STANDARD & POOR'S

Leader Universal Holdings

Recommendation: **STRONG BUY**

Stock Code: 4529 | Bloomberg: LUH MK | Price: MYR1.10 | 12-Month Target Price: MYR1.73 | Date: January 4, 2008

Board: Main

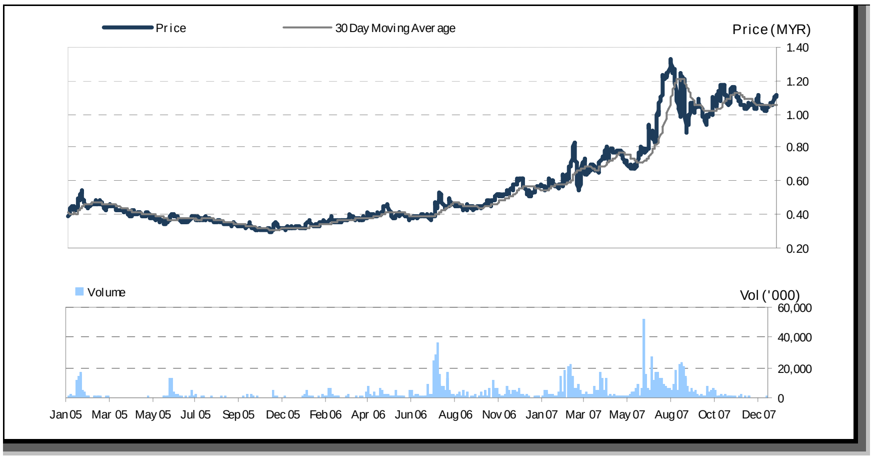
Sector: Industrial Products

GICS: Industrials / Electrical Components & Equipment

Market Value - Total: MYR480.1 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



Highlights

- Leader continues to report strong demand for cables, notably from the power sector in both domestic and overseas markets. Demand in the next few years is expected to remain robust driven by the various domestic regional corridors, double tracking rail projects and underpinned by the MYR20 bln allocated for transmission and distribution and rural electrification under the Ninth Malaysia Plan (9MP).

- Leader currently enjoys an order book worth MYR700 mln excluding recurring orders and is bidding for supply contracts in excess of MYR1.5 bln. Capex of MYR40 mln has been budgeted in 2008 mainly to expand production capacity for power cables that also includes the rationalization of its aluminium rod production facilities.

- Negotiations for the power purchase agreement (PPA) for the proposed new 200MW coal-fired plant in Cambodia is progressing on track, with the PPA expected to be concluded by early 2008.

- Our 2007 and 2008 net profit forecast of MYR62.9 mln (unchanged) and MYR73.6 mln (0.6% lower than previously) implies a 2-year 2006-2008 CAGR of 44.5%.

Investment Risks

- 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 risks pertaining to the finalization of the new PPAs for its proposed new power plant.

Recommendation

- We reiterate our Strong Buy recommendation and maintain our 12-month target price of MYR1.73.

- Our valuation methodology and metric remains unchanged with the target price being calculated using the sum-of-parts method, by ascribing a 2008 PER of 10x (benchmarked to peers) 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 2.2 sen. The key DCF assumptions used are a WACC of 9% and terminal value of 3% (all unchanged).

- We believe Leader shares are significantly undervalued. In our opinion, Leader's cable business alone is worth MYR1.23 per share (at 10x 2008 earnings) and its existing power plant is worth a further MYR0.17 per share. At current levels investors are essentially buying Leader's cable business at a 13% discount and getting its power generation business for free.

- Leader's balance sheet issues are firmly behind them after years in the financial doldrums following the group's mistimed US$100 mln Euro bond issue in 1997 and several failed overseas business forays. At end-3Q07 Leader's net gearing stood at a manageable 82% compared with 109% at end-2006.

