

Leader Universal Holdings

Recommendation: **STRONG BUY**

Stock Code: 4529

Bloomberg: LUH MK

Price: MYR1.07

12-Month Target Price: MYR1.61

Date: August 28, 2007

Board: Main

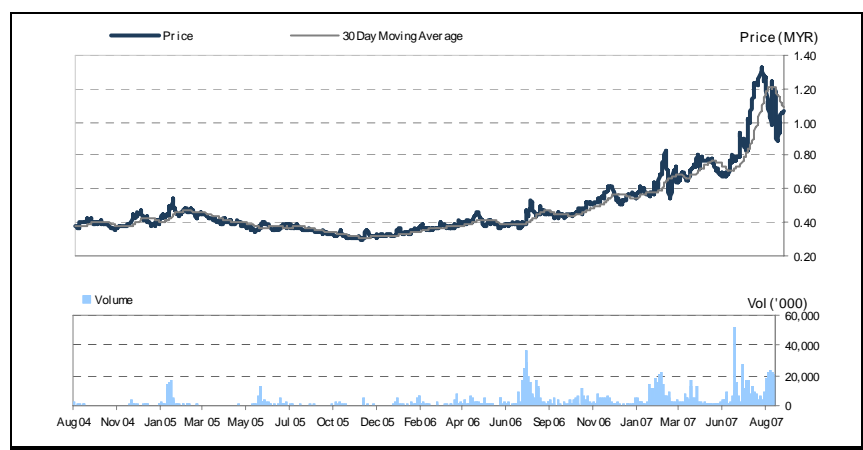
Sector: Industrial Products

GICS: Industrials/Electrical Components & Equipment

Market Value - Total: MYR467.0 mln

Summary: Leader Universal Holdings (Leader) is an investment holding company, which, through its subsidiaries, is primarily engaged in the business of manufacturing and selling power and telecommunication cables and wires, power generation, and property development.

Analyst: Alexander Chia, ACA



Results Review & Earnings Outlook

- Leader's results for 1H07 outstripped our expectations. While revenue of MYR1,295 mln was broadly in line (51% of previous 2007 forecasts), net profit for the period of MYR28.1 mln amounted to 61% of our previous 2007 forecast.
- Revenue for the period rose 20.4% YoY due to higher sales volumes and higher selling prices from the pass-through of higher raw material costs. However operating profit rose 52% YoY as a result of improved margins as a result of better product mix, higher sales of aluminium-based products, the impact of the Group's strategic marketing plans as well as effective raw material procurement policies and ongoing cost saving measures. Operating margin for 1H07 reached 4% compared to 3.2% in the previous corresponding period. Finance costs and effective tax rates were within expectations.
- Leader's order book remains in excess of MYR700 mln while the Group is currently bidding for cable and wire supply contracts worth over MYR1.4 bln. Commercial operations at its new aluminium rod production line have started earlier than expected while expansion of its existing power cable production facilities has enabled higher value added products such as lead sheath cables, miliken cables and optical power ground wires to be produced. Management continues to report strong demand for power cables in domestic as well as export markets.
- We have raised our 2007 and 2008 forecasts by 28% and 42% to MYR58.9 mln and MYR71.4 mln after factoring in cable and wire revenue growth of 19% and 14%, respectively as well as stronger operating margins.

Key Stock Statistics

FY Dec.	2006	2007E
Reported EPS (sen)	8.1	13.5
PER (x)	13.2	7.9
Dividend/Share (sen)	1.5	1.5
NTA/Share (MYR)	0.85	0.98
Book Value/Share (MYR)	0.85	0.98
No. of Outstanding Shares (mln)	436.5	
52-week Share Price Range (MYR)	0.43 - 1.33	
Major Shareholders:	%	
Zun Holdings Sdn Bhd	11.7	
Employees Provident Fund	4.0	
Dato' Chung Chin Fu	5.4	

Recommendation & Investment Risks

- We are reiterating our Strong Buy recommendation and raise our 12-month target price to MYR1.61 (from MYR1.20). This implies a 50% upside.
- Our valuation methodology remains unchanged with the target price being calculated using the sum-of-parts method, by ascribing a 2008 (rolled-over) PER of 10x (from 9x) to the cable and wire division's projected earnings, estimating the present value of earnings from its existing 60%-owned power plant and its 50% share in the proposed new plant (after ascribing a 60% discount to this value for country, execution and contract risks) and adding the net dividend of 1.1 sen. The key DCF assumptions used are a WACC of 9% and terminal value of 3% (all unchanged). We have not included any valuation for the proposed Pakistan power plant given that it remains at the feasibility study stage and given the higher country risks involved.
- Leader's net gearing continues to improve to 90% at end-1H07 from 109% at end-2006. Valuations are undemanding at just 7.9x prospective 2007 earnings.
- Risks to our recommendation and target price include the weakening of the MYR against the US\$, a higher interest rate environment, an unexpected slowdown in orders for cables and wires and risks pertaining to the finalization of the new PPAs for its proposed new power plants.

