

## Leader Universal Holdings

Recommendation: **BUY**

Stock Code: 4529

Bloomberg: LUH MK

Price: MYR0.42

12-Month Target Price: MYR0.50

Date: February 23, 2009

Board: Main

Sector: Industrial Products

GICS: Industrials/Electrical Components &amp; Equipment

Market Value - Total: MYR185.5 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 &amp; Earnings Outlook

- Leader's 2008 results were in line with expectations with net profit for the year of MYR64.9 mln compared to our forecast of MYR65.6 mln. Net profit rose 20% YoY on account of its strong order book. However, revenue was 10% lower YoY on account of lower commodity (copper and aluminium) prices. Its power generation business was stable.
- Stripping out commodity price variations, sales volumes at the cable and wire division fell 8% YoY. At end-2008, copper and aluminium prices are 53% and 37% lower YoY that will ease Leader's working capital requirements. While having an impact at the revenue line, commodity price fluctuations will not impact earnings given the cost pass through.
- Operating margins in 2008 rose to 5.3% from 4.4% a year ago on increased sales of higher value added products.
- Management indicated that while the global macroeconomic situation will have challenging implications for Leader in 2009, it remained optimistic that the economic stimulus packages could spur demand for its cable and wire products. Nonetheless our 2009 net profit forecast is lowered by 14.5% after factoring in lower margins.

## Recommendation &amp; Investment Risks

- We downgrade our recommendation to Buy (from Strong Buy) and trim our 12-month target price to MYR0.50 (from MYR0.59).
- The 12-month target price is lower as a result of our reduced profit forecast and lower target multiple. Our valuation methodology remains unchanged with the target price being calculated using the sum-of-parts method: (i) by ascribing a 2009 PER of 4.5x (from 5.0x) 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 a 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.
- Trading at a prospective 2009 PER of just 3.9x, we think Leader's shares have been over sold, although we acknowledge the weak investor sentiment for manufacturing businesses given uncertainties over the duration and extent of the economic slowdown. Leader's balance sheet continues to improve with gearing falling to 49.8% at end-2008 from 69.6% a year ago.
- 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

	2008	2009E
FY Dec.		
Reported EPS (sen)	14.9	10.9
PER (x)	2.9	3.9
Dividend/Share (sen)	3.0	3.0
NTA/Share (MYR)	1.15	1.23
Book Value/Share (MYR)	1.15	1.23
No. of Outstanding Shares (mln)	436.5	
52-week Share Price Range (MYR)	0.40 - 0.97	
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

	2006	2007	2008	2009E
FY Dec.				
Book Value (MYR)	0.85	1.01	1.15	1.23
Cash Flow (sen)	15.0	21.1	20.8	17.1
Reported Earnings (sen)	8.1	15.1	14.9	10.9
Dividend (sen)	1.5	3.0	3.0	3.0
Payout Ratio (%)	13.3	14.3	14.5	19.8
PER (x)	5.3	2.8	2.9	3.9
P/Cash Flow (x)	2.8	2.0	2.0	2.5
P/Book Value (x)	0.5	0.4	0.4	0.3
Dividend Yield (%)	3.5	7.1	7.1	7.1
ROE (%)	9.8	16.2	13.8	9.2
Net Gearing (%)	108.8	69.6	49.8	13.6

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## Quarterly Performance

FY Dec. / MYR mln	4Q08	4Q07	% Change
Reported Revenue	519.8	710.9	-26.9
Reported Operating Profit	26.9	25.5	5.6
Depreciation & Amortization	NA	NA	NA
Net Interest Income / (Expense)	NA	NA	NA
Reported Pre-tax Profit	17.4	17.7	-1.9
Reported Net Profit	12.6	15.3	-17.8
Reported Operating Margin (%)	5.2	3.6	-
Reported Pre-tax Margin (%)	3.3	2.5	-
Reported Net Margin (%)	2.4	2.2	-

Source: Company data

## Profit &amp; Loss

FY Dec. / MYR mln	2007	2008	2009E	2010E
Reported Revenue	2,821.7	2,540.8	1,981.1	2,039.9
Reported Operating Profit	123.9	133.9	103.6	106.4
Depreciation & Amortization	-26.3	-25.7	-27.1	-26.2
Net Interest Income / (Expense)	-28.8	-31.4	-25.5	-25.5
Reported Pre-tax Profit	94.5	102.0	76.6	80.4
Effective Tax Rate (%)	10.2	15.2	17.0	17.0
Reported Net Profit	66.0	64.9	47.7	50.1
Reported Operating Margin (%)	4.4	5.3	5.2	5.2
Reported Pre-tax Margin (%)	3.4	4.0	3.9	3.9
Reported Net Margin (%)	2.3	2.6	2.4	2.5

Source: Company data, S&amp;P Equity Research

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**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

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**Recommendation and Target Price History**

Date	Recommendation	Target Price
New	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
30-May-06	Buy	0.48
19-May-06	Buy	0.47

