STANDARD & POOR'S

Leader Universal Holdings

Recommendation: **STRONG BUY**

Stock Code: **4529** Bloomberg: **LUH MK** Price: **MYR0.44** 12-Month Target Price: **MYR0.59** Date: **November 24, 2008**

Board: Main

Sector: Industrial Products

GICS: Industrials/Electrical Components & Equipment

Market Value - Total: MYR192.0 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

Results Review & Earnings Outlook

- Leader's 3Q08 results were below expectations. Net profit for 9M08 of MYR52.3 mln reached just 71% of our previous 2008 forecast.
- 3Q08 revenue of MYR703.1 mln was 13.8% lower YoY due mainly to a decline in volumes at its cable and wire division, caused by the weakening global and local economies. Pretax margin of 4.3% for the quarter was stable compared to the 4.2% achieved in 1H08.
- The outlook for Leader looks increasingly challenging and earnings visibility remains poor. We understand Leader's forward orderbook has eased down to about MYR620 mln from over MYR700 mln previously. Management also reports a softening in export demand, particularly from markets in Europe, Australia and New Zealand.
- Copper prices have fallen more than 60% from their peaks seen in early July, and that will ease working capital requirements. While having an impact at the revenue line, copper price fluctuations will not impact earnings given the cost pass through.
- We are cutting our 2008 and 2009 net profit forecasts by 11% and 30% respectively after factoring in lower volumes (assumed 20% YoY volume decline in 2009). The decline in earnings will be cushioned by stable earnings from its power generation division.

Recommendation & Investment Risks

- We reiterate our Strong Buy recommendation despite slashing our 12-month target price to MYR0.59 (from MYR1.00).
- The 12-month target price is lower as a result of our reduced profit forecast and lower target multiple. We use the same valuation methodology but with different target multiples. We calculate our target price using the sum-of-parts method, (i) by ascribing a 2009 PER of 5.0x (from 6.0x) to the cable and wire division's projected earnings, (ii) estimating the present value of earnings from its existing 60%-owned power plant and (iii) adding the 2008 net dividend of 2.2 sen. The key DCF assumptions used are WACC of 9% and terminal value of 3% (both unchanged). The lower target multiple for its cable and wire business reflects the more challenging global economic environment going forward.
- Trading at a prospective 2009 PER of just 3.4x, we think Leader's shares have been oversold, although we acknowledge the weak investor sentiment for manufacturing businesses, given uncertainties over the duration and extent of the economic slowdown.
- Risks to our recommendation and target price include the weakening of the MYR against the USD, a higher interest rate environment, and a sharper-than-expected slowdown in orders for cables.

Key Stock Statistics

FY Dec.	2007	2008E
Reported EPS (sen)	15.1	15.0
PER (x)	2.9	2.9
Dividend/Share (sen)	3.0	3.0
NTA/Share (MYR)	0.99	1.12
Book Value/Share (MYR)	0.99	1.12
No. of Outstanding Shares (mln)	436.5	
52-week Share Price Range (MYR)	0.40 - 1.17	
Major Shareholders:	%	
Zun Holdings Sdn Bhd	11.8	
Gold Connection Assets Ltd	5.8	
GUH Holdings Bhd	4.6	

*Stock deemed Shariah compliant by the Securities Commission.

Per Share Data

FY Dec.	2005	2006	2007	2008E
Book Value (MYR)	0.79	0.85	0.99	1.12
Cash Flow (sen)	12.6	15.0	21.1	20.6
Reported Earnings (sen)	5.0	8.1	15.1	15.0
Dividend (sen)	0.0	1.5	3.0	3.0
Payout Ratio (%)	0.0	13.3	14.3	14.4
PER (x)	8.8	5.4	2.9	2.9
P/Cash Flow (x)	3.5	2.9	2.1	2.1
P/Book Value (x)	0.6	0.5	0.4	0.4
Dividend Yield (%)	0.0	3.4	6.8	6.8
ROE (%)	6.4	9.8	16.4	14.2
Net Gearing (%)	123.7	108.8	70.0	34.6

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Quarterly Performance

FY Dec. / MYR mln	3Q08	3Q07	% Change
Reported Revenue	703.1	815.9	-13.8
Reported Operating Profit	40.8	40.7	0.4
Depreciation & Amortization	NA	NA	NA
Net Interest Income / (Expense)	NA	NA	NA
Reported Pre-tax Profit	29.9	33.2	-9.9
Reported Net Profit	18.8	22.6	-16.8
Reported Operating Margin (%)	5.8	5.0	-
Reported Pre-tax Margin (%)	4.3	4.1	-
Reported Net Margin (%)	2.7	2.8	-

Source: Company data

Profit & Loss

FY Dec. / MYR mln	2006	2007	2008E	2009E
Reported Revenue	2,365.0	2,821.7	2,372.1	1,185.8
Reported Operating Profit	91.5	123.9	135.1	113.6
Depreciation & Amortization	-30.3	-26.3	-24.3	-23.8
Net Interest Income / (Expense)	-26.2	-28.6	-29.2	-24.7
Reported Pre-tax Profit	65.8	94.5	105.6	87.6
Effective Tax Rate (%)	15.4	10.2	18.0	18.0
Reported Net Profit	35.3	66.0	65.6	55.8
Reported Operating Margin (%)	3.9	4.4	5.7	9.6
Reported Pre-tax Margin (%)	2.8	3.4	4.5	7.4
Reported Net Margin (%)	1.5	2.3	2.8	4.7

Source: Company data, S&P Equity Research

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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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Recommendation and Target Price History

Date	Recommendation	Target Price
New	Strong Buy	0.59
25-Aug-08	Strong Buy	1.00
27-May-08	Strong Buy	1.42
23-Nov-07	Strong Buy	1.73
28-Aug-07	Strong Buy	1.61
6-Jun-07	Strong Buy	1.20
9-Mar-07	Strong Buy	1.10
22-Feb-07	Strong Buy	1.05
14-Feb-07	Buy	0.71
22-Nov-06	Strong Buy	0.68
21-Aug-06	Buy	0.57
30-May-06	Buy	0.48
19-May-06	Buy	0.47
15-Feb-06	Buy	0.45

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