

Results Update

13 November 2009

# Jadi Imaging Holdings

Buy

Continuous Improvement ; Best results so far in FY2009

TP:RM0.23

Price (12 Nov 09)	RM0.195
KLCI	1271.75

**Stock Data**

Bursa / Bloomberg code	7223 / JADI MK
Market/ Sector	Main / Ind Product
Syariah Compliant status	No
Issued shares (m)	608.7m
Par Value (RM)	0.10
Market cap. (RM m)	118.69
Price / NTA	1.41
52-week price Range	RM 0.22- 0.08
Beta (against KLCI)	1.23
3-m Average Daily Volume	2.59m
3-m Average Daily Value*	RM 0.51m
* based on closing price	

**Major Shareholders**

1)LTL Venture Holdings Sdn Bhd	34.76%
2)Lau Eng Eu	5.55%
3) Hock Guan Lim	3.58%

**Share Performance (as at 12 Nov 09)**

	1m	3m	12m
Absolute (%)	2.6	0.0	95.0
Relative (%-pts)	-0.4	-4.2	35.1

**Price-Earnings Band**

	FY-3	FY-2	FY-1
Upper	12.41	17.09	13.84
Lower	1.65	9.11	4.52

**Financial Forecast (Year End Dec 31)**

(RMm)	07A	08A	09F	10F
Revenue	56.67	63.22	85.09	94.88
Operating Profit	11.95	6.31	13.19	15.28
Pretax Profit	12.04	6.21	12.51	14.71
Net Profit	10.67	6.13	10.81	13.09
EPS (sen)	1.77	1.01	1.79	2.17
PER (X)	9.89	17.33	10.90	9.00
DPS (sen)	0.3	0.5	0.5	0.5
Div Yield (%)	1.5	2.6	2.6	2.6

**Important Balance Sheet Items (as at 30 Sept 09)**

NA / share (RM)	0.15
Trade Receivables (RM m)	8.98
Trade Payables (RM m)	9.34
Total Assets (RM m)	117.96
Net Cash /(Debt) (RM m)	Net Cash

**JADI IMAGING posted impressive third quarter results on strong demand for its products. The revenue came in at RM 23.4m (up 45.5% y-o-y and 9.0% q-o-q) due to increase in sales volume of both black and colour toner. However, net profit grew by 7.0% to RM 3.7m compared with that of RM 3.5m in the same period last year. This performance was mainly attributed to lower average selling price as compared to 3QFY08. From a q-o-q perspective, net profit surged 72.4% on the back of higher productivity. We rate the stock a Buy based on the target price of RM0.23 per share (from RM0.195).**

**Highlights**

**Revenue surged 46% y-o-y; net profit rose 7% y-o-y**

Revenue for the third quarter FY09 surged 45.5% to RM 23.4m compared with RM 16.1m in the same quarter a year earlier due to higher demand for black and colour toner. Despite the revenue was substantially higher than a year ago, net profit only increased by 7.0% to RM 3.7m compared with that of RM 3.5m in the same period last year due to lower average selling price achieved during the quarter under review. Besides that, 3QFY09 results were also affected by: (i) foreign exchange loss of RM 0.53m due to weakening of USD and strengthening of Japanese Yen against Malaysian Ringgit during the quarter under review, (ii) a RM 0.16m loss at its U.S. subsidiary. As a result, net profit margin was dragged down by 26.5% as compared to 3QFY08.

**Sequential performance was above expectation**

From a q-o-q perspective, revenue expanded by 9.0% q-o-q but net profit grew by 72.4% as the group achieved higher productivity for the current quarter under review, underpinned by stronger sales volume for both black and colour toner. Net profit margin stood at 15.8% versus 10.0% in 2Q09. In our opinion, the profit margin growth trend is likely to continue on the back of the group's continuous effort to enhance productivity.

**Current ratio improved to 2.11x**

We noticed that Jadi's current ratio has improved to 2.11x from 1.94x in 2QFY09(1.97x in 1QFY09). It is worth to note that this is the first improvement since 1QFY08, which temporarily eases liquidity concerns.

**Dividend**

No interim dividend was declared for the current quarter.

## Outlook

The group saw improvement in sales and production since 2QFY09. Going forward, we expect the group's prospect to remain positive on the back of improving demand as the global economy is on the road to recovery. On the other hand, better sales can be expected from the US and Europe operations as a result of various strategies implemented by the company such as appointing AEG-Elektrofotografie GmbH ("AEG") from Germany as the exclusive distributor for Jadi in Western and Central Europe and incorporating a sales and distribution subsidiary, Jadi Imaging Supplies (US) Inc in Torrance, California to capture a bigger slice of US market.

