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JADI Imaging Holdings Berhad

Growth Story Intact

Tuesday, March 22, 2011

TP: RM0.29 (+34.9%)

Business Summary	: JADI Imaging Holdings Bhd. develops, formulates, and manufactures toners for photocopiers, and laser printers.	Recommendation:	Buy
Major Shareholders (%)	: LSI Holdings Sdn Bhd (30.65) : Mega First Housing (11.76) : Mega First Housing (8.82)	Market Capitalisation (RMmn):	RM149.8
Company Website	: www.jadi.com.my	Current Price:	RM0.215
IR Contact	: N/A	Market/ Sector:	Industry
Constituent of	: N/A	Stock Code:	7223

TA Research Team Coverage

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Key Stock Statistics

YE Dec		2011	2012F
EPS	(sen)	2.6	3.4
PER	(x)	12.2	9.2
Gross div/ share	(sen)	0.3	0.3
NTA/share	(RM)	0.2	0.2
Book value/ share	(RM)	0.2	0.2
Issued capital	(mn shares)		696.6
52 weeks share price range	(RM)	0.16-0.36	

Per Share Data

YE Dec		2009	2010	2011	2012F
Book Value	(RM)	0.2	0.2	0.2	0.2
Cash Flow	(ser)	2.0	(1.4)	(0.4)	(1.0)
Earnings	(ser)	1.5	1.9	2.6	3.4
Dividend	(ser)	0.3	0.3	0.3	0.3
Payout Ratio		17.5	14.6	11.8	8.8
PER (x)	(x)	21.0	16.4	12.2	9.2
P/ Cash Flow	(x)	10.7	(15.4)	(48.0)	(21.0)
P/ Book Value	(x)	1.6	1.3	1.1	1.0
Dividend Yield	(%)	1.4	1.4	1.4	1.4
ROE	(%)	11.2	11.5	13.6	15.5
Net Gearing	(%)	(6.2)	7.8	13.1	19.2

P&L Analysis (RM mil)

YE Dec		2009	2010	2011	2012F
Revenue		85.9	94.7	134.0	176.0
Operating Profit		13.1	16.1	21.6	28.6
Depreciation		6.8	7.5	10.3	11.3
Interest Expenses		(0.6)	(0.4)	(0.5)	(0.7)
Pre-tax Profit		12.6	15.7	21.0	27.9
Effective Tax Rate	(%)	17.5	15.4	15.4	15.4
Net Profit		10.3	13.2	17.8	23.6
Operating Margin	(%)	15.3	16.9	16.1	16.3
Pre-tax Margin	(%)	14.6	16.5	15.7	15.9
Net-Margin	(%)	12.0	14.0	13.3	13.4

Share Price relative to the FBM KLCI



Source: Bloomberg

We are switching our coverage on JADI Imaging Holdings Berhad (JADI) to the CBRS Scheme with a BUY rating and target price of RM0.29.

JADI is the only toner manufacturer in Malaysia and the largest in Southeast Asia. The group has drawn up aggressive growth plans to expand capacity. The group has plans to install a new conventional process line and the first ever higher value-added palm-oil based Chemically Produced Toner (CPT) plant by the end of this year. Another three new CPT plants will come on stream in 2012. Management is also looking to add five new conventional process lines between 2012 and 2015. All in, this capacity expansion would position the group to become the largest independent toner manufacturer in the world.

First to Produce Palm-Oil Based Toner Resin. The palm-oil based resin is the first of its kind to be introduced in the industry. The production of resin for internal consumption will help reduce cost substantially and translate into higher profit margin. The growing importance of green initiatives and to become environmentally responsible will also support growth in the aftermarket. JADI's palm-oil based resin could be a catalyst for growth in the future.

2. Key Investment Risk

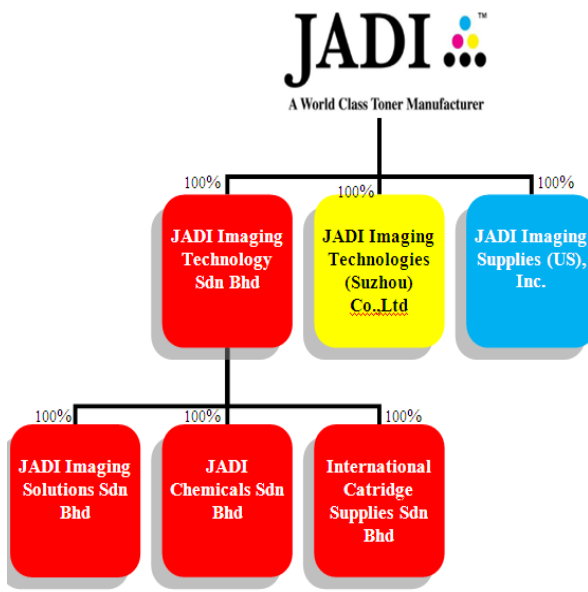
Currency Risk. The fluctuation of currency will certainly have an impact on JADI's business as export markets account for more than 95% of the group's revenue and the sales are denominated in USD.

