

23 June 2021

JHM Consolidation

Production Ramp Up Deferred

By Samuel Tan / samueltan@kenanga.com.my

JHM recorded 1QFY21 CNP of RM3.7m (-67% QoQ; -44% YoY) after adjusting for unrealised forex gain of RM5.3m. The results came in below expectations, representing merely 7% and 8% of our and consensus full-year estimates, respectively. Margins were compressed due to higher cost incurred for new customers while production timeline was deferred due to extended lockdown which will also impact the subsequent 2QFY21. Barring any lockdown extension, the group expects to ramp up the mass production for a new optic fibre customer in 2H 2021. **Maintain MARKET PERFORM with a lower Target Price of RM2.00.**

Below expectation. JHM recorded 1QFY21 CNP of RM3.7m (-67% QoQ; -44% YoY) after adjusting for unrealised forex gain of RM5.3m. The results came in below expectations, representing merely 7% and 8% of our and consensus full-year estimates, respectively.

Results' highlight. QoQ, 1QFY21 CNP fell 67% to RM3.7m after adjusting for unrealised forex gain of RM5.3m. Revenue dipped 4.4% to RM72.9m which was unsurprising as the prior quarter is usually a stronger period for the company due to year-end sales in the automotive market. The slower revenue recognition in the automotive segment (-16%) due to seasonality was cushioned by improved sales in the industrial segment (+23%) which made up 40% of the quarter's revenue. YoY, 1QFY21 CNP dipped 44% despite a 50% increase in revenue, due to unabsorbed cost arising from newly installed facility and equipment pending the qualification stage that has yet to be cleared as the new customers are unable to travel to conduct the necessary audits.

Orders pushed back. While the orders from the new fibre optic customer remains intact, the production ramp up is expected to be deferred again due to the implementation of movement control order (MCO) 3.0 for the entire month of June which limits the group's workforce to 60%. Product status for new fibre optic customer remains in the prototype stage for now. Barring lockdown extensions by the local authorities, the group expects to commence mass production in 2H 2021. Meanwhile, the automotive segment is expected to see gradual improvement ahead as the 2H is typically stronger. The group has also recently signed a joint venture (JV) with Skywoo Manufacturing Sdn Bhd which will allow JHM to expand its automotive presence in Malaysia as well as the ASEAN region. Under the JV, JHM will be supplying automotive parts relating to audio video navigation system (AVN) and LED lighting.

Trim FY21E/FY22E CNP by 15%/17% to RM42.3m/RM47.0m, to account for higher cost during the extended lockdown and deferred production timeline.

Maintain our MARKET PERFORM call with a lower Target Price of RM2.00 (previously 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) reduction in orders from its key customers, and (iii) unfavourable currency translations.

MARKET PERFORM ↔

Price: **RM1.85**
Target Price: **RM2.00** ↓

Share Price Performance



KLCI 1,574.02
YTD KLCI chg -3.3%
YTD stock price chg -3.1%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	JHMC MK Equity
Market Cap (RM m)	1,031.6
Shares Outstanding	557.6
52-week range (H)	2.67
52-week range (L)	0.855
3-mth avg daily vol:	1,054,982
Free Float	54%
Beta	1.1

Major Shareholders

Tan King Seng	33.5%
Noble Matters Sdn Bhd	13.5%
CIMB Group Holdings Bhd	7.1%

Summary Earnings Table

FY Dec (RM m)	2020A	2021E	2022E
Turnover	251.0	325.7	360.6
EBITDA	43.2	68.8	77.0
PBT	29.5	54.3	60.3
Net Profit (NP)	24.6	42.3	47.0
Consensus (NP)	N.A.	47.4	59.9
Earnings Revision	N.A.	-15%	-17%
EPS (sen)	4.4	7.6	8.4
EPS growth (%)	-25.5	72.2	11.1
NDPS (sen)	1.5	1.5	1.5
BVPS (RM)	0.39	0.48	0.55
Price/BV (x)	4.7	3.8	3.4
PER (x)	41.9	24.3	21.9
Gearing (x)	0.3	0.2	0.2
ROA (%)	7.3	11.4	11.3
ROE (%)	11.3	15.8	15.3
Dividend Yield (%)	0.8	0.8	0.8

