



Jadi Imaging Holdings Berhad

Dealing with Cost Pressure

TP: RM0.09 (-10.0%)

Last traded: RM0.10

SELL

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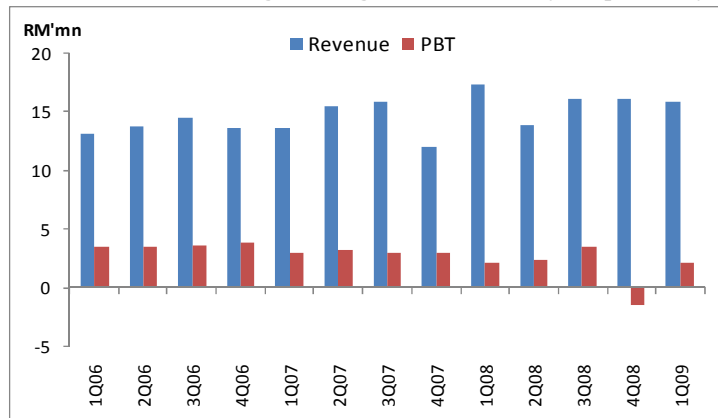
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Stable 2006-2008

Since the listing of Jadi Imaging Holdings (Jadi) in 2006, the company had been recording consistent revenue of approximately RM15mn/quarter until 1QFY09 (see Figure 1). Meanwhile, the quarterly profit before tax stayed little changed at average RM2.6mn during this period, generating a stable PBT margin of 18% (except 4Q08).

Table 1: Stable earnings during 1Q06 to 1Q09 (except 4Q08)

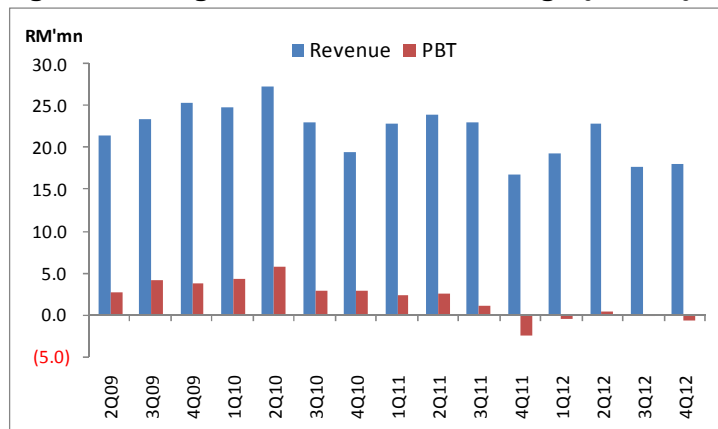


Source: Jadi & TA Research

Volatile 2009-2012

Jadi's revenue surpassed the RM20mn mark in most of the quarters in FY09 and FY10, before retreating in FY12. However, in spite of higher revenue during this period, the group's profit before tax shrank to RM1.1mn (see Figure 2) with PBT margin dropped to 7.6%. In fact, if we zoom closer to the chart below, we will find that the group has been accumulating losses since 4QFY11 (except 2QFY12).

Figure 2: Earnings have become volatile during 2Q09 to 4Q12



Source: Jadi & TA Research

Share Information

Bloomberg Code	JADI MK
Stock Code	7223
Listing	Main Market
Share Cap (mn)	706.2
Market Cap (RMmn)	70.6
Par Value	0.1
52-wk Hi/Lo (RM)	0.165-0.09
12-mth Avg Daily Vol ('000 shrs)	495.7
Estimated Free Float (%)	20.7
Beta	0.75

Major Shareholders (%)

LSI Holdings Sdn Bhd	30.24
Keen Capital Invnt Ltd	22.40
Mega First Housing	12.9
Mega First Corp	8.7
Eu Lan Eng	5.1

Forecast Revision

	FY13	FY14
Forecast Revision (%)	0.0	0.0
Net profit (RMmn)	7.9	8.8
Consensus	-	-
TA's / Consensus (%)	nm	nm
Previous Rating	Sell (Maintained)	

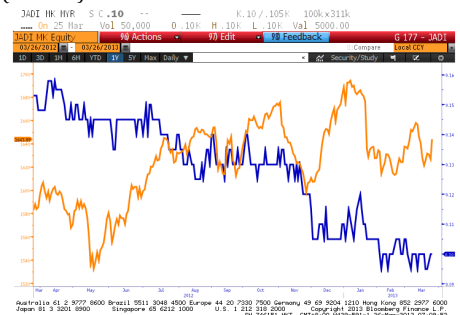
Financial Indicators

	FY13	FY14
Net Debt/Equity (%)	10.6	(2.3)
CFPS (sen)	0.8	2.6
Price/CFPS (x)	12.9	0.0
ROE (%)	6.3	6.7
NTA/Share (RM)	0.2	0.2
Price/NTA (x)	0.6	0.5

