

JF Apex Securities Berhad Newsletter (Results Update)

1 March 2011

Jadi Imaging Holdings

Buy

FY2010 below expectation

TP: RM0.25

Price (28 Feb 11)	<b>0.225</b>
KLCI	<b>1491.25</b>

**Stock Data**

Bursa / Bloomberg code	7223 / JADI MK
Market/ Sector	Main / Ind Product
Syariah Compliant status	Yes
Issued shares (m)	696.65
Par Value (RM)	0.10
Market cap. (RM m)	156.75
Price / NTA	1.47
52-week price Range	0.16 - 0.36
Beta (against KLCI)	1.61
3-m Average Daily Volume	1.41m
3-m Average Daily Value*	0.36m
* based on closing price	

**Major Shareholders**

1) LSI Holdings Sdn Bhd	30.7%
2) Mega First	20.53%
3) Lan Eng Eu	4.9%

**Share Performance (as at 28 Feb 11)**

	1m	3m	12m
Absolute (%)	-10.00	-2.17	36.36
Relative (%-pts)	-8.56	-6.91	16.99

**Price-Earnings Band**

	FY-3	FY-2	FY-1
Upper	12.56	20.95	20.79
Lower	4.23	6.96	9.24

**Financial Forecast (Year End Dec 31)**

(RMm)	<b>09A</b>	<b>10A</b>	<b>11F</b>	<b>12F</b>
Revenue	85.89	94.74	107.82	123.99
Gross Profit	24.23	27.62	34.25	36.95
Operating Profit	13.11	16.06	19.95	17.98
PBT	12.55	15.67	19.41	18.60
Net Profit	10.33	13.25	16.71	14.76
EPS (sen)	1.71	1.96	2.47	2.18
PER	13.16	11.50	9.11	10.32
DPS (sen)	0.30	0.30	0.50	0.30

**Important Balance Sheet Items (as at 28 Feb 11)**

NA / share (RM)	0.15
Trade Receivables (RM m)	11.06
Trade Payables (RM m)	9.92
Total Assets (RM m)	122.91

*JADI IMAGING's FY10 results were below our expectations. FY10 revenue grew by 10.3% y-o-y to RM 94.74mil compared with that of RM 85.89mil in the same period last year. Meanwhile, net profit came in at RM 14.0mil (+1.93% y-o-y), 12.1% lower than our full year forecast. On a quarterly basis, 4QFY10 revenue declined by 15.3% q-o-q (-22.8% y-o-y) while net profit fell by 25.7% q-o-q (-33.6% y-o-y) to RM1.89mil.*

*The weak performance of the quarter was mainly due to decrease in sales volume of black and colour toner and increase in production cost. Buy with a TP of RM0.25 per share (from RM0.30 previously).*

**Highlights**

**FY10 below expectations due to declined sales volume**

Jadi posted a full year net profit of RM 13.25mil (+28.0% y-o-y) for 2010, which was below our forecast. On a yearly basis, 4QFY10 revenue declined by 22.8% y-o-y to RM 19.53mil while net profit fell by 33.6% y-o-y to RM 1.89mil. The huge decline in net profit was mainly attributed to the lower sales volume of black and colour toner as a result of intellectual property litigations carried out by OEMs like Canon, HP, Lexmark and Samsung.

4Q10's PBT (profit before taxation) fell by 24% to RM2.83 million as compared to the corresponding quarter in 2009. Such decrease was due to the decline in sales and increased production cost to install new lines and strengthening of the Japanese Yen.

**Sequential performance was below expectation**

On a quarterly basis, 4QFY10 revenue declined by 15.3% while net profit fell by 12.3%, mainly attributed to the decrease in sales volume of black and colour toner. The economic condition was partially affected by occurrence of natural disasters such as the forest fire in Russia and flood in Pakistan.

**Dividend**

An interim tax-exempt dividend of 3% or 0.3sen per share was declared for FYE 31 December 2010.

**Positive outlook remains intact**

Despite a slowdown in 4QFY10, we expect the group's prospect to remain positive on the back of a sustainable rebound in demand and expanded production capacity. To recap, the group plans to expand its annual capacity by 2,750 metric tonnes by 2011. In addition, the group plans to penetrate new market segments and develop more niche products and promotion and marketing of its Palmotone Colour Chemically Produced Toner.

**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 adversely affect the Group.

**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. Innovation and new products will be essential in order to increase its competitiveness in the market.

**Valuation and recommendation****FY11 earnings estimate unchanged at 13.8%**

In view of the lower than expected results, we are maintaining our FY11 and FY12 revenue forecast as FY10's earnings are below our expectations

**Maintain Buy with a TP of RM0.25 from RM0.30 previously**

We maintain our recommendation of Buy, with a TP of RM0.253 (from RM0.30 previously), which derived from its 3-year average PER(adjusted) of 10.26x and forecasted FY11 EPS of 2.47sen. Average 3-year PER have decreased and FY11 EPS was revised downwards due to the slower global economy in 2H10 and expected to prolong to 1H11.

Overall, we are positive on Jadi Imaging's ability to sustain its profitability on the back of its plan to expand its line of products and penetrating new market segments in year 2011 due to improved demand and sales as the global economic recovery remains on track.

**Table 1: Results Summary**

(Year Ending Dec 2010)	4Q10	3Q10	4Q09	QoQ (%)	YoY (%)	12MFY10	12MFY10	Chg (%)
Revenue (RMm)	19.53	23.05	25.31	-15.3	-22.8	94.74	85.89	10.3
Operating Profit (RMm)	2.93	2.91	3.81	0.8	-23.0	16.06	13.11	22.5
Profit before Taxation (RMm)	2.83	2.82	3.73	0.4	-24.2	15.67	12.55	24.8
Net Profit (RMm)	1.89	2.54	2.84	-25.7	-33.6	13.25	10.35	28.0
EPS (sen)	0.27	0.37	0.47	-27.0	-42.6	2.05	1.71	19.9
Operating margin (%)	15.0	12.6	15.0	18.9	-0.2	16.9	15.3	1.69
Net Profit Margin(%)	9.7	11.0	11.2	-12.3	-13.9	14.0	12.1	1.93
Profit before tax margin	14.49%	12.23%	14.75%			16.54%	14.61%	

(Source: Group's Quarterly Report)

**Historical Price Movement January 2010 – February 2011**



(Source: Bloomberg)

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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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Published & Printed By:

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