23 June 2021

Result Highlight								
	1Q	4Q	QoQ	1Q	YoY	3M	3M	YoY
FYE: Dec (RM m)	FY21	FY20	Chg	FY20	Chg	FY21	FY20	Chg
Revenue	72.9	76.2	-4.4%	48.5	50.1%	72.9	48.5	50.1%
EBIT	11.4	11.4	-0.4%	6.9	64.5%	11.4	6.9	64.5%
PBT	10.9	10.9	-0.2%	6.4	70.5%	10.9	6.4	70.5%
Taxation	-1.9	-2.8	34.8%	-1.1	-70.9%	-1.9	-1.1	-70.9%
Net Profit (NP)	9.0	8.0	12.0%	5.3	70.4%	9.0	5.3	70.4%
Core NP	3.7	11.1	-66.6%	6.6	-43.8%	3.7	6.6	-43.8%
EPS (sen)	0.7	2.0	-66.6%	0.9	-29.6%	0.7	0.9	-29.6%
DPS (sen)	0.0	0.5		0.0		0.0	0.0	
GP margin	20.5%	24.2%		16.3%		20.5%	16.3%	
EBIT margin	15.6%	15.0%		14.2%		15.6%	14.2%	
Pretax margin	14.9%	14.3%		13.1%		14.9%	13.1%	
CNP margin	5.1%	14.6%		13.6%		5.1%	13.6%	
Effective tax rate	-17.1%	-26.1%		-17.0%		-17.1%	-17.0%	

Source: Kenanga Research

Operating segment								
	1Q	4Q	QoQ	1Q	YoY	3M	3M	YoY
FYE: Dec (RM m)	FY21	FY20	Chg	FY20	Chg	FY21	FY20	Chg
Revenue	72.9	76.2	-4.4%	48.5	50.1%	72.9	48.5	50.1%
Automotive	43.9	52.1	-15.9%	28.6	53.3%	43.9	28.6	53.3%
Industrial	28.9	23.5	23.0%	19.7	46.8%	28.9	19.7	46.8%
Others	0.2	0.6	-76.3%	0.3	-45.7%	0.2	0.3	-45.7%

Source: Kenanga Research

This section is intentionally left blank

23 June 2021

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	4.86	5,733.1	Y	12/2019	76.6%	10.8%	165%	11.0%	101.6	38.4	34.6	12.2	10.6	26.3%	0.9%	5.50	OP
INARI AMERTRON BHD	3.14	10,505.6	Y	06/2020	37.4%	24.9%	80.1%	15.8%	62.7	34.8	30.1	8.1	7.8	23.3	3.2%	4.00	OP
JHM CONSOLIDATION BHD	1.85	1,031.6	Y	12/2020	29.8%	10.7%	72.2%	11.1%	41.9	24.3	21.9	4.7	3.8	15.8%	0.8%	2.00	MP
KELINGTON GROUP BHD	2.19	703.9	Y	12/2020	9.5%	13.3%	42.7%	14.1%	29.5	20.7	18.1	3.2	2.9	16.2%	1.2%	2.60	OP
KESM INDUSTRIES BERHAD	11.06	475.7	Y	07/2020	-3.0%	18.7%	10633%	113%	5959	55.5	26.1	1.6	1.6	2.8%	0.7%	12.00	MP
MALAYSIAN PACIFIC INDUSTRIES BERHAD	38.52	7,661.5	Y	06/2020	20.0%	12.0%	65.4%	13.1%	46.2	29.2	25.8	6.2	5.8	16.1%	0.8%	47.50	OP
P.I.E. INDUSTRIAL BERHAD	2.93	1,125.2	Y	12/2020	59.9%	7.5%	60.0%	15.8%	21.2	13.3	11.4	1.8	1.6	13.1%	3.6%	4.00	OP
SKP RESOURCES BHD	1.74	2,718.5	Y	03/2020	20.0%	3.9%	25.9%	7.3%	20.0	15.9	14.8	3.6	3.3	19.9%	3.1%	2.40	OP
UNISEM (M) BERHAD	7.44	6,000.7	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

This section is intentionally left blank

23 June 2021

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.**

This document has been prepared for general circulation based on information obtained from sources believed to be reliable but we do not make any representations as to its accuracy or completeness. Any recommendation contained in this document does not have regard to the specific investment objectives, financial situation and the particular needs of any specific person who may read this document. This document is for the information of addressees only and is not to be taken in substitution for the exercise of judgement by addressees. Kenanga Investment Bank Berhad accepts no liability whatsoever for any direct or consequential loss arising from any use of this document or any solicitations of an offer to buy or sell any securities. Kenanga Investment Bank Berhad and its associates, their directors, and/or employees may have positions in, and may effect transactions in securities mentioned herein from time to time in the open market or otherwise, and may receive brokerage fees or act as principal or agent in dealings with respect to these companies.

Published and printed by:

KENANGA INVESTMENT BANK BERHAD (15678-H)

Level 17, Kenanga Tower, 237, Jalan Tun Razak, 50400 Kuala Lumpur, Malaysia
Telephone: (603) 2172 0880 Website: www.kenanga.com.my E-mail: research@kenanga.com.my

