

Leader Universal Holdings

Recommendation: **BUY**

Stock Code: **4529** Bloomberg: **LUH MK** Price: **MYR0.86** 12-Month Target Price: **MYR1.00** Date: **February 12, 2010**

Board: Main

Sector: Industrial Products

GICS: Industrials/Electrical Components & Equipment

Market Value - Total: MYR375.4 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 FBM EMAS.

Analyst: Alexander Chia, ACA



Recent Developments

- Leader recently announced that it has entered into a 25-year power transmission agreement with Electricite Du Cambodge (EDC), the state-owned electricity utility in Cambodia, to develop a 230 kV power transmission system from Phnom Penh to Kampong Cham on a Build-Operate-Transfer basis. The project is part of a master plan to develop the power generation and transmission infrastructure in Cambodia that is expected to see installed capacity quadrupling in the next five years. In addition, load demand will more than triple between 2010 and 2024, an 8.5% average annual growth rate.
- The project is expected to cost USD107 mln with the completion and commissioning scheduled by Dec. 31, 2013. Following this, Leader will make available to EDC the transmission of electric power for the duration of the agreement, in return for a power transmission charge. Leader is expected to finance the project on a 70:30 debt to equity basis that will require it to fund approximately MYR36 mln p.a. over the next three years. With Leader's net gearing at just 15.8% at end-3Q09, it will be able to comfortably fund the equity portion of the project.
- Leader is also concurrently developing a 100MW coal-fired power plant in Cambodia in which it has an 80% stake. The power purchase agreement was signed in September 2009 with construction targeted to begin in 1Q10 with commercial operations scheduled in 2013.

Recommendation & Investment Risks

- We reiterate our Buy recommendation but lift our 12-month target price to MYR1.00 (from MYR0.92). We continue to use a sum-of-parts valuation methodology. The target price is calculated by: (i) ascribing a 2010 PER of 9.5x (from 8.5x) 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 separate valuation has been attributed to its Cambodian power projects under development. The higher target multiple for its cable and wire business is to reflect the likelihood of additional cable supplies to Cambodia. Leader now trades at an undemanding 2010 PER of 6.7x, given the improved earnings visibility ahead. We also expect Leader's share price to gradually build in valuations for its Cambodian projects as 2013 approaches.
- 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 leave our forecasts unchanged for the time being, although it would be reasonable to expect Leader to benefit from the supply of some of its own cable products for the construction of the projects.

Key Stock Statistics

FY Dec.	2008	2009E
Reported EPS (sen)	14.9	12.8
PER (x)	5.8	6.7
Dividend/Share (sen)	3.0	3.0
NTA/Share (MYR)	1.15	1.25
Book Value/Share (MYR)	1.15	1.25
No. of Outstanding Shares (mln)	436.5	
52-week Share Price Range (MYR)	0.40 - 0.93	
Major Shareholders:	%	
Zun Holdings Sdn Bhd	11.8	
Gold Connection Assets Ltd	5.8	
GUH Holdings Bhd	4.6	

Per Share Data

FY Dec.	2006	2007	2008	2009E
Book Value (MYR)	0.85	1.01	1.15	1.25
Cash Flow (sen)	15.0	21.1	20.8	19.0
Reported Earnings (sen)	8.1	15.1	14.9	12.8
Dividend (sen)	1.5	3.0	3.0	3.0
Payout Ratio (%)	13.3	14.3	14.5	16.9
PER (x)	10.6	5.7	5.8	6.7
P/Cash Flow (x)	5.7	4.1	4.1	4.5
P/Book Value (x)	1.0	0.8	0.8	0.7
Dividend Yield (%)	1.7	3.5	3.5	3.5
ROE (%)	9.8	16.2	13.8	10.7
Net Gearing (%)	108.8	69.6	49.8	11.4

*Stock deemed Shariah compliant by the Securities Commission.

All required disclosures and analyst certification appear on the last two pages of this report. Additional information is available upon request.

Redistribution or reproduction is prohibited without written permission. Copyright © 2010 The McGraw-Hill Companies, Inc.

Page 1 of 4

Leader Universal Holdings

Recommendation: **BUY**Stock Code: **4529**Bloomberg: **LUH MK**Price: **MYR0.86**12-Month Target Price: **MYR1.00**Date: **February 12, 2010****Profit & Loss**

FY Dec. / MYR mln	2007	2008	2009E	2010E
Reported Revenue	2,821.7	2,540.8	1,982.5	2,118.3
Reported Operating Profit	123.9	133.9	99.5	104.5
Depreciation & Amortization	-26.3	-25.7	-27.1	-26.2
Net Interest Income / (Expense)	-28.8	-31.4	-13.0	-11.5
Reported Pre-tax Profit	94.5	102.0	84.5	91.5
Effective Tax Rate (%)	10.2	15.2	12.0	15.0
Reported Net Profit	66.0	64.9	55.9	58.5
Reported Operating Margin (%)	4.4	5.3	5.0	4.9
Reported Pre-tax Margin (%)	3.4	4.0	4.3	4.3
Reported Net Margin (%)	2.3	2.6	2.8	2.8

Source: Company data, S&P Equity Research

Standard & Poor's Equity Research Services

Standard & Poor's Equity Research Services U.S. includes Standard & Poor's Investment Advisory Services LLC; Standard & Poor's Equity Research Services Europe includes Standard & Poor's LLC- London; Standard & Poor's Equity Research Services Asia includes Standard & Poor's LLC's offices in Hong Kong and Singapore, Standard & Poor's Malaysia Sdn Bhd, and Standard & Poor's Information Services (Australia) Pty Ltd.

