bhd (GIIG) and Aluminium Corp of China (Chalco) – which have proposed to set up a US\$1.5bil aluminium smelter in Samalaju.

The smelter is expected to take up 600MW of power

**TABLE 1: ALUMINIUM SMELTER PROPOSALS IN SCORE**

Smelter	Area	Owner	Annual Capacity (tonnes p.a.)	Est.Power offtake (MW)	Est. starting PPA rate (sen/kWh)	Capex (US\$mil)	Status
<b>(1) Press Metal</b>							
- Press Metal Mukah	Mukah	Press Metal - 80% Sumitomo - 20% <sup>1</sup>	Phase 1: 120,000	Up to 680: Phase 1: 200 Phase 2: 480	11-12	900 Phase 1: 300 Phase 2: 600	- Fully operational by 2011. - Phase 2A: To be commissioned by 3Q12 - Phase 2B: To be commissioned by 2Q13
- Press Metal Sarawak	Similajau	Press Metal - 100%	Phase 2: 240,000		11-12		- Signed PPA term sheet with SESCO in late-April 2011. Final negotiations to be completed by July-2011.
<b>(2) Smelter Asia Sdn Bhd</b>							
	Similajau	GIIG-Chalco JV <sup>2</sup>	Initial: 370,000 Up to 700,000	Initial: 600	11-12	1,500	- Construction to start in 2H 2011. Production to commence in 1H 2015. - Signed PPA term sheet with SESCO in late-April 2011. Final negotiations to be completed by July-2011.
<b>(3) Sarawak Aluminium Company Sdn Bhd (SALCO)</b>							
	Similajau	Rio Tinto Alcan-CMS JV <sup>3</sup>	Initial: 720,000 tonnes Up to: 1.5 million tonnes	Initial: 900MW-1200MW	11-12	2,000	- Construction period: two to three years
<b>(4) Sarawak Aluminium</b>							
	Sarawak	1MDB-SGCC JV <sup>4</sup>	n/a	n/a	n/a	n/a	Part of US\$11bil co-operation framework to invest in the energy sector in Sarawak signed in January 2010. Includes the construction of three hydro dams and an aluminium smelter.
<b>(5) 1MDB-Mubadala JV</b>							
	Sarawak	(5) 1MDB-Mubadala JV	n/a	n/a	n/a	18,000	Aluminium smelter - RM12.7bil Downstream operations - RM5bil

Notes: <sup>1</sup> Sumitomo has the option to invest in 20% of both Phases 1 & 2 of Press Metal's smelting capacity in Sarawak (with the option for another 5%). The investments also correspond to an offtake of equal amounts in smelting capacity.

<sup>2</sup> Gulf International Investment Group Holdings Sdn Bhd (GIIG): A JV between Tan Sri Syed Mokhtar Al-Bukhary and prominent UAE-based businessman, Mohamed Ali Rashed Alabbar.  
Chalco (Aluminium Corp of China)

<sup>3</sup> Rio Tinto Alcan is the aluminium product group of the Rio Tinto Group.

<sup>4</sup> SGCC: State Grid Corp of China - China's leading transmission and distribution company.

Source: Various, AmResearch

initially based on an annual production capacity of 370,000 tonnes.

However, we believe any new aluminium plant-up to rival Press Metal would probably only be ready in two to three years' time. Plus, Press Metal would have also enjoyed a cost advantage via the long-term electricity supply accord signed with SEB as mentioned earlier.

#### □ *Secures RM1bil financing for Phase 2A*

We gather that the entire Phase 2 expansion programme is expected to cost ~US\$600mil (RM1.7bil) – twice of outlay of Phase 1.

Press Metal recently secured a RM400mil syndicated term loan facility with a consortium of local banks over an eight-year period. Under the agreement, Maybank would provide RM250mil, while the Alliance Bank and RHB bank portions stand at RM100mil and RM50mil, respectively.

The RM400mil loan is to part-finance Phase 2A of its new smelter at Samalaju costing RM1bil – based on a project debt/equity ratio of 70:30.

