

Trading Idea

October 25, 2010

Share price: RM0.24

6-month Technical target: RM0.31

Jadi Imaging Holdings Bhd

The sole toner manufacturer in Malaysia and the largest in ASEAN

Promising outlook

TRADING BUY
with a 6M TP of RM0.31

- Jadi is involved in the manufacturing of toners used in laser printers, copiers, facsimile machines and multi-function office equipment. It is the only toner manufacturer in Malaysia and the largest toner manufacturer in ASEAN. It supplies mainly to the aftermarket clients (i.e. used in refilled, recycled and/or remanufactured printer, photocopier and facsimile cartridges) and only focuses on the supply of bulk toners but not other components such as cartridges. Its toners are used in a wide spectrum of brands.
- Jadi's customer base expanded to 200 worldwide from 130 in 2005, spanning across more than 40 countries. Exports accounted about 98% of group revenue.
- Jadi posted 1HFY10 net profit of RM 8.82mil (+131% y-o-y), on the back of a 40% jump in sales to RM52.2m arising from an increase in sales volume of black toner. The huge surge was also driven by higher gross profit margins, lower effective tax rates and production efficiency arising from economies of scale.
- Jadi's outlook remains bright due to the following macro and micro catalysts: (1) The new monochrome toner line (the 7th line) was completed in Suzhou factory in the 3Q; (2) 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 scheduled to be completed within the 4Q10 to 1Q11; (3) The uneven global recovery will continue to augur well for the value proposition of remanufacturing imaging consumables; (4) The growing importance of green initiatives and environmental responsibility bodes well for aftermarket cartridges as cartridges empties are being collected and given a new lease of life through remanufacturing; and (5) More environmental friendly products will be introduced in 2011, namely a new range of palm-oil- based Chemically Produced Toner and palm-oil based Green toner Resins.
- Share prices started to trend higher following the 9.1% private placement to Mega First for 20 sen each in Jul 10. Since then, Mega First proceeded to buy more shares from the open market, with the last reported purchase on 14 Oct, increasing its stake to 20%.
- The recent pullback from 52-week high of RM0.36 dragged JADI to RM0.24 (38.2% FR). We think it has fulfilled the minimum retracement target. Based on technical readings, the RM0.24 level could probably be its near term bottom owing to its grossly oversold position. Risk takers may start to nibble now until RM0.21 (23.6% FR) but always place a stop at below RM0.21. Resistance is seen at RM0.26 (50% FR), RM0.285 (61.8% FR) and RM0.31 (76.4% FR).
- Our 6M technical target price is RM0.31, implying a 12.9x FY11 P/E.

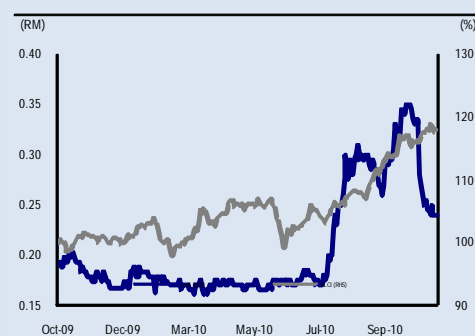
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03-21681078

KLCI	1490.6
Share price (RM)	0.24
Expected share price return (RM)	0.31
Expected dividend return (RM)	0.003
Expected total return (%)	30.3

Share price vs FBM KLCI



Information

Bloomberg Ticker	JADI MK
Bursa Code	7223
Issued Shares (m)	696.62
Market cap (RMm)	167.2
52week High/Low (RM)	0.36/0.16
3-mth avg volume ('000)	6320
Listing of 348.25m of JADI-WA (1 Warrant for 2 JADI)	20 Oct
Exercise price (RM)	0.17
Closing price- JADI-WA	0.115
Premium (%)	18.8

Price Performance	1M	3M	12M
Absolute performance	-31.4	-4.0	21.2
Relative to KLCI	-33.2	-13.3	2.9

Major shareholders

LSI Holdings	30.7%
MEGA First Housing	11.1%
Mega First Corp	8.8%

Summary Earnings Table

FYE Dec (RM'm)	FY09	FY10	FY11E	FY12E
Revenue (RM'm)	63.2	85.9	104.0	118.0
PAT (RM'm)	6.4	10.3	16.6	18.3
No of shares (m)	696.6	696.6	696.6	696.6
FD shares (m)	1045	1045	1045	1045
EPS (sen)	0.9	1.5	2.4	2.6
FD EPS (sen)	0.6	1.0	1.6	1.8
Dividend (sen)	0.5	0.3	0.3	0.3
P/E (x)	26.3	16.2	10.1	9.1
FD P/E (x)	39.4	24.3	15.1	13.7
Yield (%)	2.1	1.3	1.3	1.3

Bloomberg

DAILY CHART: TIME TO ACCUMULATE AMID GROSSLY OVERSOLD POSITION



Source: Hlebroking

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Equity rating definitions

BUY	Positive recommendation of stock under coverage. Expected absolute return of more than +10% over 12-months, with low risk of sustained downside.
TRADING BUY	Positive recommendation of stock not under coverage. Expected absolute return of more than +10% over 6-months. Situational or arbitrage trading opportunity.
HOLD	Neutral recommendation of stock under coverage. Expected absolute return between -10% and +10% over 12-months, with low risk of sustained downside.
TRADING SELL	Negative recommendation of stock not under coverage. Expected absolute return of less than -10% over 6-months. Situational or arbitrage trading opportunity.
SELL	Negative recommendation of stock under coverage. High risk of negative absolute return of more than -10% over 12-months.
NOT RATED	No research coverage, and report is intended purely for informational purposes.

Industry rating definitions

OVERWEIGHT	The sector, based on weighted market capitalization, is expected to have absolute return of more than +5% over 12-months.
NEUTRAL	The sector, based on weighted market capitalization, is expected to have absolute return between -5% and +5% over 12-months.
UNDERWEIGHT	The sector, based on weighted market capitalization, is expected to have absolute return of less than -5% over 12-months.