

Leader Universal Holdings

Recommendation: **BUY**Stock Code: **4529**Bloomberg: **LUH MK**Price: **MYR0.76**12-Month Target Price: **MYR0.92**Date: **August 24, 2009****Board:** Main**Sector:** Industrial Products**GICS:** Industrials/Electrical Components & Equipment**Market Value - Total:** MYR329.5 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**Results Review & Earnings Outlook**

- Leader reported 1H09 results that were in line with expectations. Net profit for the period of MYR26.2 mln (-22% YoY) reached 49.6% of our 2009 estimate, while 2Q09 net profit of MYR13.9 mln rose 13% sequentially.
- Revenue for 2Q09 was up 6.6% QoQ to MYR474 mln, taking cumulative 1H09 revenue to MYR918.8 mln (down 30.3% YoY), mainly attributed to lower commodity prices for copper and aluminum.
- Operating margin for the quarter also declined to 5.1% from 6.0% in 1Q09, likely due to a change in sales mix. The performance of its power generation business was within expectations. The effective tax rate for 1H09 fell to just 15.8% from 20% in 2008, due to lower tax rates at an overseas subsidiary and the availability of unabsorbed tax losses.
- We retain our net profit estimates. We expect weak demand from export markets to limit the recovery in sales revenue in 2009, with its order book having thinned to about MYR550 mln from the MYR600 mln-MYR700 mln it has enjoyed in recent years. Demand in 2010 should be supported by the domestic stimulus plans that are expected to gain traction by end-2009.

Recommendation & Investment Risks

- We reiterate our Buy recommendation and 12-month target price of MYR0.92.
- 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 (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 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 target multiple for its cable and wire business adequately reflects the improved global macroeconomic outlook and increased investor risk appetite, in our opinion.
- Trading at a prospective 2010 PER of just 5.7x, we think Leader's valuations are undemanding, given the improved earnings visibility ahead, 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.

Key Stock Statistics

FY Dec.	2008	2009E
Reported EPS (sen)	14.9	12.1
PER (x)	5.1	6.2
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 - 0.85	
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)	9.3	5.0	5.1	6.2
P/Cash Flow (x)	5.0	3.6	3.6	4.1
P/Book Value (x)	0.9	0.7	0.7	0.6
Dividend Yield (%)	2.0	4.0	4.0	4.0
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	2Q09	2Q08	% Change
Reported Revenue	474.0	678.1	-30.1
Reported Operating Profit	24.2	33.7	-28.1
Depreciation & Amortization	NA	NA	NA
Net Interest Income / (Expense)	NA	NA	NA
Reported Pre-tax Profit	20.6	27.5	-25.2
Reported Net Profit	13.9	18.1	-22.8
Reported Operating Margin (%)	5.1	5.0	-
Reported Pre-tax Margin (%)	4.3	4.1	-
Reported Net Margin (%)	2.9	2.7	-

Source: Company data

Profit & Loss

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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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.

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Required Disclosures

Recommendation and Target Price History

Date	Recommendation	Target Price
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
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

