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BUY ↻

Target
Previous
Price

RM1.20
RM1.20
RM0.84

BUILDING MATERIALS

Leader is an integrated cable and wire manufacturer with subsidiaries involved in the Independent power plant and property businesses.

Stock Statistics

Bloomberg Ticker	LUH MK
Share Capital (m)	436.5
Market Cap (RMm)	366.6
52 week H L Price (RM)	1.05 0.80
3mth Avg Vol ('000)	647.4
YTD Returns	-1.2
Beta (x)	1.57

Major Shareholders (%)

Zun Holdings SB	12.2
Lembaga Tabung Haji	9.0
Gold Connection	6.9

Share Performance (%)

Month	Absolute	Relative
1m	-2.3	-3.8
3m	0.6	0.8
6m	2.4	-2.9
12m	0.0	-18.2

6-month Share Price Performance**FY10 Results Review****Leader Universal****Below Expectations**

Leader's full year earnings were below our expectations by 14.6% largely due to a shift to lower margin products by its cables and wires division, coupled with high overheads and translation losses incurred by its non-core operations. Nonetheless, as we see the domestic front to once again be the recipient of new contract awards that will command better margins, we maintain our earnings estimates for Leader. We maintain our BUY recommendation on the stock with its upside potential of 43% base on an unchanged target price at RM1.20.

Higher topline, lower bottomline. On the back of higher selling prices and volume sales for Leader's cables wires and division, revenue rose 28% y-o-y. However, as the company strengthens its presence further into the export market which commands lower selling prices, net earnings fared weaker by 7%. In addition, lower bottom line earnings were also due to the strengthening Ringgit which led to earnings translation losses impacting its bottom line coupled with ongoing cost overheads that was incurred for its 2 Cambodian power transmission lines which are currently still under construction. Leader's power division earnings were in-line with our estimates.

Change in trends. A shift in selling mix was cited as the main reason for lower earnings for Leader. Compared to a year before, export sales now account for 43% of its volume sales vs 33% previously. Although export markets pose a sizeable market for Leader, the competitive nature of overseas markets has led to lower margins for its cables and wires division. We highlight that despite a rise in volume sales of 18% which was achieved by Leader's cables and wires division, its operating margins have declined to 2.4% from 3.2% in the previous year.

Earnings intact. Our earnings estimates are broadly intact upon updating our valuation forecast. Despite Leader's selling mix trending towards the export market in 2010, we reckon overall operating margins will recover in FY11 as more domestic contracts (that command better margins) are awarded as part of the ETP which calls on for intensified infrastructure contracts. Projects such as the LRT extension and the Sarawak power grid development are among those that will require more cables and wires products. We make marginal adjustment to our earnings estimates for FY11 and going forward. Thus our target price is intact as well at RM1.20. We maintain our BUY recommendation on the stock given the 43% upside it provides.

FYE Dec (RMm)	FY08	FY09	FY10	FY11f	FY12f
Revenue	2540.8	1949.8	2494.0	2607.0	2756.7
Net Profit	64.9	53.4	49.7	68.6	75.3
% chg y-o-y	-1.6	-17.7	-7.0	38.0	9.9
Consensus	-	-	58.2	67.8	-
EPS (sen)	14.9	12.2	11.4	15.7	17.3
DPS (sen)	3.0	3.0	2.0	2.9	3.2
Dividend yield (%)	3.6	3.6	2.4	3.4	3.8
ROE (%)	13.9	10.3	8.9	11.5	11.4
ROA (%)	4.9	4.2	3.8	4.9	4.9
PER (x)	5.6	6.9	7.4	5.3	4.9
BV/share (RM)	1.15	1.24	1.30	1.44	0.00
P/BV (x)	0.7	0.7	0.6	0.6	0.5
EV/ EBITDA (x)	3.7	3.4	6.1	2.9	1.8

Results Table (RMm)

