



CIMB Research Report

Get your facts
before you invest

CBRS
FREE Expert
Analysis Reports

20 October 2009

Sarawak Energy

Taking the private road

RECOM	Hold
PRICE	RM2.14
MKT CAPITALISATION	RM3,268.9m
BOARD	Main (Syariah stock)
SECTOR	Power
INDEX COMPONENT	Nil

SRWE MK / SARA.KL

Soh May Yee + 60 (3) 2084-9964 – mayyee.soh@cimb.com

Investment highlights

- **Going private at RM2.65/share.** Sarawak Energy's (SEB) parent, the Sarawak State Financial Secretary, is making a voluntary offer for all the 534.6m SEB shares that it does not already own, after which it will delist SEB. This development is a positive surprise. As the RM2.65/share cash offer is attractive, we advise minority shareholders to accept it. We retain our FY09-11 earnings forecasts but up our target price from RM2.06 to the VGO price of RM2.65. We think that investors have only a very small window of opportunity to buy the stock when trading resumes today given the likely share price bounce to close to the offer price. As a result, we upgrade the stock from sell to a HOLD instead of a buy.
- **A surprising development...** The news was a surprise to us. Unlike most of the past privatisation exercises which were preceded by talk or press speculation, such talk only surfaced yesterday for SEB after its suspension.
- **...but an attractive offer.** The all-cash consideration of RM2.65/share is attractive as it stands at premiums of 24-39% to SEB's last traded price, our previous target price of RM2.06 and its NTA/share of RM1.90. Given the attractive consideration and its all-cash nature, we are taking a positive view of this privatisation exercise and advise minority shareholders to accept the offer given the 24-29% upside to our target price and the VGO price.
- **Upgrade to HOLD.** We retain our FY09-11 earnings forecasts but up our target price from RM2.06 to the VGO price of RM2.65. We think that investors have a very small window of opportunity to buy the stock when trading resumes today given the likely share price bounce to close to the offer price. This explains our upgrade from sell to just a HOLD, instead of a buy. For exposure to the power sector, we advise investors to switch to Tenaga Nasional (TNB MK, Trading Buy). The potential delisting of SEB could work in favour of Tenaga as the latter will become the sole pure local power play in the FBMKLCI. For a play on Score, our preferred pick is now Cahya Mata Sarawak (CMS MK, Hold).

Key stock statistics

FYE Dec	2008	2009 F
EPS (sen)	18.2	14.5
P/E (x)	11.7	14.8
Dividend/Share (sen)	5.5	5.0
NTA/Share (RM)	1.88	1.98
Book Value/Share (RM)	1.88	1.98
Issued Capital (m shares)	1,527.5	1,527.5
52-weeks Share Price Range (RM)	RM1.57/RM3.30	
Major Shareholders:	%	
State Financial Secretary, Sarawak	65.0	
EPF	5.1	

Per share data

FYE Dec	2006	2007	2008	2009 F
Book Value (RM)	1.52	1.71	1.88	1.98
Cash Flow (sen)	30.9	35.7	34.4	32.8
Earnings (sen)	16.8	22.1	18.2	14.5
Dividend (sen)	4.1	5.0	5.5	5.0
Payout Ratio (%)	17.5	16.3	21.7	24.9
P/E (x)	12.7	9.7	11.7	14.8
P/Cash Flow (x)	6.9	6.0	6.2	6.5
P/Book Value (x)	1.4	1.3	1.1	1.1
Dividend Yield (%)	1.9	2.3	2.6	2.3
ROE (%)	11.6	13.7	10.2	7.5
Net Gearing (%)	2.0	-	20.8	46.4

Source: Company, CIMB estimates, Bloomberg

Please read carefully the important disclosures at the end of this publication.

Recent developments

Sarawak Energy (SEB) announced that its parent, the Sarawak State Financial Secretary, has served a notice of voluntary general offer (VGO) for all the remaining 534.6m (35% of its shares as at 16 Oct 09) SEB shares not already owned by the state government-owned entity. The offer also extends to new shares that may be issued following the exercise of outstanding ESOS. The consideration of RM2.65/share will be satisfied entirely by cash. The offer is not unconditional upon any level of valid acceptances. Instead, it is only conditional upon the approvals from the authorities, including the Securities Commission and Bursa Malaysia. The exercise is expected to be completed before year-end, after which SEB will be delisted.

