

01 March 2021

## JHM Consolidation

### FY20 Earnings In Line

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JHM recorded 4QFY20 CNP of RM11.1m (+41% QoQ; +12% YoY) after adjusting for unrealised forex losses of RM3.1m. FY20 CNP of RM24.6m (-26% YoY) is in line with our expectations, representing 102% and 98% of our and consensus full-year estimates. With the pandemic hopefully largely behind us, we anticipate better prospects for its automotive segment with more orders from existing customers and potential 2-3 new customers currently in negotiations. Industrial segment is expected to grow 50% on higher demand for 5G testers and the inclusion of a new US customer that is involved in fibre optics. **Maintain MARKET PERFORM and Target Price of RM2.35.**

**Within expectation.** The group recorded 4QFY20 CNP of RM11.1m (+41% QoQ; +12% YoY) after adjusting for unrealised forex losses of RM3.1m. Cumulatively, FY20 CNP of RM24.6m (-26% YoY) came in line with expectations, representing 102% and 98% of our and consensus full-year estimates, respectively.

**Results' highlight.** QoQ, 4QFY20 CNP rose 41% to RM11.1m after adjusting for unrealised forex losses of RM3.1m. Revenue came in at RM76.2m, nearing the all-time high of RM78.1m recorded last quarter. The slower revenue recognition in the industrial segment (-17%) was cushioned by higher sales in the automotive segment (+8%) which made up 68% of the quarter's revenue. We believe this was largely attributable to the increased consumer spending on car purchases thanks to government incentives and discounts offered by car dealers.

**YoY,** 4QFY20 CNP rose 12% on a 9% increase in revenue. Cumulatively, FY20 revenue dipped 2.3% to RM251m while CNP fell 26% to RM24.6m. Despite the pandemic, the group managed to clear its backlog and catch up in revenue. However there was still unabsorbed cost in the earlier quarters of the MCO lockdown which resulted in the larger proportion of CNP decline compared with the revenue.

**Starting afresh.** With the pandemic year behind, the group is anticipating a better FY21 for its automotive segment from existing customers. There are also 2-3 more new customers (including one of the biggest auto LED players worldwide with ~30% market share) that are still in negotiation and yet to be factored in yet. The industrial segment is expected to grow 50% with more orders from existing customers (related to 5G testing equipment) and a new US-listed customer that is involved in fibre optics. The JV with MASS Precision (30% JHM-owned) to produce front-end semiconductor equipment is expected to see its first delivery in July.

**Maintain FY21E CNP of RM49.8m and introduce FY22 CNP of RM56.7m,** representing 103% and 14% growth, respectively.

**Maintain our MARKET PERFORM call with an unchanged Target Price of RM2.35** based on FY21E PER of 26x (+1SD to its 3-year mean).

**Risks to our call include:** (i) lower-than-expected sales, (ii) reduce in orders from its key customers, and (iii) unfavourable currency translations.

## MARKET PERFORM ↔

**Price:** RM2.32  
**Target Price:** RM2.35 ↔

### Share Price Performance



KLCI 1,577.75  
YTD KLCI chg -3.0%  
YTD stock price chg 21.4%

### Stock Information

|                      |                |
|----------------------|----------------|
| Shariah Compliant    | Yes            |
| Bloomberg Ticker     | JHMC MK Equity |
| Market Cap (RM m)    | 1,293.6        |
| Shares Outstanding   | 556.7          |
| 52-week range (H)    | 2.67           |
| 52-week range (L)    | 0.50           |
| 3-mth avg daily vol: | 14,012,982     |
| Free Float           | 55%            |
| Beta                 | 1.1            |

### Major Shareholders

|                         |       |
|-------------------------|-------|
| Tan King Seng           | 33.5% |
| Noble Matters Sdn Bhd   | 13.5% |
| CIMB Group Holdings Bhd | 7.2%  |

### Summary Earnings Table

| FY Dec (RM m)      | 2020A | 2021E | 2022E |
|--------------------|-------|-------|-------|
| Turnover           | 251.0 | 363.5 | 412.0 |
| EBITDA             | 43.2  | 78.4  | 89.3  |
| PBT                | 29.5  | 63.9  | 72.7  |
| Net Profit (NP)    | 24.6  | 49.8  | 56.7  |
| Consensus (NP)     | N.A.  | 47.4  | 59.9  |
| Earnings Revision  | N.A.  | 0%    | 0%    |
| EPS (sen)          | 4.4   | 8.9   | 10.2  |
| EPS growth (%)     | -25.5 | 102.7 | 13.8  |
| NDPS (sen)         | 1.5   | 1.5   | 1.5   |
| BVPS (RM)          | 0.39  | 0.49  | 0.58  |
| Price/BV (x)       | 5.9   | 4.7   | 4.0   |
| PER (x)            | 60.4  | 25.9  | 22.8  |
| Gearing (x)        | 0.3   | 0.2   | 0.2   |
| ROA (%)            | 6.4   | 13.0  | 12.9  |
| ROE (%)            | 9.8   | 18.1  | 17.5  |
| Dividend Yield (%) | 0.6   | 0.6   | 0.6   |

