

29 November 2021

JHM Consolidation

The Worst is Over

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As pre-empted by the group earlier, JHM's 3QFY21 performance suffered from the extended lockdown with CNP of RM3.4m (-47% QoQ; -57% YoY), bringing 9MFY21 CNP to RM13.4m (-0.5% YoY). The results came in slightly below expectations, representing 54%/50% of our/consensus' full-year estimates. Moving into 4Q, we are sanguine for a meaningful recovery as orders remained intact and JHM has been able to operate at 100% workforce, which is timely as the group enters its seasonally stronger quarter. Maintain MARKET PERFORM with an adjusted Target Price of RM1.80.

Slightly below expectations. JHM recorded 3QFY21 CNP of RM3.4m (-47% QoQ; -57% YoY), bringing 9MFY21 CNP to RM13.4m (-0.5% YoY) after adjusting for unrealised forex gain and land sale worth RM8.2m. The results came in slightly below expectations, representing 54% and 50% of our and consensus full-year estimates, respectively.

Results' highlight. QoQ, 3QFY21 CNP fell 47% to RM3.4m on a 15% decline in revenue to RM59.2m. The larger quantum of decline in CNP was due to a RM3.6m profit guarantee recognised earlier in 2QFY21 from its subsidiary, Mace Instrumentation Sdn Bhd. As pre-empted by the management, the group still suffered from lower utilisation rate and higher unabsorbed cost during the period as its manufacturing facilities (mainly in Kedah) faced sporadic lockdowns due to Covid-19 cases in the area. This discrepancy in earnings compared with Penang counterparts can be explained with the fact that Penang was three months ahead of Kedah in the National Recovery Plan progression. **YoY,** 3QFY21 revenue fell 24% while CNP sank 57% on margin compression owing to higher cost incurred for Covid-19 SOP implementation. Cumulatively, 9MFY21 revenue increased 16% to RM201.8m on higher orders from the automotive and industrial segments while CNP remained flat at RM13.4m.

All eyes on 4Q. With the worst over, we are hopeful for a meaningful recovery in the upcoming 4Q given that JHM now operates at 100% capacity since mid-Sept, which is timely as the group enters its seasonally stronger quarter. In addition, there was no order cancellation and certain customers are agreeable in sharing higher material cost as well as logistical cost. Barring any further uncontrollable circumstances, JHM should be able to see decent margin recovery in the subsequent quarters.

Trim FY21E/FY22E CNP by 6%/7% to RM23.3m/RM38.0m, to account for the unabsorbed cost during the extended lockdown and deferred production timeline.

Maintain our MARKET PERFORM call with a lower Target Price of RM1.80 (previously RM1.90) based on 26x FY22E (+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: RM1.67
Target Price: RM1.80 ↓

Share Price Performance



KLCI	1,512.22
YTD KLCI chg	-7.6%
YTD stock price chg	-12.6%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	JHMC MK Equity
Market Cap (RM m)	931.2
Shares Outstanding	557.6
52-week range (H)	2.67
52-week range (L)	1.53
3-mth avg daily vol:	4,015,740
Free Float	59%
Beta	1.0

Major Shareholders

Tan King Seng	34.2%
Noble Matters Sdn Bhd	12.1%
Great Eastern Life Assurance	4.4%

Summary Earnings Table

FY Dec (RM m)	2020A	2021E	2022E
Turnover	251.0	280.3	330.0
EBITDA	46.4	44.3	65.4
PBT	32.7	29.9	48.8
Net Profit (NP)	24.6	23.3	38.0
Consensus (NP)	N.A.	26.9	45.9
Earnings Revision	N.A.	-6%	-7%
EPS (sen)	4.4	4.2	6.8
EPS growth (%)	-25.5	-5.3	63.3
NDPS (sen)	1.5	1.5	1.5
BVPS (RM)	0.39	0.45	0.50
Price/BV (x)	4.3	3.7	3.3
PER (x)	37.8	40.0	24.5
Gearing (x)	0.3	0.2	0.2
ROA (%)	7.3	6.7	9.8
ROE (%)	11.3	9.4	13.6
Dividend Yield (%)	0.9	0.9	0.9