A surprising development. This news is a positive surprise to us. Unlike most of the other privatisation exercises which are usually preceded by talks or press speculation, such talk only surfaced yesterday for SEB after the suspension of its stock.

What is the rationale? While the major shareholder did not disclose a reason for its privatisation move, we suspect that financing could be a reason. As a wholly-owned government entity after the privatisation, SEB would be in a better position to raise cheaper funding. The group has an aggressive capacity plant-up strategy which targets to boost its total power installed capacity from 1,343MW by year-end to 4,037MW by 2015. In the longer term, there are plans to raise SEB's installed capacity to 12,000MW. So far, progress on these expansion plans has been slow and we suspect that the stumbling block could be financing. We would not be surprised if this exercise is a prelude to an upcoming industry restructuring.

RM2.65 cash per share... The offer price of RM2.65/share appears attractive, being a 24% premium over the stock's last closing price and 29% ahead of our previous end-CY09 target price of RM2.06. It also stands at a 39% premium over its book value. Unlike most privatisation targets, SEB's share price was relatively stagnant in the few days leading up to the announcement, suggesting that this privatisation exercise was a very well-kept secret. The offer price implies an FY10 P/E of 17x, above the market P/E of 15x and the power sector's P/E of 11x. From a P/BV perspective, the RM2.65/share consideration implies a 1.3x forward multiple, lower than its peers' average of 1.5x. But the offer price is 20% short of the stock's 52-week high of RM3.30. Having said that, a quick browse through recent privatisation exercises suggests that SEB's offer price could be one of the more attractive ones. Recent privatisation exercises have not involved considerations that were at premiums to market prices and NTA values. For instance, the offer price for the just-announced New Straits Times Press (NST MK, Trading Sell) privatisation stands at a 19% discount to its last traded price though it could be because that the share price had run up on speculation of the deal.

... is attractive. Given the attractive consideration and its all-cash nature, we take a positive view of this privatisation exercise and advise minority shareholders to accept the offer given the 24-29% upside to our target price and the VGO price.

Minimal chances of fall-through. We believe that the odds of this privatisation exercise going through are high given i) its attractive price, and ii) the minimal regulatory requirements needed. Also, SEB's only other substantial shareholder is the Employees Provident Fund with a 5.1% stake. There are several other institutional shareholders but their holdings are not substantial. Such a fragmented shareholding composition should also facilitate acceptances, in our view. Furthermore, minority shareholders' best option is to take up the offer given that the Sarawak State does not intend to maintain SEB's listing status. The stock's unexciting dividend yield of 2.3% is another reason to accept the offer.

Figure 2: P&L analysis (RM m)

FYE Dec	2006	2007	2008	2009 F
Revenue	1,177.8	1,325.4	1,338.9	1,335.6
Operating Profit (EBIT)	269.0	336.8	273.0	296.6
Depreciation	(254.6)	(254.6)	(280.4)	(279.7)
Interest Expenses	(32.7)	(35.4)	(35.7)	(49.1)
Pretax Profit	264.5	400.8	297.8	258.0
Effective Tax Rate (%)	2.5	15.7	6.2	20.0
Net Profit	255.8	335.7	278.3	205.2
Operating Margin (%)	22.8	25.4	20.4	22.2
Pretax Margin (%)	22.5	30.2	22.2	19.3
Net Margin (%)	21.7	25.3	20.8	15.4

Source: Company, CIMB estimates

Recommendation

Raising target price. Although we retain our FY09-11 earnings forecasts, we are raising our target price from RM2.06 to the VGO price of RM2.65.

