TA SECURITIES
A MEMBER OF THE TA GROUP
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RESULTS UPDATE

FBM KLCI: 1,541.03

Leader Universal Holdings Berhad

Monday, May 23, 2011

1Q11 – Threat From High Input Costs

TP: RM1.20 *(+45.5%)*

Business Summary	: Primarily involve in the manufacture of aluminium and copper cables and power producing in Cambodia		
Major Shareholders (%)	: Zun Holdings Sdn Bhd (12.19)	**Recommendation:**	Buy
	: Lembaga Tabung Haji (8.98)	**Market Capitalisation (RMmn):**	RM360.08
	: Gold Connection Assets (7.12)	**Current Price:**	RM0.825
Company Website	: www.leaderuniversal.com	**Market/ Sector:**	Main Market/Industrial
IR Contact	: *Albert Wong (+604 219 9851)*	**Stock Code:**	4529

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Key Stock Statistics

FYE Dec 31		2011F	2012F
EPS	(sen)	12.3	14.8
PER	(x)	6.7	5.6
Gross div/ share	(sen)	3.0	3.5
NTA/share	(RM)	1.7	1.8
Book value/ share	(RM)	1.4	1.5
Issued capital	(mn shares)	436.5	436.5
52 weeks price range	(RM)	0.79 - 0.95	

Per Share Data

FYE Dec 31		2010	2011F	2012F
Book Value	(sen)	1.3	1.4	1.5
Cash Flow	(sen)	(0.5)	0.0	0.3
Earnings	(sen)	11.4	12.3	14.8
Dividend	(sen)	3.0	3.0	3.5
Payout Ratio	(%)	26.4	24.4	23.7
PER (x)	(x)	7.2	6.7	5.6
P/ Cash Flow	(x)	(1.8)	26.9	2.9
P/ Book Value	(x)	0.6	0.6	0.5
Dividend Yield	(%)	2.7	2.7	3.2
ROE	(%)	8.7	8.7	9.7
Net Gearing	(%)	0.5	0.6	0.4

P&L Analysis (RMmn)

FYE Dec 31		2010	2011F	2012F
Revenue		2494.0	2591.3	2699.9
Operating Profit		74.8	125.2	144.0
Depreciation		(25.9)	(46.9)	(54.6)
Interest Expenses		(8.5)	(38.9)	(40.5)
Pre-tax Profit		67.0	87.1	104.2
Effective Tax Rate	(%)	(4.5)	18.0	17.5
Net Profit		49.7	53.6	64.5
Operating Margin	(%)	3.0	4.8	5.3
Pre-tax Margin	(%)	2.7	3.4	3.9
Net-Margin	(%)	2.8	2.8	3.2

Share Price relative to the **FBM KLCI**

Source: Bloomberg

Results Review

- 1Q11 net profit of RM12.37mn came in below ours and consensus estimates, making up only 19.4% and 18.7% of full year's forecasts respectively. The variance was due to a lower-than-expected margin from both its cable and wire and power division.
- Segment wise, the group's cable & wire segment grew 60% YoY which is also its five year record high while the power segment registered an increase of over 100% which is also a record high.
- This quarter has also seen slight margin expansion in its cable & wire segment from 1.2% to 1.6% sequentially. This is however still below the margin recorded in 1Q10 of 2.1%. Margin from its power generating arm contracted by 1.1% sequentially and 0.8% YoY from 2.1%. We suspect that the contraction in margin from the power business might have been caused by higher diesel prices.
- Although the topline and bottomline registered good growth, the tax rate also increased from 7% to 19% YoY. This has bitten significantly into the earnings for the quarter. In addition to that, higher raw material prices in 1Q11 contributed to higher revenue and also higher COGS.

Impact

- We adjust our earnings forecast downwards by 16% and 15.9% for FY11 and FY12 respectively. We tweak our earnings to incorporate the less than expected margin expansion, higher tax rates and higher raw material prices.

Outlook

- Three-month copper prices have been trading below the USD9,000/tonne level for the month of May. It has been on a slight downtrend since early February. The declining trend line in copper prices would definitely bode well for Leader as it could bid lower for future wiring and cabling contracts. Industry experts guided a support level of USD8,000-USD8,200/tonne.
- Three-month aluminium is also seeing a slight bearish trend. Industry experts indicated that prices could be pushed down to USD2,500/tonne.

