



TA SECURITIES

A MEMBER OF THE TA GROUP

MENARA TA ONE, 22 JALAN P. RAMLEE, 50250 KUALA LUMPUR, MALAYSIA TEL: +603-20721277 / FAX: +603-20325048

RESULT UPDATES

Your guide to making intelligent investment decisions

CBRS
FREE Expert Analysis Reports

FBM KLCI: 1,541.03

JADI Imaging Holdings Berhad

Expect Recovery in 2H

Monday, May 23, 2011

TP: RM0.29 (+26%)

Business Summary	: Jadi Imaging Holdings Bhd. develops, formulates, and manufactures toners for photocopiers, and laser printers.	Recommendation:	Buy
Major Shareholders (%)	: LSI Holdings Sdn Bhd (30.24) : Mega First Housing (12.15) : Mega First Corp Bhd (8.70)	Market Capitalisation (RMmn):	RM162.45
Company Website	: www.jadi.com.my	Current Price:	RM0.23
IR Contact	: N/A	Market/ Sector:	Industry
Constituent of	: N/A	Stock Code:	7223

TA Research Team Coverage

stchin@ta.com.my

+603-2072-1277 ext:1641

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)	(0.5)	(1.4)
Earnings	(ser)	1.5	1.9	2.2	2.6
Dividend	(ser)	0.3	0.3	0.3	0.3
Payout Ratio		17.5	14.6	13.5	11.6
PER (x)	(x)	22.5	17.6	14.9	12.7
P/ Cash Flow	(x)	11.6	(16.7)	(44.2)	(15.9)
P/ Book Value	(x)	1.8	1.4	1.3	1.1
Dividend Yield	(%)	1.3	1.3	1.3	1.3
ROE	(%)	11.2	11.5	12.2	12.6
Net Gearing	(%)	(6.2)	7.8	13.7	22.7

P&L Analysis (RM mil)

YE Dec		2009	2010	2011	2012F
Revenue		85.9	94.7	129.6	165.1
Operating Profit		13.1	16.1	19.0	22.3
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	18.5	21.6
Effective Tax Rate	(%)	17.5	15.4	15.4	15.4
Net Profit		10.3	13.2	15.6	18.3
Operating Margin	(%)	15.3	16.9	14.7	13.5
Pre-tax Margin	(%)	14.6	16.5	14.3	13.1
Net-Margin	(%)	12.0	14.0	12.1	11.1

1. 1Q2011 Result Highlights/ Review

P&L Analysis (RM mil)

FYE DEC	1QFY10	4QFY10	1QFY11	YoY (%)	QoQ (%)
Revenue	24.9	19.5	22.9	(8.0)	17.2
Gross profit	7.5	5.3	4.6	(37.9)	(12.3)
EBITDA	6.2	5.0	4.6	(26.7)	(8.3)
Depreciation	(1.8)	(2.0)	(2.1)	(16.5)	(0.9)
Interest costs	(0.1)	(0.1)	(0.1)	(28.2)	(38.2)
PBT	4.3	2.8	2.4	(45.6)	(16.6)
Taxation	(0.7)	(0.9)	(0.3)	50.5	65.7
Net profit	3.7	1.9	2.0	(44.7)	7.9
Core Net profit	3.7	1.9	2.0	(44.7)	7.9
GP margin (%)	(%)	29.9	27.0	20.2	
EBITDA margin	(%)	24.9	25.4	19.9	
PBT margin	(%)	17.4	14.5	10.3	
Net margin	(%)	14.8	9.7	8.9	
Tax rate	(%)	(15.0)	(33.3)	(13.7)	

JADI announced its 1QFY11 results, which came below TA's estimate. Net profit of RM2.0mn accounted for 11.2% of our full year forecasts. Overall, we believe the weaker-than-expected results were mainly due to the appreciation of the Ringgit against the USD, higher production cost arising from the installation of new lines and higher material costs, which had directly affected the bottom-line performance. Tonnage was 10-12% higher than last year.

Sequentially, net profit surged by 7.9% to RM2.0mn on the back of a 17.2% increase in revenue. The spike in performance was attributed to the pickup in sales volume of both black and colour toners as the industry has returned to normalised trend since the slowdown in 2H2010.

Share Price relative to the FBM KLCI

<HELP> for explanation.



Source: Bloomberg

2. Impact

We are lowering our earnings estimate for FY11 and FY12 by 11.2% and 22.6%, respectively mainly to reflect higher raw material and operating costs.

3. Outlook

JADI has drawn up aggressive growth plans to expand capacity since 2010. The entire capacity expansion plan would position the group to become the largest independent toner manufacturer in the world in 2015.

The new CPT will help differentiate JADI from other competitors as the group will have both conventional and CPT products to serve a broader base of market segments. CPT is also considered a premium product, thus providing better profit margin to the group.

Besides, the production of palm-oil based resin (Palmatone) for internal consumption will help reduce the material cost and translate into higher profit margin for JADI.

Despite the currency risk exposure, we continue to like JADI due to its status as the sole toner manufacturer in Malaysia and the biggest in Southeast Asia. This is a significant advantage as it provides the group with an opportunity to capitalise on the growth of demand for toner in the region. JADI has successfully established itself as a reputable producer and supplier of toner overseas. This is an important factor in securing more businesses in the future.

The group plans to raise the ASP by up to 10% this year to mitigate the impact of rising raw material costs. Hopefully this will help to sustain the group's margin. The ASP increase will be implemented in stages. Management guided that the group had implemented an increase of 3% to date while the 2nd tranche of 3% should be implemented soon in June.

4. Valuation and Recommendation

We roll forward valuation base year to FY12. Maintain BUY on JADI with a target price of RM0.29, using a FY12 diluted EPS of 1.8sen and pegging it at a PER of 16x. The PER of 16x represent a 28.6% discount to JADI's historical peak PER of 22.4x.

Disclaimer

The information in this report has been obtained from sources believed to be reliable. Its accuracy and/ or completeness is not guaranteed and opinions are subject to change without notice. This report is for information only and not to be construed as a solicitation for contracts. We accept no liability for any direct or indirect loss arising from the use of this document. We, our associates, directors, employees may have an interest in the securities and/or companies mentioned herein.

This report has been prepared by TA SECURITIES HOLDINGS BERHAD for purposes of CMDF-Bursa Research Scheme ("CBRS") administered by Bursa Malaysia Berhad and will be compensated to undertake the scheme. TA SECURITIES HOLDINGS BERHAD has produced this report independent of any influence from the CBRS or the subject company.

*For more information about CBRS and other research reports, please visit Bursa Malaysia's website at:
http://www.bursamalaysia.com/website/bm/listed_companies/cmdf_bursa_research_scheme/eResearch.jsp*

for TA SECURITIES HOLDINGS BERHAD^(14948-M)
 (A Participating Organisation of Bursa Malaysia Securities Berhad)
 Kaladher Govindan – Head of Research