Upgrade to HOLD. Based on the last closing price, the VGO price offers attractive upside of 24% and technically, the stock should be upgraded from a sell to a buy. But we think that investors have only a very small window of opportunity to buy the stock when trading resumes today given the likely share price bounce to close to the offer price. As a result, we upgrade the stock from sell to a HOLD instead of a buy. For exposure to the power sector, we advise investors to switch to national utility company, Tenaga Nasional (TNB MK, Trading Buy). The potential delisting of SEB could work in favour of Tenaga as the latter will become the sole pure local power play in the FBMKLCI. For a play on the Sarawak Corridor of Renewable Energy (Score), our preferred pick is now Cahya Mata Sarawak (CMS MK, Hold).

Figure 3: Share price chart (RM)



Source: Bloomberg

Financial summary

FYE Dec	2007	2008	2009F	2010F	2011F
Revenue (RM m)	1,325.4	1,338.9	1,335.6	1,370.9	1,406.5
EBITDA (RM m)	591.4	553.4	592.3	612.2	649.4
EBITDA margins (%)	44.6	41.3	44.3	44.7	46.2
Pretax profit (RM m)	400.8	297.8	277.3	292.7	299.3
Net profit (RM m)	335.7	278.3	220.7	233.0	238.3
EPS (sen)	22.1	18.2	14.5	15.3	15.6
EPS growth (%)	+31%	-18%	-21%	+6%	+2%
P/E (x)	9.7	11.7	14.8	14.0	13.7
Core EPS (sen)	17.9	15.3	14.5	15.3	15.6
Core EPS growth (%)	+37%	-15%	-6%	+6%	+2%
Core P/E (x)	12.0	14.0	14.8	14.0	13.7
Gross DPS (sen)	5.0	5.5	5.0	5.0	5.0
Dividend yield (%)	2.3	2.6	2.3	2.3	2.3
P/NTA (x)	1.3	1.1	1.1	1.0	1.0
ROE (%)	13.7	10.2	7.5	7.5	7.2
Net gearing (%)	-	20.7	46.1	56.4	64.7
Net cash per share (RM)	0.04	-	-	-	-
P/CF (x)	6.0	6.2	6.5	6.4	6.0
EV/EBITDA (x)	5.4	7.0	7.9	8.3	8.4
% change in EPS estimates	-	-	-	-	-
CIMB/Consensus (x)	-	-	1.01	0.93	0.87

Source: Company, CIMB/CIMB-GK Research, Reuters Estimates

This report has been prepared by CIMB Investment Bank Bhd (“CIMB”) for purposes of CMDF-Bursa Research Scheme (“CBRS”) administered by Bursa Malaysia Berhad and has been compensated to undertake the scheme. CIMB has produced this report independent of any influence from CBRS or the subject company. For more information about CBRS and other research reports, please visit Bursa Malaysia’s website at: http://www.bursamalaysia.com/website/bm/listed_companies/cmdf_bursa_research_scheme/.

By accepting this report, the recipient hereof represents and warrants that he is entitled to receive such report in accordance with the restrictions set forth below and agrees to be bound by the limitations contained herein (including the “Restrictions on Distributions” set out below). Any failure to comply with these limitations may constitute a violation of law. This publication is being supplied to you strictly on the basis that it will remain confidential. No part of this report may be (i) copied, photocopied, duplicated, stored or reproduced in any form by any means or (ii) redistributed or passed on, directly or indirectly, to any other person in whole or in part, for any purpose without the prior written consent of CIMB.

CIMB, its affiliates and related companies, their directors, associates, connected parties and/or employees may own or have positions in securities of the company(ies) covered in this research report or any securities related thereto and may from time to time add to or dispose of, or may be materially interested in, any such securities. Further, CIMB, its affiliates and its related companies do and seek to do business with the company(ies) covered in this research report and may from time to time act as market maker or have assumed an underwriting commitment in securities of such company(ies), may sell them to or buy them from customers on a principal basis and may also perform or seek to perform significant investment banking, advisory or underwriting services for or relating to such company(ies) as well as solicit such investment, advisory or other services from any entity mentioned in this report. The views expressed in this report accurately reflect the personal views of the analyst(s) about the subject securities or issuers and no part of the compensation of the analyst(s) was, is, or will be directly or indirectly related to the inclusion of specific recommendations(s) or view(s) in this report. CIMB prohibits the analyst(s) who prepared this research report from receiving any compensation, incentive or bonus based on specific investment banking transactions or for providing a specific recommendation for, or view of, a particular company. However, the analyst(s) may receive compensation that is based on his/their coverage of company(ies) in the performance of his/their duties or the performance of his/their recommendations and the research personnel involved in the preparation of this report may also participate in the solicitation of the businesses as described above. In reviewing this research report, an investor should be aware that any or all of the foregoing, among other things, may give rise to real or potential conflicts of interest. Additional information is, subject to the duties of confidentiality, available on request.

