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BUY

Target **RM1.200**
Previous **RM1.050**
Price **RM0.845**

BUILDING MATERIALS

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

Stock Statistics

		LUH MK
Bloomberg Ticker		436.5
Share Capital (m)		371.0
Market Cap (RMm)		547.3
52 week H L Price (RM)	1.05	0.75
3mth Avg Vol ('000)		9.0
YTD Returns		1.50
Beta (x)		

Major Shareholders (%)

Zun Holdings SB	12.0
LTH	9.0
Gold Connection Assets	6.4

Share Performance (%)

Month	Absolute	Relative
1m	-7.6	-5.8
3m	1.8	-4.5
6m	8.1	-11.6
12m	10.9	-10.1

6-month Share Price Performance**9MFY10 Results Review****Leader Universal****Slightly Below Estimates**

Leader's bottom line earnings were slightly below our expectations although its topline was stronger. Revenue fell q-o-q due to the strengthening ringgit and lower domestic sales during the Ramadan month and festive season. Although we are raising our revenue estimates to account for higher selling prices, we are lowering our operating margins assumption to include a shift to a product selling mix which commands thinner margins. Our target price nonetheless is raised to RM1.20 from RM1.05 previously upon rolling over our SOP valuation to FY11. Leader is maintained a BUY.

Y-o-y flat. On an YTD basis, revenue accounted for 88% of our FY forecast. Management said the strong revenue was due to higher selling prices stemming from increasing global copper and aluminium prices and sales volume. However, y-o-y net profits came in flat (-1.1%), attributed to: i) Leader's higher exposure to the export markets, which now accounts for 45% of revenue vs ~33% a year ago (exports command lower margins due to competitive pricing), and ii) a shift in selling mix to lower margin products. These led to net profits accounting for 68% of our full year earnings forecast, which was below our full-year expectations.

Q-o-q lower. Q-o-q earnings were lower at the revenue and pretax levels. In addition, we believe the lower top line was also due to the strengthening of the MYR (Leader's products are quoted in USD) and lower domestic sales during the Ramadan month and festive season in August. All this led to revenue dipping by 5% and pretax profits by 17.6%. On the brighter side, Leader enjoyed tax incentives amounting to about RM1.5m for exports to new markets in 3Q, which helped to reverse its q-o-q earnings slide to an increase of 9.8% versus a decline at the pre-tax level.

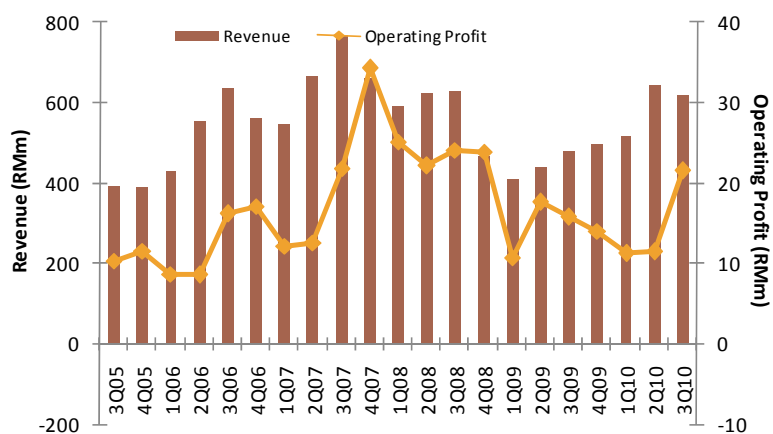
Earnings revision. Accounting for higher cable and wires sales, we revise the division's revenue higher by 19%. But given its greater exposure to the export markets currently, we lower the division's operating margin assumption to 2.7% (previously 3.4%) based on the average over the last three quarters. Overall, this results in a decline to our net earnings assumption by 3%-4% for FY10 and FY11.

Rolling over to FY11. Despite the lower estimates, we roll over our valuation parameters for Leader's earnings to FY11. Upon applying a PE of 9x to the cable and wires division's earnings, our SOP valuation gives us a target price of RM1.20 versus RM1.05 previously. Leader is now trading at an undemanding forward PE of 6.4x at the current share price.

FYE Dec (RMm)	FY07	FY08	FY09	FY10f	FY11f
Revenue	2821.7	2540.8	1949.8	2491.3	2609.5
Net Profit	66.0	64.9	53.4	58.2	67.8
% chg y-o-y	86.8	-1.6	-17.7	8.8	16.5
Consensus	-	-	-	59.5	66.3
EPS (sen)	15.1	14.9	12.2	13.3	15.5
DPS (sen)	3.0	3.0	3.0	3.2	3.9
Dividend yield (%)	3.5	3.5	3.5	3.8	4.6
ROE (%)	16.4	13.9	10.3	10.3	11.0
ROA (%)	4.9	4.9	4.2	4.4	4.7
PER (x)	5.6	5.7	6.9	6.4	5.5
BV/share (RM)	0.99	1.15	1.24	1.35	1.48
P/BV (x)	0.9	0.7	0.7	0.6	0.6
EV/ EBITDA (x)	4.3	3.7	3.4	2.8	2.1

