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## Company Update

# Leader Universal

## Simply Electrifying

In a Bursa announcement yesterday, Sarawak Energy Bhd said it has awarded a LoA to Naim Holdings for the construction of Package B Part I and II of the 275KV Overhead Transmission Line Projects for Bakun-Similajau Transmission System. Since Leader is likely to be the lead supplier of wires and cables to this project, the company is poised to gain both directly and indirectly. Hence, given improving earnings visibility, we ascribe a higher PER of 8x against 6x previously to the company's cable and wire division in our Sum-of-Parts valuation. This results in an upgrade on Leader's target price to RM1.16 from RM0.93 previously. **BUY call maintained.**

**Project in hand?** Our checks with sources indicate that this transmission line is part of the second phase of the Bakun-Similajau Transmission System (BSTS). In fact, Leader had previously supplied cables and wires for the first phase of the BSTS, which was awarded by the same party. As such, we believe the cable and wires supply contract for the second phase could well land on Leader's lap.

**Direct and indirect exposure.** Besides directly supplying to the BSTS, Leader's associate company, Universal Cable Sarawak (UCS), would also be Leader's indirect exposure to the BSTS. UCS is also principally involved in the manufacture of electrical wires and cables as well as sub-contract power and transmission related works. (see page 2 for more details)

**Optimistic earnings forecast reinforced.** We see Leader's FY10 revenue growing 9.2% y-o-y. Coupled with recovering copper and aluminium prices, the resulting higher margin should well lift its net profit by 21.4% y-o-y over the same period. We see increasing orders from the SCORE region as more transmission lines are installed in the future. Nonetheless, we deem our estimates for Leader reasonably "bullish", and hence our unchanged earnings forecast. A potential upside catalyst would be higher than expected orders from the SCORE region.

**Compelling valuations.** Leader's share price has surged by 17.7% in the past two days following news of a JV between State Grid Corp of China and 1Malaysia Development Berhad to invest in projects in SCORE. As the prospects are improving for Leader's operations in Sarawak going forward, we are now ascribing a higher PE of 8x against a conservative 6x previously to the company's cable and wire division in our sum-of-parts valuation. This prompts us to revise upwards our TP for the stock to RM1.16 from RM0.93 previously. Leader remains a BUY.

### BUY ↻

Target  
Previous  
Price

RM1.16  
RM0.93  
RM0.93

### CABLES/METAL

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)	403.7
52 week H L Price (RM)	0.97   0.40
3mth Avg Vol ('000)	623.2
YTD Returns	18.6
Beta (x)	1.51

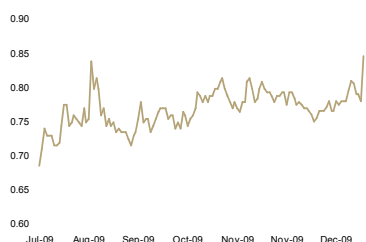
### Major Shareholders (%)

Zun Holdings	12.0
LTH	6.2
Gold Connection Assets	6.1

### Share Performance (%)

Month	Absolute	Relative
1m	10.5	18.1
3m	7.7	12.0
6m	23.1	9.8
12m	90.9	41.0

### 6-month Share Price Performance



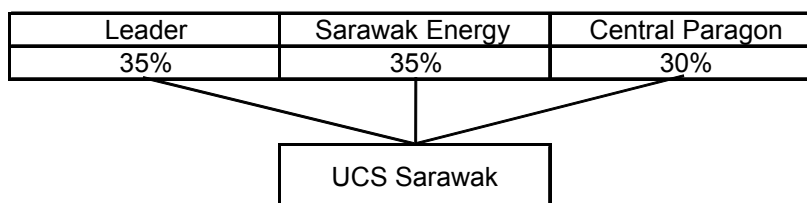
FYE Dec (RMm)	FY06	FY07	FY08	FY09f	FY10f
Revenue	2365.0	2821.7	2540.8	1942.9	2122.2
Net Profit	35.3	66.0	64.9	58.9	71.5
% chg y-o-y	61.4	86.8	-1.6	-9.4	21.4
Consensus	-	-	-	57.4	65.0
EPS (sen)	8.1	15.1	14.9	13.5	16.4
DPS (sen)	1.5	3.0	3.0	3.0	3.4
Dividend yield (%)	1.6	3.2	3.2	3.2	3.7
ROE (%)	9.8	16.4	13.9	11.2	12.3
ROA (%)	2.7	4.9	4.9	4.5	5.3
PER (x)	11.5	6.2	6.3	6.9	5.7
BV/share (RM)	0.85	0.99	1.15	1.26	1.40
P/BV (x)	1.1	0.9	0.8	0.7	0.7
EV/ EBITDA (x)	6.7	4.6	4.0	3.6	2.8

Notes: If any.

