



TA SECURITIES

A MEMBER OF THE TA GROUP

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COMPANY UPDATE

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FBM KLCI: 1,584.32

JADI Imaging Holdings Berhad

Monday, 14 May, 2012

Continue fading on gloomy outlook

TP: RM0.16 (10.3%)

Business Summary

: Jadi Imaging Holdings Bhd. develops, formulates, and manufactures toners for photocopiers, and laser printers.

Major Shareholders (%)

: LSI Holdings Sdn Bhd (30.24)
: Mega First Housing (12.79)
: Mega First Corp Bhd (8.70)
: Lan Eng Eu (5.05)

Company Website

: www.jadi.com.my

IR Contact

: N/A

Constituent of

: N/A

Recommendation: HOLD
Market Capitalisation (RMmn): RM102.4
Current Price: RM0.145
Market/ Sector: Industry
Stock Code: 7223

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Key Stock Statistics

YE Dec		2012F	2013F
EPS	(sen)	1.0	1.6
PER	(x)	20.3	12.7
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)	0.135-0.24	

Per Share Data

YE Dec		2011	2012F	2013F	2013F
Book Value	(RM)	0.9	0.2	0.2	0.2
Cash Flow	(sen)	(0.3)	(0.3)	1.3	2.9
Earnings	(sen)	0.6	1.0	1.6	1.8
Dividend	(sen)	0.0	0.3	0.3	0.3
Payout Ratio		0.0	29.3	18.4	16.7
PER (x)	(x)	36.0	20.3	12.7	11.6
P/ Cash Flow	(x)	(43.5)	>100	11.3	4.9
P/ Book Value	(x)	0.8	0.8	0.7	0.7
Dividend Yield	(%)	0.0	2.1	2.1	2.1
ROE	(%)	3.3	5.7	8.4	8.6
Net Gearing	(%)	7.8	16.7	12.8	Net cash

P&L Analysis (RM mil)

YE Dec		2011	2012F	2013F	2013F
Revenue		86.7	129.4	131.9	139.3
Operating Profit		4.2	6.9	13.9	15.4
Depreciation		9.0	9.8	10.3	10.8
Interest Expenses		(0.7)	(0.6)	(1.1)	(1.3)
Pre-tax Profit		3.5	6.2	12.8	14.1
Effective Tax Rate (%)	(%)	(15.9)	(16.0)	(16.0)	(16.0)
Net Profit		4.1	7.2	11.5	12.7
Operating Margin (%)	(%)	4.9	5.3	10.5	11.0
Pre-tax Margin (%)	(%)	4.1	4.8	9.7	10.1
Net-Margin (%)	(%)	4.7	5.6	8.7	9.1

1Q12 results preview

We expect JADI to experience the cost pressure as in 4Q11 as the tough operating environment has continued to stay in 1Q12. In addition, we expect the demand for after market toners to remain lacklustre in Thailand and the European region and the drop in revenue would be further exacerbated by the sequential weakening of the USD against the Ringgit. Note that the USD has depreciated by an average 2.8% QOQ to RM3.06/USD in 1Q12.

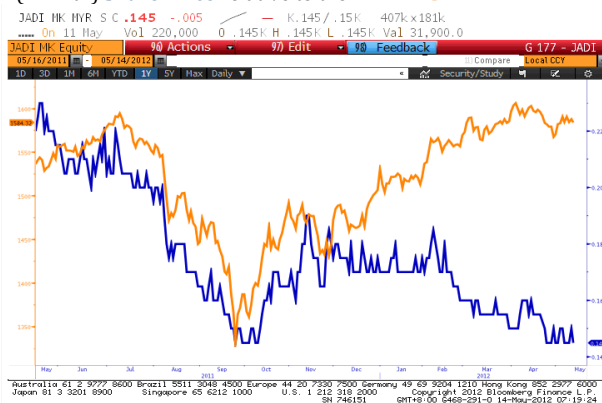
The increase in international crude oil price is expected to compress margin further as the increase in petrol price would lead to higher petroleum resin cost, which is served as a main input to the production of toner. Given the stubbornly high crude oil price in 1Q12 (+4% QoQ) at USD102.93, the increase in resin cost is expected to reduce the group's margins considerably.

All in, we expect the group's 1Q12 results to be a little change from 4Q11 to record a mild loss. We expect the earnings to be back onto the growth phase when the group starts to part utilize Palmotone palm-based resin into their production in end-3Q12.

Palmotone palm-based resin to reduce input costs

After years of research and development, JADI has financially come to a trail run of developing toner resin using palm oil material. According to management, the usage of palm-based resin as a substitute to petroleum resin would provide a cost saving of as much as 25-30%. Also, given the ample supply of palm oil in the region, the cost of palm-based resin is more predictable than the use of petroleum-based. Moreover, the use of palm-based resin will help to reduce the group's exposure to Japanese Yen fluctuation as Jadi's petroleum resin is paid in Yen.

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



Testing the market with CPT

For the time being, we believe the group is planning to expand the sales of chemically prepared toners (CPT). Currently, we understand that the group's key distributors in the region have received samples for trial use. The acceptance rate is very encouraging given the high transfer efficiency would result in less wastage. In other words, the use of CPT vs. the conventional melt pulverized toner (MPT) would provide better yield per cartridge. However, the higher selling price of CPT as compared to MPT makes it less appealing to cost-sensitive distributors.

Distribution to OEM to be positive catalyst

We understand that JADI is in the midst of negotiation with an OEM for the supply of toners. This OEM is believed to be a major player in the printer market. As such, the impact to JADI could be significant if JADI could ink the supply agreement with this OEM. According to management, this OEM has done the preliminary qualification on JADI's plants.

Forecast

We downgrade our FY12 earnings by 31% to better reflect the current difficult operating environment; ie: drop in sales and margin compression. However, we raise our FY13-14 earnings higher by 3-4% to incorporate the cost saving from Palmotone palm based resin.

Valuation and Recommendation

We now roll forward our valuation base year to FY13. Given the cautious outlook, we peg a PER of 10x instead of 16x previously and adjust our indicative fair value lower to 0.16/share from 0.17sen/share. Maintain Hold recommendation on JADI with a potential upside of 10.3%.

Earnings Summary

FYE Dec 31 (RMmn)	FY10E	FY11	FY12F	2013F	2014F
Revenue	94.7	86.7	129.4	131.9	139.3
EBITDA	23.5	13.3	16.7	24.2	26.1
EBITDA margin (%)	24.9	15.3	12.9	18.3	18.8
Pretax profit	15.7	3.5	6.2	12.8	14.1
Net profit	13.2	4.1	7.2	11.5	12.7
Core net profit	13.2	4.1	7.2	11.5	12.7
EPS (sen)	1.9	0.6	1.0	1.6	1.8
Diluted EPS (sen)	1.3	0.4	0.7	1.1	1.3
EPS growth (%)	28.1	(69.2)	77.2	59.2	9.9
PER (x)	11.1	36.0	20.3	12.7	11.6
GDPS (sen)	0.3	0.0	0.3	0.3	0.3
Div yield (%)	2.1	0.0	2.1	2.1	2.1
Core ROE (%)	11.5	3.3	5.7	8.4	8.6

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