Key Stock Statistics

FY Dec.	2006	2007E
Reported EPS (sen)	8.1	14.4
PER (x)	13.6	7.6
Dividend/Share (sen)	1.5	3.0
NTA/Share (MYR)	0.85	0.97
Book Value/Share (MYR)	0.85	0.97
No. of Outstanding Shares (mln)	436.5	
52-week Share Price Range (MYR)	0.55 - 1.33	
Major Shareholders:	%	
Zun Holdings Sdn Bhd	11.7	
Gold Connection Assets Ltd	5.5	
Dato' Chung Chin-Fu	5.2	

Per Share Data

FY Dec.	2004	2005	2006	2007E
Book Value (MYR)	0.77	0.79	0.85	0.97
Cash Flow (sen)	11.6	12.6	15.0	20.4
Reported Earnings (sen)	3.5	5.0	8.1	14.4
Dividend (sen)	0.0	0.0	1.5	3.0
Payout Ratio (%)	0.0	0.0	13.4	15.0
PER (x)	31.7	22.0	13.6	7.6
P/Cash Flow (x)	9.5	8.7	7.3	5.4
P/Book Value (x)	1.4	1.4	1.3	1.1
Dividend Yield (%)	0.0	0.0	1.4	2.7
ROE (%)	4.5	6.4	9.8	15.8
Net Gearing (%)	128.8	123.7	108.8	88.0

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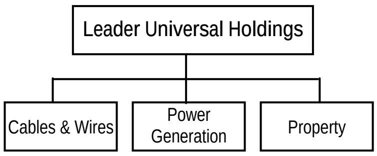
Business

The H'ng Family owns an 11.7% stake in the company. Family patriarch Dato' Seri H'ng Bok San is Executive Deputy Chairman. His son Sean H'ng (CEO and MD) and daughter Jessica H'ng (CFO) are members of the Board.

Corporate Structure



Source: Company data

Leader has three main business divisions focused on the manufacture of cables and wires, power generation and property development

Cables and wires division
Leader is thought to be the largest integrated cable manufacturer in the 10-member Association of Southeast Asian Nations (Asean) region. Leader and its associates operate eight manufacturing plants in Penang, Kedah, Johor and Sarawak. It purchases base copper cathodes and aluminium ingots, which are melted and drawn into rods and then further into wires before being stranded into cables. More than half of its revenues are derived from the sale of intermediate products, in the form of aluminium and copper rods to other downstream cable and wire manufacturers. A wide variety of cables are manufactured for power and telecommunication applications.

Leader exports a significant portion of its production to ensure sufficient economies of scale and during 9M07, 26% of revenues were derived from exports although this is down from 29% a year ago due to the strength of domestic demand. Key local customers include Telekom (T MK, Hold) and Tenaga (TNB MK, Strong Buy), while top export customers include CEB of Sri Lanka and Olex of Australia. Other key export markets include the Middle East, Europe, Australia, New Zealand and Singapore. Management estimates that Leader currently enjoys a 30% share of the domestic power cable market and between 30%-35% share of the market for telecommunications cables.

Leader's cable manufacturing facilities currently operate around the clock on three shifts daily, and management estimates overall utilization rates at about 80%. Pricing is typically on a cost-plus basis with higher raw material costs fully passed through higher selling prices. Since 2005, it has managed to achieve operating margins of between 4%-5%.

Management reports an existing order book of MYR700 mln and is bidding for a further MYR1.5 bln of new contracts.

Power generation division
Leader owns a 60% stake in Cambodia Utilities Pte Ltd, which operates a 35MW diesel / distillate-fired plant. The electricity generated by the IPP is sold to Electricite du Cambodge (EDC), a government energy utility, via an 18-year Power Purchase Agreement (PPA) expiring in 2015, on a "take or pay" basis. It enjoys a fuel pass-through clause insulating it from the recent oil price increases.