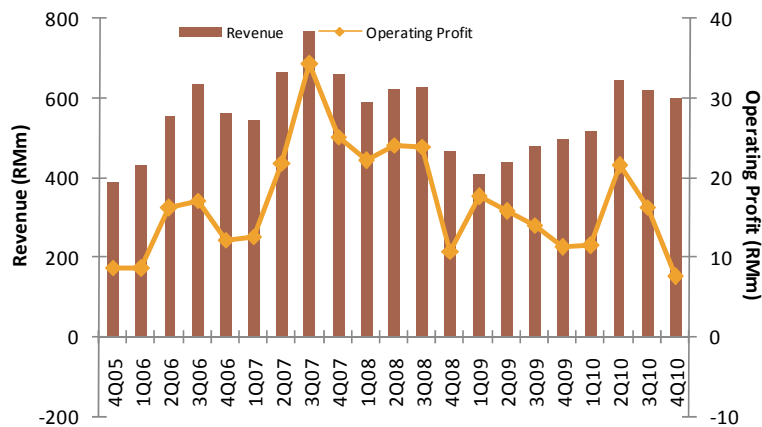
FYE Dec	4Q10	3Q10	Q-o-Q chg	YTD FY10	YTD FY09	Y-o-Y chg	Comments
Revenue	624.3	645.0	-3.2%	2494.0	1949.8	27.9%	Higher volume sales led to a significant surge in revenues
EBIT	7.9	20.9	-62.1%	75.5	93.7	-19.4%	
Net interest expense	-0.6	-1.6	-60.5%	-8.5	-18.4	-53.7%	
Associates	0.0	0.0	-100.0%	0.0	1.6	-100.0%	
PBT	7.3	19.3	-62.2%	67.0	76.8	-12.8%	
Tax	5.2	1.5	254.5%	3.0	-5.9	-150.9%	
MI	-4.4	-4.3	2.7%	-20.3	-17.5	15.9%	
Net profit	8.1	16.5	-50.8%	49.7	53.4	-7.0%	Lower bottom line contributions due to lower selling margins and the incurring of translation losses
EPS (sen)	1.9	3.8		11.4	12.2		
DPS (sen)	0.0	0.0		1.5	3.0		
EBIT margin	1.3%	3.2%		3.0%	4.8%		
NTA/share (RM)	1.30	1.29		1.00	1.24		

Figure 1: Leader Universal Valuation parameter

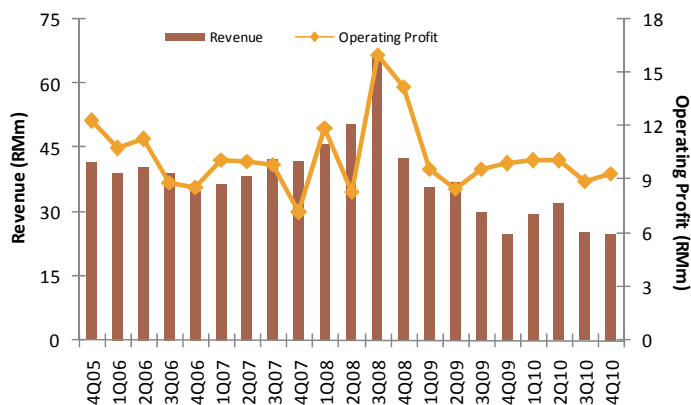
Division	Net Profit After MI (FY10)	Peer PER	Total (RMm)
Cable & wire, others	47.6	9.0	428.3
Power (IPP @ DCF)			83.6
Total Sum Of Parts			512.0
No of Shares			436.5
12-Months Targeted Price		RM	1.20

Source: OSK, Company data

Figure 2: Cables and wires division historical earnings track performance



Source: OSK, Company data

Figure 3: Power division historical earnings track performance

Source: OSK, Company data

EARNINGS FORECAST

FYE Dec (RMm)	FY08	FY09	FY10	FY11f	FY12f
Turnover	2540.8	1949.8	2494.0	2607.0	2756.7
EBITDA	158.5	122.6	105.2	136.8	144.0
PBT	102.0	76.8	67.0	96.7	104.7
Net Profit	64.9	53.4	49.7	68.6	75.3
EPS (sen)	14.9	12.2	11.4	15.7	17.3
DPS (sen)	3.0	3.0	2.0	2.9	3.2
Margin					
EBITDA (%)	6.2	6.3	4.2	5.2	5.2
PBT (%)	4.0	3.9	2.7	3.7	3.8
Net Profit (%)	2.6	2.7	2.0	2.6	2.7
ROE (%)	13.9	10.3	8.9	11.5	11.4
ROA (%)	4.9	4.2	3.8	4.9	4.9
Balance Sheet					
Fixed Assets	423.0	464.3	603.9	360.8	342.4
Current Assets	864.4	788.2	775.6	1068.5	1294.9
Total Assets	1287.5	1252.5	1379.5	1429.3	1637.3
Current Liabilities	542.6	534.4	533.5	520.8	671.8
Net Current Assets	321.8	253.8	242.1	547.7	623.1
LT Liabilities	139.7	47.7	175.3	157.6	127.8
Shareholders Funds	499.8	541.4	569.0	628.6	694.0
Net Gearing (%)	-43.3	-8.4	-49.1	-5.5	Net Cash.

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 (NR): Stock is not within regular research coverage

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