OSK

MALAYSIA EQUITY
Investment Research
Daily News

1HFY08 Results Review

Private Circulation Only

CABLE / METAL

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Leader Universal

TRADING BUY	**Maintain**
Price	**RM0.595**
Target	**RM1.060**

Future Outlook Mixed

The lower-than-expected 1H performance and mixed outlook for the cable and wire division have prompted us to tone down our PER multiple for the division from 6x previously to 5x and our projection by approximately 9% for the next 2 years. The escalation in financing cost also suggests a higher WACC and lower IRR for the power division, which leads us to lower our 12-month SOP target price to RM1.06. We reiterate our TRADING BUY recommendation.

Below expectation. Despite a 16.4% increase in PAT compared with that in the preceding quarter, which translated into a 1H net profit of RM33.6m, the annualised figure was 10.8% below our expectation. Given that the hike in energy cost may further pressure the company's bottom-line, we are downgrading our projection by 9% for next 2 years.

Mixed outlook for cable and wire division. After the seasonally weak Q1, the cable and wire division made a slow comeback with operating profit increasing marginally to RM24.1m, or 8.9% higher q-o-q (see Figure 3). The outlook is mixed given the recent hike in electricity and natural gas price from July 1, '08, which may squeeze margin. This is particularly in the case of existing orders worth ~RM700m as the company is unable to pass on the higher energy costs. The unstable political backdrop may lead to certain 9MP projects and policies being reviewed, thus potentially delaying some projects. However, we continue to see huge potential for Leader to ride on the potential demand from the Sarawak Corridor of Renewable Energy (SCORE). The company's exports to the Middle East and SEA region remain robust despite US subprime crisis.

Steady income from power division. The company's existing power plant in Phnom Penh, Cambodia recorded a slightly lower operating profit of RM8.4m in 2Q due to the time lag in passing on escalating costs (refer to Figure 4). The company is still in negotiations with a turnkey contractor on EPCC works on new IPP projects, and taking the necessary measures with regard to the project financing after the signing of a PPA. Given the rise in financing costs worldwide following the sub-prime crisis, we are increasing the WACC assumption for the power division to 12% from the present 10% and reducing our IRR for new IPPs to 12%, thus reducing our DCF valuation by 23.2%.

Marginal profit from property division. Leader managed to record a minor operating profit of RM1.3m from residual sales in the property development division (see Figure 5). For the immediate future, we do not expect to see any new launches.

FYE Dec (RMm)	FY05	FY06	FY07	FY08f	FY09f
Total Revenue	1602.8	2365.0	2821.7	2815.9	2949.2
Net Profit	21.9	35.3	66.0	68.4	73.1
% chg YoY	44.3	61.4	86.8	3.7	6.9
Consensus EPS (sen)	-	-	-	-	-
EPS (sen)	5.0	8.1	15.1	15.7	16.8
Gross DPS (sen)	0.0	1.5	3.0	3.3	3.5
Gross Div. Yield (%)	0.0	2.5	5.0	5.5	5.9
PER (x)	11.9	7.4	3.9	3.8	3.6
P/BV (x)	0.8	0.7	0.6	0.5	0.5
EV/EBITDA (x)	6.5	5.5	3.7	4.0	3.4
ROE (%)	6.4	9.8	16.4	14.8	14.0
ROA (%)	1.8	2.7	4.9	4.9	5.0

Stock Profile/Statistics

Bloomberg Ticker	LUH MK Equity
KLCI	1085.60
Issued Share Capital (m)	436.46
Market Capitalisation (RMm)	259.69
52 week H | L Price (RM)	1.23 | 0.55
Average Volume (3m) '000	1141.26
YTD Returns (%)	-0.49
Net gearing (x)	0.58
Altman Z-Score	3.09
ROCE/WACC	0.88
Beta (x)	1.57
Book Value/share (RM)	0.99

Major Shareholders (%)

Zun Holdings SB	11.7
Employees Provident Fund Board	4.0

Share Price Performance (%)

Month	Absolute	Relative
1m	4.55	9.57
3m	-35.75	-22.20
6m	-38.82	-18.41
12m	-36.98	-33.20

