

1 June 2023

JHM Consolidation

Choppy Waters

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JHM's 1QFY23 results missed expectations. Its net profit plunged 79% due to: (i) unfavourable automotive product mix, (ii) losses at its industrial segment, (iii) unfavourable forex movements, and (iv) higher utility cost. Meanwhile, order commitments from its customers remain subdued. We cut FY23-24F net profit forecasts by 34% and 15%, respectively, reduce our TP by 6% to RM0.75 (from RM0.80) but maintain our MARKET PERFORM call.

Missed expectations. 1QFY23 net profit of RM1.9m (-79.1% YoY) disappointed, accounting for only 6% and 5% of both our full-year forecast and the full-year consensus estimate, respectively. The variance against our forecast came largely from higher-than-expected operating cost and unfavourable forex movements.

Results' highlights. YoY, 1QFY23 revenue dropped 10% as both the automotive segment (-7.8%) and industrial segment (-14.6%) experienced lower loading volumes from their customers. However, net profit plunged 79% primarily due to poor overhead absorption resulting from the industrial segment operating below its optimal levels. Not helping either, were an unfavourable product mix in the automotive segment, adverse forex movements and the burden from higher electricity cost.

Choppy waters ahead. The group acknowledged the challenges in the current economic environment, particularly in the tech sector. The automotive segment continues to experience a lack of commitment from car manufacturers on the order replenishment front while its industrial segment's economies of scale is eroding due to reduction in loading volume. Furthermore, there is still a slew of new projects deferment such as: (i) hermetic glass seal business, (ii) collaboration with Jiangsu Dekai Auto Parts Company Ltd for headlamp assembly, and (iii) joint-venture with Mass Precision Inc for the fabrication of front-end equipment which may continue to exert pressure on profit margins.

Forecasts. We cut our FY23-24F earnings forecasts by 34% and 15%, respectively.

Consequently, we reduce our TP by 6% to RM0.75 (from RM0.80) based on a rolled forward FY24F EPS (from FY23F), pegged to an unchanged PER of 15x which is in line with peer's forward average. There is no adjustment to our TP based on ESG given a 3-star rating as appraised by us (see Page 4).

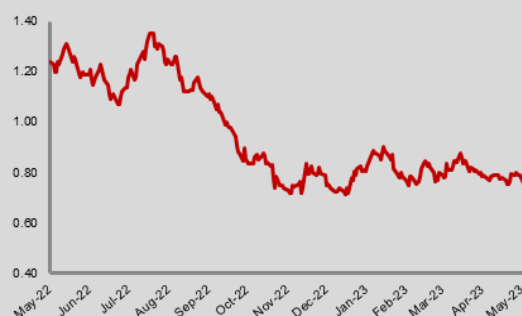
Investment thesis. We like JHM for: (i) its exposure to the growing automotive LED market, (ii) being a proxy to the rising demand for 5G test equipment, and (iii) the lucrative margins from its venture into hermetic glass seals. However, its prospects in the immediate term remain unexciting owing to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

Risks to our call include: (i) a sooner-than-expected turnaround in the automotive sector, (ii) rising orders at its industrial segment on the back of a strong recovery of the global economy, and (iii) new products hitting mass production earlier than expected.

MARKET PERFORM ↔

Price: **RM0.74**
Target Price: **RM0.75** ↓

Share Price Performance



KLCI 1,387.1
YTD KLCI chg -7.2%
YTD stock price chg -0.7%

Stock Information

Shariah Compliant Yes
Bloomberg Ticker JHMC MK Equity
Market Cap (RM m) 445.4
Shares Outstanding 557.6
52-week range (H) 1.37
52-week range (L) 0.70
3-mth avg daily vol: 2,548,412
Free Float 43.0%
Beta 0.8

Major Shareholders

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

Summary Earnings Table

FY Dec (RM m)	2022A	2023F	2024F
Turnover	355.8	373.4	395.8
EBITDA	55.1	45.4	60.4
PBT	36.4	26.8	38.9
Net Profit (NP)	23.0	21.1	30.3
Consensus (NP)	-	35.4	45.0
Earnings Revision	-	-34%	-15%
EPS (sen)	3.8	3.5	5.0
EPS growth (%)	-15.8	-8.3	43.8
NDPS (sen)	0.5	0.5	0.5
BVPS (RM)	0.51	0.56	0.61
Price/BV (x)	1.5	1.3	1.2
PER (x)	19.5	21.3	14.8
Gearing (x)	0.3	0.2	0.2
ROA (%)	4.7	4.1	5.6
ROE (%)	7.5	6.2	8.2
Dividend Yield (%)	0.7	0.7	0.7