Per Share Data

FY Dec.	2004	2005	2006	2007E
Book Value (MYR)	0.77	0.79	0.85	0.98
Cash Flow (sen)	11.6	12.6	15.0	19.0
Reported Earnings (sen)	3.5	5.0	8.1	13.5
Dividend (sen)	0.0	0.0	1.5	1.5
Payout Ratio (%)	0.0	0.0	13.4	8.0
PER (x)	30.8	21.4	13.2	7.9
P/Cash Flow (x)	9.2	8.5	7.1	5.6
P/Book Value (x)	1.4	1.4	1.3	1.1
Dividend Yield (%)	0.0	0.0	1.4	1.4
ROE (%)	4.5	6.4	9.8	14.8
Net Gearing (%)	128.8	123.7	108.8	83.9

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Quarterly Performance

FY Dec. / MYR mln	2Q07	2Q06	% Change
Reported Revenue	709.1	601.3	17.9
Reported Operating Profit	32.0	25.5	25.4
Depreciation & Amortization	NA	NA	NA
Net Interest Income / (Expense)	NA	NA	NA
Reported Pre-tax Profit	25.7	19.4	32.7
Reported Net Profit	15.9	8.9	77.4
Reported Operating Margin (%)	4.5	4.2	-
Reported Pre-tax Margin (%)	3.6	3.2	-
Reported Net Margin (%)	2.2	1.5	-

Source: Company data

Profit & Loss

FY Dec. / MYR mln	2005	2006	2007E	2008E
Reported Revenue	1,602.7	2,365.0	2,763.0	3,116.0
Reported Operating Profit	74.8	100.0	121.4	138.0
Depreciation & Amortization	-33.1	-30.3	-23.9	-23.3
Net Interest Income / (Expense)	-27.9	-34.7	-30.7	-30.1
Reported Pre-tax Profit	47.0	67.1	93.0	110.8
Effective Tax Rate (%)	13.5	17.1	13.5	13.5
Reported Net Profit	21.9	35.3	58.9	71.4
Reported Operating Margin (%)	4.7	4.2	4.4	4.4
Reported Pre-tax Margin (%)	2.9	2.8	3.4	3.6
Reported Net Margin (%)	1.4	1.5	2.1	2.3

Source: Company data, S&P Equity Research

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Glossary

Strong Buy: Total return is expected to outperform the total return of the KLCI or KL Emas Index respectively, by a wide margin over the coming 12 months, with shares rising in price on an absolute basis.

Buy: Total return is expected to outperform the total return of the KLCI or KL Emas Index respectively, over the coming 12 months, with shares rising in price on an absolute basis.

Hold: Total return is expected to closely approximate the total return of the KLCI or KL Emas Index respectively, over the coming 12 months with shares generally rising in price on an absolute basis.

Sell: Total return is expected to underperform the total return of the KLCI or KL Emas Index respectively, over the coming 12 months and share price is not anticipated to show a gain.

Strong Sell: Total return is expected to underperform the total return of the KLCI or KL Emas Index respectively, over the coming 12 months by a wide margin, with shares falling in price on an absolute basis.

S&P 12 Month Target Price – The S&P equity analyst's projection of the market price a given security will command 12 months hence, based on a combination of intrinsic, relative, and private market valuation metrics.

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For residents of Malaysia. All queries in relation to this report should be referred to Alexander Chia, Desmond Ch'ng or Ching Wah Tam.

Recommendation and Target Price History

Date	Recommendation	Target Price
New	Strong Buy	1.61
6-Jun-07	Strong Buy	1.20
9-Mar-07	Strong Buy	1.10
22-Feb-07	Strong Buy	1.05
14-Feb-07	Buy	0.71
22-Nov-06	Strong Buy	0.68
21-Aug-06	Buy	0.57
30-May-06	Buy	0.48
19-May-06	Buy	0.47
15-Feb-06	Buy	0.45
17-Nov-05	Strong Buy	0.37
17-Oct-05	Buy	0.37