The term “CIMB” shall denote where applicable the relevant entity distributing the report in that particular jurisdiction where mentioned specifically below shall be a CIMB Group Sdn Bhd’s affiliates, subsidiaries and related companies.

- (i) As of 20 October 2009, CIMB has a proprietary position in the following securities in this report:
 - (a) Tenaga Nasional, Tenaga Nasional CW.
- (ii) As of 20 October 2009, the analyst, Soh May Yee who prepared this report, has an interest in the securities in the following company or companies covered or recommended in this report:
 - (a) -.

The information contained in this research report is prepared from data believed to be correct and reliable at the time of issue of this report. This report does not purport to contain all the information that a prospective investor may require. CIMB or any of its affiliates does not make any guarantee, representation or warranty, express or implied, as to the adequacy, accuracy, completeness, reliability or fairness of any such information and opinion contained in this report and accordingly, neither CIMB nor any of its affiliates nor its related persons shall be liable in any manner whatsoever for any consequences (including but not limited to any direct, indirect or consequential losses, loss of profits and damages) of any reliance thereon or usage thereof.

This report is general in nature and has been prepared for information purposes only. It is intended for circulation amongst CIMB and its affiliates’ clients generally and does not have regard to the specific investment objectives, financial situation and the particular needs of any specific person who may receive this report. The information and opinions in this report are not and should not be construed or considered as an offer, recommendation or solicitation to buy or sell the subject securities, related investments or other financial instruments thereof.

The views and opinions in this research report are our own as of the date hereof and are subject to change. CIMB has no obligation to update its opinion or the information in this research report.

Investors are advised to make their own independent evaluation of the information contained in this research report, consider their own individual investment objectives, financial situation and particular needs and consult their own professional and financial advisers as to the legal, business, financial, tax and other aspects before participating in any transaction in respect of the securities of company(ies) covered in this research report. The securities of such company(ies) may not be eligible for sale in all jurisdictions or to all categories of investors.

This report is not directed to, or intended for distribution to or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction where such distribution, publication, availability or use would be contrary to law or regulation.

Australia: Despite anything in this report to the contrary, this research is provided in Australia by CIMB-GK Research Pte. Ltd. (“CIMB-GK”) and CIMB-GK notifies each recipient and each recipient acknowledges that CIMB-GK is exempt from the requirement to hold an Australian financial services licence under the Corporations Act 2001 (Cwlth) in respect of financial services provided to the recipient. CIMB-GK is regulated by the Monetary Authority of Singapore under the laws of Singapore, which differ from Australian laws. This research is only available in Australia to persons who are “wholesale clients” (within the meaning of the Corporations Act 2001 (Cwlth)) and is supplied solely for the use of such wholesale clients and shall not be distributed or passed on to any other person. This research has been prepared without taking into account the objectives, financial situation or needs of the individual recipient.

France: Only qualified investors within the meaning of French law shall have access to this report. This report shall not be considered as an offer to subscribe to, or used in connection with, any offer for subscription or sale or marketing or direct or indirect distribution of financial instruments and it is not intended as a solicitation for the purchase of any financial instrument.

Hong Kong: This report is issued and distributed in Hong Kong by CIMB Securities (HK) Limited (“CHK”) which is licensed in Hong Kong by the Securities and Futures Commission for Type 1 (dealing in securities), Type 4 (advising on securities) and Type 6 (advising on corporate finance) activities. Any investors wishing to purchase or otherwise deal in the securities covered in this report should contact the Head of Sales at CIMB Securities (HK) Limited. The views and opinions in this research report are our own as of the date hereof and are subject to change. If the Financial Services and Markets Act of the United Kingdom or the rules of the Financial Services Authority apply to a recipient, our obligations owed to such recipient therein are unaffected. CHK has no obligation to update its opinion or the information in this research report.