- We believe that the demand support for cabling and wiring would sustain given the government's bold plans in initiating mega projects around the country. The latest mega project is the estimated RM100bn Pengerang oil and gas hub by Petronas which could see a huge demand in electrical cables and wires.

Valuation & Recommendation

We adjust our target price for Leader downward from RM1.43/share previously to RM1.20/share by pegging a market cap weighted average FY11 PER of 9.8x to it. We are still bullish on the stock based on an impending strong demand on the local front for industrial cables & wires and also the softening commodities prices, which would help expand the group's margin. Maintain Buy on the stock.

1Q11 Analysis

FYE Dec (RMmn)	1Q10	4Q10	1Q11	QoQ (%)	YoY (%)	3M10	3M11	YoY (%)
Revenue	545.9	624.3	901.1	44.3	65.1	545.9	901.1	65.1
COGS	(510.1)	(598.1)	(860.7)	43.9	68.7	(510.1)	(860.7)	68.7
GP	35.8	26.2	40.4	54.3	12.8	35.8	40.4	12.8
Operating Expenses	(16.8)	(19.7)	(20.5)	4.2	22.0	(16.8)	(20.5)	22.0
Other Income	0.7	1.0	2.5	148.6	250.3	0.7	2.5	250.3
Finance Cost	(2.9)	(0.6)	(2.8)	349.8	(3.3)	(2.9)	(2.8)	(3.3)
Share of profit/(loss) of associate company	0.1	0.4	1.6	284.7	1502.9	0.1	1.6	1502.9
PBT	16.9	7.3	21.3	191.1	25.5	16.9	21.3	25.5
Tax	(1.1)	5.2	(4.1)	(179.3)	269.0	(1.1)	(4.1)	269.0
PAT	15.8	12.5	17.1	36.7	8.3	15.8	17.1	8.3
Attributable to:								
-Equity holders of the parent	10.1	8.1	12.4	52.7	22.6	10.1	12.4	22.6
-Minority interests	5.7	4.4	4.8	7.4	(17.0)	5.7	4.8	(17.0)
EPS (sen):								
-Basic	2.3	1.9	2.8	52.2	22.5	2.3	2.8	22.5
Segmental:								
-Cable & Wires	515.8	598.4	825.1	37.9	60.0	515.8	825.1	60.0
-Power Generation	29.5	24.9	72.6	191.7	145.8	29.5	72.6	145.8
-Others	0.6	1.0	0.4	(56.7)	(26.6)	0.6	0.4	(26.6)
-Total	545.9	624.3	898.1	43.9	64.5	545.9	898.1	64.5
Operating Profit/(loss):								
-Cable & Wires	11.5	7.5	14.0	86.1	21.9	11.5	14.0	21.9
-Power Generation	10.1	13.0	8.6	(33.8)	(14.7)	10.1	8.6	(14.7)
-Others	(1.9)	(6.7)	(1.8)	(73.0)	(1.8)	(1.9)	(1.8)	(1.8)
-Total	19.7	13.8	20.8	50.6	5.4	19.7	20.8	5.4

Earnings Summary

Income Statement (RMmn)	2009	2010	2011F	2012F	2013F
Revenue	1949.8	2494.0	2591.3	2699.9	2866.7
COGS	(1791.1)	(2340.2)	(2384.0)	(2470.4)	(2637.3)
Gross Profit	158.7	153.8	207.3	229.5	229.3
Other Op Income	3.3	3.5	3.6	3.7	4.0
Other Op Expenses	(70.5)	(82.4)	(85.6)	(89.2)	(94.7)
Profit from Ops	93.7	74.8	125.2	144.0	138.6
Finance Costs	(18.4)	(8.5)	(38.9)	(40.5)	(43.0)
Share of Profits from Associates	1.6	0.7	0.7	0.7	0.8
PBT	76.8	67.0	87.1	104.2	96.3
Tax	(5.9)	3.0	(15.7)	(18.2)	(14.5)
MI	(17.5)	(20.3)	(17.9)	(21.5)	(20.5)
PAT	**53.4**	**49.7**	**53.6**	**64.5**	**61.4**

for TA SECURITIES HOLDINGS BERHAD(14948-M)
(A Participating Organisation of Bursa Malaysia Securities Berhad)
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