

Leader Universal Holdings

Recommendation: **BUY**Stock Code: **4529**Bloomberg: **LUH MK**Price: **MYR0.74**12-Month Target Price: **MYR0.92**Date: **July 17, 2009****Board:** Main**Sector:** Industrial Products**GICS:** Industrials/Electrical Components & Equipment**Market Value - Total:** MYR323.0 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 as well as power generation. The stock is a component of the FBMEMAS.

Analyst: Alexander Chia, ACA**Recent Developments**

- Leader's orderbook remains fairly healthy at about MYR550 mln, supported by ongoing domestic demand for power cables. However, this is down from the MYR600 mln–MYR700 mln it has enjoyed in recent years, due to lower demand from export markets, particularly the Middle East. We think weaker export markets will likely contribute to an 8%–10% YoY decline in cable and wire volume sales in 2009. However, the outlook for demand in the next two years remains bright, given the various infrastructure projects that are being implemented under the government stimulus packages.
- Leader also recently signed a joint venture (51% stake) and shareholders' agreement in Saudi Arabia for the supply and installation of cables and the development of power projects in that country. An active presence in the Middle East will position Leader to capture new business in the region when the economic cycle turns.
- Leader announced in February 2009 that its previously proposed 200MW coal-fired power plant in Cambodia had been converted into two equivalent projects of 100MW each. Leader will have an 80% stake and will undertake the project with JV partner Cambodia International Investment Development Group Co. Ltd. The project is budgeted to cost USD180 mln, which will be funded by debt and equity on a 70:30 basis. Leader's equity portion is expected to total MYR150 mln, which will be injected over the next three years with construction targeted to begin in 1Q10. The plant will commence commercial operations by 2013. The JV partners are also in discussions for a future 700MW coal-fired plant.

Recommendation & Investment Risks

- We reiterate our Buy recommendation and lift our 12-month target price to MYR0.92 (from MYR0.83).
- Our valuation methodology remains unchanged, i.e. the sum-of-parts method. The target price is calculated by: (i) ascribing a 2010 PER of 8.5x (from 7.5x) to the cable and wire division's projected earnings, (ii) estimating the present value of earnings from its existing 60%-owned power plant and (iii) adding the 2009 net dividend of 2.2 sen. The key DCF assumptions used are WACC of 9% and terminal value of 3% (all unchanged). No valuation has been attributed to its proposed power plants still under development. The higher target multiple for its cable and wire business reflects the improved global macroeconomic outlook and increased investor risk appetite.
- Trading at a prospective 2010 PER of just 5.4x, we think Leader's valuations are undemanding, given the improved earnings visibility going forward, on the back of growing evidence that the worst of the global economic slowdown is behind us.
- Risks to our recommendation and target price include a sharper-than-expected slowdown in orders for cables and a higher interest rate environment.

Earnings Outlook

- We remain comfortable with our unchanged forecasts.

Key Stock Statistics

FY Dec.	2008	2009E
Reported EPS (sen)	14.9	12.1
PER (x)	5.0	6.1
Dividend/Share (sen)	3.0	3.0
NTA/Share (MYR)	1.15	1.24
Book Value/Share (MYR)	1.15	1.24
No. of Outstanding Shares (mln)	436.5	
52-week Share Price Range (MYR)	0.40 - 0.79	
Major Shareholders:	%	
Zun Holdings Sdn Bhd	11.8	
Gold Connection Assets Ltd	5.8	
GUH Holdings Bhd	4.6	

*Stock deemed Shariah compliant by the Securities Commission.

Per Share Data

FY Dec.	2006	2007	2008	2009E
Book Value (MYR)	0.85	1.01	1.15	1.24
Cash Flow (sen)	15.0	21.1	20.8	18.3
Reported Earnings (sen)	8.1	15.1	14.9	12.1
Dividend (sen)	1.5	3.0	3.0	3.0
Payout Ratio (%)	13.3	14.3	14.5	17.8
PER (x)	9.1	4.9	5.0	6.1
P/Cash Flow (x)	4.9	3.5	3.6	4.0
P/Book Value (x)	0.9	0.7	0.6	0.6
Dividend Yield (%)	2.0	4.1	4.1	4.1
ROE (%)	9.8	16.2	13.8	10.1
Net Gearing (%)	108.8	69.6	49.8	10.3

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FY Dec. / MYR mln	2007	2008	2009E	2010E
Reported Revenue	2,821.7	2,540.8	1,956.1	2,086.5
Reported Operating Profit	123.9	133.9	117.0	124.0
Depreciation & Amortization	-26.3	-25.7	-27.1	-26.2
Net Interest Income / (Expense)	-28.8	-31.4	-20.5	-19.5
Reported Pre-tax Profit	94.5	102.0	93.0	103.0
Effective Tax Rate (%)	10.2	15.2	20.0	20.0
Reported Net Profit	66.0	64.9	52.8	58.5
Reported Operating Margin (%)	4.4	5.3	6.0	5.9
Reported Pre-tax Margin (%)	3.4	4.0	4.8	4.9
Reported Net Margin (%)	2.3	2.6	2.7	2.8

Source: Company data, S&P Equity Research

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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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Recommendation and Target Price History

Date	Recommendation	Target Price
New	Buy	0.92
2-Jun-09	Buy	0.83
23-Feb-09	Buy	0.50
24-Nov-08	Strong Buy	0.59
25-Aug-08	Strong Buy	1.00
27-May-08	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