This publication is strictly confidential and is for private circulation only to clients of CHK. This publication is being supplied to you strictly on the basis that it will remain confidential. No part of this material may be (i) copied, photocopied, duplicated, stored or reproduced in any form by any means or (ii) redistributed or passed on, directly or indirectly, to any other person in whole or in part, for any purpose without the prior written consent of CHK. Unless permitted to do so by the securities laws of Hong Kong, no person may issue or have in its possession for the purposes of issue, whether in Hong Kong or elsewhere, any advertisement, invitation or document relating to the securities covered in this report, which is directed at, or the contents of which are likely to be accessed or read by, the public in Hong Kong (except if permitted to do so under the securities laws of Hong Kong)

Indonesia: This report is issued and distributed by PT CIMB Securities Indonesia (“CIMBI”). The views and opinions in this research report are our own as of the date hereof and are subject to change. If the Financial Services and Markets Act of the United Kingdom or the rules of the Financial Services Authority apply to a recipient, our obligations owed to such recipient therein are unaffected. CIMBI has no obligation to update its opinion or the information in this research report.

This publication is strictly confidential and is for private circulation only to clients of CIMBI. This publication is being supplied to you strictly on the basis that it will remain confidential. No part of this material may be (i) copied, photocopied, duplicated, stored or reproduced in any form by any means or (ii) redistributed or passed on, directly or indirectly, to any other person in whole or in part, for any purpose without the prior written consent of CIMBI. Neither this report nor any copy hereof may be distributed in Indonesia or to any Indonesian citizens wherever they are domiciled or to Indonesia residents except in compliance with applicable Indonesian capital market laws and regulations.

Malaysia: This report is issued and distributed by CIMB. The views and opinions in this research report are our own as of the date hereof and are subject to change. If the Financial Services and Markets Act of the United Kingdom or the rules of the Financial Services Authority apply to a recipient, our obligations owed to such recipient therein are unaffected. CIMB has no obligation to update its opinion or the information in this research report.

This publication is strictly confidential and is for private circulation only to clients of CIMB. This publication is being supplied to you strictly on the basis that it will remain confidential. No part of this material may be (i) copied, photocopied, duplicated, stored or reproduced in any form by any means or (ii) redistributed or passed on, directly or indirectly, to any other person in whole or in part, for any purpose without the prior written consent of CIMB.

New Zealand: In New Zealand, this report is for distribution only to persons whose principal business is the investment of money or who, in the course of, and for the purposes of their business, habitually invest money pursuant to Section 3(2)(a)(ii) of the Securities Act 1978.

Singapore: This report is issued and distributed by CIMB-GK Research Pte Ltd ("CIMB-GKR"). Recipients of this report are to contact CIMB-GKR in Singapore in respect of any matters arising from, or in connection with, this report. The views and opinions in this research report are our own as of the date hereof and are subject to change. If the Financial Services and Markets Act of the United Kingdom or the rules of the Financial Services Authority apply to a recipient, our obligations owed to such recipient therein are unaffected. CIMB-GKR has no obligation to update its opinion or the information in this research report.

This publication is strictly confidential and is for private circulation only. If the recipient of this research report is not an accredited investor, expert investor or institutional investor, CIMB-GKR accepts legal responsibility for the contents of the report without any disclaimer limiting or otherwise curtailing such legal responsibility. This publication is being supplied to you strictly on the basis that it will remain confidential. No part of this material may be (i) copied, photocopied, duplicated, stored or reproduced in any form by any means or (ii) redistributed or passed on, directly or indirectly, to any other person in whole or in part, for any purpose without the prior written consent of CIMB-GKR.

As of 20 October 2009 CIMB-GK Research Pte Ltd does not have a proprietary position in the recommended securities in this report.

Sweden: This report contains only marketing information and has not been approved by the Swedish Financial Supervisory Authority. The distribution of this report is not an offer to sell to any person in Sweden or a solicitation to any person in Sweden to buy any instruments described herein and may not be forwarded to the public in Sweden.