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Result Highlight								
	3Q	2Q	QoQ	3Q	YoY	9M	9M	YoY
FYE: Dec (RM m)	FY21	FY20	Chg	FY20	Chg	FY21	FY20	Chg
Revenue	59.2	69.3	-14.5%	78.1	-24.2%	201.8	174.7	15.5%
EBIT	4.8	11.9	-59.9%	8.5	-44.1%	28.0	20.2	39.0%
PBT	4.3	11.4	-62.3%	8.0	-46.8%	26.5	18.7	42.0%
Taxation	-1.1	-2.0	48.0%	-2.7	61.1%	-4.9	-5.3	6.9%
Net Profit (NP)	3.2	9.3	-65.1%	5.3	-38.9%	21.6	13.3	61.7%
Core NP	3.4	6.3	-46.6%	7.9	-57.4%	13.4	13.4	-0.5%
EPS (sen)	0.6	1.1	-46.6%	1.4	-57.4%	2.4	2.4	-0.5%
DPS (sen)	0.0	0.0		0.5		0.0	0.5	
GP margin	14.7%	16.8%		21.1%		17.7%	19.7%	
EBIT margin	8.0%	17.1%		10.9%		13.9%	11.5%	
Pretax margin	7.2%	16.4%		10.3%		13.1%	10.7%	
CNP margin	5.7%	9.1%		10.1%		6.6%	7.7%	
Effective tax rate	-24.8%	-17.9%		-33.9%		-18.7%	-28.5%	

Source: Kenanga Research

Operating segment								
	3Q	2Q	QoQ	3Q	YoY	9M	9M	YoY
FYE: Dec (RM m)	FY21	FY20	Chg	FY20	Chg	FY21	FY20	Chg
Revenue	59.0	69.3	-14.8%	77.6	-23.9%	201.6	174.2	15.7%
Automotive	30.9	44.7	-30.9%	48.3	-36.0%	119.4	102.3	16.7%
Industrial	28.3	25.0	13.3%	28.3	-0.1%	82.1	70.4	16.7%
Others	-0.1	-0.4	63.7%	1.0	-114.1%	0.1	1.6	-95.1%

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.			
D&O GREEN TECHNOLOGIES BHD	5.78	6,928.2	Y	12/2021	48.9%	26.4%	123%	34.0%	141.7	63.5	47.4	17.0	13.9	21.9%	0.2%	6.60	OP
GHL SYSTEMS BHD	1.88	2,146.0	Y	12/2021	4.3%	36.3%	-10.5%	71.6%	69.5	77.6	45.2	4.5	4.2	5.4%	0.0%	2.30	OP
INARI AMERTRON BHD	4.17	15,407.4	Y	06/2022	22.5%	14.6%	11.3%	14.7%	43.4	35.9	1.3	10.4	10.2	26.4%	2.5%	4.80	OP
JHM CONSOLIDATION BHD	1.67	931.2	Y	12/2021	11.7%	17.7%	-5.3%	63.3%	37.8	40.0	24.5	4.3	3.7	13.6%	0.9%	1.80	MP
KELINGTON GROUP BHD	1.49	958.1	Y	12/2021	25.5%	40.1%	84.7%	45.7%	61.9	33.5	23.0	6.4	5.6	16.7%	0.7%	2.50	OP
KESM INDUSTRIES BHD	12.66	544.6	Y	07/2022	4.9%	6.4%	4072%	250%	131.0	37.4	25.0	1.5	1.4	3.8%	0.7%	11.40	MP
MALAYSIAN PACIFIC INDUSTRIES BHD	49.18	9,781.7	Y	06/2022	10.0%	10.0%	11.3%	10.0%	32.2	28.8	26.2	7.1	8.0	15.6%	0.6%	56.20	OP
P.I.E. INDUSTRIAL BHD	3.72	1,428.6	Y	12/2021	59.9%	10.6%	31.0%	29.9%	32.3	24.7	19.0	1.3	1.5	11.5%	1.8%	4.30	OP
SKP RESOURCES BHD	1.95	3,046.6	Y	03/2022	12.3%	12.4%	21.7%	12.4%	21.6	17.7	15.8	4.1	3.7	21.0%	2.8%	2.60	OP
UNISEM (M) BHD	4.24	6,839.5	Y	12/2021	20.0%	15.0%	47.5%	21.0%	46.8	31.7	26.2	3.8	3.5	11.2%	1.4%	4.90	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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