The balance would be funded through:

- (i) The eight-year RCSLS that comes with a nominal value of RM323mil; and
- (ii) Shareholder advances of RM300mil.

For the upcoming RCSLS issuance – issued on a 1:3 basis – Press Metal's share price went ex on July 27. The conversion price for the loan stocks has been fixed at RM2.20/share. Similarly, the exercise price for the warrants of up to 147mil that comes with the RCSLS is also pegged at RM2.20/share.

Trading on the rights entitlement to the RCSLS would be open for a one week-period – i.e. from 1 August 2011 until 8 August 2011.

The entire funding for Phase 2A should be wrapped up by month-end ahead of its scheduled completion by 3Q11.

On the other hand, the estimated outlay for Phase 2B is estimated to cost less at RM700mil – as all the infrastructure works would have been completed in the earlier phase.

On top of that, Press Metal is also mulling over alternative options to fund its capex plans:

- (i) Sumitomo Corp of Japan – which already has a 20% stake in Press Metal's earlier plant in Mukah (with the option for another 5%) – is still weighing up the offer for another 25% stake under Phase 2.
- (ii) Press Metal is in discussions with several leading international financial institutions on securing loan facilities that are to be repaid by its pre-sold aluminium products within a specified price range.

**Reflecting our deepening conviction on its expansion programme, Alpha Milestone Sdn Bhd – a vehicle**

**owned by the Koon family (major shareholders of Press Metal) – has given their irrevocable undertaking to subscribe for the RCSLS/warrants not taken up by minority shareholders.**

## VALUATION AND RECOMMENDATION

#### □ *FY11F earnings to accelerate in 2H11*

We have clipped our FY11F net profit forecast by 19% to RM105mil. But, we stress that this is largely due to a three-month delay in the commissioning of Bakun Dam in August instead of June under SEB's original programme.

Most important of all, the maiden commissioning of the 2,400MW dam by August would enable Press Metal to quickly ramp-up production at its Mukah smelter – where it has only received up to 140MW out of the 200MW required under Phase 1 that has resulted in a utilisation rate of only 60% (See Chart 3 & 4).

In addition, we draw comfort that its upstream China operations are expected to break-even in the second half of this year – as both prices and operating conditions gradually improve. For its downstream Chinese operations, we project the division to register a pre-tax profit of RMB 80mil for the whole of 2011.

#### □ *FY13F FD EPS raised by 16%*

For conservative purposes, we have adjusted our earnings base on a fully diluted basis – assuming full conversion of the RCSLS together with warrants. This would result in the group's share base expanding by ~70% to 736mil.

We have also factored into our earnings forecast new capacity coming on-stream from the staggered roll-out of Phases 2A and 2B by 3Q 2012 and 2Q 2013, respectively.

Stacking it up, we project a 16% jump in FY13F FD EPS to 40 sen – with a corresponding improvement in forward PE from 6x to 5x.

**TABLE 2: SARAWAK'S CURRENT GENERATION MIX**

Current Generation Mix	Location	Capacity (MW)
Gas combined cycle	Tg. Kidurong, Bintulu	317
Coal	Kg. Goebilt, Kuching	100
Coal	Kg. Goebilt, Kuching	110
Coal	Matadeng, Mukah	270
Hydro	Batang Ai	94
Gas	Bintulu	192
Gas	Miri	79
Diesel	Sg. Biawak	114
Hydro	Lundu, Penindin, Sebako, Sg. Pasir	2
Diesel/Hydro	Non-grid	50
<b>Total</b>		<b>1,328</b>

