

Leader Universal Holdings

Recommendation: **STRONG BUY**

Stock Code: **4529**

Bloomberg: **LUH MK**

Price: **MYR0.88**

12-Month Target Price: **MYR1.42**

Date: **May 27, 2008**

Board: Main

Sector: Industrial Products

GICS: Industrials/Electrical Components & Equipment

Market Value - Total: MYR384.1 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



Results Review & Earnings Outlook

- Leader reported 1Q08 revenue and net profit of MYR639.9 mln and MYR15.5 mln that we consider to be broadly within expectations despite reaching just 20% and 21% of our 2008 forecast respectively.
- 1Q tends to be seasonally lower due to the festive holidays and as such, revenue rose 9.2% YoY but fell 10% QoQ. The ongoing relocation of its aluminium rod production facilities to Johor from Kedah could also affect revenue in 1H08. Operating margin of 5.1% for the quarter showed a healthy improvement over the 4.4% margin achieved in 2007, likely due to the continued improvement in sales mix and ongoing cost saving measures.
- While domestic demand is expected to be sustained, exports should remain firm for the remainder of 2008, given that the bulk of its exports are to markets in Asia Pacific and the Middle East.
- Progress on Leader's new Cambodian power plant is believed to be on schedule. The final draft of the Power Purchase Agreement and the implementation Agreement has been submitted to the Cambodian Ministry of Industry, Mines and Energy for approval, while negotiations with the turnkey contractor on the engineering, procurement and construction (EPC) contract is ongoing.
- We are leaving our earnings forecasts unchanged.

Recommendation & Investment Risks

- We reiterate our Strong Buy recommendation but trim our 12-month target price to MYR1.42 (from MYR1.73).
- Our valuation methodology remains unchanged with the target price being calculated using the sum-of-parts method, (i) by ascribing a 2008 PER of 7.5x (lowered from 10x) to the cable and wire division's projected earnings, (ii) 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 (unchanged) to this value for country, execution and contract risks, and (iii) adding the 2008 net dividend of 2.2 sen. The key DCF assumptions used are a WACC of 9% and terminal value of 3% (all unchanged). The lower target multiple for its cable and wire business reflects the more challenging global economic environment going forward.
- We believe Leader shares continue to be undervalued. In our opinion, Leader's cable business alone is worth MYR0.92 per share (at 7.5x 2008 earnings) and its existing power plant is worth a further MYR0.17 per share. The current share price only values its cable business but ignores the power generation assets.
- 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 PPA for its proposed new power plant.

Key Stock Statistics

FY Dec.	2007	2008E
Reported EPS (sen)	15.1	16.9
PER (x)	5.8	5.2
Dividend/Share (sen)	3.0	3.0
NTA/Share (MYR)	0.99	1.14
Book Value/Share (MYR)	0.99	1.14
No. of Outstanding Shares (mln)	436.5	
52-week Share Price Range (MYR)	0.68 - 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.	2005	2006	2007	2008E
Book Value (MYR)	0.79	0.85	0.99	1.14
Cash Flow (sen)	12.6	15.0	21.1	22.5
Reported Earnings (sen)	5.0	8.1	15.1	16.9
Dividend (sen)	0.0	1.5	3.0	3.0
Payout Ratio (%)	0.0	13.3	14.3	12.8
PER (x)	17.6	10.9	5.8	5.2
P/Cash Flow (x)	7.0	5.9	4.2	3.9
P/Book Value (x)	1.1	1.0	0.9	0.8
Dividend Yield (%)	0.0	1.7	3.4	3.4
ROE (%)	6.4	9.8	16.4	15.8
Net Gearing (%)	123.7	108.8	70.0	58.5

*Stock deemed Shariah compliant by the Securities Commission.

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FY Dec. / MYR mln	1Q08	1Q07	% Change
Reported Revenue	639.9	585.8	9.2
Reported Operating Profit	32.4	25.7	26.1
Depreciation & Amortization	NA	NA	NA
Net Interest Income / (Expense)	NA	NA	NA
Reported Pre-tax Profit	27.3	17.9	51.9
Reported Net Profit	15.5	12.2	26.7
Reported Operating Margin (%)	5.1	4.4	-
Reported Pre-tax Margin (%)	4.3	3.1	-
Reported Net Margin (%)	2.4	2.1	-

Source: Company data

Profit & Loss

FY Dec. / MYR mln	2006	2007	2008E	2009E
Reported Revenue	2,365.0	2,821.7	3,195.9	3,499.3
Reported Operating Profit	91.5	123.9	139.3	150.1
Depreciation & Amortization	-30.3	-26.3	-24.7	-25.3
Net Interest Income / (Expense)	-26.2	-28.6	-26.7	-28.6
Reported Pre-tax Profit	65.8	94.5	112.3	121.2
Effective Tax Rate (%)	15.4	10.2	15.1	15.0
Reported Net Profit	35.3	66.0	73.6	80.1
Reported Operating Margin (%)	3.9	4.4	4.4	4.3
Reported Pre-tax Margin (%)	2.8	3.4	3.5	3.5
Reported Net Margin (%)	1.5	2.3	2.3	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.

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Shariah-compliant stock - As defined by the Shariah Advisory Council of Malaysia's Securities Commission

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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	1.42
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

