

Results Update

18 August 2009

Jadi Imaging Holdings

Market Perform

Continuous Improvement since hitting a loss in 4Q08

TP: RM0.19

Price (17 Aug 09) **RM0.175**
KLCI 1169.05

Stock Data

| | |
|--------------------------|--------------------|
| Bursa / Bloomberg code | 7223 / JADI MK |
| Market/ Sector | Main / Ind Product |
| Syariah Compliant status | No |
| Issued shares (m) | 604.1m |
| Par Value (RM) | 0.10 |
| Market cap. (RM m) | 105.71 |
| Price / NTA | 1.25 |
| 52-week price Range | RM 0.20 - 0.08 |
| Beta (against KLCI) | 1.23 |
| 3-m Average Daily Volume | 1.91m |
| 3-m Average Daily Value* | RM 0.29m |

* based on closing price

Major Shareholders

| | |
|---------------------------------|-------|
| 1) LTL Venture Holdings Sdn Bhd | 35.0% |
| 2) Lau Eng Eu | 5.59% |
| 3) Hock Guan Lim | 3.61% |

Share Performance (as at 17 Aug 09)

| | 1m | 3m | 12m |
|------------------|------|------|------|
| Absolute (%) | 20.7 | 34.6 | 20.7 |
| Relative (%-pts) | 16.3 | 8.8 | 12.6 |

Price-Earnings Band

| | FY-3 | FY-2 | FY-1 |
|-------|-------|-------|-------|
| Upper | 12.41 | 17.09 | 13.84 |
| Lower | 1.65 | 6.83 | 4.52 |

Financial Forecast (Year End Dec 31)

| (RMm) | 07A | 08A | 09F | 10F |
|------------------|-------|-------|-------|-------|
| Revenue | 56.67 | 63.22 | 70.11 | 78.17 |
| Operating Profit | 11.95 | 6.31 | 10.40 | 17.22 |
| Pretax Profit | 12.04 | 6.21 | 9.86 | 16.62 |
| Net Profit | 10.67 | 6.13 | 8.06 | 14.07 |
| EPS (sen) | 1.77 | 1.01 | 1.33 | 2.33 |
| PER (X) | 9.89 | 17.33 | 13.16 | 7.51 |
| DPS (sen) | 0.3 | 0.5 | 0.5 | 0.5 |
| Div Yield (%) | 1.7 | 2.9 | 2.9 | 2.9 |

Important Balance Sheet Items (as at 30 June 09)

| | |
|--------------------------|----------|
| NA / share (RM) | 0.14 |
| Total Receivables (RM m) | 8.6 |
| Total Payables (RM m) | 11.3 |
| Total Assets (RM m) | 114.7 |
| Net Cash /(Debt) (RM m) | Net cash |

JADI IMAGING 1H09 results were slightly below our expectation. The net profit came in at RM 3.82m, representing only 47.4% of our full year forecast. However, revenue grew by 19.7% to RM 37.22m compared with that of RM 31.1m in the same period last year. This performance was mainly attributed to lower profit margins as the net profit margin was 12.8% lower than the period in 2008. We rate the stock a Market Perform based on the target price of RM0.19 per share.

Highlights

Revenue surged 54.5% y-o-y , net profit rose 10.3% y-o-y

Revenue for the second quarter 2009 surged 54.5% to RM 21.43m as compared to last year due to higher demand for black toner. Despite the revenue was substantially higher than a year ago, net profit only increased by 10.3% as a result of higher raw material costs due to the stronger Japanese Yen against Malaysian Ringgit during the quarter under review. Besides that, 2Q09 results were also affected by: (1) factory overheads of RM 0.11 mln due to the temporary cessation of operations for relocation at its Suzhou factory and the moving cost due to relocation, (ii) a MYR 0.17 mln loss at its U.S. subsidiary and (iii) allowance for doubtful debts of RM 0.16m. As a result, net profit margin was dragged down 12.8% as compared to 1H08. We expect margin to improve in coming quarters on the back stable material prices.

Sequential performance was within expectation

Revenue expanded by 35.7% q-o-q while net profit grew by 27.4% on the back of higher revenue, underpinned by stronger sales volume for both black and colour toner. Net profit margin stood at 10% versus 10.6% in 1Q09, mainly attributed to a foreign exchange loss of RM 0.341m, allowance for doubtful debts of RM 0.16m and a RM 0.002m loss on the USD forward and currency option contracts.

Declining current ratio

We noticed that Jadi's current ratio has further deteriorated to 1.94x from 1.97x in 1Q09. It is worth to note that Jadi's current ratio has been decreasing since 1Q08, which might signal higher short term liquidity risk.

Dividend

No interim dividend was declared for the current quarter.

Outlook

Going forward, we expect the company'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 company'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, which is scheduled to commence operations by the second half of 2010. We view this plan positively as the new factory is expected to contribute positively to the future earnings of the company in the medium to long term period.

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

Market Perform with a TP of RM 0.19

We have lifted our FY09 revenue and net profit forecast by 5.7% and 2.2% respectively. We are using price earnings multiple approach in determining the target price for Jadi.

