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**Vincent Lim Vi Ming**
+60 (3) 9207 7663
viming.lim@my.oskgroup.com

## 1QFY10 Results Review

# Leader Universal

## *Hit by Unexpected Costs*

BUY

| | |
|---|---|
| **Target** | **RM1.05** |
| **Previous** | **RM1.11** |
| **Price** | **RM0.86** |

**CABLE/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) | 375.4 |
| 52 week H│L Price (RM) | 1.05│ 0.61 |
| 3mth Avg Vol ('000) | 1,413.3 |
| YTD Returns | 10.3 |
| Beta (x) | 1.64 |

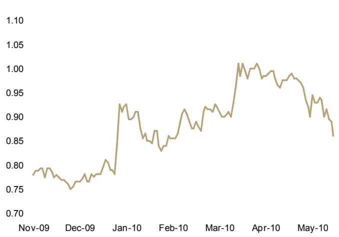
**Major Shareholders (%)**

| | |
|---|---|
| Zun Holdings | 13.5 |
| LTH | 8.5 |
| Gold Connection Assets | 6.4 |

**Share Performance (%)**

| Month | Absolute | Relative |
|---|---|---|
| **1m** | -7.3 | -8.5 |
| **3m** | -1.7 | -7.0 |
| **6m** | 13.4 | 6.5 |
| **12m** | 42.3 | 10.8 |

**6-month Share Price Performance**




**On an annualized basis, Leader's results came in 42% below our expectations and 36.3% below consensus. Its weaker y-o-y results were largely caused by a sharp increase in other operating expenses, which curtailed much of its growth. On conservative grounds, we are now lowering our earnings estimates by 12.6% for FY10. We also lower our target price to RM1.05 from RM1.11 previously. Our valuations parameter however factors in a higher PE assumption for its cables and wires division at 9x against 8x previously as we see the company benefiting from the development of the SCORE region, which will open opportunities for Leader. BUY recommendation maintained.**

**Y-o-y lower.** As at 1Q, Leader's turnover came in at RM545.9m (+22.7% y-o-y; +4.7% q-o-q) while net profit fell to RM10m (-17.7% y-o-y; -11.6% q-o-q). The higher turnover was driven by higher average selling prices for its cables and wires division. However, as raw materials costs were also higher and since Leader passes on its higher costs to consumers, this did not have a significant impact on its earnings. In fact, a surge in other operating expenses led to weaker earnings y-o-y and q-o-q, which based on our understanding was attributed to currency translation losses. As Leader's products are quoted in USD, there would be a translation loss as the Ringgit strengthens. Gross earnings also fell slightly, attributed to Leader's greater exposure to the export markets this year, and also the fact that exports normally command lower operating margins.

**Lowering estimates.** We maintain our revenue estimates as revenue was in line, but are reducing our net earnings estimates by 12.6% and 10% for FY10 and FY11 respectively on increasing our MI assumptions and reducing our power division contributions (<5%). Going forward, we see better earnings in the subsequent quarters (post 2H in particular) and thus meeting our projections. Nonetheless, given the strengthening Ringgit against the USD, we will continue to monitor its impact towards Leader's earnings. In the longer term, we see more value to be unlocked from Leader's power generation operations in Cambodia, which are scheduled to commence next year. Currently our valuations have not captured its upcoming 100MW coal-fired power plant and 230kV power transmission line concessions.

**TP trimmed.** Given the lower earnings projections, we are cutting our target price to RM1.05 from RM1.11 previously. We note that our valuation parameter factors in a higher PE assumption for its cables and wires division at 9x from 8x previously as we see the SCORE region's development opening more opportunities for Leader. BUY recommendation maintained. For 1Q, Leader has declared an interim dividend of 1.5 sen per share.

| FYE Dec (RMm) | FY07 | FY08 | FY09 | FY10f | FY11f |
|---|---|---|---|---|---|
| Revenue | 2821.7 | 2540.8 | 1949.8 | 2131.9 | 2231.0 |
| Net Profit | 66.0 | 64.9 | 53.4 | 60.6 | 70.3 |
| % chg y-o-y | 86.8 | -1.6 | -17.7 | 13.3 | 16.1 |
| Consensus | - | - | - | 63.4 | 69.7 |
| EPS (sen) | 15.1 | 14.9 | 12.2 | 13.9 | 16.1 |
| DPS (sen) | 3.0 | 3.0 | 3.0 | 3.4 | 4.1 |
| Dividend yield (%) | 3.5 | 3.5 | 3.5 | 3.9 | 4.7 |
| ROE (%) | 16.4 | 13.9 | 10.3 | 10.7 | 11.3 |
| ROA (%) | 4.9 | 4.9 | 4.2 | 4.7 | 5.1 |
| PER (x) | 5.7 | 5.8 | 7.0 | 6.2 | 5.3 |
| BV/share (RM) | 0.99 | 1.15 | 1.24 | 1.35 | 1.49 |
| P/BV (x) | 0.9 | 0.8 | 0.7 | 0.6 | 0.6 |
| EV/ EBITDA (x) | 4.4 | 3.7 | 3.4 | 2.4 | 1.7 |

