



TA SECURITIES

A MEMBER OF THE TA GROUP

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COMPANY UPDATE

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FBM KLCI: 1,465.35

Leader Universal Holdings Berhad

RM1.10/share Buyout Offer

Tuesday, October 18, 2011

TP: RM1.10 (+31%)

Business Summary	: Primarily involve in the manufacture of aluminium and copper cables and power producing in Cambodia	Recommendation:	Buy
Major Shareholders (%)	: Zun Holdings Sdn Bhd (12.6)	Market Capitalisation (RMmn):	RM366.6
	: Lembaga Tabung Haji (8.98)	Current Price:	RM0.84
	: Gold Connection Assets (7.7)	Market/ Sector:	Main Market/Industrial
Company Website	: www.leaderuniversal.com	Stock Code:	4529
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TA Research Team Coverage

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Key Stock Statistics

FYE Dec 31		2011F	2012F
EPS	(sen)	12.3	14.8
PER	(x)	6.8	5.7
Gross div/ share	(sen)	3.0	3.5
NTA/share	(RM)	1.7	1.8
Book value/ share	(RM)	1.4	1.5
Issued capital	(mn shares)	436.5	436.5
52 weeks share price range	(RM)	0.66 - 0.95	

Per Share Data

FYE Dec 31		2010	2011F	2012F
Book Value	(sen)	1.3	1.4	1.5
Cash Flow	(sen)	(0.5)	0.0	0.3
Earnings	(sen)	11.4	12.3	14.8
Dividend	(sen)	3.0	3.0	3.5
Payout Ratio	(%)	26.4	24.4	23.7
PER (x)	(x)	7.4	6.8	5.7
P/ Cash Flow	(x)	(1.8)	27.4	2.9
P/ Book Value	(x)	0.6	0.6	0.6
Dividend Yield	(%)	2.7	2.7	3.1
ROE	(%)	8.7	8.7	9.7
Net Gearing	(%)	0.5	0.6	0.4

P&L Analysis (RMmn)

FYE Dec 31		2010	2011F	2012F
Revenue		2494.0	2591.3	2699.9
Operating Profit		74.8	125.2	144.0
Depreciation		(25.9)	(46.9)	(54.6)
Interest Expenses		(8.5)	(38.9)	(40.5)
Pre-tax Profit		67.0	87.1	104.2
Effective Tax Rate	(%)	(4.5)	18.0	17.5
Net Profit		49.7	53.6	64.5
Operating Margin	(%)	3.0	4.8	5.3
Pre-tax Margin	(%)	2.7	3.4	3.9
Net-Margin	(%)	2.8	2.8	3.2

(12-Mth) Share Price relative to the FBM KLCI



Source: Bloomberg

Leader Universal which will resume trading today, has been issued a takeover offer to acquire the entire business and undertakings of the group. The RM480.1mn offer was put forward by HNG Capital Sdn Bhd. This would translate to RM1.10 per Leader Universal share which represents a premium of 31% from its last closing price of RM0.84/share.

Background of HNG Capital Sdn Bhd

From the company name of the offeror, it is quite obvious that the founding family has proposed to acquire the entire business. HNG Capital Sdn Bhd consists of Dato' Seri H'ng Bok San, Dato' H'ng Chun Hsiang and Datin H'ng Hsieh Ling, who hold a 30%, 40% and 30% stake respectively.

Salient Terms of the Acquisition

- HNG Capital has offered to acquire Leader Universal at a sum of RM480.1mn. RM410.9mn would be satisfied in cash and the remaining RM69.1mn would be owed to the group payable within 12 months of the acquisition agreement date.
- The tentative cut-off date has been set for 18 November 2011.
- Following the completion of the proposed acquisition, Leader Universal will be deemed a PN17 company as there will no longer be a significant business and it will also be classified as a 'cash company'.
- The distribution of the proceeds from the proposed acquisition will be implemented via capital reduction and paid to the entitled shareholders.
- This proposition would require shareholders' approval.

Our View

We are in the opinion that this is a very lucrative offer as Leader has barely exceeded (except once on 25 March 2010 – RM1.01) the RM1.00/share threshold in the past four years. At RM1.10/share, the acquisition price offers shareholders a very comfortable capital gain of 31% from its last closing price.

In addition, the offerors has proposed to buyout the company at 9x PER, which is pretty close to our 10x PER. We believe that this is an attractive buyout price for shareholders to consider since the average PER for the past four years was 6.4x.

The offer price although is only 0.7x its book value would provide a good exit plan for existing shareholders at this point in time as we believe that the global economic condition would present a great challenge for stock prices in general to perform well.

Valuation

We are positive on the buyout plan offered and we would advice investors to take this opportunity to accept the offer. We maintain our buy recommendation on Leader with a revised target price of RM1.10/share as we are comfortable with the potential upside it offers.

Earnings Summary

Income Statement (RMmn)	2009	2010	2011F	2012F	2013F
Revenue	1949.8	2494.0	2591.3	2699.9	2866.7
COGS	(1791.1)	(2340.2)	(2384.0)	(2470.4)	(2637.3)
Gross Profit	158.7	153.8	207.3	229.5	229.3
Other Op Income	3.3	3.5	3.6	3.7	4.0
Other Op Expenses	(70.5)	(82.4)	(85.6)	(89.2)	(94.7)
Profit from Ops	93.7	74.8	125.2	144.0	138.6
Finance Costs	(18.4)	(8.5)	(38.9)	(40.5)	(43.0)
Share of Profits from Associates	1.6	0.7	0.7	0.7	0.8
PBT	76.8	67.0	87.1	104.2	96.3
Tax	(5.9)	3.0	(15.7)	(18.2)	(14.5)
MI	(17.5)	(20.3)	(17.9)	(21.5)	(20.5)
PAT	53.4	49.7	53.6	64.5	61.4

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