

Leader Universal Holdings

Recommendation:

BUYStock Code: **4529**Bloomberg: **LUH MK**Price: **MYR0.40**12-Month Target Price: **MYR0.47**Date: **May 19, 2006****Board:** Main**Sector:** Industrial Products**GICS:** Industrials / Electrical Components & Equipment**Market Capitalization:** MYR174.6 mln

Summary: Leader Universal Holdings (Leader) is an investment holding company, which, through its subsidiaries, is primarily engaged in the business of manufacturing and selling power and telecommunication cables and wires, power generation, and property development.

Analyst: Alexander Chia, ACA**Recent Developments**

- Aluminium and copper are both key raw materials for Leader's various cable products. It purchases base copper cathodes and aluminium ingots, which are melted and drawn into rods and then into wires before being stranded into cables. Management has confirmed that its supply contracts have cost pass-through clauses that insulate the company from raw material price fluctuations.
- Leader should therefore be able to maintain its conversion margins despite the sharp rise in the price of aluminium (+77% in the past 12 months) and copper (+170%) to approximately US\$3,000 and US\$8,100 per MT respectively.
- While management has reported some pullback in orders from the private sector as a result of the high commodity prices, Leader is continuing to see healthy order flow from the power sector and from exports. Its order book currently stands at about MYR540 mln. Leader has not made any further announcement with regard to the proposed capacity expansion of its Cambodian power plant.
- Recent Euroconvertible bond redemptions have reduced the amounts still outstanding to less than US\$20 mln.
- The company is expected to release its 1Q06 results on May 26, 2006.

Key Stock Statistics

FY Dec.	2005	2006F
EPS (sen)	5.0	5.9
PER (x)	8.0	6.8
Dividend/Share (sen)	0.0	0.0
NTA/Share (MYR)	0.79	0.85
Book Value/Share (MYR)	0.79	0.85
Issued Capital (mln shares)	436.5	
52-week Share Price Range (MYR)	0.295 – 0.47	
Major Shareholders:	%	
Zun Holdings Sdn Bhd	11.7	
Employees Provident Fund	5.4	
Dato' Chung Chin Fu	5.4	

Recommendation & Investment Risks

- We are revising our 12-month target price to MYR0.47 (from MYR0.45) and reiterating our Buy recommendation.
- Our target price is calculated using the sum-of-parts method, by ascribing a 2007 PER of 8x (unchanged) to the cable and wire division's projected earnings and estimating the present value of earnings from its 60%-owned power generation business. No value has been attributed to its property division, which will not have any active projects after mid-2006.
- Risks to our recommendation and target price include the weakening of the MYR against the USD, a higher interest rate environment, an unexpected slowdown in orders for cables and wires, and the continued unfavorable investor perception of the company.

Earnings Outlook

- We have raised our net profit forecasts for 2006 and 2007 by 7.3% and 5% respectively to reflect the stronger order flow and higher operating leverage from the efforts made to improve its cost structure.

Per Share Data

FY Dec.	2003	2004	2005	2006F
Book Value (MYR)	0.76	0.77	0.79	0.85
Cash Flow (sen)	-12.9	11.6	13.5	13.0
Earnings (sen)	-22.5	3.5	5.0	5.9
Dividend (sen)	0.0	0.0	0.0	0.0
Payout Ratio (%)	0.0	0.0	0.0	0.0
PER (x)	NM	11.5	8.0	6.8
P/Cash Flow (x)	NM	3.5	3.0	3.1
P/Book Value (x)	0.5	0.5	0.5	0.5
Dividend Yield (%)	0.0	0.0	0.0	0.0
ROE (%)	-29.7	4.5	6.3	6.9
Net Gearing (%)	134.3	128.8	123.7	131.2

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Profit & Loss

FY Dec. / MYR mln	2004	2005	2006F	2007F
Revenue	1,267.7	1,606.9	1,934.0	2,063.6
Operating Profit (EBIT)	46.4	75.1	88.9	93.8
Depreciation	-35.4	-37.0	-30.9	-29.0
Net Interest Income / (Expense)	-23.2	-31.5	-35.3	-32.9
Pre-tax Profit	25.4	46.8	56.4	63.7
Effective Tax Rate (%)	-7.4	20.8	15.8	23.0
Net Profit	15.2	21.8	25.7	26.5
Operating Margin (%)	3.7	4.7	4.6	4.5
Pre-tax Margin (%)	2.0	2.9	2.9	3.1
Net Margin (%)	1.2	1.4	1.3	1.3

Source: Company data, S&P Equity Research

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Glossary

Strong Buy: Total return is expected to outperform the total return of the KLCI or KL Emas Index respectively, by a wide margin over the coming 12 months, with shares rising in price on an absolute basis.

Buy: Total return is expected to outperform the total return of the KLCI or KL Emas Index respectively, over the coming 12 months, with shares rising in price on an absolute basis.

Hold: Total return is expected to closely approximate the total return of the KLCI or KL Emas Index respectively, over the coming 12 months with shares generally rising in price on an absolute basis.

Sell: Total return is expected to underperform the total return of the KLCI or KL Emas Index respectively, over the coming 12 months and share price is not anticipated to show a gain.

Strong Sell: Total return is expected to underperform the total return of the KLCI or KL Emas Index respectively, over the coming 12 months by a wide margin, with shares falling in price on an absolute basis.

S&P 12 Month Target Price – The S&P equity analyst's projection of the market price a given security will command 12 months hence, based on a combination of intrinsic, relative, and private market valuation metrics.

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For residents of Malaysia. All queries in relation to this report should be referred to: Alexander Chia, ACA alexander_chia@standardandpoors.com
Hoe Lee Leng, CPA leeleng_hoe@standardandpoors.com
Tam Ching Wah chingwah_tam@standardandpoors.com