

JHM Consolidation

Making Gradual Progress

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JHM is anticipating a pick-up in orders from its existing automotive and industrial customers, extending into FY23. Despite more of its new automotive lighting projects transitioning into the mass production stage, profitability will continue to be capped due to new ventures start-up costs. Meanwhile, we keep our earnings forecasts, TP of RM0.80 and MARKET PERFORM call.

We came away from JHM's 4QFY22 briefing yesterday with the following takeaways:

- JHM has been awarded 14 new projects by a prominent American automotive lighting company. The first six models have already qualified and will transition into the production stage by 1H 2023. To cater for sample builds of the remaining models awarded, the group is also purchasing two more surface mount technology (SMT) lines. The first one will be installed by April followed by the second one by 4QFY23.
- It expects orders from its existing automotive and industrial customers to improve going into FY23. However, its margins will likely remain subdued owing to the extended gestation period for a few of its ventures such as the hermetic glass seal and front-end equipment machining.
- The impact of the higher electricity tariffs on JHM is marginal given that only one of its plants is subject to an upward revision, resulting in additional c.RM15k/month (which could be mitigated by applying to convert the plant's land title from commercial to industrial which is more appropriate). Meanwhile, the electricity consumption of all the other plants is below the tariff hike threshold, and hence spared the higher electricity cost.

Forecasts. Maintained

We also maintain our TP of RM0.80 based on 15x FY23F EPS which is in line with its peers' forward mean. There is no adjustment to our TP based on ESG given a 3-star rating as appraised by us (see Page 4).

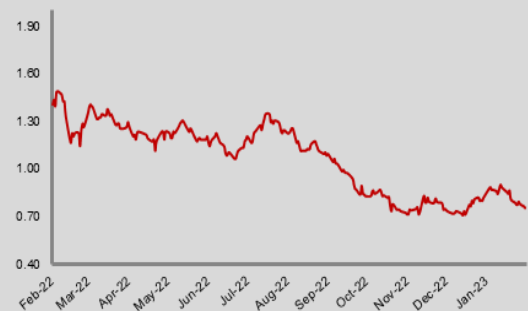
Investment thesis. We like JHM for: (i) its exposure to the growing automotive LED market, (ii) being a proxy to the rising demand for 5G test equipment, and (iii) the lucrative margins from its venture into hermetic glass seals. However, prospects in the immediate term remain unexciting owing to waning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

Risks to our call include: (i) order cuts by key customers, (ii) delay in new product roll-outs, and (iii) higher-than-expected input costs.

MARKET PERFORM ↔

Price : **RM0.85**
Target Price : **RM0.80** ↔

Share Price Performance



KLCI	1,455.5
YTD KLCI chg	-2.7%
YTD stock price chg	14.2%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	JHMC MK Equity
Market Cap (RM m)	463.6
Shares Outstanding	557.6
52-week range (H)	1.53
52-week range (L)	0.70
3-mth avg daily vol:	5,282,481
Free Float	43.0%
Beta	0.8

Major Shareholders

Tan King Seng	34.7%
Noble Matters Sdn Bhd	11.1%
Ong Hock Seong	11.1%

Summary Earnings Table

FYE Dec (RM m)	2022A	2023F	2024F
Turnover	355.8	419.5	461.5
EBITDA	55.1	59.9	67.3
PBT	36.4	41.4	45.8
Net Profit (NP)	23.0	32.2	35.6
Consensus (NP)	n.a.	36.1	44.3
Earnings Revision	n.a.	0%	0%
EPS (sen)	3.8	5.3	5.9
EPS growth (%)	-15.8	40.0	10.6
NDPS (sen)	0.5	0.5	0.5
BVPS (RM)	0.51	0.58	0.63
Price/BV (x)	1.7	1.4	1.3
PER (x)	22.1	15.8	14.3
Gearing (x)	0.3	0.2	0.2
ROA (%)	4.7	6.1	6.3
ROE (%)	7.5	9.1	9.2
Dividend Yield (%)	0.6	0.6	0.6

07 March 2023

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	UP	4.55	3.51	-22.86%	5,631.3	Y	12/2023	10.3	14.0
GHL SYSTEMS BHD	OP	0.940	1.05	11.70%	1,067.3	Y	12/2023	3.0	3.4	21.3%	12.9%	31.3	27.8	2.0	6.5%	0.0	0.0%
INARI AMERTRON BHD	MP	2.44	2.60	6.56%	9,108.4	Y	06/2023	10.2	11.5	-3.2%	12.7%	23.9	21.2	3.6	15.0%	9.7	4.0%
JHM CONSOLIDATION BHD	MP	0.850	0.800	-5.88%	512.1	Y	12/2023	5.3	5.9	40.0%	10.6%	16.0	14.5	1.5	9.8%	0.5	0.6%
KELINGTON GROUP BHD	OP	1.52	1.92	26.32%	977.4	Y	12/2023	8.7	9.0	1.1%	3.2%	17.5	16.9	3.5	21.3%	2.4	1.6%
KESM INDUSTRIES BHD	MP	8.10	6.60	-18.52%	348.4	Y	07/2023	2.8	8.6	500.0%	208.3%	290.6	95.2	1.0	0.3%	7.5	0.9%
LGMS BHD	OP	1.21	1.50	23.97%	551.8	Y	12/2022	3.5	5.9	26.2%	69.8%	34.8	20.4	5.6	17.4%	0.0	0.0%
MALAYSIAN PACIFIC INDUSTRIES BHD	UP	29.82	20.00	-32.93%	5,931.1	Y	06/2023	81.1	130.6	-51.0%	61.0%	36.8	22.8	2.8	7.9%	35.0	1.2%
NATIONGATE HOLDINGS BHD	OP	1.46	1.50	2.74%	3,027.9	Y	12/2023	5.5	6.5	32.2%	18.6%	26.7	22.6	8.8	39.6%	0.0	0.0%
PIE INDUSTRIAL BHD	OP	3.50	4.05	15.71%	1,344.1	Y	12/2023	22.5	25.3	22.0%	12.5%	15.6	13.8	2.2	14.6%	7.0	2.0%
SKP RESOURCES BHD	UP	1.38	1.20	-13.04%	2,156.1	Y	03/2023	9.7	7.9	-11.1%	-17.9%	14.2	17.5	2.4	17.8%	4.8	3.5%
UNISEM (M) BHD	MP	3.08	3.10	0.65%	4,968.3	Y	12/2023	15.4	17.2	2.1%	11.4%	20.0	17.9	1.9	10.0%	6.0	1.9%
Simple Average										-6.6%	17.7%	25.3	21.5	3.4	14.5%		1.3%

Source: Kenanga Research

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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