## HIGHLIGHTS

**Briefly on UCS Sarawak.** The company is principally involved in the manufacture of electrical wires and cables as well as sub-contract of power and transmission related works. Initially, Leader, Sarawak Energy Berhad (SEB) and Central Paragon SB held 35%, 35% and 30% equity stakes respectively in UCS Sarawak. SEB, which is involved in the generation, transmission and distribution of electricity in Sarawak, had secured approximately RM44.2m worth of power cables under related party transaction from UCS Sarawak, an SEB circular to shareholders dated 7 June 2006 said.

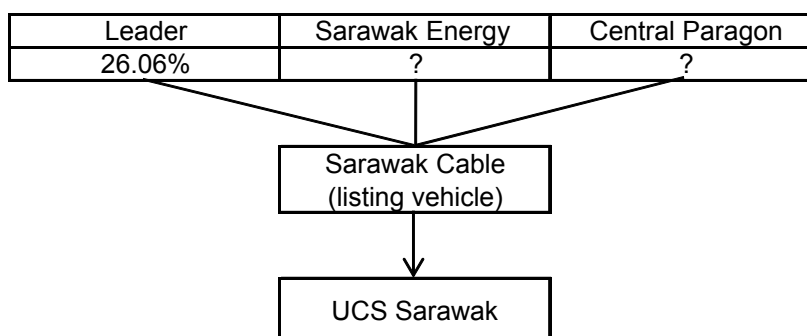
**Figure 1: Before proposed listing of UCS Sarawak via Sarawak Cable (listing vehicle)**



Source: OSK

**Listing of Sarawak Cable.** However, as part of a restructuring undertaken pursuant to the proposed initial public offering of Sarawak Cable (a listing vehicle for UCS Sarawak), a series of corporate exercises were initiated in 2008. This included a share disposal, which resulted in Leader disposing of 35% of its total issued and paid up share capital in UCS Sarawak to Sarawak Cable in exchange for 18,304,999 ordinary RM1 shares in Sarawak Cable. After the subsequent exercises including a share split in Sarawak Cable and two Offers for Sale, Leader eventually ended with an effective stake of 26.06% in Sarawak Cable. After the restructuring, however, Sarawak Cable has yet to be listed on Bursa Malaysia. According to our sources, the company may be listed as soon as before the Chinese New Year festival.

**Figure 2: Current structure of Sarawak Cable**



Source: OSK

**EARNINGS FORECAST**

<b>FYE Dec (RMm)</b>	<b>FY06</b>	<b>FY07</b>	<b>FY08</b>	<b>FY09f</b>	<b>FY10f</b>
Turnover	2365.0	2821.7	2540.8	1942.9	2122.2
EBITDA	121.1	148.6	157.0	141.1	159.5
PBT	67.1	94.5	102.0	98.1	119.1
Net Profit	35.3	66.0	64.9	58.9	71.5
EPS (sen)	8.1	15.1	14.9	13.5	16.4
DPS (sen)	1.5	3.0	3.0	3.0	3.4
<b>Margin</b>					
EBITDA (%)	5.1	5.3	6.2	7.3	7.5
PBT (%)	2.8	3.4	4.0	5.0	5.6
Net Profit (%)	1.5	2.3	2.6	3.0	3.4
<b>ROE (%)</b>	9.8	16.4	13.9	11.2	12.3
<b>ROA (%)</b>	2.7	4.9	4.9	4.5	5.3
<b>Balance Sheet</b>					
Fixed Assets	392.7	389.9	423.0	363.6	342.0
Current Assets	958.6	955.8	864.4	945.6	1029.3
Total Assets	1351.3	1345.7	1287.5	1309.2	1371.3
Current Liabilities	640.4	649.9	542.6	512.1	511.9
Net Current Assets	318.2	305.8	321.8	433.5	517.4
LT Liabilities	220.5	163.9	139.7	123.0	100.6
Shareholders Funds	371.7	433.4	499.8	549.3	610.0
Net Gearing (%)	108.8	65.5	43.3	18.9	5.7

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