We value the stock at RM0.19 per share, which is based on forecasted FY09 EPS of 1.33 sen and a PER of 14x after applying a 30% discount to KLCI PER of 20x to arrive at Jadi's PER due to the increased risk foreseen with the decreasing current ratio and the uncertainty over the global economic recovery.

| FY Dec (RM m) | FY07 | FY08 | FY09F | FY10F |
|------------------|-------|-------|-------|-------|
| Revenue | 56.67 | 63.22 | 70.11 | 78.17 |
| Gross Profit | 19.29 | 20.25 | 20.93 | 27.36 |
| EBITDA | 17.49 | 12.50 | 17.49 | 24.55 |
| Operating Profit | 11.95 | 6.31 | 10.40 | 17.22 |
| PBT | 12.04 | 6.21 | 9.86 | 16.62 |
| Net Profit | 10.67 | 6.13 | 8.06 | 14.07 |
| EPS (sen) | 1.77 | 1.01 | 1.33 | 2.33 |
| PER | 9.89 | 17.33 | 13.16 | 7.51 |
| DPS (sen) | 0.3 | 0.5 | 0.5 | 0.5 |
| Div Yield (%) | 1.7 | 2.9 | 2.9 | 2.9 |

Table: Results Summary

| Year Ending Dec | 2Q09 | 1Q09 | 2Q08 | QoQ (%) | YoY (%) | 1HFY09 | 1HFY08 | Chg (%) |
|------------------------------|-------|-------|-------|---------|---------|--------|--------|---------|
| Revenue (RMm) | 21.43 | 15.79 | 13.87 | 35.7 | 54.5 | 37.22 | 31.10 | 19.7 |
| Operating Profit (RMm) | 2.84 | 2.19 | 2.33 | 29.7 | 21.9 | 5.03 | 4.36 | 15.4 |
| Profit before Taxation (RMm) | 2.67 | 2.02 | 2.28 | 32.2 | 17.1 | 4.69 | 4.29 | 9.3 |
| Net Profit (RMm) | 2.14 | 1.68 | 1.94 | 27.4 | 10.3 | 3.82 | 3.66 | 4.4 |
| EPS (sen) | 0.35 | 0.28 | 0.32 | 25.0 | 9.4 | 0.63 | 0.61 | 3.3 |
| Operating margin (%) | 13.25 | 13.87 | 16.80 | -4.4 | -21.1 | 0.14 | 0.14 | -3.6 |
| Net Profit Margin(%) | 9.99 | 10.64 | 13.99 | -6.1 | -28.6 | 0.10 | 0.12 | -12.8 |

Historical Price Movement 8/18/2008 – 17/8/2009



JF APEX SECURITIES BERHAD – CONTACT LIST

JF APEX SECURITIES BHD

Head Office:

6th Floor, Menara Apex
Off Jalan Semenyih
Bukit Mewah
43000 Kajang
Selangor Darul Ehsan
Malaysia

General Line: (603) 8736 1118
Facsimile : (603) 8737 4532

PJ Office:

15th Floor, Menara Choy Fook On
No. 1B, Jalan Yong Shook Lin
46050 Petaling Jaya
Selangor Darul Ehsan
Malaysia

General Line: (603) 7620 1118
Facsimile : (603) 7620 6388

DEALING TEAM

Head Office:

Valerie Gan Ai Lynn (ext 3238)
Kong Ming Ming (ext 3237)
Shirley Chang (ext 3211)
Norisam Bojo (ext 3233)
Derrick Ng Wei Yee (ext 3239)
Edwin Loh Ming Hon (ext 3236)
Wong Wing Haur, Alvin (ext 3226)
Gan Huai Hsia (ext 3214)

PJ Office:

Tengku Badrul Hisham (ext 363)
Tengku Suriana (ext 808)
Mohd Khairi bin Husain (ext 839)
Iskandar Zulkarnain Ahmad (ext 808)
Mohd Hanif Wan Said (ext 111)
Elle Chan (ext 862)

RESEARCH TEAM

PJ Office:

Norhashmilaidi Hashim (ext 810)
Ng Keat Yung (ext 823)
Lim Seong Chun (ext 812)
Phoon Thai Yoon (ext 825)
Afif Termizi (ext 822)
Chai San San (ext 837)
Jason Tan

JF APEX SECURITIES - RESEARCH RECOMMENDATION FRAMEWORK

STOCK RECOMMENDATIONS

OUTPERFORM : The stock's total returns* are expected to exceed KLCI's total return by 10% or more in the next 12 months.

MARKETPERFORM : The stock's total returns* are expected to be within +10% or -10% of KLCI's total return.

UNDERPERFORM : The stock's total returns* are expected to be below KLCI's total return by 10% or more in the next 12 months.

BUY : The stock's total returns* are expected to be 15% or higher within the next 12 months.

SELL : The stock's total returns* are expected to be -15% or worse within the next 12 months.

SECTOR RECOMMENDATIONS

OVERWEIGHT : The industry as defined by the analyst is expected to outperform the KLCI over the 12 months.

MARKETWEIGHT : The industry as defined by the analyst is expected to perform in line with KLCI over the 12 months.

UNDERWEIGHT : The industry as defined by the analyst is expected to underperform the KLCI over the next 12 months.

*capital gain + dividend yield

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