

## Leader Universal Holdings

Recommendation: **STRONG BUY**

Stock Code: 4529

Bloomberg: LUH MK

Price: MYR0.59

12-Month Target Price: MYR1.00

Date: August 25, 2008

Board: Main

Sector: Industrial Products

GICS: Industrials/Electrical Components &amp; Equipment

Market Value - Total: MYR259.7 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 &amp; Earnings Outlook

- We consider Leader's 1H08 results to be broadly within expectations despite net profit for the period reaching just 46% of our 2008 forecast.
- Historically, 2H earnings have been stronger due to seasonal factors. Production at its relocated aluminium rod production facilities in Johor is also expected to resume in 2H08, which should also yield improved production efficiencies given the availability of lower cost natural gas in Johor. Production had been disrupted by the relocation from Kedah.
- 1H08 revenue was steady, rising 1.8% YoY to MYR1.32 bln despite the disruption caused by the plant relocation. Operating margin was also stable at 5%, reflecting Leader's ability to pass on higher production costs. However, finance costs spiked up to MYR8.1 mln from MYR6.2 mln in the preceding quarter, due to higher sales volumes and increased working capital requirements.
- Leader's reported forward order book has remained stable at MYR700 mln. While expecting a challenging 2H08, management is optimistic that local demand will pick up in early 2009. Export sales to Asia Pacific and Middle East markets remain firm, while proposed infrastructure projects in Sarawak could underpin demand going forward. We are maintaining our net profit forecasts.

## Recommendation &amp; Investment Risks

- We reiterate our Strong Buy recommendation, but also reduce our 12-month target price to MYR1.00 (from MYR1.42) as a result of lower market and peer valuations.
- Our valuation methodology remains unchanged with the target price being calculated using the sum-of-parts method: (i) by ascribing a 2009 (rolled over from 2008) PER of 6.0x (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 2008 net dividend of 2.2 sen. The key DCF assumptions used are: 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 are now not ascribing any value for its proposed Cambodian power plant due to weak market sentiment.
- Trading at a prospective 2009 PER of just 3.2x, we think Leader's shares have been over sold.
- Risks to our recommendation and target price include the weakening of the MYR against the USD, a higher interest rate environment, an unexpected slowdown in orders for cables.

## Key Stock Statistics

|                                 | 2007        | 2008E |
|---------------------------------|-------------|-------|
| FY Dec.                         |             |       |
| Reported EPS (sen)              | 15.1        | 16.9  |
| PER (x)                         | 3.9         | 3.5   |
| 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) | 0.55 - 1.17 |       |
| Major Shareholders:             | %           |       |
| Zun Holdings Sdn Bhd            | 11.8        |       |
| Gold Connection Assets Ltd      | 5.8         |       |
| GUH Holdings Bhd                | 4.6         |       |

## Per Share Data

|                         | 2005  | 2006  | 2007 | 2008E |
|-------------------------|-------|-------|------|-------|
| FY Dec.                 |       |       |      |       |
| 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)                 | 11.9  | 7.4   | 3.9  | 3.5   |
| P/Cash Flow (x)         | 4.7   | 4.0   | 2.8  | 2.6   |
| P/Book Value (x)        | 0.8   | 0.7   | 0.6  | 0.5   |
| Dividend Yield (%)      | 0.0   | 2.5   | 5.0  | 5.0   |
| 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.

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 © 2008 The McGraw-Hill Companies, Inc.

Page 1 of 4

## Leader Universal Holdings

Recommendation: **STRONG BUY**

Stock Code: 4529

Bloomberg: LUH MK

Price: MYR0.59

12-Month Target Price: MYR1.00

Date: August 25, 2008

**Quarterly Performance**

| FY Dec. / MYR mln               | 2Q08  | 2Q07  | % Change |
|---------------------------------|-------|-------|----------|
| Reported Revenue                | 678.1 | 709.1 | -4.4     |
| Reported Operating Profit       | 33.7  | 32.0  | 5.4      |
| Depreciation & Amortization     | NA    | NA    | NA       |
| Net Interest Income / (Expense) | NA    | NA    | NA       |
| Reported Pre-tax Profit         | 27.5  | 25.7  | 7.0      |
| Reported Net Profit             | 18.1  | 15.9  | 13.9     |
| Reported Operating Margin (%)   | 5.0   | 4.5   | -        |
| Reported Pre-tax Margin (%)     | 4.1   | 3.6   | -        |
| Reported Net Margin (%)         | 2.7   | 2.2   | -        |

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&amp;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 ("SPIS"), 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 SPIS 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.

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 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     | 1.00         |
| 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         |
| 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         |

