

Jadi Imaging Holdings

Hold

A Strong first half of FY2010

TP: RM0.305

Price (20 Aug 10)	RM0.285
KLCI	1395.02

Stock Data

Bursa / Bloomberg code	7223 / JADI MK
Market/ Sector	Main / Ind Product
Syariah Compliant status	No
Issued shares (m)	680.92m
Par Value (RM)	0.10
Market cap. (RM m)	194.06
Price / NTA	1.87
52-week price Range	RM 0.32 - 0.16
Beta (against KLCI)	1.31
3-m Average Daily Volume	5.52m
3-m Average Daily Value*	RM 1.44m
* based on closing price	

Major Shareholders

1) LSI Holdings Sdn Bhd	31.4%
2) Mega First	17.9%
3) Lan Eng Eu	5.1%

Share Performance (as at 20 Aug 10)

	1m	3m	12m
Absolute (%)	23.9	67.6	74.3
Relative (%-pts)	18.8	52.2	45.4

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	103.91	118.25
Operating Profit	6.31	13.11	19.74	21.88
Pretax Profit	6.21	12.55	19.22	21.29
Net Profit	6.13	10.33	16.63	18.33
EPS (sen)	1.01	1.71	2.50	2.75
PER (X)	28.08	16.66	11.41	10.35
DPS (sen)	0.50	0.30	0.50	0.50
Div Yield (%)	1.75	1.05	1.75	1.75

Important Balance Sheet Items (as at 30 June 10)

NA / share (RM)	0.16
Trade Receivables (RM m)	12.83
Trade Payables (RM m)	14.17
Total Assets (RM m)	137.26
Net Cash /(Debt) (RM m)	(7.4)

JADI IMAGING's 1HFY10 results were above our expectations. 1HFY10 revenue grew by 40.1% y-o-y to RM 52.16mil compared with that of RM 37.22mil in the same period last year. However, the net profit came in at RM 8.82mil (+131% y-o-y), representing 70% of our full year forecast. On a quarterly basis, 2QFY10 revenue expanded by 9.5% q-o-q (+27.2% y-o-y) while net profit grew by 39.3% q-o-q (+140% y-o-y). The huge improvement was mainly driven by: i) an increase in sales volume of black toner ii) better margins achieved during the period as 1HFY10 net profit margin stood at 16.9% vs 10.3% a year ago. Hold with a TP of RM0.305 per share (from RM0.23 previously) after rolling over our valuation parameters to reflect FY11 forecast and revising upwards our FY10 and FY11 earnings by 33.5% and 19.7% respectively.

Highlights

Above expectations

Jadi posted 1HFY10 net profit of RM 8.82mil (+131% y-o-y), representing 70% of our full year forecast on the back of revenue of RM52.16 mil (accounting for 54% of our full year forecast). On a yearly basis, 2QFY10 revenue expanded by 27.2% y-o-y to RM 27.26mil while net profit grew by 140% y-o-y to RM 5.14mil. The huge improvement was mainly driven by: i) an increase in sales volume of black toner ii) better margins achieved during the period due to production efficiency arising from economies of scale as 1HFY10 net profit margin stood at 16.9% vs 10.3% a year ago.

Sequential performance was within expectation

On a quarterly basis, 2QFY10 revenue expanded by 9.5% q-o-q while net profit grew by 39.3% q-o-q on the back of higher revenue, underpinned by stronger sales volume for black toner. Net profit margin stood at 18.9% versus 14.8% in 1Q10, mainly attributed to higher productivity and gain on disposals of equipment amounting to RM0.44 mil for the quarter under review.

Improving margins

Overall, the strong 1HFY10 results were mainly underpinned by better margins at all levels. 2QFY10 operating profit margin stood at 21.2% vs 17.9% a quarter ago vs 13.3% a year ago. Meanwhile, 2QFY10 net profit margin stood at 18.9% vs 14.8% a quarter ago vs 10.0% a year ago. On a cumulative basis, 1HFY10 net profit margin stood at 16.9% vs 10.3% a year ago. It is worth to note that Jadi's profit

margins have been improving since 4QFY09 due to effective cost containment measures and production efficiency arising from economies of scale.

Dividend

No interim dividend was declared for the current quarter.

Outlook

Going forward, we expect the group's prospect to remain positive on the back of a sustainable rebound in demand and expanded production capacity. According to the group, a new monochrome toner line, which is the seventh line of the group, has been fully installed in Suzhou factory in the third quarter this year. In addition, the construction of a new factory cum warehouse and the preparation for an additional monochrome toner line and a new chemically produced toner line are in the pipeline and scheduled to be completed within the period from the fourth quarter this year to the first quarter next year.

