

## Leader Universal Holdings

Recommendation: **BUY**

Stock Code: 4529

Bloomberg: LUH MK

Price: MYR0.62

12-Month Target Price: MYR0.71

Date: February 14, 2007

Board: Main

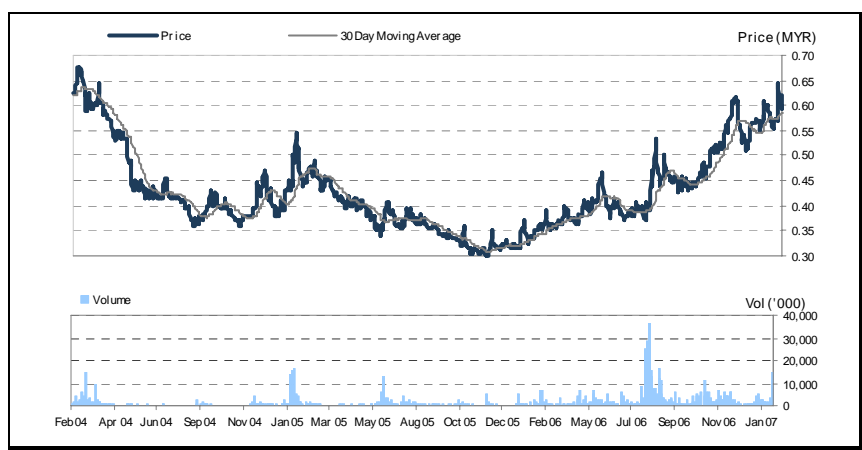
Sector: Industrial Products

GICS: Industrials/Electrical Components &amp; Equipment

Market Value - Total: MYR270.6 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, power generation, and property development.

Analyst: Alexander Chia, ACA



## Results Review &amp; Earnings Outlook

- Leader's 2006 results were in line with our forecast, with revenue and net profit reaching MYR2.36 bln and MYR35.3 mln, respectively.
- Revenue for 4Q06 fell 12.7% QoQ due to seasonal slowdown. However on a YoY basis, revenues for the quarter were 38% higher, much of which was attributed to higher raw material prices resulting in unit price increases. Group operating profit margins for the quarter held steady at 4.1% reflecting Leader's success in passing on cost increases as well as in maintaining its own cost base under control.
- We estimate Leader's order book at over MYR600 mln. Expectations in 2007 are for domestic demand to remain firm with cable demand driven by Tenaga (TNB MK, MYR12.20, Strong Buy) and Ninth Malaysia Plan (9MP) projects that are expected to kick in during 2007.
- We are maintaining our 2007 net profit forecast of MYR40.6 mln and introduce our 2008 forecast of MYR44.5 mln.

## Recommendation &amp; Investment Risks

- We are lowering our recommendation to Buy (from Strong Buy) despite raising our 12-month target price to MYR0.71 (from MYR0.68), due to recent share price strength. This implies a 14.5% upside.
- Our valuation methodology remains unchanged with the target price being calculated using the sum-of-parts method, by ascribing a 2007 PER of 9x to the cable and wire division's projected earnings, estimating the present value of earnings from its 60%-owned power generation business (DCF rolled-forward) and adding the projected net dividend of 1.1 sen.
- Leader's net gearing ratio continues to improve gradually. It has fallen to 109% (net debt MYR404.3 mln) at end-2006 from 124% a year before.
- There have been no recent updates on Leader's joint venture with a Cambodian partner to jointly bid for a 200MW coal-fired power generation plant in Cambodia, following a Request For Proposal (RFP) issued by the Cambodian government that closed on Dec. 4, 2006. Leader already operates and owns a 35MW power plant in Cambodia.
- Risks to our recommendation and target price include the weakening of the MYR against the US\$, a higher interest rate environment and an unexpected slowdown in orders for cables and wires.

## Key Stock Statistics

FY Dec.	2006	2007E
Reported EPS (sen)	8.1	9.3
PER (x)	7.7	6.7
Dividend/Share (sen)	1.5	1.5
NTA/Share (MYR)	0.85	0.93
Book Value/Share (MYR)	0.85	0.93
No. of Outstanding Shares (mln)	436.5	
52-week Share Price Range (MYR)	0.35 - 0.65	
Major Shareholders:	%	
Zun Holdings Sdn Bhd	11.7	
Employees Provident Fund	4.0	
Dato' Chung Chin Fu	5.4	

## Per Share Data

FY Dec.	2004	2005	2006	2007E
Book Value (MYR)	0.77	0.79	0.85	0.93
Cash Flow (sen)	11.6	12.6	15.0	14.8
Reported Earnings (sen)	3.5	5.0	8.1	9.3
Dividend (sen)	0.0	0.0	1.5	1.5
Payout Ratio (%)	0.0	0.0	13.4	11.6
PER (x)	17.8	12.4	7.7	6.7
P/Cash Flow (x)	5.3	4.9	4.1	4.2
P/Book Value (x)	0.8	0.8	0.7	0.7
Dividend Yield (%)	0.0	0.0	2.4	2.4
ROE (%)	4.5	6.4	9.8	10.4
Net Gearing (%)	128.8	123.7	108.8	99.4

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## Quarterly Performance

FY Dec. / MYR mln	4Q06	4Q05	% Change
Reported Revenue	601.1	440.0	36.6
Reported Operating Profit	24.6	19.3	27.0
Depreciation & Amortization	NA	NA	NA
Net Interest Income / (Expense)	NA	NA	NA
Reported Pre-tax Profit	14.0	11.7	19.5
Reported Net Profit	8.7	4.5	91.0
Reported Operating Margin (%)	4.1	4.4	-
Reported Pre-tax Margin (%)	2.3	2.7	-
Reported Net Margin (%)	1.4	1.0	-

Source: Company data

## Profit &amp; Loss

FY Dec. / MYR mln	2005	2006	2007E	2008E
Reported Revenue	1,602.7	2,365.0	2,582.5	2,747.3
Reported Operating Profit	74.8	100.0	104.3	108.3
Depreciation & Amortization	-33.1	-30.3	-23.9	-23.2
Net Interest Income / (Expense)	-27.9	-34.7	-28.4	-25.7
Reported Pre-tax Profit	47.0	67.1	79.8	87.5
Effective Tax Rate (%)	13.5	17.1	18.0	18.0
Reported Net Profit	21.9	35.3	40.6	44.5
Reported Operating Margin (%)	4.7	4.2	4.0	3.9
Reported Pre-tax Margin (%)	2.9	2.8	3.1	3.2
Reported Net Margin (%)	1.4	1.5	1.6	1.6

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.

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For residents of Malaysia. All queries in relation to this report should be referred to Alexander Chia, Lee Leng Hoe or Ching Wah Tam.

**Recommendation and Target Price History**

Date	Recommendation	Target Price
New	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