Taiwan: This research report is not an offer or marketing of foreign securities in Taiwan. The securities as referred to in this research report have not been and will not be registered with the Financial Supervisory Commission of the Republic of China pursuant to relevant securities laws and regulations and may not be offered or sold within the Republic of China through a public offering or in circumstances which constitutes an offer within the meaning of the Securities and Exchange Law of the Republic of China that requires a registration or approval of the Financial Supervisory Commission of the Republic of China.

Thailand: This report is issued and distributed by CIMB Securities (Thailand) Company Limited (CIMBS). The views and opinions in this research report are our own as of the date hereof and are subject to change. If the Financial Services and Markets Act of the United Kingdom or the rules of the Financial Services Authority apply to a recipient, our obligations owed to such recipient therein are unaffected. CIMBS has no obligation to update its opinion or the information in this research report.

This publication is strictly confidential and is for private circulation only to clients of CIMBS. This publication is being supplied to you strictly on the basis that it will remain confidential. No part of this material may be (i) copied, photocopied, duplicated, stored or reproduced in any form by any means or (ii) redistributed or passed on, directly or indirectly, to any other person in whole or in part, for any purpose without the prior written consent of CIMBS.

United Arab Emirates: The distributor of this report has not been approved or licensed by the UAE Central Bank or any other relevant licensing authorities or governmental agencies in the United Arab Emirates. This report is strictly private and confidential and has not been reviewed by, deposited or registered with UAE Central Bank or any other licensing authority or governmental agencies in the United Arab Emirates. This report is being issued outside the United Arab Emirates to a limited number of institutional investors and must not be provided to any person other than the original recipient and may not be reproduced or used for any other purpose. Further, the information contained in this report is not intended to lead to the sale of investments under any subscription agreement or the conclusion of any other contract of whatsoever nature within the territory of the United Arab Emirates.

United Kingdom: This report is being distributed by CIMB Securities (UK) Limited only to, and is directed at selected persons on the basis that those persons are (a) persons falling within Article 19 of the Financial Services and Markets Act 2000 (Financial Promotions) Order 2005 (the "Order") who have professional experience in investments of this type or (b) high net worth entities, and other persons to whom it may otherwise lawfully be communicated, falling within Article 49(1) of the Order, (all such persons together being referred to as "relevant persons"). A high net worth entity includes a body corporate which has (or is a member of a group which has) a called-up share capital or net assets of not less than (a) if it has (or is a subsidiary of an undertaking which has) more than 20 members, £500,000, (b) otherwise, £5 million, the trustee of a high value trust or an unincorporated association or partnership with assets of no less than £5 million. Directors, officers and employees of such entities are also included provided their responsibilities regarding those entities involve engaging in investment activity. Persons who do not have professional experience relating to investments should not rely on this document.

United States: This research report is distributed in the United States of America by CIMB Securities (USA) Inc, a U.S.-registered broker-dealer and a related company of CIMB-GK Research Pte Ltd solely to persons who qualify as "Major U.S. Institutional Investors" as defined in Rule 15a-6 under the Securities and Exchange Act of 1934. This communication is only for Institutional Investors and investment professionals whose ordinary business activities involve investing in shares, bonds and associated securities and/or derivative securities and who have professional experience in such investments. Any person who is not an Institutional Investor must not rely on this communication. However, the delivery of this research report to any person in the United States of America shall not be deemed a recommendation to effect any transactions in the securities discussed herein or an endorsement of any opinion expressed herein. For further information or to place an order in any of the above-mentioned securities please contact a registered representative of CIMB Securities (USA) Inc.

Other jurisdictions: In any other jurisdictions, except if otherwise restricted by laws or regulations, this report is only for distribution to professional, institutional or sophisticated investors as defined in the laws and regulations of such jurisdictions

STOCK RECOMMENDATIONS

- BUY:** Expected positive total returns of 15% or more over the next 12 months
- HOLD:** Expected total returns of between -15% and +15% over the next 12 months.
- SELL:** Expected negative total returns of 15% or more over the next 12 months.