

Leader Universal Holdings

Recommendation: **BUY**

Stock Code: **4529**

Bloomberg: **LUH MK**

Price: **MYR0.89**

12-Month Target Price: **MYR1.00**

Date: **February 25, 2010**

Board: Main

Sector: Industrial Products

GICS: Industrials/Electrical Components & Equipment

Market Value - Total: MYR388.4 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



Results Review & Earnings Outlook

- Leader's 2009 results were slightly below expectations, with net profit down 17.7% to MYR53.4 mln, missing our MYR55.9 mln estimate by 4.5%.
- Revenue for the year declined 23.3% to MYR1.95 bln, on the back of lower sales volume and lower aluminum and copper prices. Operating margin in 4Q09 fell to 3.7% from 5.2% in 9M09, due to a less favorable sales mix. As a result, the 2009 operating margin of 4.8% was lower than the 5% forecast. Operating profit in 2009 fell 30% to MYR93.7 mln due to the lower sales volume during the year and the reversal of provisions in 2008. Finance costs were also slightly higher than expected. This was offset by an effective tax rate of 7.6% that was lower than forecast.
- The improved global economic environment, rollout of domestic infrastructure projects, including power-related projects in Sarawak, should help to boost demand for Leader's cable products in 2010. Leader also recently announced an agreement to develop a 230 kV power transmission system in Cambodia, from Phnom Penh to Kampong Cham, in addition to an earlier agreement to develop a 100MW coal-fired power plant in the country.
- We leave our 2010 earnings estimate broadly unchanged and introduce our 2011 net profit forecast of MYR62.3 mln.

Recommendation & Investment Risks

- We reiterate our Buy recommendation and 12-month target price of MYR1.00.
- Our sum-of-parts valuation methodology remains unchanged. The target price is calculated by: (i) ascribing a 2010 PER of 9.5x (unchanged) 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 2010 net dividend of 2.2 sen. The key DCF assumptions used are WACC of 9% and terminal value of 3% (all unchanged).
- Leader now trades at an undemanding 2010 PER of just 6.7x, given the improved earnings visibility going forward. In addition, no separate valuation has been attributed to its Cambodian power projects under development. We also expect Leader's share price to gradually reflect higher valuations for its Cambodian projects as 2013 approaches, which is when they become operational. With net gearing at end-2009 at just 10.9%, Leader is expected to comfortably fund the equity portion of its Cambodian power projects, estimated at MYR250 mln, over the next three years.
- Risks to our recommendation and target price include a sharper-than-expected slowdown in orders for cables, execution risks at its Cambodian power projects and a higher interest rate environment.

Key Stock Statistics

FY Dec.	2009	2010E
Reported EPS (sen)	12.2	13.4
PER (x)	7.3	6.7
Dividend/Share (sen)	3.0	3.0
NTA/Share (MYR)	1.24	1.35
Book Value/Share (MYR)	1.24	1.35
No. of Outstanding Shares (mln)	436.5	
52-week Share Price Range (MYR)	0.40 - 0.93	
Major Shareholders:	%	
Zun Holdings Sdn Bhd	12.0	
Lembaga Tabung Haji	6.2	
Gold Connection Assets Ltd	5.9	

Per Share Data

FY Dec.	2007	2008	2009	2010E
Book Value (MYR)	1.01	1.15	1.24	1.35
Cash Flow (sen)	21.1	20.8	18.5	20.5
Reported Earnings (sen)	15.1	14.9	12.2	13.4
Dividend (sen)	3.0	3.0	3.0	3.0
Payout Ratio (%)	14.3	14.5	18.4	16.8
PER (x)	5.9	6.0	7.3	6.7
P/Cash Flow (x)	4.2	4.3	4.8	4.3
P/Book Value (x)	0.9	0.8	0.7	0.7
Dividend Yield (%)	3.4	3.4	3.4	3.4
ROE (%)	16.2	13.8	10.3	10.3
Net Gearing (%)	69.6	49.8	10.9	4.5

*Stock deemed Shariah compliant by the Securities Commission.

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FY Dec. / MYR mln	4Q09	4Q08	% Change
Reported Revenue	521.3	519.8	0.3
Reported Operating Profit	19.4	26.9	-27.9
Depreciation & Amortization	NA	NA	NA
Net Interest Income / (Expense)	NA	NA	NA
Reported Pre-tax Profit	14.6	17.4	-15.7
Reported Net Profit	11.4	12.6	-9.5
Reported Operating Margin (%)	3.7	5.2	-
Reported Pre-tax Margin (%)	2.8	3.3	-
Reported Net Margin (%)	2.2	2.4	-

Source: Company data

Profit & Loss

FY Dec. / MYR mln	2008	2009	2010E	2011E
Reported Revenue	2,540.8	1,949.8	2,095.5	2,251.2
Reported Operating Profit	133.9	93.7	106.0	113.0
Depreciation & Amortization	-25.7	-27.1	-31.4	-34.3
Net Interest Income / (Expense)	-31.4	-13.1	-14.7	-16.7
Reported Pre-tax Profit	102.0	76.8	88.0	94.0
Effective Tax Rate (%)	15.2	7.6	12.0	12.0
Reported Net Profit	64.9	53.4	58.3	62.3
Reported Operating Margin (%)	5.3	4.8	5.1	5.0
Reported Pre-tax Margin (%)	4.0	3.9	4.2	4.2
Reported Net Margin (%)	2.6	2.7	2.8	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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Shariah-compliant stock - As defined by the Shariah Advisory Council of Malaysia's Securities Commission

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Recommendation and Target Price History

Date	Recommendation	Target Price
New	Buy	1.00
12-Feb-10	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
28-Aug-07	Strong Buy	1.61
6-Jun-07	Strong Buy	1.20
9-Mar-07	Strong Buy	1.10