Invest RM 80-100 mil over 5 years

The group targets to invest RM 80-100 mil over the next 5 years and to expand its current total capacity of 5300 tonnes of toners a year to 9700 tonnes by next year on the back of higher demand as users sought lower-priced products in order to save costs.

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

Upgrade to Hold from Take Profit with a TP of RM0.305

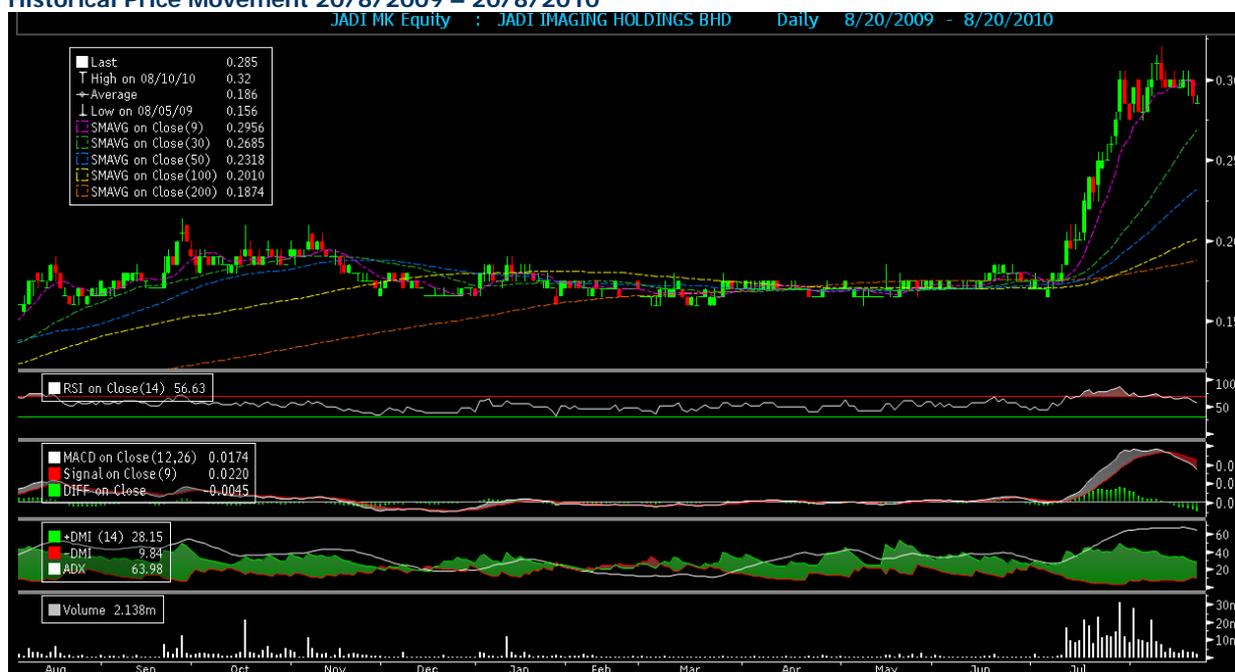
In view of the better than expected results, we are raising our FY10 and FY11 earnings forecasts by 33.5%-19.7% to RM 16.6mil and RM 18.3mil respectively to factor in our revised margins assumption. By rolling over our valuation parameters to reflect FY11 forecast, we upgrade our recommendation to Hold from Take Profit, with a TP of RM0.305(from RM0.23 previously), which is derived from its 3-years average PER(adjusted) of 11.09x and forecasted FY11 EPS of 2.75 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: Results Summary

Year Ending Dec	2Q10	1Q10	2Q09	QoQ (%)	YoY (%)	1HFY10	1HFY09	Chg (%)
Revenue (RMm)	27.26	24.90	21.43	9.5	27.2	52.16	37.22	40.1
Operating Profit (RMm)	5.77	4.45	2.84	29.7	103.2	10.21	5.03	103.0
Profit before Taxation (RMm)	5.68	4.34	2.67	30.9	112.7	10.02	4.69	113.6
Net Profit (RMm)	5.14	3.69	2.14	39.3	140.2	8.82	3.82	130.9
EPS (sen)	0.84	0.61	0.35	37.7	140.0	1.45	0.63	130.2
Operating margin (%)	21.2	17.9	13.3	3.3	7.9	19.6	13.5	6.1
Net Profit Margin(%)	18.9	14.8	10.0	4.0	8.9	16.9	10.3	6.7

Historical Price Movement 20/8/2009 – 20/8/2010



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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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