



# TA SECURITIES

A MEMBER OF THE TA GROUP

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## COMPANY UPDATE

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## JADI Imaging Holdings Berhad

Palmotone MPT Line To Kick Off In 3Q 2012

Friday, 30 March, 2012

**TP: RM0.17 (13.3%)**

<b>Business Summary</b>	: JADI Imaging Holdings Bhd. develops, formulates, and manufactures toners for photocopiers, and laser printers.	<b>Recommendation:</b>	HOLD
<b>Major Shareholders (%)</b>	: LSI Holdings Sdn Bhd (30.24) : Mega First Housing (12.79) : Mega First Corp Bhd (8.70)	<b>Market Capitalisation (RMmn):</b>	RM105.95
<b>Company Website</b>	: <a href="http://www.jadi.com.my">www.jadi.com.my</a>	<b>Current Price:</b>	RM0.15
<b>IR Contact</b>	: N/A	<b>Market/ Sector:</b>	Industry
<b>Constituent of</b>	: N/A	<b>Stock Code:</b>	7223

TA Research Team Coverage

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### Key Stock Statistics

YE Dec		2012F	2013F
EPS	(sen)	1.5	1.6
PER	(x)	14.9	14.2
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)		706.3
52 weeks share price range	(RM)	0.165-0.36	

### Per Share Data

YE Dec		2010	2011	2012F	2013F
Book Value	(RM)	0.2	0.9	0.2	0.2
Cash Flow	(sen)	(1.4)	(0.3)	0.6	1.1
Earnings	(sen)	1.9	0.6	1.5	1.6
Dividend	(sen)	0.3	0.3	0.3	0.3
Payout Ratio		14.6	9.8	20.1	19.2
PER (x)	(x)	11.5	37.2	14.4	13.8
P/ Cash Flow	(x)	(10.9)	(45.0)	24.2	13.4
P/ Book Value	(x)	0.9	0.9	0.8	0.8
Dividend Yield	(%)	2.0	2.0	2.0	2.0
ROE	(%)	11.5	3.3	8.0	7.9
Net Gearing	(%)	7.8	7.8	11.4	8.8

### P&L Analysis (RM mil)

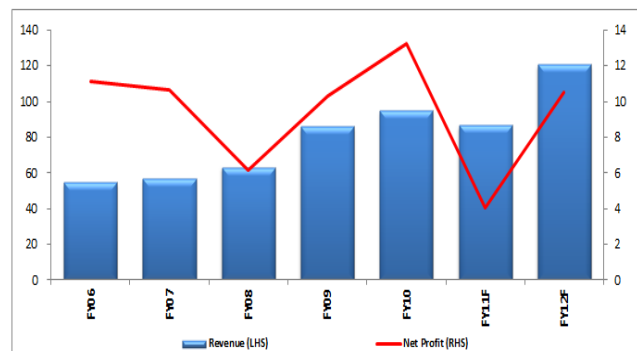
YE Dec		2010	2011	2012F	2013F
Revenue		94.7	86.7	120.8	125.2
Operating Profit		16.1	4.2	9.7	10.6
Depreciation		7.5	9.0	9.8	10.3
Interest Expenses		(0.4)	(0.7)	(0.6)	(1.1)
Pre-tax Profit		15.7	3.5	9.1	9.5
Effective Tax Rate	(%)	15.4	(15.9)	(16.0)	(16.0)
Net Profit		13.2	4.1	10.5	11.0
Operating Margin	(%)	16.9	4.9	8.1	8.5
Pre-tax Margin	(%)	16.5	4.1	7.5	7.6
Net-Margin	(%)	14.0	4.7	8.7	8.8

### 2011 Was A Bad Year

2011 was a bad year for JADI. To recap, the group's net profit plunged 69.2% YoY on the back of 8.5% drop in revenue. We believe the main culprits are: i) thin sales volume for both the black colour toners, ii) the appreciation of both Japanese Yen and USD against MYR.

From Figure 1, we observed that the performance in FY11 was worse than what the group registered during financial crisis in FY08. To recap, JADI's FY08 revenue surged by 11.6% thanks to the increased sales of both black and colour toners. This helped to offset higher cost and erosion in bottom-line. Nonetheless, the high sales volume did not appear in FY11. The whole industry faced sluggish business performance where demand slowed down due to concerns stemming from the European debt crisis. The situation was exacerbated by the appreciation of the Japanese Yen in 2H, which was much more significant than the 2008 financial crisis (refer Figure2).

Figure1: Revenue vs Net Profit



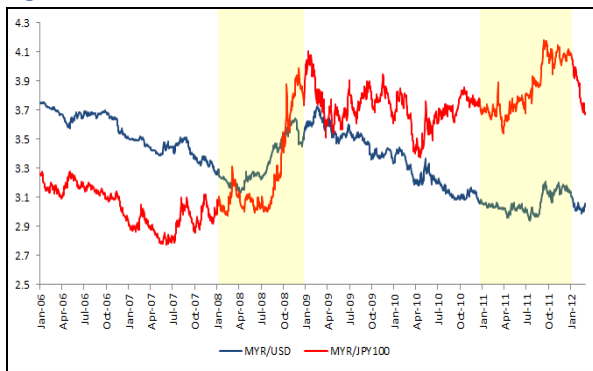
Source: Company, TA Securities

### (12-Mth) Share Price relative to the FBM KLCI



Source: Bloomberg

Figure 1: JPY vs USD vs MYR



Source: Company, TA Securities

### Palmotone MPT Line to Kick Off In 3Q 2012

The long awaited Palmotone Melt Pulverized Toner (MPT) - palm-oil based, has finally come on stream. According to management, the group is currently working with the equipment supplier to plan and fabricate other necessary items to prepare for the installation of the commercial production line. The production of Palmotone MPT is expected to begin in 3Q 2012, nonetheless, management indicated that they still need some time to go through the learning curve to run the line efficiently before the commercial production kicks off. Note that the installation of Palmotone MPT had been delayed since last year.

### Capacity Utilisation Rate Stood At Around 60%

The total capacity utilisation rate currently stands at around 60%. The group had experienced a marked slowdown in market demand, mainly due to the European debt crisis that had led to buyers being more cautious in their purchases. On the positive side, management guided that demand began to pick up gradually again especially after Chinese New Year, which is a good sign for the group. Nonetheless, management is unwilling to tell if the demand would improve or sustain going forward as there are too many factors that could affect earnings and the whole economic situation is still quite uncertain.

### Palmotone MPT Help to Serve New Market Segments

Despite all these uncertainties, management is excited as the Palmotone MPT will help to complete its existing product range, which will help serve new market segments. Thus, by differentiating the group from other competitors (by having both conventional and MPT products), it will remain relevant with the latest toner technology and more importantly, offering a premium product that would provide better profit margin to the group. We expect a better 2H performance as the commercial production of Palmotone MPT will commence in 3Q FY12. We believe that its differentiation strategy of promoting environmentally-friendly Palmotone toner may help the group penetrate some niche segments.

### Valuation and Recommendation

We value JADI at RM0.17, using CY12 diluted EPS of 1.0sen and pegging it at a PER of 16x. The PER of 16x represents a 30% discount to JADI's historical peak PER of 22.4x. JADI share price had been depreciated since the announcement of its 2Q results last month. With the total potential upside of 15%, we upgrade JADI to **HOLD** from sell.

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