



## METAL / POWER

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### Stock Profile/Statistics

Bloomberg Ticker	LUH MK Equity
KLCI	1371.70
Issued Share Capital (m)	436.46
Market Capitalisation (RMm)	458.28
52 week H   L Price (RM)	1.38   0.50
Average Volume (3m) '000	4048.71
YTD Returns (%)	0.51
Net gearing (x)	0.83
Altman Z-Score	2.55
ROCE/WACC	0.78
Beta (x)	1.82
Book Value/share (RM)	0.85

### Major Shareholders (%)

Zun Holdings SB	11.7
Employee Provident Fund Board	4.0

### Share Performance (%)

Month	Absolute	Relative
1m	-4.63	-2.89
3m	16.38	-4.82
6m	47.93	46.29
12m	101.99	41.27

### 6-month Share Price Performance



## 9MFY07 Results Review

Private Circulation Only

# Leader Universal

<b>BUY</b>	<b>Maintain</b>
<b>Price Target</b>	<b>RM1.05</b>
	<b>RM1.81</b>

## Cheers All Round

With the impressive numbers from cable & wire division plus the huge earnings potential from the power division, we remain upbeat on Leader's prospects going forward hence maintain our BUY recommendation. We have revised up contribution from the cable & wire division but removed potential DCF from Pakistan IPP as the company terminated the JVA. As a result, our 12-month target price is upgraded to RM1.81 derived from SOP valuation on FY08 numbers.

**Remarkable!** When annualised, Leader's 9MFY07 net profit of RM50.6m was 31.3% above our original estimates. On top of that, 3Q net profit of RM22.6m was 42% and 132% higher q-o-q and y-o-y respectively thus the company announced a 2<sup>nd</sup> interim dividend of 1.5 sen gross (YTD 3 sen gross) to reward shareholders. The encouraging performance led us to upgrade our forecasts by 19.9% for FY07 and 19.6% for FY08.

**Cable & wire division – on a high.** Cable & wire division continued to record an inspiring performance with operating profit tagged at RM34.3m in 3Q (refer Figure 3). Commissioning of a new aluminium furnace @ 20k tpy capacity in July 07 has contributed to higher sales for aluminium rods amid better margins for its power cables. Outlook for cable business looks positive with more expected from the 9MP but the scheduled major maintenance and festive season in 4Q may drag forthcoming results down. In addition, Leader proposed listing of its Sarawak based associate company lead us to believe more contribution from the state upon launching of Sarawak corridor by the government soon.

**Power division progressing well except...** Existing power plant in Phnom Penh, Cambodia continues to record an impressive operating profit of RM9.9m in 3Q despite weakening US Dollar (refer Figure 4). On the new IPP projects, the company is now working at the final stage with Cambodian government to finalise its Power Purchase Agreement (PPA) for the 200MW coal-fired plant just north of Sihanoukville. Conversely, Leader has decided to terminate in JV for the new IPP at Pakistan considering the political instability in the country hence we remove its potential DCF from our valuation, taking a mild hit by RM0.19/share to RM0.68/share. Nonetheless, possible future upgrade is high given our conservatively DCF assumptions for new IPP at Cambodia.

**Property division contribution negligible.** The company recoded a minor loss of RM0.2m from this division since sales are at residual level (refer Figure 5). For short future, we do not expect any new launching.

FYE Dec (RMm)	FY04	FY05	FY06	FY07f	FY08f
Total Revenue	1267.7	1602.8	2365.0	2799.6	3025.0
Net Profit	15.2	21.9	35.3	61.7	71.2
% chg YoY	115.4	44.3	61.4	74.7	15.5
Consensus EPS (sen)	-	-	-	-	-
EPS (sen)	3.5	5.0	8.1	14.1	16.3
Gross DPS (sen)	0.0	0.0	1.5	3.9	4.5
Gross Div. Yield (%)	0.0	0.0	1.4	3.7	4.3
PER (x)	30.2	20.9	13.0	7.4	6.4
P/BV (x)	1.4	1.3	1.2	1.1	1.0
EV/EBITDA (x)	11.2	8.4	7.1	5.5	5.0
ROE (%)	4.5	6.4	9.8	15.7	16.2
ROA (%)	1.3	1.8	2.7	4.5	5.0