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| <b>Result Highlight</b> |             |             |              |             |              |              |              |               |
|-------------------------|-------------|-------------|--------------|-------------|--------------|--------------|--------------|---------------|
|                         | 4Q          | 3Q          | QoQ          | 4Q          | YoY          | 12M          | 12M          | YoY           |
| FYE: Dec (RM m)         | FY20        | FY20        | Chg          | FY19        | Chg          | FY20         | FY19         | Chg           |
| <b>Revenue</b>          | <b>76.2</b> | <b>78.1</b> | <b>-2.4%</b> | <b>69.9</b> | <b>9.1%</b>  | <b>251.0</b> | <b>256.8</b> | <b>-2.3%</b>  |
| EBIT                    | 11.4        | 8.5         | 34.1%        | 11.4        | 0.5%         | 31.6         | 41.8         | -24.4%        |
| PBT                     | 10.9        | 8.0         | 35.3%        | 10.7        | 1.3%         | 29.5         | 39.7         | -25.5%        |
| Taxation                | -2.8        | -2.7        | -4.4%        | -3.0        | 5.7%         | -8.2         | -9.2         | 11.2%         |
| Net Profit (NP)         | 8.0         | 5.3         | 51.1%        | 7.7         | 4.0%         | 21.4         | 30.5         | -29.8%        |
| <b>Core NP</b>          | <b>11.1</b> | <b>7.9</b>  | <b>41.3%</b> | <b>10.0</b> | <b>11.8%</b> | <b>24.6</b>  | <b>33.0</b>  | <b>-25.5%</b> |
| EPS (sen)               | 2.0         | 1.4         | 41.3%        | 1.8         | 11.8%        | 4.4          | 5.9          | -25.5%        |
| DPS (sen)               | 0.5         | 0.5         |              | 0.5         |              | 1.0          | 2.0          |               |
| GP margin               | 24.2%       | 21.1%       |              | 26.0%       |              | 21.0%        | 23.8%        |               |
| EBIT margin             | 15.0%       | 10.9%       |              | 16.3%       |              | 12.6%        | 16.3%        |               |
| Pretax margin           | 14.3%       | 10.3%       |              | 15.4%       |              | 11.8%        | 15.4%        |               |
| CNP margin              | 14.6%       | 10.1%       |              | 14.3%       |              | 9.8%         | 13.7%        |               |
| Effective tax rate      | -26.1%      | -33.9%      |              | -28.0%      |              | -27.6%       | -23.2%       |               |

Source: Kenanga Research

| <b>Operating segment</b> |             |             |              |             |             |              |              |              |
|--------------------------|-------------|-------------|--------------|-------------|-------------|--------------|--------------|--------------|
|                          | 4Q          | 3Q          | QoQ          | 4Q          | YoY         | 12M          | 12M          | YoY          |
| FYE: Dec (RM m)          | FY20        | FY20        | Chg          | FY19        | Chg         | FY20         | FY19         | Chg          |
| <b>Revenue</b>           | <b>76.2</b> | <b>78.1</b> | <b>-2.4%</b> | <b>69.9</b> | <b>9.1%</b> | <b>251.0</b> | <b>256.8</b> | <b>-2.3%</b> |
| Automotive               | 52.1        | 48.3        | 8.0%         | 46.2        | 13.0%       | 154.4        | 170.6        | -9.4%        |
| Industrial               | 23.5        | 28.3        | -17.1%       | 23.2        | 1.1%        | 93.8         | 84.6         | 11.0%        |
| Others                   | 0.6         | 1.5         | -58.3%       | 0.5         | 21.4%       | 2.7          | 1.7          | 61.1%        |

