



Jadi Imaging Holdings Berhad

3Q12 Reverted to Losses

TP: RM0.11 (-12%)
Last traded: **RM0.125**

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SELL

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Review

- Jadi Imaging's (Jadi) 3Q results slipped into losses after a temporary turnaround in 2Q. The cumulative 9M12 total profit came in below our expectations at 42.8% of our full-year projections. We attribute the variance to higher-than-expected raw material cost that pushed down EBITDA margin to 9.3% vs. our average full-year assumptions of 13.8%.
- 3Q12 net loss stood at RM139k, reducing the cumulative 9M core profit to RM567k. The dismay 9M performance was underpinned by: 1) 14.7% decline in revenue due to weak domestic and overseas sales of black and colour toners; and 2) margin contraction of 9% at PBT level as a result of higher raw material costs.
- As compared with preceding quarter's profit of RM409k, the drop in earnings was due to lower sales of toners in both the local and overseas market. This was further aggravated by the depreciation in US dollar against the Ringgit.

Impact

- We cut our FY12 earnings by RM2.4mn to a net loss of RM1.1mn after removing the potential cost savings from the usage of palm-base resin. However, we are leaving our FY13-14 earnings relatively unchanged as we expect the group to start commercialization of Palmatone palm-base resin in early-13 to drive the raw material lower.

Outlook

- According to management, Jadi has started introducing the new chemically prepared toners (CPT) to its customers. However, the response was weak as CPT sales accounted for less than 1% of total revenue. The poor acceptance was understandable as CPT toner is pricier than the conventional after-market toner. This is especially true under the current uncertain global economic outlook. Looking forward, we expect the contribution from CPT to remain immaterial to the group's earnings.
- As far as the commercialisation of Palmatone palm-base resin is concerned, we understand that the company is targeting to begin the trial run in November and to commence operations by Feb-Mar/13. According to management, the group aims to progressive shift its production for the usage of Palmatone resin. For starter, it targets to migrate 30% of the capacity for the usage of Palmatone resin in 2013, before ramping up to 60% in 2014 and 100% in 2015.

Share Information

Bloomberg Code	JADI MK
Stock Code	7223
Listing	Main Market
Share Cap (mn)	706.3
Market Cap (RMmn)	88.3
Par Value	0.1
52-wk Hi/Lo (RM)	0.195-0.125
12-mth Avg Daily Vol ('000 shrs)	596
Estimated Free Float (%)	43.1
Beta	0.87

Major Shareholders (%)

LSI Holdings Sdn Bhd	30.24
Mega First Housing-	12.9
Mega First Corp-	8.7
Eu Lan Eng	5.1

Forecast Revision

	FY12	FY13
Forecast Revision (%)	>-100	(0.0)
Net profit (RMmn)	(1.1)	7.9
Consensus	-	-
TA's / Consensus (%)	nm	nm
Previous Rating		Sell (Maintained)

Financial Indicators

	FY12	FY13
Net Debt/Equity (%)	11.3	10.6
CFPS (sen)	0.8	0.8
Price/CFPS (x)	15.2	16.1
ROE (%)	(0.9)	6.3
NTA/Share (RM)	0.2	0.2
Price/NTA (x)	0.7	0.7

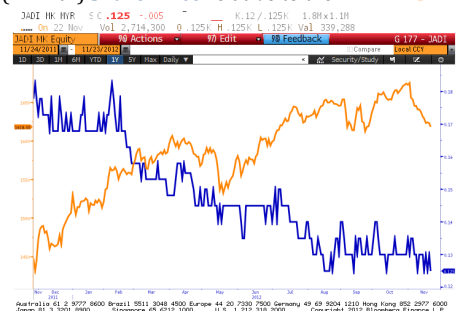
Scorecard

	% of FY	
vs TA	43	Below
vs Consensus	na	na

Share Performance (%)

Price Change	JADI	FBM KLCI
1 mth	(3.8)	(2.8)
3 mth	0.0	(2.0)
6 mth	(13.8)	5.3
12 mth	(24.2)	12.9

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



Valuation

- We maintain our target price at RM0.11/share based on unchanged 10x CY13 earnings. Given the potential downside risk of 12%, we reiterate our Sell recommendation on the stock.

Earnings Summary (RM'mn)

FYE Dec 31 (RMmn)	FY10	FY11	FY12F	2013F	2014F
Revenue	94.7	86.7	84.3	86.7	90.0
EBITDA	23.5	13.3	9.5	20.2	21.9
EBITDA margin (%)	24.9	15.3	11.3	23.3	24.3
Pretax profit	15.7	3.5	(0.9)	8.8	9.8
Net profit	13.2	4.1	(1.1)	7.9	8.8
Core net profit	13.2	4.1	(1.1)	7.9	8.8
EPS (sen)	1.9	0.6	(0.2)	1.1	1.2
Diluted EPS (sen)	1.3	0.4	(0.1)	0.8	0.9
EPS growth (%)	28.1	(69.2)	>-100	>100	11.3
PER (x)	9.5	31.0	nm	16.0	14.4
GDPS (sen)	0.3	0.0	0.3	0.3	0.3
Div yield (%)	2.4	0.0	2.4	2.4	2.4
Core ROE (%)	11.5	3.3	(0.9)	6.3	6.7

3QFY12 Results Analysis (RMmn)

FYE Dec 31	3Q11	2Q12	3Q12	QoQ (%)	YoY (%)	9M11	9M12	YoY (%)
Revenue	23.1	22.8	17.6	(22.6)	(23.6)	70.0	59.7	(14.7)
Gross profit	3.3	3.2	2.7	(15.5)	(17.8)	12.7	7.5	(40.9)
EBITDA	3.6	3.2	0.0	nm	nm	13.0	5.5	(57.5)
Depreciation	(2.3)	(2.6)	(2.4)	(6.5)	4.4	(6.6)	(7.5)	(14.1)
Interest costs	(0.1)	(0.2)	(0.2)	5.4	57.0	(0.4)	(0.8)	(73.0)
PBT	1.1	0.4	(0.1)	>-100	>-100	5.9	(0.3)	>-100
Taxation	0.1	0.0	0.0	>-100	>-100	(0.6)	0.8	nm
Net profit	1.2	0.4	(0.1)	>-100	>-100	5.3	0.6	(89.4)
Core Net profit	1.2	0.4	(0.1)	>-100	>-100	5.3	0.6	(89.4)
EPS (sen)	0.2	0.1	(0.0)	>-100	>-100	0.7	0.1	(88.2)
DPS (sen)	0.0	0.0	0.0	nm	nm	0.0	0.0	nm
GP margin (%)	14.3	14.1	15.4	1.3	1.1	18.2	12.6	(5.6)
EBITDA margin (%)	15.6	14.0	0.0	(14.0)	(15.6)	18.6	9.3	(9.3)
PBT margin (%)	4.9	1.6	(0.8)	(2.4)	(5.7)	8.5	(0.4)	(8.9)
Net margin (%)	5.1	1.8	(0.8)	(2.6)	(5.9)	7.6	0.9	(6.7)
Tax rate (%)	(5.3)	(10.5)	0.0	10.5	5.3	10.4	nm	nm

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