Leader recently proposed to develop another 200MW coal-fired plant in Sihanoukville, Cambodia and is jointly undertaking the project with MKCSS Holdings (MKCSS) on a 50:50 basis. MKCSS is incorporated in the Cambodia and is related to the AZ Group of Companies in Cambodia, which is actively involved in a range of business activities including infrastructure investment, exploitation of mineral resources, import-export and retail businesses, dealing in fuel supply and others. The power plant will be developed on a Build-Own-Operate (BOO) basis for a period of 30-years where the electricity generated will be sold to the EDC under a long term PPA that is in the final stages of negotiations. Construction is scheduled to begin in 2009 and commercial operations by 2012.

With the plant estimated to cost US$360 mln and debt-equity ratio of 70:30, Leader will have to fund its equity portion of US$54 mln over the next three years, which should be manageable given its present cashflow patterns.

Property development
Leader's property development arm is currently dormant after recently completing two property development projects located on Penang Island in 2007, Leader Garden Phase B (67 units of 2- and 3-storey terraced, semi-detached and bungalow homes, located in Tanjung Bungah) and Mayfair Super Condominium.

Leader owns 46 acres of freehold development land on the mainland in Simpang Ampat near the launch point for the second Penang Bridge for which no firm development plans have yet been announced. With the carrying cost at just MYR15 mln, either a land sale or development project could yield decent margins in the medium term.

Earnings Outlook

We expect Leader to achieve a 2-year 2006-2008 net profit CAGR of 44.5% mainly on the strength of demand for power cables. Management continues to place emphasis on improving efficiencies especially in raw material procurement.

Domestically, Tenaga's MYR4 bln annual capex is biased mainly toward transmission and distribution, given the high generation reserve margin already in place. Other domestic projects that could have significant power cable components include the various economic corridors already announced, e.g. the Bakun Dam project (600km from Bakun to the coast involving mainly 500 kV cables), Kulim Hi-Tech Park Phase 2, Penang Monorail, Penang Turf Club redevelopment, Second Penang Bridge and the Northern Double Tracking project.

Leader intends to expand manufacturing capacity as well as increase the product range to produce a wider range of cable and wire products such as lead sheath cables, Milliken conductor power cables and optical power ground wires (OPGW). These new products have higher value add and are expected to enjoy stronger margins. Leader is planning some rationalization, by shutting down its Kedah aluminium rod production facility and moving the operations to Johor in 1H08. Leader hopes this move will yield additional savings later given that the Johor plant is powered by natural gas.

Leader's telecommunication cable manufacturing business is operating at less than 50% capacity, given languid demand. Demand from the recently announced MYR15 bln national broadband project is likely to come only in the long-term with only 10%-15% of that amount to be spent on cables.

Our 2007 and 2008 net profit forecast respectively stands at MYR62.9 mln (unchanged) MYR73.6 mln (0.6% lower than previous forecast), after reviewing our assumptions.

Valuation

We continue to value Leader using a sum-of-parts approach, distinguishing between its cable and power generation businesses. The property division, including the Simpang Ampat landbank, has been valued at book, given the absence of active development projects.

Our unchanged 12-month target price of MYR1.73 is derived from ascribing a 2008 PER of 10x (benchmarked to peers) 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 2.2 sen. The key DCF assumptions used are a WACC of 9% and terminal value of 3% (all unchanged).

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Profit & Loss

FY Dec. / MYR mln	2005	2006	2007E	2008E
Reported Revenue	1,602.7	2,365.0	2,801.0	3,209.3
Reported Operating Profit	74.8	100.0	128.3	147.6
Depreciation & Amortization	-33.1	-30.3	-26.3	-26.8
Net Interest Income / (Expense)	-27.9	-34.7	-32.3	-35.0
Reported Pre-tax Profit	47.0	67.1	97.6	115.4
Effective Tax Rate (%)	13.5	17.1	14.0	15.0
Reported Net Profit	21.9	35.3	62.9	73.6
Reported Operating Margin (%)	4.7	4.2	4.6	4.6
Reported Pre-tax Margin (%)	2.9	2.8	3.5	3.6
Reported Net Margin (%)	1.4	1.5	2.2	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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Recommendation and Target Price History

Date	Recommendation	Target Price
23-Nov-07	Strong Buy	1.73
28-Aug-07	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

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