Source: SEB, AmResearch

PICTURE 2: BAKUN DAM



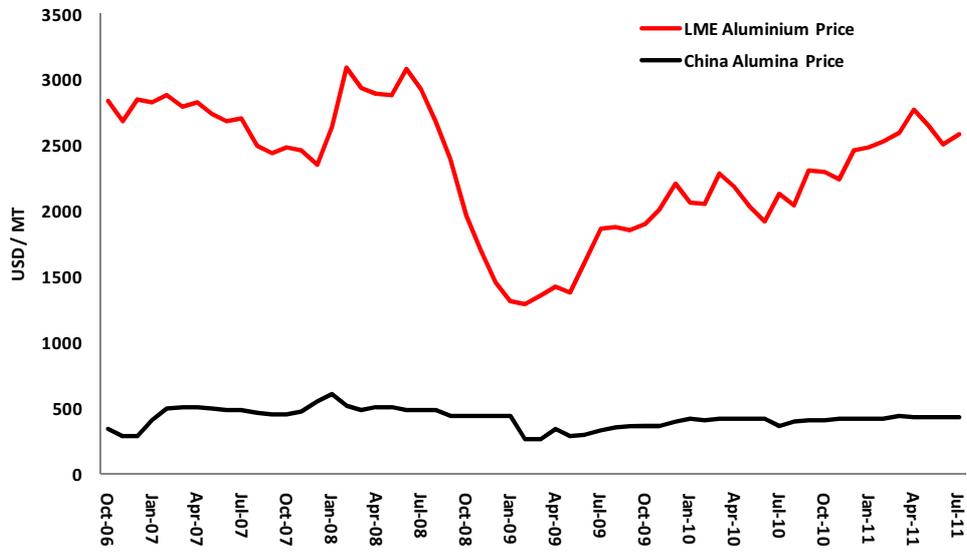
Source: Wikipedia, AmResearch

**In reality, the eight-year tenure for both the RCSLS and warrants implies that Press Metal would be able to raise capital on a staggered basis without significant dilutive concerns in the near-term. Furthermore, the RCSLS offers investors coupon rates of ~6% p.a. based on its nominal value.**

We also see a significant expansion in Press Metal's market capitalisation, if the group opts for an early redemption of its RCSLS.

**Based on our estimates, we project Press Metal's market capitalisation to expand 32% to RM1.1bil by FY13F – just on the full redemption of its outstanding RCSLS issue alone. Its net gearing ratio would also improve to 1.5x from the current forecast of 1.8x.**