**KEY HIGHLIGHTS**

<b>Quarter Results Table</b>						
FYE Dec (RMm)	3QFY07	2QFY07	% chg	YTD FY07	YTD FY06	% chg
Turnover	815.9	707.1	15.4%	2110.8	1763.9	19.7%
EBITDA	49.0	39.1	25.3%	123.2	101.7	21.2%
Depreciation	(8.3)	(8.3)	0.0%	(24.8)	(24.8)	0.0%
Net interest expense	(8.8)	(7.9)	10.6%	(25.7)	(27.8)	-7.7%
Associates	1.2	2.9	-56.5%	4.1	4.1	0.9%
PBT	33.2	25.7	28.8%	76.8	53.1	44.6%
Tax	(4.6)	(4.0)	14.3%	(10.7)	(9.4)	14.3%
MI	(6.0)	(5.9)	2.3%	(15.5)	(17.1)	-9.6%
Net Profit	22.6	15.9	42.3%	50.6	26.6	90.2%
EPS (sen)	5.2	3.6		11.6	6.1	
Gross DPS (sen)	1.5	1.5		3.0	0.0	
EBITDA margin	6.0%	5.5%		5.8%	5.8%	
NTA/share (RM)	0.87	0.90		0.87	0.84	

**Details on The Listing of Universal Cable Sarawak SB:**

**Recap on Universal Cable Sarawak...** The company principally involves in the manufacturing of electrical wires and cables as well as sub-contract of power and transmission related works. Leader, SESCO and CPSB jointly owns 35%, 35% and 30% equity stake respectively in Universal Cable Sarawak SB (UCS Sarawak). SESCO which involves in generation, transmission and distribution of electricity in the State of Sarawak has been one of the major customers of this company.

**Propose listing = expansion?** End of last month, Leader has announced to the Bursa Malaysia an internal re-organisation of UCS Sarawak to pave way for the listing of the associate company. Basically we view the IPO positively as this will increase the associate company's visibility. In addition, we believe the entire exercise is to raise funds that will be utilised for capacity expansion to resolve capacity constrain in current plant. It is also timely to ride on the potential upsurge of cable demand in Sarawak as the government plan to translate the state into the power house of South East Asia.

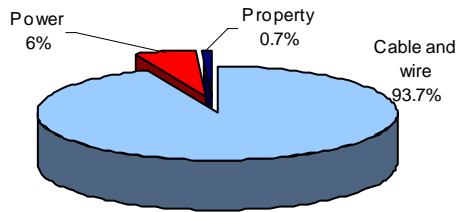
**Sarawak - more to come?** Among others, Sarawak is set to install 600km long overhead or underground cable connecting Bakun to Kuching en-route to Peninsular Malaysia. Apart from that, the state is also in the midst of commissioning its IPP at Mukah and planning for more hydropower projects. The government which is set to announce Sarawak Corridor soon may focus to develop the state into power house of the region given its rich hydropower resources. UCS Sarawak from its strong alliance with SESCO, should be in the forefront for more cable supply contracts. In addition, we do not discount Leader's role in Sarawak given UCS limited capacity and the shortage of undersea cable may see greenfield investment by Leader with technical support from established overseas players.

**Status of New Power Plants:**

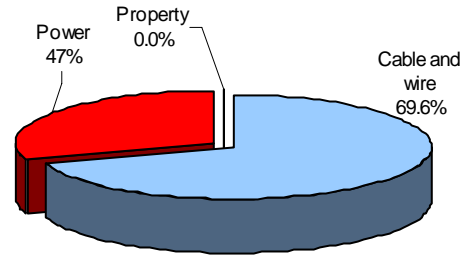
**Cambodia - PPA at the doorstep.** At present, the discussions and negotiations are still on-going with the Cambodian Ministry of Industry, Mines and Energy and Electricite du Cambodge on the Power Purchase Agreement (PPA). However, the Implementation Agreement is still on-going with the turnkey contractor on the engineering, procurement and construction works, and with the financial advisor on the project financing. The JV company, Power Synergy Corporation Co. Ltd. has awarded the Environmental Impact Assessment (EIA) services to TEAM Consulting Engineering and Management Co. Ltd. of Thailand. They are presently working closely with the various parties and the local Cambodian authorities to carry out the necessary study and survey.

**Pakistan – terminated.** Leader which entered into a Joint Venture Agreement with Gulshan Spinning Mills Limited to develop a 200MW heavy-fuel oil-fired diesel engine combined cycle power plant in Pakistan on 8 March 2007 has decided to terminate the JVA after considered various factors including, the present development in Pakistan (political instability).