Source: Kenanga Research

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Malaysian Technology Peers Comparison

| Name                                | Last Price (RM) | Market Cap (RM'm) | Shariah Compliant | Current FYE | Revenue Growth |            | Core Earnings Growth |            | PER (x) - Core Earnings |            |            | PBV (x) |            | ROE (%)    | Net Div Yld (%) | Target Price (RM) | Rating |
|-------------------------------------|-----------------|-------------------|-------------------|-------------|----------------|------------|----------------------|------------|-------------------------|------------|------------|---------|------------|------------|-----------------|-------------------|--------|
|                                     |                 |                   |                   |             | 1-Yr. Fwd.     | 2-Yr. Fwd. | 1-Yr. Fwd.           | 2-Yr. Fwd. | Hist.                   | 1-Yr. Fwd. | 2-Yr. Fwd. | Hist.   | 1-Yr. Fwd. | 1-Yr. Fwd. | 1-Yr. Fwd.      |                   |        |
| D&O GREEN TECHNOLOGIES BERHAD       | 4.02            | 4,679.3           | Y                 | 12/2019     | 44.3%          | 21.9%      | 102.4%               | 21.3%      | 79.9                    | 39.5       | 32.5       | 9.6     | 8.3        | 21.0%      | 0.9%            | 4.20              | OP     |
| INARI AMERTRON BHD                  | 3.60            | 11,936.3          | Y                 | 06/2020     | 37.4%          | 24.9%      | 80.1%                | 15.8%      | 67.6                    | 38.1       | 32.9       | 8.9     | 8.5        | 23.3       | 2.5%            | 4.00              | OP     |
| JHM CONSOLIDATION BHD               | 2.32            | 1,293.6           | Y                 | 12/2020     | 44.8%          | 13.3%      | 132.9%               | 13.8%      | 60.4                    | 25.9       | 22.8       | 5.9     | 4.7        | 18.1%      | 0.6%            | 2.35              | MP     |
| KELINGTON GROUP BHD                 | 2.36            | 758.5             | Y                 | 12/2020     | 9.5%           | 13.3%      | 42.6%                | 14.1%      | 34.6                    | 24.3       | 21.3       | 4.5     | 3.9        | 16.2%      | 1.0%            | 3.10              | OP     |
| KESM INDUSTRIES BERHAD              | 15.10           | 649.5             | Y                 | 07/2020     | 14.6%          | 5.3%       | 19158%               | 34.2%      | 3768                    | 24.5       | 18.2       | 1.0     | 1.0        | 5.0%       | 1.1%            | 10.60             | MP     |
| MALAYSIAN PACIFIC INDUSTRIES BERHAD | 37.00           | 7,359.2           | Y                 | 06/2020     | 8.0%           | 8.0%       | 16.0%                | 11.0%      | 19.5                    | 16.7       | 15.1       | 1.7     | 1.8        | 11.8%      | 1.9%            | 43.00             | OP     |
| P.I.E. INDUSTRIAL BERHAD            | 3.37            | 1,294.2           | Y                 | 12/2020     | 59.9%          | 7.5%       | 60.0%                | 15.8%      | 28.2                    | 17.7       | 15.2       | 2.7     | 2.3        | 13.1%      | 2.7%            | 4.00              | OP     |
| SKP RESOURCES BHD                   | 2.28            | 2,849.7           | Y                 | 03/2020     | 23.7%          | 2.4%       | 67.3%                | 32.2%      | 40.8                    | 24.4       | 18.5       | 4.9     | 4.4        | 18.0%      | 2.7%            | 3.00              | OP     |
| UNISEM (M) BERHAD                   | 8.90            | 7,118.2           | Y                 | 12/2020     | 18.5%          | 7.0%       | 64.3%                | 8.5%       | 45.7                    | 27.8       | 25.6       | 3.7     | 3.4        | 7.8%       | 0.7%            | 10.00             | OP     |

Source: Kenanga Research

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**Stock Ratings are defined as follows:****Stock Recommendations**

|                |  |
|----------------|--|
| OUTPERFORM     | : A particular stock's Expected Total Return is MORE than 10%                  |
| MARKET PERFORM | : A particular stock's Expected Total Return is WITHIN the range of -5% to 10% |
| UNDERPERFORM   | : A particular stock's Expected Total Return is LESS than -5%                  |

**Sector Recommendations\*\*\***

|             |   |
|-------------|---|
| OVERWEIGHT  | : A particular sector's Expected Total Return is MORE than 10%                  |
| NEUTRAL     | : A particular sector's Expected Total Return is WITHIN the range of -5% to 10% |
| UNDERWEIGHT | : A particular sector's Expected Total Return is LESS than -5%                  |

**\*\*\*Sector recommendations are defined based on market capitalisation weighted average expected total return for stocks under our coverage.**

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