**Results Table (RMm)**

| FYE Dec | 1Q10 | 4Q09 | Q-o-Q chg | YTD FY10 | YTD FY09 | Y-o-Y chg | Comments |
|---|---|---|---|---|---|---|---|
| Revenue | 545.9 | 521.3 | 4.7% | 545.9 | 444.7 | 22.7% | Higher y-o-y and q-o-q on better selling prices |
| EBIT | 13.2 | 19.4 | -31.8% | 13.2 | 24.7 | -46.3% | |
| Net interest expense | 2.9 | -4.9 | >-100% | 2.9 | -5.5 | >-100% | |
| Associates | 0.1 | 0.1 | 59.4% | 0.1 | 0.3 | -65.7% | |
| PBT | 16.9 | 14.6 | 15.8% | 16.9 | 21.4 | -21.0% | |
| Tax | -1.1 | 0.9 | >-100% | -1.1 | -4.2 | -73.4% | |
| MI | -5.7 | -4.1 | 40.0% | -5.7 | -5.0 | 15.2% | |
| Net profit | 10.1 | 11.4 | -11.6% | 10.1 | 12.3 | -17.7% | Lower y-o-y and q-o-q on currency translation losses |
| EPS (sen) | 2.3 | 2.6 | | 2.3 | 2.8 | | |
| DPS (sen) | 1.5 | 0.0 | | 1.5 | 0.0 | | |
| EBIT margin | 2.4% | 3.7% | | 2.4% | 5.5% | | |
| NTA/share (RM) | 1.23 | 1.24 | | 1.23 | 1.19 | | |

## EARNINGS FORECAST

| FYE Dec (RMm) | FY07 | FY08 | FY09 | FY10f | FY11f |
|---|---|---|---|---|---|
| Turnover | 2821.7 | 2540.8 | 1949.8 | 2131.9 | 2231.0 |
| EBITDA | 150.7 | 158.5 | 122.6 | 134.8 | 138.6 |
| PBT | 94.5 | 102.0 | 76.8 | 91.3 | 102.7 |
| Net Profit | 66.0 | 64.9 | 53.4 | 60.6 | 70.3 |
| EPS (sen) | 15.1 | 14.9 | 12.2 | 13.9 | 16.1 |
| DPS (sen) | 3.0 | 3.0 | 3.0 | 3.4 | 4.1 |
| | | | | | |
| Margin | | | | | |
| EBITDA (%) | 5.3 | 6.2 | 6.3 | 6.3 | 6.2 |
| PBT (%) | 3.4 | 4.0 | 3.9 | 4.3 | 4.6 |
| Net Profit (%) | 2.3 | 2.6 | 2.7 | 2.8 | 3.2 |
| | | | | | |
| ROE (%) | 16.4 | 13.9 | 10.3 | 10.7 | 11.3 |
| ROA (%) | 4.9 | 4.9 | 4.2 | 4.7 | 5.1 |
| | | | | | |
| Balance Sheet | | | | | |
| Fixed Assets | 389.9 | 423.0 | 464.3 | 379.7 | 360.8 |
| Current Assets | 955.8 | 864.4 | 788.2 | 956.4 | 1046.1 |
| Total Assets | 1345.7 | 1287.5 | 1252.5 | 1336.1 | 1406.9 |
| Current Liabilities | 649.9 | 542.6 | 534.4 | 540.5 | 537.5 |
| Net Current Assets | 305.8 | 321.8 | 253.8 | 415.9 | 508.6 |
| LT Liabilities | 163.9 | 139.7 | 47.7 | 55.3 | 50.9 |
| Shareholders Funds | 433.4 | 499.8 | 541.4 | 590.9 | 648.5 |
| Net Gearing (%) | -65.5 | -43.3 | -8.4 | Net Cash. | 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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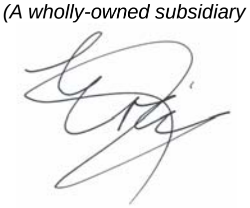

Chris Eng

**Kuala Lumpur** | **Hong Kong** | **Singapore** | **Jakarta** | **Shanghai**

**Malaysia Research Office**
OSK Research Sdn. Bhd.
6th Floor, Plaza OSK
Jalan Ampang
50450 Kuala Lumpur
Malaysia
Tel : +(60) 3 9207 7688
Fax : +(60) 3 2175 3202

**Hong Kong Office**
OSK Securities
Hong Kong Ltd.
12th Floor,
World-Wide House
19 Des Voeux Road
Central, Hong Kong
Tel : +(852) 2525 1118
Fax : +(852) 2810 0908

**Singapore Office**
DMG & Partners
Securities Pte. Ltd.
20 Raffles Place
#22-01 Ocean Towers
Singapore 048620
Tel : +(65) 6533 1818
Fax : +(65) 6532 6211

**Jakarta Office**
PT OSK Nusadana Securities
Indonesia
Plaza Lippo, 14th Floor,
Jln. Jend. Sudirman Kav 25,
Jakarta 12920
Indonesia
Tel : +(6221) 520 4599
Fax : +(6221) 520 4598

**Shanghai Office**
OSK (China) Investment
Advisory Co. Ltd.
Room 6506, Plaza 66
No.1266, West Nan Jing Road
200040 Shanghai
China
Tel : +(8621) 6288 9611
Fax : +(8621) 6288 9633