

Leader Universal Holdings

Recommendation: **BUY**Stock Code: **4529**Bloomberg: **LUH MK**Price: **MYR0.79**12-Month Target Price: **MYR0.92**Date: **December 1, 2009****Board:** Main**Sector:** Industrial Products**GICS:** Industrials/Electrical Components & Equipment**Market Value - Total:** MYR342.6 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 announced better-than-expected headline 3Q09 results. Net profit of MYR15.8 mln (+13.5% QoQ and -15.6% YoY) took cumulative net profit for 9M09 to MYR42.0 mln, reaching 80% of our previous 2009 earnings estimate of MYR52.8 mln. However, pretax earnings were below expectations, as the better earnings were attributed to a lower effective tax rate arising from a tax over-provision in previous years.
- Revenue for the quarter of MYR509.8 mln was 27.5% lower YoY while 9M09 revenue of MYR1.43 bln was 29.3% lower YoY. This was due to a 28.1% YoY decline in revenue at its cable and wire business as a result of lower average copper and aluminium prices. Power generation revenues fell 37.2% YoY due to lower fuel prices.
- 9M09 operating margin of 5.2% was similar to the 9M08 margin of 5.3%. However, finance costs were sharply lower, reflecting the lower interest rate environment as well as lower gearing levels. Net gearing improved to 15.8% at end-3Q09 compared to 49.8% end-2008.
- Leader declared a second interim dividend of 1.5 sen less tax, taking total gross DPS for 9M09 to 3 sen (9M08: 3 sen). We have nudged our 2009 forecast 5.9% higher to reflect the tax over-provision, but leave our 2010 estimate unchanged. Leader's orderbook remains steady at over MYR500 mln, with an improvement in demand likely in 2H10 as order flows from the various stimulus projects kick in.

Recommendation & Investment Risks

- We reiterate our Buy recommendation and 12-month target price of MYR0.92.
- Our sum-of-parts valuation methodology remains unchanged. 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 5.9x, 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.

Key Stock Statistics

FY Dec.	2008	2009E
Reported EPS (sen)	14.9	12.8
PER (x)	5.3	6.1
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 - 0.85	
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)	9.7	5.2	5.3	6.1
P/Cash Flow (x)	5.2	3.7	3.8	4.1
P/Book Value (x)	0.9	0.8	0.7	0.6
Dividend Yield (%)	1.9	3.8	3.8	3.8
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.

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FY Dec. / MYR mln	3Q09	3Q08	% Change
Reported Revenue	509.8	703.1	-27.5
Reported Operating Profit	23.4	40.8	-42.8
Depreciation & Amortization	NA	NA	NA
Net Interest Income / (Expense)	NA	NA	NA
Reported Pre-tax Profit	20.2	29.9	-32.5
Reported Net Profit	15.8	18.8	-15.6
Reported Operating Margin (%)	4.6	5.8	-
Reported Pre-tax Margin (%)	4.0	4.3	-
Reported Net Margin (%)	3.1	2.7	-

Source: Company data

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

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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.

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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

