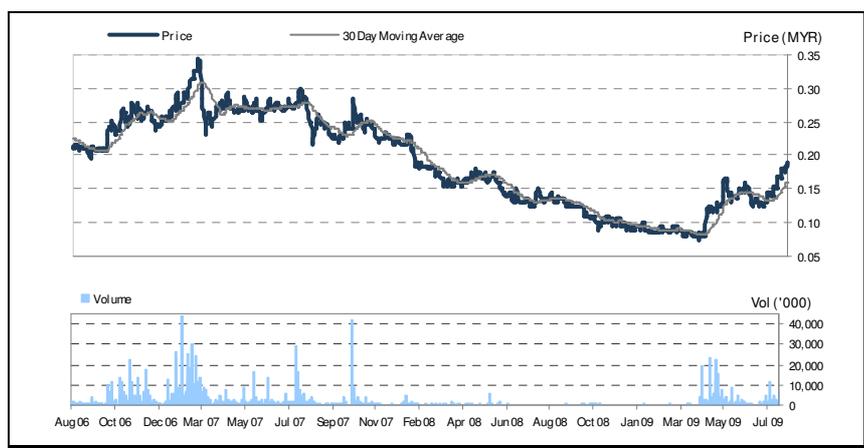


Jadi Imaging Holdings

Recommendation: **HOLD**Stock Code: **7223**Bloomberg: **JADI MK**Price: **MYR0.19**12-Month Target Price: **MYR0.19**Date: **August 17, 2009****Board:** Main**Sector:** Industrial Products**GICS:** Industrials/Office Services & Supplies**Market Value - Total:** MYR111.7 mln

Summary: Jadi Imaging Holdings (Jadi) is principally involved in the manufacture of toners for laser printers, photocopiers, facsimile machines and other multi-function office equipment. It is the sole toner manufacturer in Malaysia and the largest in Southeast Asia.

Analyst: Desmond Ch'ng, ACA**Results Review & Earnings Outlook**

- Jadi's 2Q09 results were broadly within expectations. Stronger-than-expected revenue was offset by lower margins and a higher-than-anticipated tax rate.
- 2Q09 sales volume jumped an impressive 38% QoQ, more than offsetting USD weakness. While this was partly due to Jadi's more aggressive sales campaigns, switching to generic toners is also gaining momentum as clients attempt to reduce costs. Moreover, some international toner makers have moved out of the industry due to high production costs, reducing overall market supply and competition.
- What is also encouraging is that sales have improved across all major geographical segments. Malaysia revenue grew 17.6% QoQ on increased sales to both new and existing customers. China revenue jumped 45% QoQ, with the re-commissioning of the line in April. Average utilization rate was 40%. U.S. revenue more than doubled from a small base, but the new set-up is already contributing positively to the bottomline.
- Partially offsetting this sales surge, was a decline in gross profit margin to 26% (1Q09: 29%). This was largely due to the strengthening of the JPY and simultaneous weakening of the USD during the period.
- Our 2009 earnings forecast is largely maintained, but with an improved sales outlook, we raise our 2010 net profit estimate by 18%.

Recommendation & Investment Risks

- We maintain our Hold call. While we view the current results and sales trend positively, current valuations are fair, we believe.
- With the earnings upgrade and on the back of higher peer valuations, our 12-month target price is raised to MYR0.19 from MYR0.13. In deriving our target price, we peg Jadi's 2010 EPS to a PER of 9.9x (8.5x previously), in line with the higher average for other listed manufacturing companies.
- Current market conditions work in favor of the company, in our opinion, for there is growing acceptance of generic toners as a means toward cost reduction. Moreover, with reduced competition in the market place, Jadi, with its healthy financials, is a major beneficiary. On the back of these factors, we project sales growth of 20% in 2010.
- Risks to our recommendation and target price include volatility in crude oil prices and currency fluctuations. A further risk is the pace of the company's technological advancement, and Jadi's R&D capabilities in keeping up with the need for new production processes and products.

Key Stock Statistics

FY Dec.	2008	2009E
Reported EPS (sen)	1.1	1.5
PER (x)	17.6	12.2
Dividend/Share (sen)	0.5	0.5
NTA/Share (MYR)	0.14	0.15
Book Value/Share (MYR)	0.14	0.15
No. of Outstanding Shares (mln)	604.0	
52-week Share Price Range (MYR)	0.08 - 0.19	
Major Shareholders:	%	
Liew Kim Song	36.7	
Eu Lan Eng	5.6	

* Stock deemed Shariah compliant by the Securities Commission.

Per Share Data

FY Dec.	2006	2007	2008	2009E
Book Value (MYR)	0.11	0.13	0.14	0.15
Cash Flow (sen)	2.4	2.6	2.0	2.5
Reported Earnings (sen)	1.9	1.8	1.1	1.5
Dividend (sen)	0.6	0.5	0.5	0.5
Payout Ratio (%)	32.3	28.3	35.1	24.7
PER (x)	10.0	10.5	17.6	12.2
P/Cash Flow (x)	7.7	7.0	9.0	7.3
P/Book Value (x)	1.6	1.4	1.3	1.2
Dividend Yield (%)	3.2	2.7	2.7	2.7
ROE (%)	24.2	14.7	7.9	10.5
Net Gearing (%)	0.0	0.0	11.5	7.8

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Jadi Imaging Holdings

Recommendation: **HOLD**Stock Code: **7223**Bloomberg: **JADI MK**Price: **MYR0.19**12-Month Target Price: **MYR0.19**Date: **August 17, 2009****Quarterly Performance**

FY Dec. / MYR mln	2Q09	2Q08	% Change
Reported Revenue	21.4	13.9	54.5
Reported Operating Profit	2.8	2.3	21.7
Depreciation & Amortization	-1.8	-1.5	20.2
Net Interest Income / (Expense)	-0.1	0.0	NM
Reported Pre-tax Profit	2.7	2.3	17.0
Reported Net Profit	2.1	1.9	10.1
Reported Operating Margin (%)	13.2	16.8	-
Reported Pre-tax Margin (%)	12.4	16.4	-
Reported Net Margin (%)	10.0	14.0	-

Source: Company data

Profit & Loss

FY Dec. / MYR mln	2007	2008	2009E	2010E
Reported Revenue	56.7	63.2	76.5	91.8
Reported Operating Profit	12.2	7.1	11.9	14.5
Depreciation & Amortization	-5.3	-6.0	-6.1	-6.2
Net Interest Income / (Expense)	0.1	0.0	-0.6	-0.7
Reported Pre-tax Profit	12.0	7.0	11.2	13.6
Effective Tax Rate (%)	11.4	8.6	17.8	17.9
Reported Net Profit	10.7	6.4	9.2	11.1
Reported Operating Margin (%)	21.4	11.3	15.5	15.8
Reported Pre-tax Margin (%)	21.3	11.0	14.6	14.8
Reported Net Margin (%)	18.8	10.1	12.0	12.1

Source: Company data, S&P Equity Research

Required Disclosures

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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.

Shariah-compliant stock - As defined by the Shariah Advisory Council of Malaysia's Securities Commission

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Recommendation and Target Price History

Date	Recommendation	Target Price
New	Hold	0.19
22-May-09	Hold	0.13
21-Nov-08	Hold	0.12
29-Aug-08	Hold	0.14
29-May-08	Hold	0.18
29-Feb-08	Hold	0.20
4-Dec-07	Buy	0.27

