

01 December 2022

JHM Consolidation

Hit by Tax Penalty

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JHM's 9MFY22 results disappointed, hit by additional assessment and tax penalty. JHM also cautioned that waning demand in the near term could lead to subdued performance in the coming quarter. We cut FY22F earnings by 46% but keep FY23F numbers. We maintain our TP of RM0.90 (which is based on FY23F earnings) and MARKET PERFORM call.

Below expectations. 9MFY22 core net profit of RM12.2m (-24.1% YoY) came in below our and market's expectations at 39% and 35%, respectively. The variance against our forecast was attributable to additional assessment and a tax penalty imposed by the IRB due to one of its subsidiaries deemed non-compliant for export allowance incentives claimed in 2018 and 2019.

Results' highlights. YoY - 9MFY22 revenue increased 33.3% on greater demand from both the automotive segment (+42% YoY) and industrial segment (+22%). However, 9MFY22 core net profit (after adjusting for unrealised forex gains) fell 24.1% as the group was slapped with additional assessment in the reporting quarter of RM4.9m coupled with a penalty of RM0.7m from the Inland Revenue Board as one of the group's subsidiaries was deemed not eligible — due to less than 60% of the company being directly owned by Malaysian citizen — for the export allowance incentives pertaining to YA 2018 and YA 2019.

No bumper year-end surge. Consistent with a weak outlook guided by automotive semiconductor players, JHM expects demand to remain volatile on economic uncertainty. The typical bumper year-end surge driven by the automotive segment may not materialise this year owing to weak consumer appetite for large-ticket item purchases. However, the group is still in discussion with new potential customers for both the industrial segment and automotive projects which includes global and local car brands.

Investment thesis. We like JHM for: (i) its exposure to the growing automotive LED market, (ii) being a proxy to the rising demand for 5G test equipment, and (iii) lucrative margins from its venture into hermetic glass seals. However, prospects in the immediate term remain unexciting owing to waning demand in the near term coupled with the deferment of its Batu Kawan expansion plan.

Forecasts. Cut FY22F net profit by 46% to reflect the additional assessment and tax penalty but maintain our FY23F earnings.

We keep our TP of RM0.90 based on 13.5x FY23F EPS, at a slight discount to its peers' forward average of 15x to reflect its choppy earnings in the near term. There is no adjustment to our TP based ESG given a 3-star rating as appraised by us (see Page 4). Maintain **MARKET PERFORM**.

Risks to our call include: (i) persistent supply-chain disruptions, especially in the automotive sector, (ii) delays in the 5G rollout, (iii) escalating input costs, and (iv) a global recession hurting demand for electronic components.

MARKET PERFORM ↔

Price: **RM0.77**
Target Price: **RM0.90** ↔

Share Price Performance



KLCI 1,488.8
YTD KLCI chg -5.0%
YTD stock price chg -55.8%

Stock Information

Shariah Compliant Yes
Bloomberg Ticker JHMC MK Equity
Market Cap (RM m) 426.6
Shares Outstanding 557.6
52-week range (H) 1.87
52-week range (L) 0.70
3-mth avg daily vol: 1,300,045
Free Float 43.0%
Beta 0.5

Major Shareholders

Tan King Seng 34.3%
Noble Matters Sdn Bhd 12.1%
Ong Hock Seng 12.1%

Summary Earnings Table

FY Dec (RM m)	2021A	2022F	2023F
Turnover	296.6	319.5	341.9
EBITDA	51.5	56.3	66.7
PBT	35.9	39.4	46.5
Net Profit (NP)	27.3	17.0	37.2
Consensus (NP)	N.A.	34.7	44.7
Earnings Revision	N.A.	-46%	0%
EPS (sen)	4.9	3.1	6.7
EPS growth (%)	11.1	-37.8	119.3
NDPS (sen)	0.5	0.5	0.5
BVPS (RM)	0.45	0.52	0.58
Price/BV (x)	1.7	1.5	1.3
PER (x)	15.5	24.9	11.4
Gearing (x)	0.3	0.3	0.2
ROA (%)	6.7	3.9	7.9
ROE (%)	10.9	5.9	11.5
Dividend Yield (%)	0.7	0.7	0.7

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Result Highlight								
	3Q	2Q	QoQ	3Q	YoY	9M	9M	YoY
FYE: Dec (RM m)	FY22	FY22	Chg	FY21	Chg	FY22	FY21	Chg
Revenue	75.8	93.1	-18.6%	59.2	28.1%	269.0	201.8	33.3%
EBIT	8.0	12.8	-37.9%	4.8	67.2%	34.0	28.0	21.5%
PBT	7.1	12.1	-41.5%	4.3	65.9%	31.9	26.5	20.4%
Taxation	-6.4	-2.6	-148.9%	-1.1	-501.3%	-12.1	-4.9	-144.7%
Net Profit (NP)	0.9	9.8	-90.5%	3.2	-71.4%	20.4	21.6	-5.7%
Core NP	-2.6	5.7	-146.5%	3.4	-178.8%	12.2	16.1	-24.1%
EPS (sen)	-0.5	1.0	-146.5%	0.6	-178.8%	2.2	2.9	-24.1%
DPS (sen)	0.0	0.0		0.0		0.0	0.0	
GP margin	15.6%	20.2%		14.7%		17.4%	17.7%	
EBIT margin	10.5%	13.8%		8.0%		12.7%	13.9%	
Pretax margin	9.4%	13.0%		7.2%		11.9%	13.1%	
CNP margin	-3.5%	6.1%		5.7%		4.5%	8.0%	
Effective tax rate	-89.7%	-21.1%		-24.8%		-37.9%	-18.7%	