6-month Share Price Performance

KEY HIGHLIGHTS

FYE Dec (RMm)	2QFY08	1QFY08	% chg	YTD FY08	YTD FY07	% chg
Turnover	678.1	639.9	6.0%	1318.0	1294.9	1.8%
EBITDA	38.7	39.0	-0.9%	82.7	68.7	20.4%
Depreciation	(8.3)	(8.3)	0.0%	(16.6)	(16.6)	0.0%
Net interest expense	(8.1)	(6.2)	30.2%	(14.2)	(16.9)	-15.6%
Associates	1.9	1.0	80.2%	2.9	2.9	0.5%
PBT	27.5	27.3	1.0%	54.8	43.7	25.4%
Tax	(4.2)	(6.8)	-37.8%	(11.0)	(6.1)	79.0%
MI	(5.3)	(5.0)	5.9%	(10.2)	(9.5)	8.2%
Net Profit	18.1	15.5	16.4%	33.6	28.1	19.5%
EPS (sen)	4.1	3.6		7.7	6.4	
Gross DPS (sen)	0.0	0.0		0.0	1.5	
EBITDA margin	5.7%	6.1%		6.3%	5.3%	
NTA/share (RM)	1.08	1.03		1.08	0.90	

Figure1: Revenue Contribution for 1HFY08

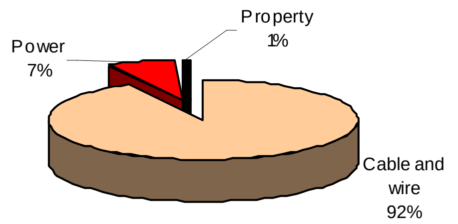
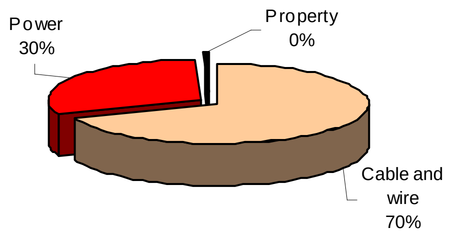
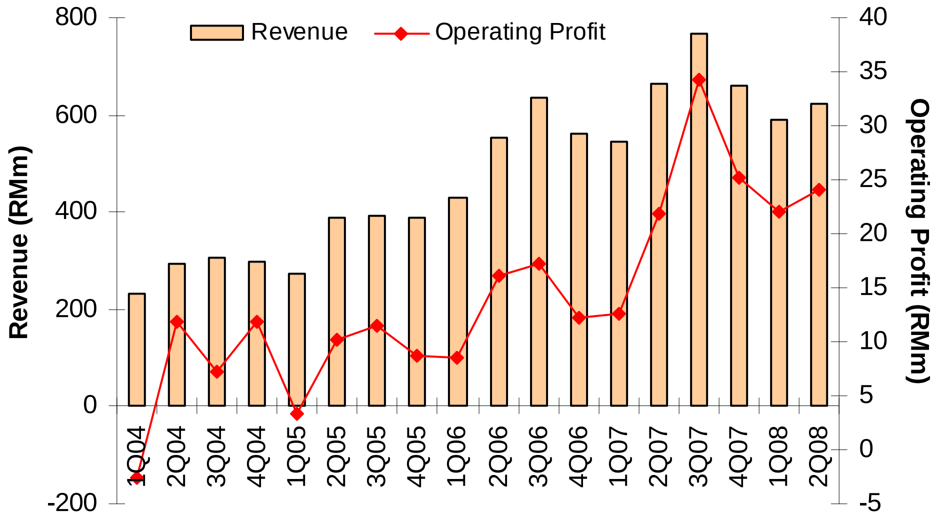