Competition. Sales in foreign markets contribute to 97.8% of JADI's total revenue. Thus, the group faces most competition from foreign toner manufacturers in the global market.

Company Background

JADI Imaging Holdings Berhad (JADI) is a world-class independent toner manufacturer (a.k.a. an aftermarket toner maker) with about 2% share in the global toner market. More than 90% of the group's products are catered for exports to over 50 countries. JADI is the only toner manufacturer in Malaysia and the largest in Southeast Asia. The group develops, formulates and manufactures toners for laser printers, photocopiers, facsimile machines and multi-function office equipments.

Corporate structure



Source: Company, TA Securities

Business Description

JADI is principally engaged in the development, formulating and manufacture of toners for laser printers, photocopiers and multifunction office equipments. The group's products are mainly catered for the imaging suppliers' aftermarket as compatible toner for use in original equipment manufacturer (OEM) laser printers and photocopiers. Compatible Toner, which are formulated and manufactured independently, may be used in a wide spectrum of brands. Different toner formulations are required for different brands and models due to differences in the specifications and functionalities of laser printers, copiers, facsimile machines and multi function office equipment. The group focuses on supplying bulk toners only and does not offer cartridge or any other components for printing and copying systems.

Product Range

JADI produces the following toner products for use in a wide range of OEM brands such as HP, Samsung, Lexmark, Brother, Canon, Ricoh and etc.



Source: Company, TA Securities

Earnings Outlook

JADI's net profit surged by 28% to RM13.2mn on the back of a 10.3% increase in revenue. The spike in performance was attributable to the pickup in sales volume of black toner in the 1H of FY10 and higher margin arising from economies of scale.

We expect JADI to continue seeing good growth momentum. We expect the group's revenue to grow at a compounded annual growth rate (CAGR) of 22.9% between FY10-FY12 while net profit should increase at a CAGR of 21.3%. We expect JADI's revenue to reach RM134.0mn and RM123.6mn in FY11-FY12 while net profit is expected to increase to RM17.8mn and RM23.6mn in FY10-FY12 respectively. The growth will be driven by capacity expansion and improvement in production yield.

Elsewhere, although JADI does not have a formal dividend policy, the group has been paying constant dividend (in the range of 3sen to 5sen) since its IPO in 2006. Going forward, we expect the group to continue paying dividend per share (DPS) of some 3sen for FY11-FY12.

Industry Outlook

JADI views China as a market with great potential. This is a market that is developing, and the potential is so large that it cannot be ignored. We believe that the growth momentum seen in China's printer consumables industry will continue in 2011. Based on statistics from the Zhuhai Printer Consumables Industry Association (ZPCIA), total production of toner cartridges increased 5 to 10% in 2008, from 72.5mn units in 2007. China's 2007 output represented 20.5% of the 353.9mn toner cartridges produced worldwide. Despite the effect of the global crisis, industry players are confident of the overall growth in the toner industry over the next three years.

On the other hand, the growing importance of green initiatives and being environmentally responsible will also support growth for the aftermarket. On the environmental front, the OEMs have been quite active as well in promoting their green initiatives. Standby mode is a standard feature in most printers these days as printer's energy efficiency is key. Fuser temperatures have been lowered substantially to reduce overall energy consumption. Several OEMs have also introduced biomass toner which is more environmentally friendly than the conventional petrochemical-based toner.

However, as more companies attempt to conduct their businesses in a more sustainable manner, the demand for aftermarket cartridges which are inherently greener will still be favoured. Notwithstanding the lower cost, the aftermarket is still greener as cartridge empties are being collected and given a new lease of life through remanufacturing, which is a purer form of recycling. Thus, JADI's palm-oil based CPT will ensure that the group maintains its niche and remains competitive as the palm-oil based resin improves toner quality by controlling the properties of proprietary resin.

Valuation

We believe that JADI is well placed to seize the emerging opportunities in the industry as we mentioned previously. Moving ahead, we expect palm-oil based Green CPT to drive the group's next level of growth particularly with its new CPT plant coming on stream.

We believe JADI is a good company to look at in the toner industry as it has huge growth potential with steady financial performance over the years and its ability to maintain its growth even in a down-turn period.

On the valuation front, at RM0.205, the stock is trading at PER of 11.7x in FY11 and 8.8x FY12. Historically, JADI has been trading between 4x and 22x four years forward PE band.

We initiate coverage on the stock with a target price of RM0.29, using a FY11 diluted EPS of 1.8sen and pegging it at a PER of 16x. This represents 36.8% premium to current PER of 11.7x. We believe the premium is justified, given its steady earnings growth and its ability to innovate will keep it ahead of the competition. The PER of 16x shows a 28.6% discount to JADI's historical peak PER of 22.4x.

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