Share Performance (%)

Price Change	JADI	FBM KLCI
1 mth	0.0	1.2
3 mth	(4.8)	(1.7)
6 mth	(23.1)	1.5
12 mth	(35.5)	3.8

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



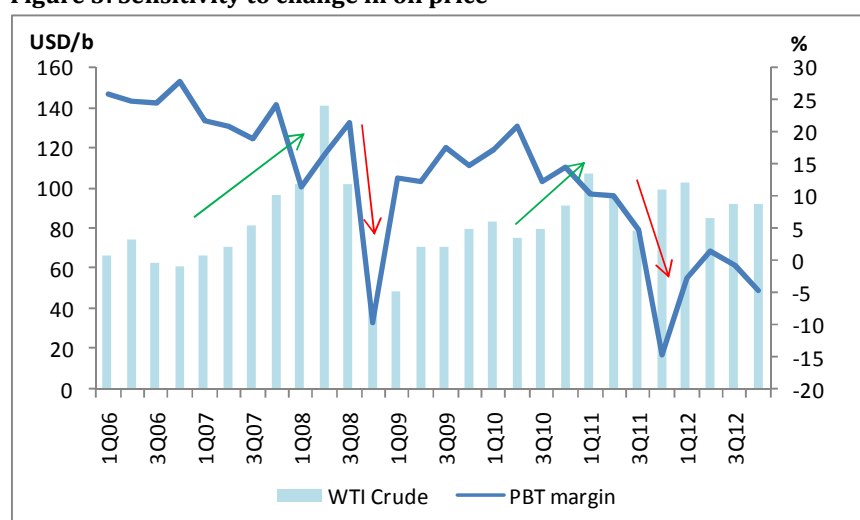
Source: Bloomberg

Sensitive to oil price movement

Clearly, the group has struggled to pass on the increased raw material cost to end users. As shown in **Figure 3**, the rising oil price, which has been used as a benchmark to gauge the cost of resin, has negatively impacted Jadi's earnings although the impact came one to two quarters later.

Looking forward, our in-house projections indicate that the crude oil price is likely to stay at between USD90-100/barrel. As such, Jadi's near term earnings would continue be pressurized by high resin cost. However, the impact would be partially mitigated as the group targets to migrate 30% of the production process to the usage of Palmatone resin in 2013, before ramping up to 60% in 2014 and 100% in 2015. Palmatone resins are environmentally friendly, which are incorporated with significant levels of palm oil-based derivative. The usage of palm-based resin as a substitute to petroleum resin is expected to provide a cost saving of as much as 25-30%.

Figure 3: Sensitivity to change in oil price



Source: Jadi, Bloomberg & TA Research

Stress test

Jadi's net gearing soar to 17% in Dec-12 as compared to 8% a year ago. This was largely due to: 1) the increase in borrowing for the purchase of new assets, and 2) the losses in FY12. As far as the group's liquidity is concerned, the acid test ratio of 0.8x as at FY12 suggests that the group would need more liquid assets in retiring short-term liabilities, if the company suffers losses again this year. This can be financed by additional borrowings, we believe, as the group's financial position is still intact.

Impact

Maintained.

Valuation

We reduce our target price to RM0.09/share (from RM0.11/share previously) after revising our target PE lower to 8x (from 10x previously). The change in PE ratio is to build in the margin of safety as the usage of Palmatone palm-based resin may not effectively bring down the raw material cost as we have imputed into our FY13-15 earnings projections. **Maintain Sell.**

Earnings Summary (RM'mn)

FYE Dec 31 (RMmn)	FY11	FY12	2013F	2014F	2015F
Revenue	86.7	77.7	80.5	90.0	95.3
EBITDA	13.3	9.9	20.2	21.9	21.1
EBITDA margin (%)	15.3	12.7	25.1	24.3	22.2
Pretax profit	3.5	(1.1)	8.8	9.8	10.0
Net profit	4.1	(0.1)	7.9	8.8	9.0
Core net profit	4.1	(0.1)	7.9	8.8	9.0
EPS (sen)	0.6	(0.0)	1.1	1.2	1.3
Diluted EPS (sen)	0.4	(0.0)	0.8	0.9	0.9
EPS growth (%)	(69.2)	>-100	>100	11.3	2.4
PER (x)	24.8	nm	12.8	11.5	11.2
GDPS (sen)	0.0	0.0	0.3	0.3	0.3
Div yield (%)	0.0	0.0	3.0	3.0	3.0
Core ROE (%)	3.3	(0.9)	6.3	6.7	6.5

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