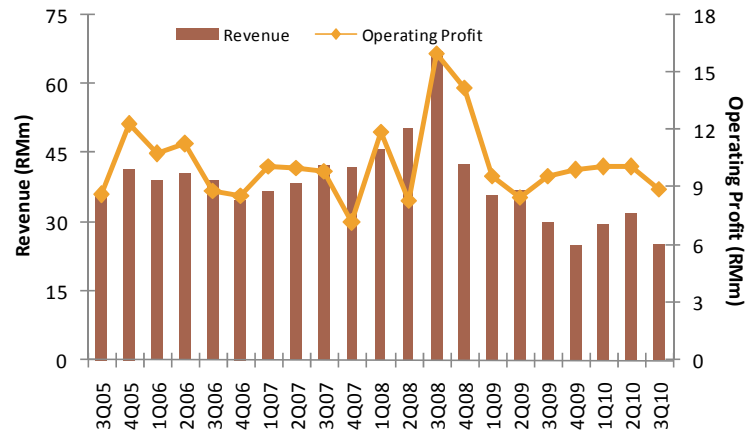
Results Table (RMm)

FYE Dec	3Q10	2Q10	Q-o-Q chg	YTD FY10	YTD FY09	Y-o-Y chg	Comments
Revenue	645.0	678.9	-5.0%	1869.8	1428.5	30.9%	Higher y-o-y on better volume sales and higher selling prices – tied to higher metal prices.
EBIT	20.9	32.0	-34.6%	67.6	74.2	-8.9%	
Net interest expense	-1.6	-9.2	-83.1%	-7.9	-13.6	-41.6%	
Associates	0.0	-0.1	-11.1%	0.0	1.5	-100.0%	
PBT	19.3	23.4	-17.6%	59.7	62.2	-4.1%	
Tax	1.5	-2.6	-157.1%	-2.2	-6.7	-66.9%	
MI	-4.3	-5.8	-26.4%	-15.9	-13.4	18.2%	
Net profit	16.5	15.0	9.8%	41.6	42.0	-1.1%	
EPS (sen)	3.8	3.4		9.5	9.6		
DPS (sen)	0.0	-1.5		0.0	3.0		
EBIT margin	3.2%	4.7%		3.6%	5.2%		Greater exposure to price competitiveness in the export markets leading to lower margins
NTA/share (RM)	1.29	1.25		1.29	1.23		

DIVISION HIGHLIGHTS**Figure 1: Cables and wires division**

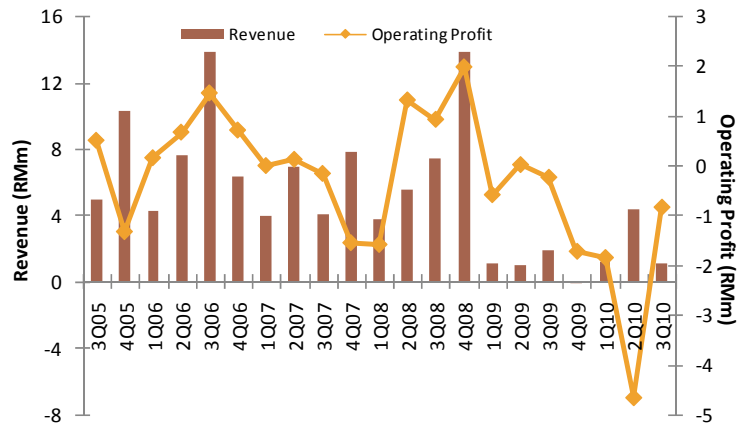
Source: OSK, Company

Figure 2: Power division



Source: OSK, Company

Figure 3: Other (property division)



Source: OSK, Company

EARNINGS FORECAST

FYE Dec (RMm)	FY07	FY08	FY09f	FY10f	FY11f
Turnover	2821.7	2540.8	1949.8	2491.3	2609.5
EBITDA	150.7	158.5	122.6	131.8	135.5
PBT	94.5	102.0	76.8	88.3	99.5
Net Profit	66.0	64.9	53.4	58.2	67.8
EPS (sen)	15.1	14.9	12.2	13.3	15.5
DPS (sen)	3.0	3.0	3.0	3.2	3.9
Margin					
EBITDA (%)	5.3	6.2	6.3	5.3	5.2
PBT (%)	3.4	4.0	3.9	3.5	3.8
Net Profit (%)	2.3	2.6	2.7	2.3	2.6
ROE (%)	16.4	13.9	10.3	10.3	11.0
ROA (%)	4.9	4.9	4.2	4.4	4.7
Balance Sheet					
Fixed Assets	389.9	423.0	464.3	379.7	360.8
Current Assets	955.8	864.4	788.2	1011.5	1102.2
Total Assets	1345.7	1287.5	1252.5	1391.1	1463.0
Current Liabilities	649.9	542.6	534.4	597.8	598.2
Net Current Assets	305.8	321.8	253.8	413.7	504.0
LT Liabilities	163.9	139.7	47.7	55.3	50.9
Shareholders Funds	433.4	499.8	541.4	589.0	644.5
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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