

# Jadi Imaging Holdings

**Buy**

A Strong first quarter of FY2010

TP:RM0.23

Price (20 May 10)	<b>RM0.175</b>
KLCI	1304.16

### Stock Data

Bursa / Bloomberg code	7223 / JADI MK
Market/ Sector	Main / Ind Product
Syariah Compliant status	No
Issued shares (m)	611.48m
Par Value (RM)	0.10
Market cap. (RM m)	107.01
Price / NTA	1.17
52-week price Range	RM 0.22- 0.12
Beta (against KLCI)	1.31
3-m Average Daily Volume	0.37m
3-m Average Daily Value*	RM 0.06m
* based on closing price	

### Major Shareholders

1)LSI Holdings Sdn Bhd	34.92%
2)Lau Eng Eu	5.63%
3) Hock Guan Lim	3.60%

### Share Performance (as at 20 May 10)

	1m	3m	12m
Absolute (%)	2.9	2.9	26.2
Relative (%-pts)	5.4	2.3	0.9

### Price-Earnings Band

	FY-3	FY-2	FY-1
Upper	16.93	13.71	21.58
Lower	9.03	4.48	7.36

### Financial Forecast (Year End Dec 31)

(RMm)	08A	09A	10F	11F
Revenue	63.22	85.89	95.77	108.89
Operating Profit	6.31	13.11	14.79	17.66
Pretax Profit	6.21	12.55	14.59	17.41
Net Profit	6.13	10.33	12.45	15.31
EPS (sen)	1.01	1.71	2.06	2.53
PER (X)	17.33	10.23	8.49	6.91
DPS (sen)	0.50	0.30	0.50	0.50
Div Yield (%)	2.86	1.71	2.86	2.86

### Important Balance Sheet Items (as at 31 Mar 10)

NA / share (RM)	0.15
Trade Receivables (RM m)	10.65
Trade Payables (RM m)	12.25
Total Assets (RM m)	126.18
Net Cash /(Debt) (RM m)	Net Cash

**JADI IMAGING 1QFY10 results were slightly above our expectation. The Profit After Tax came in at RM 3.69m (up 119.6% y-o-y), representing 29.6% of our full year forecast. Meanwhile, revenue grew by 57.7% y-o-y to RM 24.9m compared with that of RM 15.8m in the same period last year. This better performance was mainly attributed to an increase in sales volume of both black and colour toner. We maintain our Buy call with an unchanged target price of RM0.23 per share.**

### Highlights

#### Revenue rose 57.7% y-o-y (within expectation)

Jadi Imaging's revenue for 1QFY10 grew 57.7% y-o-y to RM24.9m, mainly attributed to an increase in sales volume of both black and colour toner. Overall, the global economic recovery has contributed significantly to the strong results achieved in 1QFY10.

#### Profit After Tax surged 119.6% y-o-y (above expectation)

Meanwhile, Profit After Tax expanded at a much faster pace of 119.6% y-o-y to RM 3.69m from RM1.68m due to improving margins. Net profit margin for the quarter under review rose to 14.8% from 10.6% in 1QFY09.

#### Sequential performance was within expectation

On a quarterly basis, 1QFY10 topline contracted by 1.6% but Profit After Tax rose by 30.4% on the back of improved margin and a write-off of renovation of Suzhou old factory amounting to RM 0.49mil in the preceding quarter. As a result, net margins stood at 14.8% versus 11.2% in 4QFY09. In our opinion, the revenue growth trend remains intact in view of the improved business environment and expanded production capacity.

### Outlook

Going forward, we expect the company's prospect to remain positive on the back of a sustainable rebound in demand. According to the company, an additional monochrome toner line is scheduled to be fully installed in third quarter this year, which is in line with the company's ongoing efforts to increase its productivity and efficiency. We view this plan positively as the new monochrome toner line is expected to contribute positively to the future earnings of the company.

### Dividend

No interim dividend was declared for the current quarter.

## 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

### **Maintain Buy with an unchanged TP of RM 0.23**

We value the stock at RM0.23, which is derived from its 3-years average PER(adjusted) of 11.09x and forecasted FY10 EPS of 2.06 sen.

Overall, we are positive on Jadi Imaging's ability to sustain its profitability on the back of its plan to expand the black and colour line and launch several new products in year 2010 due to improved demand and sales as the global economic recovery remains on track.

Table: Financial Forecast (Year End Dec 31)

FY Dec (RM m)	FY08	FY09	FY10F	FY11F
Revenue	63.22	85.89	95.77	108.89
Gross Profit	20.25	24.23	29.19	34.59
Operating Profit	6.31	13.11	14.79	17.66
PBT	6.21	12.55	14.59	17.41
Net Profit	6.13	10.33	12.45	15.31
EPS (sen)	1.01	1.71	2.06	2.53
PER	17.33	10.23	8.49	6.91
DPS (sen)	0.50	0.30	0.50	0.50
Div Yield (%)	2.86	1.71	2.86	2.86

Table: Results Summary

Year Ending Dec	1Q10	4Q09	1Q09	QoQ (%)	YoY (%)
Revenue (RMm)	24.90	25.31	15.79	-1.62	57.69
Operating Profit (RMm)	4.45	3.81	2.19	16.80	103.20
Profit before Taxation (RMm)	4.34	3.73	2.02	16.35	114.85
Net Profit (RMm)	3.69	2.83	1.68	30.39	119.64
EPS (sen)	0.61	0.47	0.28	29.79	117.86
Operating margin (%)	17.87	15.05	13.87	2.82	4.00
Net Profit Margin(%)	14.82	11.18	10.60	3.64	4.18

Historical Price Movement 20/05/2009 – 20/05/2010



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**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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