**Figure 1: Revenue Contribution for 9MFY07**

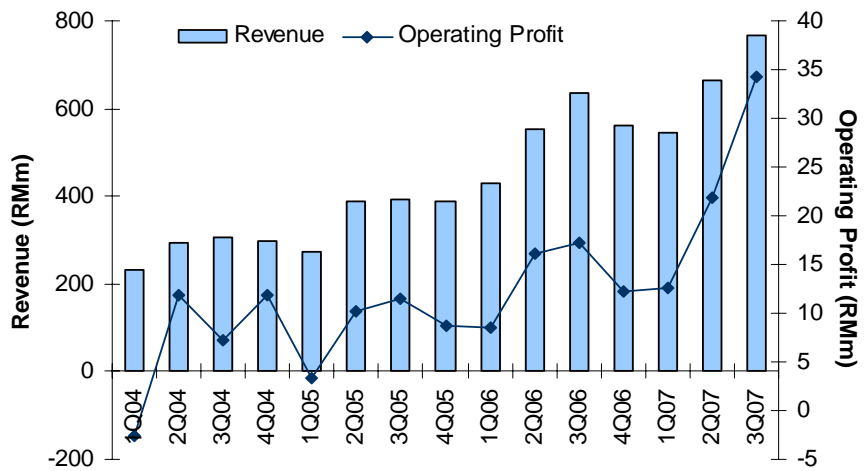


**Figure 2: Operating Profit Contribution for 9MFY07**



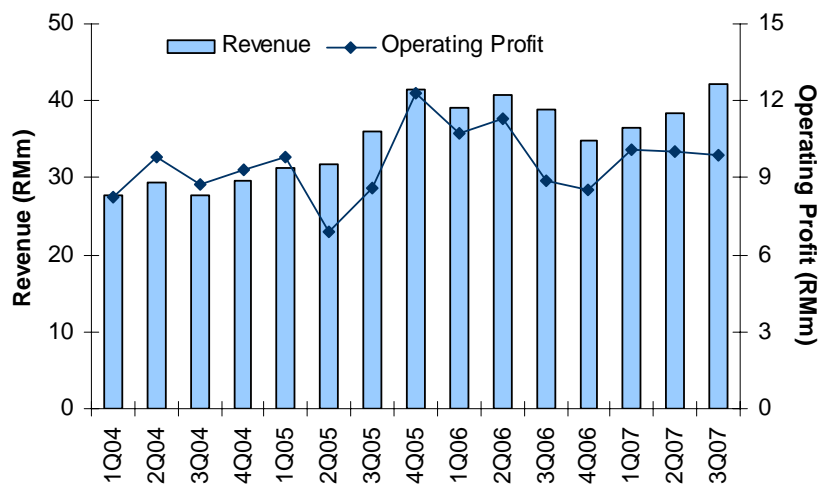
Source: Company Data

**Figure 3: Quarterly Performance for Cable & Wire Division**



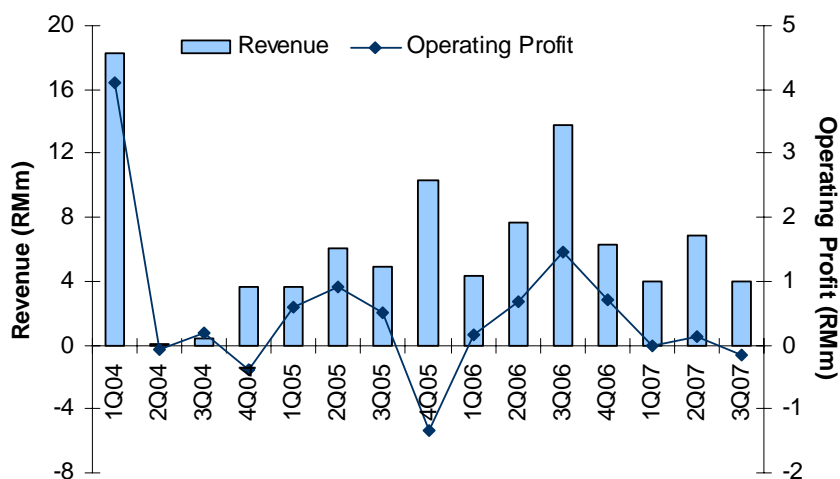
Source: Company Data

**Figure 4: Quarterly Performance for Power Generation Division**



Source: Company Data

**Figure 5: Quarterly Performance for Property Division**



Source: Company Data

**Figure 6: Sum of Valuation Composition for Leader Universal**

Division	Net Profit After MI (FY07)	Peer PER	Total (RMm)
Cable & wire, others	49.4	10.0	493.7
Power (IPP @ DCF)			294.2
Total Sum Of Parts			788.0
No of Shares			436.5
<b>12-Months Targeted Price</b>		<b>RM</b>	<b>1.81</b>

Source: Bloomberg, OSK Research

**OSK Research Guide to Investment Ratings****Buy:** Share price may exceed 10% over the next 12 months**Trading Buy:** Share price may exceed 15% over the next 3 months, however longer-term outlook remains uncertain**Neutral:** Share price may fall within the range of +/- 10% over the next 12 months**Take Profit:** Target price has been attained. Look to accumulate at lower levels**Sell:** Share price may fall by more than 10% over the next 12 months**Not Rated:** Stock is not within regular research coverage

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