



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

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FBM KLCI: 1,482.37

JADI Imaging Holdings Berhad

Wednesday, Aug 24, 2011

Currency - The Main Culprit

TP: RM0.19 (+11.8%)

Business Summary	: JADI Imaging Holdings Bhd. develops, formulates, and manufactures toners for photocopiers, and laser printers.	Recommendation:	HOLD
Major Shareholders (%)	: LSI Holdings Sdn Bhd (30.24) : Mega First Housing (12.35) : Mega First Corp Bhd (8.70)	Market Capitalisation (RMmn):	RM120.1
Company Website	: www.jadi.com.my	Current Price:	RM0.17
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)	1.3	1.7
PER (x)	19.4	14.6
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)		706.3
52 weeks share price range (RM)	0.165-0.36	

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	(2.1)
Earnings (ser)	1.5	1.9	1.3	1.7
Dividend (ser)	0.3	0.3	0.3	0.3
Payout Ratio	17.5	14.6	23.8	18.0
PER (x)	16.6	13.0	19.4	14.6
P/ Cash Flow (x)	8.6	(12.4)	36.1	(8.2)
P/ Book Value (x)	1.3	1.0	1.0	0.9
Dividend Yield (%)	1.8	1.8	1.8	1.8
ROE (%)	11.2	11.5	7.3	9.0
Net Gearing (%)	(6.2)	7.8	8.7	23.0

P&L Analysis (RM mil)

YE Dec	2009	2010	2011	2012F
Revenue	85.9	94.7	91.1	120.8
Operating Profit	13.1	16.1	11.0	14.6
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	10.5	13.9
Effective Tax Rate (%)	17.5	15.4	15.4	15.4
Net Profit	10.3	13.2	8.9	11.8
Operating Margin (%)	15.3	16.9	12.1	12.1
Pre-tax Margin (%)	14.6	16.5	11.5	11.5
Net-Margin (%)	12.0	14.0	9.8	9.7

1. 2Q2011 Result Highlights/ Review

P&L Analysis (RM mil)

FYE DEC	2QFY10	1QFY11	2QFY11	YoY (%)	QoQ (%)
Revenue	27.3	22.9	24.0	(12.0)	4.7
Gross profit	8.6	4.6	4.8	(44.2)	4.1
EBITDA	7.6	4.6	4.9	(35.9)	6.8
Depreciation	(1.8)	(2.1)	(2.2)	(23.8)	(9.5)
Interest costs	(0.1)	(0.1)	(0.2)	(78.2)	(9.9)
PBT	5.7	2.4	2.5	(56.7)	4.3
Taxation	(0.5)	(0.3)	(0.4)	34.6	(9.3)
Net profit	5.1	2.0	2.1	(59.0)	3.5
Core Net profit	5.1	2.0	2.1	(59.0)	3.5
GP margin (%)	(%)	31.7	20.2	20.1	
EBITDA margin (%)	(%)	27.8	19.9	20.3	
PBT margin (%)	(%)	20.8	10.3	10.3	
Net margin (%)	(%)	18.8	8.9	8.8	
Tax rate (%)	(%)	(9.5)	(13.7)	(14.3)	

FYE DEC	1HFY10	1HFY11	YoY (%)
Revenue	52.2	46.9	(10.1)
Gross profit	16.1	9.4	(41.3)
EBITDA	12.0	7.4	(38.8)
Depreciation	(1.8)	(2.2)	(23.8)
Interest costs	(0.2)	(0.3)	(50.3)
PBT	10.0	4.8	(51.9)
Taxation	(1.2)	(0.7)	43.3
Net profit	8.8	4.1	(53.0)
Core Net profit	8.8	4.1	(53.0)
GP margin (%)	(%)	30.8	20.1
EBITDA margin (%)	(%)	23.1	15.7
PBT margin (%)	(%)	19.2	10.3
Net margin (%)	(%)	16.9	8.8
Tax rate (%)	(%)	(11.9)	(14.0)

Share Price relative to the FBM KLCI



Source: Bloomberg

JADI announced its 1HFY11 results, which came below TA's estimate. Net profit of RM4.1mn accounted for 26.6% of our full year forecasts. Despite higher sales volume (+5% YoY), revenue was severely impacted by adverse currency translation effects (strengthening of MYR against USD).

Besides, higher production cost arising from the installation of new lines and higher material costs, which had directly affected the bottom-line performance. Note that the appreciation of Japanese Yen also result in lower profit margin.

2. Impact

We are lowering our earnings estimate for FY11 and FY12 by 43% and 38%, respectively mainly to reflect lower capacity utilization rate and higher raw material prices.

3. Outlook

JADI already granted patent protection from the Patent and Trademark Office in US for its environmentally friendly palm-oil toner resin (Palmatone). According to JADI, the commercial production of the Palmatone MPT would come in by 2H of next year.

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.

Nonetheless, we believe the group's business will be affected by the weak macroeconomics and market signals stemming from uncertainties over the Europe and US market since 98% of the revenue were derived from export. The mounting worries would slow down consumer spending and distress aftermarket industry.

4. Valuation and Recommendation

We downgrade JADI from BUY to HOLD with a new target price of RM0.19, using a FY12 diluted EPS of 1.2sen and pegging it at a PER of 16x. The PER of 16x represents a 28.6% discount to JADI's historical peak PER of 22.4x.

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Kaladher Govindan – Head of Research