CHART 2: MOVEMENT OF ALUMINIUM AND ALUMINA PRICES



Source: Bloomberg, AmResearch

TABLE 3: FINANCIAL DATA

Income Statement (RMmil, YE 31 Dec)	2009	2010	2011F	2012F	2013F
Revenue	1,133.2	1,713.4	2,020.6	2,448.2	3,296.3
EBITDA	157.1	230.5	293.5	390.6	651.1
Depreciation	(82.0)	(98.2)	(106.2)	(148.4)	(203.1)
Operating income (EBIT)	75.1	132.3	187.4	242	448.0
Other income & associates	1.4	2.0	1.8	2.0	2.1
Net interest	(36.4)	(50.6)	(46.0)	(59.0)	(104.6)
Exceptional items	0.0	18.0	0.0	0.0	0.0
<b>Pretax profit</b>	<b>40.1</b>	<b>101.7</b>	<b>143.1</b>	<b>185.1</b>	<b>345.5</b>
Taxation	(11.4)	(14.6)	(32.9)	(40.7)	(65.7)
Minorities/pref dividends	(1.2)	(5.7)	(5.5)	(8.7)	(25.2)
<b>Net profit</b>	<b>27.5</b>	<b>81.4</b>	<b>104.7</b>	<b>135.7</b>	<b>254.7</b>
Core net profit	27.5	63.4	104.7	135.7	254.7
Balance Sheet (RMmil, YE 31 Dec)	2009	2010	2011F	2012F	2013F
Fixed assets	1,357.7	1,475.0	1,790.7	2,901.8	2,878.9
Intangible assets	13.1	12.2	12.2	12.2	12.2
Other long-term assets	40.0	43.6	45.2	47.1	49.1
<b>Total non-current assets</b>	<b>1,410.8</b>	<b>1,530.8</b>	<b>1,848.1</b>	<b>2,961.2</b>	<b>2,940.2</b>
Cash & equivalent	64.2	209.2	435.2	58.5	151.0
Stock	262.6	327.2	383.3	405.9	489.2
Trade debtors	722.0	709.4	830.4	804.9	1,038.6
Other current assets	0.0	0.0	0.0	0.0	0.0
<b>Total current assets</b>	<b>1,048.8</b>	<b>1,245.9</b>	<b>1,648.9</b>	<b>1,269.3</b>	<b>1,678.7</b>
Trade creditors	263.2	257.1	298.1	355.1	489.2
Short-term borrowings	739.4	985.9	989.8	1,257.3	1,413.3
Other current liabilities	4.5	1.3	1.3	1.3	1.3
<b>Total current liabilities</b>	<b>1,007.1</b>	<b>1,244.4</b>	<b>1,289.3</b>	<b>1,613.8</b>	<b>1,903.8</b>
Long-term borrowings	519.1	367.0	938.1	1,208.1	1,032.0
Other long-term liabilities	110.3	243.3	243.3	243.3	243.3
<b>Total long-term liabilities</b>	<b>629.4</b>	<b>610.3</b>	<b>1,181.5</b>	<b>1,451.4</b>	<b>1,275.3</b>
<b>Shareholders' funds</b>	<b>735.4</b>	<b>796.2</b>	<b>895.0</b>	<b>1,025.4</b>	<b>1,274.7</b>
Minority interests	87.8	125.8	131.3	139.9	165.1
BV/share (RM)	2.01	1.85	2.07	2.37	2.95
Cash Flow (RMmil, YE 31 Dec)	2009	2010	2011F	2012F	2013F
Pretax profit	40.1	101.7	143.1	185.1	345.5
Depreciation	117.5	38.2	124.5	409.8	402.5
Net change in working capital	(163.7)	(58.1)	(136.0)	59.9	(182.9)
Others	92.1	(32.3)	11.3	16.3	36.8
<b>Cash flow from operations</b>	<b>50.6</b>	<b>109.5</b>	<b>124.5</b>	<b>409.8</b>	<b>402.5</b>
Capital expenditure	(315.4)	(315.4)	(405.0)	(1,225.0)	(180.0)
Net investments & sale of fixed assets	3.2	3.2	0.0	0.0	0.0
Others	0.1	225.5	(1.6)	(1.2)	(0.5)
<b>Cash flow from investing</b>	<b>(312.1)</b>	<b>(86.7)</b>	<b>(406.6)</b>	<b>(1,226.2)</b>	<b>(180.5)</b>
Debt raised/(repaid)	279.4	94.4	575.1	537.4	(20.1)
Equity raised/(repaid)	0.4	31.3	0.0	0.0	0.0
Dividends paid	(4.8)	(8.0)	(5.9)	(5.4)	(5.4)
Others	(37.1)	(2.6)	(61.1)	(92.3)	(104.0)
<b>Cash flow from financing</b>	<b>237.9</b>	<b>115.2</b>	<b>508.0</b>	<b>439.8</b>	<b>(129.5)</b>
<b>Net cash flow</b>	<b>(23.7)</b>	<b>138.0</b>	<b>226.0</b>	<b>(376.7)</b>	<b>92.5</b>
<b>Net cash/(debt) b/f</b>	<b>88.7</b>	<b>64.2</b>	<b>202.2</b>	<b>428.2</b>	<b>51.5</b>
Exchange rate effects	(0.8)	0.0	0.0	0.0	0.0
<b>Net cash/(debt) c/f</b>	<b>64.2</b>	<b>202.2</b>	<b>428.2</b>	<b>51.5</b>	<b>143.9</b>
Key Ratios (YE 31 Dec)	2009	2010	2011F	2012F	2013F
Revenue growth (%)	n/a	51.2	17.9	21.2	34.6
EBITDA growth (%)	16.3	46.7	27.3	33.1	66.7
Pretax margins (%)	3.5	5.9	7.1	7.6	10.5
Net profit margins (%)	2.4	4.8	5.2	5.5	7.7
Interest cover (x)	2.1	2.6	3.9	4.0	4.3
Effective tax rate (%)	28.5	14.4	23.0	22.0	19.0
Net dividend payout (%)	20.8	9.2	7.2	8.0	4.2
Debtors turnover (days)	202	152	139	122	102
Stock turnover (days)	83	63	64	59	50
Creditors turnover (days)	79	55	50	49	47

Source: Press Metal, AmResearch