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.

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

Required Disclosures

All of the views expressed in this research report accurately reflect the research analyst's personal views regarding any and all of the subject securities or issuers. No part of analyst compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this research report.

Additional information is available upon request.

Other Disclosures

This report has been prepared and issued by Standard & Poor's and/or one of its affiliates. In the United States, research reports are prepared by Standard & Poor's Investment Advisory Services LLC ("SPIAS"). In the United States, research reports are issued by Standard & Poor's ("S&P"); in the United Kingdom by Standard & Poor's LLC ("S&P LLC"), which is authorized and regulated by the Financial Services Authority; in Hong Kong by Standard & Poor's LLC, which is regulated by the Hong Kong Securities Futures Commission; in Singapore by Standard & Poor's LLC, which is regulated by the Monetary Authority of Singapore; in Malaysia by Standard & Poor's Malaysia Sdn Bhd ("S&PM"), which is regulated by the Securities Commission; in Australia by Standard & Poor's Information Services (Australia) Pty Ltd ("SPIAS"), which is regulated by the Australian Securities & Investments Commission; and in Korea by SPIAS, which is also registered in Korea as a cross-border investment advisory company.

The research and analytical services performed by SPIAS, S&P LLC, S&PM, and SPIAS are each conducted separately from any other analytical activity of Standard & Poor's.

A reference to a particular investment or security by Standard & Poor's and/or one of its affiliates is not a recommendation to buy, sell, or hold such investment or security, nor is it considered to be investment advice.

Indexes are unmanaged, statistical composites and their returns do not include payment of any sales charges or fees an investor would pay to purchase the

securities they represent. Such costs would lower performance. It is not possible to invest directly in an index.

Standard & Poor's and its affiliates provide a wide range of services to, or relating to, many organizations, including issuers of securities, investment advisers, broker-dealers, investment banks, other financial institutions and financial intermediaries, and accordingly may receive fees or other economic benefits from those organizations, including organizations whose securities or services they may recommend, rate, include in model portfolios, evaluate or otherwise address.

CMDF-Bursa Research Scheme ("CBRS")

This report has been prepared by S&PM for purposes of CBRS administered by Bursa Malaysia Berhad, independent from any influence from CBRS or the subject company. S&P will receive total compensation of RM15,000 each year for each company covered by it under CBRS. For more information about CBRS, please visit Bursa Malaysia's website at: <http://www.bursamalaysia.com/website/bm/>

Disclaimers

This material is based upon information that we consider to be reliable, but neither S&P nor its affiliates warrant its completeness, accuracy or adequacy and it should not be relied upon as such. With respect to reports issued to clients in Japan and in the case of inconsistencies between the English and Japanese version of a report, the English version prevails. Neither S&P nor its affiliates guarantee the accuracy of the translation. Assumptions, opinions and estimates constitute our judgment as of the date of this material and are subject to change without notice. Neither S&P nor its affiliates are responsible for any errors or omissions or for results obtained from the use of this information. Past performance is not necessarily indicative of future results.

This material is not intended as an offer or solicitation for the purchase or sale of any security or other financial instrument. Securities, financial instruments or strategies mentioned herein may not be suitable for all investors. Any opinions expressed herein are given in good faith, are subject to change without notice, and are only correct as of the stated date of their issue. Prices, values, or income from any securities or investments mentioned in this report may fall against the interests of the investor and the investor may get back less than the amount invested. Where an investment is described as being likely to yield income, please note that the amount of income that the investor will receive from such an investment may fluctuate. Where an investment or security is denominated in a different currency to the investor's currency of reference, changes in rates of exchange may have an adverse effect on the value, price or income of or from that investment to the investor. The information contained in this report does not constitute advice on the tax consequences of making any particular investment decision. This material is not intended for any specific investor and does not take into account your particular investment objectives, financial situations or needs and is not intended as a recommendation of particular securities, financial instruments or strategies to you. Before acting on any recommendation in this material, you should consider whether it is suitable for your particular circumstances and, if necessary, seek professional advice.

For residents of the U.K. This report is only directed at and should only be relied on by persons outside of the United Kingdom or persons who are inside the United Kingdom and who have professional experience in matters relating to investments or who are high net worth persons, as defined in Article 19(5) or Article 49(2) (a) to (d) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005, respectively.

For residents of Singapore - Anything herein that may be construed as a recommendation is intended for general circulation and does not take into account the specific investment objectives, financial situation or particular needs of any particular person. Advice should be sought from a financial adviser regarding the suitability of an investment, taking into account the specific investment objectives, financial situation or particular needs of any person in receipt of the recommendation, before the person makes a commitment to purchase the investment product.

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	Buy	1.00
17-Jul-09	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

