



## JADI Imaging Holdings Berhad

Thursday, 24 May, 2012

### Tough Operating Environment in 1Q12

**TP: RM0.16 (10.3%)**

<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>	RM102.4
<b>Company Website</b>	: <a href="http://www.jadi.com.my">www.jadi.com.my</a>	<b>Current Price:</b>	RM0.145
<b>IR Contact</b>	: N/A	<b>Market/ Sector:</b>	Industry
<b>Constituent of</b>	: N/A	<b>Stock Code:</b>	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)	0.23/0.135	

#### Per Share Data

YE Dec		2011	2012F	2013F	2014F
Book Value	(RM)	0.9	0.2	0.2	0.2
Cash Flow	(ser)	(0.3)	(0.3)	1.3	2.9
Earnings	(ser)	0.6	1.0	1.6	1.8
Dividend	(ser)	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	2014F
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

#### Share Price relative to the FBM KLCI



Source: Bloomberg

## 1. 1Q2012 Result Highlights/ Review

#### P&L analysis (RM'mn)

FYE Dec 31	1Q11	4Q11	1Q12	QoQ (%)	YoY (%)
Revenue	22.9	16.7	19.3	15.5	(15.7)
Gross profit	4.6	1.1	1.6	43.5	(65.2)
EBITDA	4.6	0.2	2.4	856.1	(48.3)
Depreciation	(2.1)	(2.4)	(2.5)	5.7	23.6
Interest costs	(0.1)	(0.3)	(0.3)	14.2	122.7
PBT	2.4	(2.4)	(0.5)	(79.6)	(121.0)
Taxation	(0.3)	1.2	0.8	(32.7)	(345.2)
Net profit	2.0	(1.2)	0.3	(123.8)	(85.4)
Core Net profit	2.0	(1.2)	0.3	(123.8)	(85.4)
EPS (sen)	0.3	(0.2)	0.0	(122.2)	(84.0)
DPS (sen)	0.0	0.0	0.0	nm	nm
GP margin (%)	20.2	6.7	8.3	1.6	(11.9)
EBITDA margin (%)	19.9	1.5	12.2	10.7	(7.7)
PBT margin (%)	10.3	(14.5)	(2.6)	11.9	(12.9)
Net margin (%)	8.9	(7.5)	1.5	9.0	(7.4)
Tax rate (%)	13.7	48.5	160.0	111.5	146.3

JADI's 1Q12 net profit of RM0.3mn accounted for 4% of our full-year estimates. However, we consider this within expectations as we expect 2H earnings to pick up when the group starts utilising Palmotone palm-based resin in its production from end-3Q12 onwards. Also, the operating environment has improved as the USD has strengthened against the ringgit to RM3.146/USD from 1Q12's average of RM3.0598/USD and the crude oil has dipped to USD91/barrel levels from 1Q12's average of USD102.93/barrel.

JADI has suffered a loss before tax for two consecutive quarters as the operating environment has little change from 4Q11. The loss can be attributed to the drop in sale volume of both black and colour toners especially from Thailand. The strengthening of the Ringgit vs USD as well as the increase in crude oil price has led to margin erosion.

## 2. Impact

We are leaving our FY12-14 earnings unchanged.

## 3. Outlook

JADI has started marketing chemically prepared toners (CPT) and this is expected to boost sales going forward. We understand from management that the group's key distributors in the region have received samples for trial use. The acceptance rate is very encouraging as CPT has higher transfer efficiency, which would provide better yield per cartridge.

Moreover, we are positive on the commercialization of Palmotone palm-based resin in 3Q12. We expect cost saving of as much as 25-30% when the plant starts using palm-based resin as a substitute to petroleum resin to the production of toner. Meanwhile, given the ample supply of palm oil in the region, we believe the group would have better control over the cost of production.

## 4. Valuation and Recommendation

We maintain our indicative fair value at RM0.16/share based on unchanged 10x FY13 earnings. Given the potential upside of 10.3%, we maintain our Hold recommendation on JADI.

### Earnings Summary (RMmn)

FYE Dec 31 (RMmn)	FY10	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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