Figure 2: Operating Profit Contribution for 1HFY08



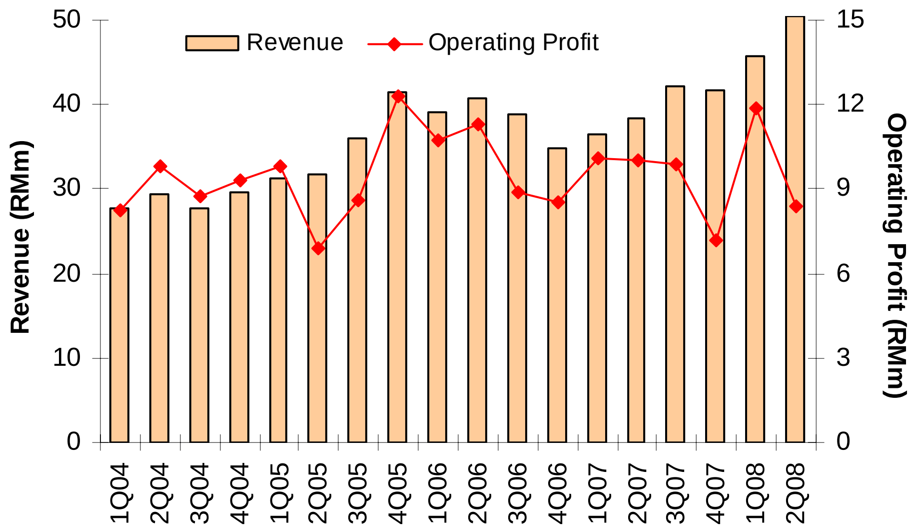
Source: Company Data

Figure 3: Quarterly Performance for Cable & Wire Division



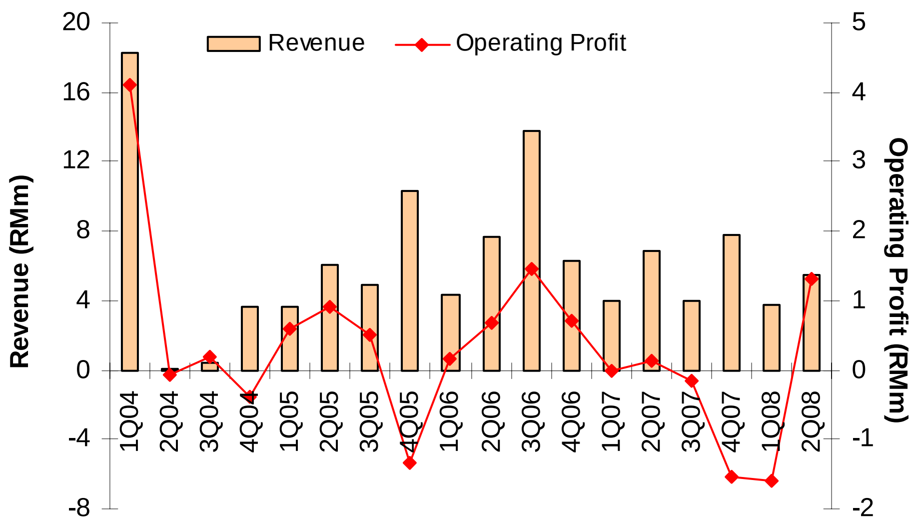
Source: Company Data

Figure 4: Quarterly Performance for Power Division



Source: Company Data

Figure 5: Quarterly Performance for Property & Other Division



Source: Company Data

Figure 6: Sum of Valuation Composition for Leader Universal

Division	Net Profit After MI (FY08)	Peer PER	Total (RMm)
Cable & wire, others	46.6	5.0	232.9
Power (IPP @ DCF)			228.0
Total Sum Of Parts			460.9
No of Shares			436.5
12-Month Target Price		**RM**	**1.06**

Source: Bloomberg, OSK Research

OSK Research Guide to Investment Ratings

Buy: Share price may exceed 10% over the next 12 months

Trading Buy: Share price may exceed 15% over the next 3 months, however longer-term outlook remains uncertain

Neutral: Share price may fall within the range of +/- 10% over the next 12 months

Take Profit: Target price has been attained. Look to accumulate at lower levels

Sell: Share price may fall by more than 10% over the next 12 months

Not Rated: Stock is not within regular research coverage

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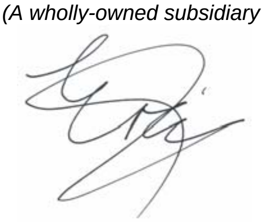

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