

Leader Universal Holdings

Recommendation: **STRONG BUY**

Stock Code: 4529

Bloomberg: LUH MK

Price: MYR0.93

12-Month Target Price: MYR1.73

Date: March 4, 2008

Board: Main

Sector: Industrial Products

GICS: Industrials/Electrical Components & Equipment

Market Value - Total: MYR403.7 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 & Earnings Outlook

- Leader's 2007 net profit of MYR66.0 mln (+86.8% YoY) results were broadly in line with our forecast of MYR62.9 mln.
- Revenue rose 19.3% YoY to MYR2,821.7 mln on the back of a combination of increased unit sales of cable and wire products, and higher selling prices arising from the pass through of higher raw material costs. EBIT margin in 2007 improved to 4.39% from 3.87% in 2006 as a result of: (i) a better product mix yielding higher margins, (ii) higher output of aluminium-based products, (iii) prudent raw material procurement policies, and (iv) effective cost-saving measures. Leader did not declare a final dividend. Two interim dividends totaling 3 sen (less 27% tax) for 2007 were earlier declared and paid.
- The slowdown in US and European markets are not expected to materially impact Leader since the bulk of its exports are to markets in Asia Pacific and the Middle East. Domestic demand is expected to remain firm. Leader had a MYR\$671 mln orderbook as at end-2007.
- Progress on Leader's new Cambodian power plant is believed to be on schedule with the final draft of the Power Purchase Agreement and the implementation Agreement having recently been submitted to the Cambodian Ministry of Industry, Mines and Energy for approval.
- We maintain our 2008 net profit forecast of MYR73.6 mln (+11.5% YoY) and introduce our 2009 forecast.

Key Stock Statistics

FY Dec.	2007	2008E
Reported EPS (sen)	15.1	16.9
PER (x)	6.1	5.5
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 - 1.33	
Major Shareholders:	%	
Zun Holdings Sdn Bhd	11.7	
Gold Connection Assets Ltd	5.5	
Dato' Chung Chin-Fu	5.2	

Recommendation & Investment Risks

- We reiterate our Strong Buy recommendation and 12-month target price of MYR1.73.
- We believe Leader shares are significantly undervalued. In our opinion, Leader's cable business alone is worth MYR1.23 per share (at 10x 2008 earnings) and its existing power plant is worth a further MYR0.17 per share. At current levels investors are essentially buying Leader's cable business at a 13% discount and getting its power generation business for free.
- Our valuation methodology remains unchanged with the target price being calculated using the sum-of-parts method, (i) by ascribing a 2008 PER of 10x (benchmarked to peers) to the cable and wire division's projected earnings, (ii) estimating the present value of earnings from its existing 60%-owned power plant and its 50% share in the proposed new plant (after ascribing a 60% discount to this value for country, execution and contract risks) and (iii) adding the 2008 net dividend of 2.2 sen. The key DCF assumptions used are a WACC of 9% and terminal value of 3% (all unchanged).
- Risks to our recommendation and target price include the weakening of the MYR against the US\$, a higher interest rate environment, an unexpected slowdown in orders for cables and risks pertaining to the finalization of the new PPA for its proposed new power plant.

Per Share Data

FY Dec.	2005	2006	2007	2008E
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)	18.5	11.4	6.1	5.5
P/Cash Flow (x)	7.3	6.2	4.4	4.1
P/Book Value (x)	1.2	1.1	0.9	0.8
Dividend Yield (%)	0.0	1.6	3.2	3.2
ROE (%)	6.4	9.8	16.4	15.8
Net Gearing (%)	123.7	108.8	70.0	58.5

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Quarterly Performance

FY Dec. / MYR mln	4Q07	4Q06	% Change
Reported Revenue	710.9	601.1	18.3
Reported Operating Profit	25.5	24.6	3.6
Depreciation & Amortization	NA	NA	NA
Net Interest Income / (Expense)	NA	NA	NA
Reported Pre-tax Profit	17.7	14.0	26.3
Reported Net Profit	15.3	8.7	76.7
Reported Operating Margin (%)	3.6	4.1	-
Reported Pre-tax Margin (%)	2.5	2.3	-
Reported Net Margin (%)	2.2	1.4	-

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&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.

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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
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