In accordance with the group's ongoing efforts to increase its productivity and efficiency, Jadi has undertaken a plan to re-develop two existing blocks of buildings into a new factory with a built-up area of approximately 84,724 square feet. The re-development cost is estimated at RM6.4m. We view this plan positively as the new factory is expected to contribute positively to the future earnings of the group as it would allow Jadi to plan its work space requirements more efficiently for the future expansion plans.

## Investment Risks

### Currency fluctuation remains as the main concern

Currency fluctuation of Yen and USD is critical in determining Jadi's earnings and profits margins as Jadi sources production materials from Japan while trading terms are in USD. Although we believe that Ringgit should have stabilized against USD and Yen, any major changes in the foreign exchange due to unforeseen scenario will be bad for Jadi.

### Rapid advancements in technology

Jadi needs to reinvest its capital for new machines and R&D to ensure its toner compatibility with the ever-changing models of printers. As the pace of technology advancement is sometimes unpredictable, there is a risk in terms of JADI's speed to adjust and conform itself with the ever changing environment.

## Valuation and recommendation

### Buy (from Market Perform) with a TP of RM 0.23

In view of the better-than-expected results in the third quarter, we are raising our FY09-10 earnings by 21%. Accordingly, our target price has been raised to RM0.23 (from RM0.195 previously), which is based on forecasted FY09 EPS of 1.79 sen and a PER of 12.8x (after applying a 25% discount to KLCI PER of 17x to arrive at Jadi's PER) due to the uncertainty over the global economic recovery.

FY Dec (RM m)	FY07	FY08	FY09F	FY10F
Revenue	56.67	63.22	85.09	94.88
Gross Profit	19.29	20.25	24.68	28.46
EBITDA	17.49	12.50	21.19	23.91
Operating Profit	11.95	6.31	13.19	15.28
PBT	12.04	6.21	12.51	14.71
Net Profit	10.67	6.13	10.81	13.09
EPS (sen)	1.77	1.01	1.79	2.17
PER	9.89	17.33	10.90	9.00
DPS (sen)	0.30	0.50	0.50	0.50
Div Yield (%)	1.54	2.56	2.56	2.56

Table: Results Summary

Year Ending Dec	3Q09	2Q09	3Q08	QoQ (%)	YoY (%)	YTD FY09	YTD FY08	Chg (%)
Revenue (RMm)	23.36	21.43	16.06	9.01	45.45	60.58	47.16	28.46
Operating Profit (RMm)	4.27	2.84	3.53	50.35	20.96	9.30	7.89	17.87
Profit before Taxation (RMm)	4.13	2.67	3.46	54.68	19.36	8.82	7.75	13.81
Net Profit (RMm)	3.69	2.14	3.45	72.43	6.96	7.51	7.11	5.63
EPS (sen)	0.61	0.35	0.57	74.29	7.02	1.24	1.18	5.08
Operating margin (%)	18.28	13.25	21.98	37.93	-16.84	15.35	16.73	-8.24
Net Profit Margin(%)	15.80	9.99	21.48	58.18	-26.47	12.40	15.08	-17.77

Historical Price Movement 13/11/2008 – 12/11/2009



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## JF APEX SECURITIES - RESEARCH RECOMMENDATION FRAMEWORK

**STOCK RECOMMENDATIONS**

- BUY** : The stock's total returns\* are expected to exceed 10% within the next 12 months.
- HOLD** : The stock's total returns\* are expected to be within +10% to – 10% within the next 12 months.
- SELL** : The stock's total returns\* are expected to be below -10% within the next 12 months.
- TRADING BUY** : The stock's total returns\* are expected to exceed 10% within the next 3 months.
- TRADING SELL** : The stock's total returns\* are expected to be below -10% within the next 3 months.

**SECTOR RECOMMENDATIONS**

- OVERWEIGHT** : The industry as defined by the analyst is expected to exceed 10% within the next 12 months.
- MARKETWEIGHT** : The industry as defined by the analyst is expected to be within +10% to – 10% within the next 12 months.
- UNDERWEIGHT** : The industry as defined by the analyst, is expected to be below -10% within the next 12 months.

\*capital gain + dividend yield

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