Source: Kenanga Research

Operating segment								
	3Q	2Q	QoQ	3Q	YoY	9M	9M	YoY
FYE: Dec (RM m)	FY22	FY22	Chg	FY21	Chg	FY22	FY21	Chg
Revenue	75.8	59.2	28.0%	59.0	28.5%	269.0	201.8	33.3%
Automotive	39.8	30.9	29.0%	30.9	29.0%	169.2	119.4	41.6%
Industrial	36.0	28.3	27.3%	28.3	27.3%	99.8	82.1	21.6%
Others	0.0	0.1	-107.1%	-0.1	96.5%	0.0	0.3	-83.8%

Source: Kenanga Research

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Malaysian Technology Peers Comparison

Name	Rating	Last Price (RM)	Target Price (RM)	Upside (%)	Mkt Cap (RM'm)	Shariah Compliant	Current FYE	Core EPS (sen)		Core EPS Growth		PER (x) – Core Earnings		PBV (x)	ROE (%)	Net Div. (sen)	Net Div. Yld (%)
								1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.
D&O GREEN TECHNOLOGIES BHD	MP	4.00	3.51	-12.25%	4,949.0	Y	12/2022	8.8	11.3	-1.9%	28.5%	45.6	35.5	5.7	12.8%	1.5	0.4%
GHL SYSTEMS BHD	MP	0.80	0.80	0.00%	907.5	Y	12/2022	2.1	2.7	-16.4%	30.2%	38.8	29.9	1.7	4.5%	0.0	0.0%
INARI AMERTRON BHD	MP	2.66	2.85	7.14%	9,929.3	Y	06/2024	10.2	11.5	-3.2%	12.7%	26.1	23.1	3.9	15.0%	9.7	3.6%
JHM CONSOLIDATION BHD	MP	0.770	0.900	16.88%	426.6	Y	12/2022	3.1	6.7	-37.7%	118.8%	25.2	11.5	1.5	9.8%	0.5	0.6%
KELINGTON GROUP BHD	OP	1.46	1.80	23.29%	938.8	Y	12/2022	7.8	8.1	57.9%	4.0%	18.7	18.0	4.0	23.4%	2.0	1.2%
KESM INDUSTRIES BHD	MP	7.09	6.60	-6.91%	305.0	Y	12/2022	2.8	8.6	500.0%	208.3%	254.4	83.3	0.8	0.3%	7.5	1.1%
LGMS BHD	OP	1.26	1.50	19.05%	574.6	Y	07/2023	2.7	3.5	20.4%	29.0%	46.3	35.8	6.8	22.0%	0.0	0.0%
MALAYSIAN PACIFIC INDUSTRIES	MP	27.80	25.00	-10.07%	5,529.3	Y	06/2023	118.5	146.4	-28.7%	23.5%	23.5	19.0	2.5	11.3%	35.0	1.3%
PIE INDUSTRIAL BHD	OP	2.61	3.15	20.69%	1,002.3	Y	12/2022	16.6	19.7	6.0%	18.5%	15.7	13.2	1.7	11.6%	7.0	2.7%
SKP RESOURCES BHD	OP	1.71	2.10	22.81%	2,671.6	Y	03/2023	11.6	12.4	6.3%	7.7%	14.7	13.8	3.0	21.1%	5.8	3.4%
UNISEM (M) BHD	MP	2.70	2.75	1.85%	4,355.3	Y	12/2022	14.4	15.3	17.7%	6.2%	18.7	17.6	1.9	10.4%	6.0	2.2%
Simple Average								18.0	22.4	47.3%	44.3%	48.0	27.3	3.0	12.9%		1.5%

Source: Kenanga Research

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Stock ESG Ratings:

	Criterion	Rating			
GENERAL	Earnings Sustainability & Quality	★	★	☆	
	Corporate Social Responsibility	★	★	★	
	Management/Workforce Diversity	★	★	★	☆
	Accessibility & Transparency	★	★	☆	
	Corruption-Free Pledge	★	★	★	
	Carbon-Neutral Initiatives	★	★	★	
SPECIFIC	Foreign Worker Welfare	★	★	★	☆
	Supply Chain Auditing	★	★	★	
	Waste Disposal / Pollution Control	★	★	★	
	Energy Efficiency	★	★	☆	
	Work Site Safety	★	★	★	☆
	Digital Transformation	★	★	☆	
OVERALL		★	★	★	

☆ denotes half-star
 ★ -10% discount to TP
 ★★ -5% discount to TP
 ★★★ TP unchanged
 ★★★★ +5% premium to TP
 ★★★★★ +10% premium to TP

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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