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Result Highlight								
	1Q	4Q	QoQ	1Q	YoY	3M	3M	YoY
FYE: Dec (RM m)	FY23	FY22	Chg	FY22	Chg	FY23	FY22	Chg
Revenue	90.1	86.8	3.9%	100.0	-9.9%	90.1	100.0	-9.9%
EBIT	3.8	5.6	-31.8%	13.3	-71.5%	3.8	13.3	-71.5%
PBT	2.8	4.5	-36.1%	12.7	-77.6%	2.8	12.7	-77.6%
Taxation	-1.2	-2.3	46.2%	-3.2	60.9%	-1.2	-3.2	60.9%
Net Profit (NP)	1.8	2.2	-21.0%	9.7	-81.8%	1.8	9.7	-81.8%
Core NP	1.9	10.8	-82.2%	9.2	-79.1%	1.9	9.2	-79.1%
EPS (sen)	0.3	1.9	-82.2%	1.6	-79.1%	0.3	1.6	-79.1%
DPS (sen)	0.0	0.0		0.0		0.0	0.0	
GP margin	9.9%	14.4%		18.8%		9.9%	18.8%	
EBIT margin	4.2%	6.4%		13.3%		4.2%	13.3%	
Pretax margin	3.2%	5.1%		12.7%		3.2%	12.7%	
CNP margin	2.1%	12.4%		9.2%		2.1%	9.2%	
Effective tax rate	-43.8%	-52.0%		-25.1%		-43.8%	-25.1%	

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	UP	3.64	2.68	-26.4%	4,505.6	Y	12/2023	7.8	10.7	-1.0%	37.9%	46.8	33.9	4.9	10.7%	1.3	0.4%
GHL SYSTEMS BHD	OP	0.790	1.05	32.9%	896.1	Y	12/2023	3.0	3.4	21.3%	12.9%	26.3	23.4	1.7	6.5%	0.0	0.0%
INARI AMERTRON BHD	MP	2.52	2.46	-2.4%	9,407.0	Y	06/2023	9.0	10.2	-14.1%	13.1%	28.0	24.8	3.7	13.3%	8.6	3.4%
JHM CONSOLIDATION BHD	MP	0.740	0.750	1.4%	445.4	Y	12/2023	3.5	5.0	-8.3%	43.6%	21.3	14.8	1.3	6.5%	0.5	0.7%
KELINGTON GROUP BHD	OP	1.40	1.92	37.1%	900.2	Y	12/2023	8.7	9.0	1.1%	3.2%	16.1	15.6	3.2	21.3%	2.4	1.7%
KESM INDUSTRIES BHD	MP	6.89	6.91	0.3%	296.4	Y	07/2023	(15.8)	1.2	-3500.0%	-92.6%	N.A.	556.1	0.8	-1.9%	7.5	1.1%
LGMS BHD	OP	0.990	1.32	33.3%	451.4	Y	12/2023	3.1	5.3	12.7%	70.4%	31.8	18.7	4.6	15.7%	0.0	0.0%
MALAYSIAN PACIFIC INDUSTRIES	UP	27.00	15.26	-43.5%	5,370.2	Y	06/2023	41.8	105.8	-74.7%	153.3%	64.3	25.5	2.7	4.1%	35.0	1.3%
NATIONGATE HOLDINGS BHD	OP	1.24	1.50	12.9%	2,571.7	Y	12/2023	5.0	6.1	20.4%	22.8%	24.9	20.3	7.9	37.1%	0.3	0.2%
OPPSTAR BHD	MP	2.01	1.82	-9.5%	1,278.8	N	03/2024	4.5	6.1	34.0%	36.3%	45.1	33.1	8.1	19.3%	1.1	0.5%
PIE INDUSTRIAL BHD	OP	3.19	4.05	27.0%	1,225.1	Y	12/2022	22.5	25.3	22.0%	12.5%	14.2	12.6	2.0	14.6%	7.0	2.2%
SKP RESOURCES BHD	UP	1.02	0.950	-6.9%	1,593.6	Y	03/2024	6.3	7.1	-31.6%	12.5%	16.2	14.4	1.8	11.4%	3.2	3.1%
UNISEM (M) BHD	MP	3.12	2.75	-11.9%	5,032.8	Y	12/2023	8.9	13.8	-41.2%	55.7%	20.3	18.2	2.0	5.9%	6.0	1.9%
Simple Average										-27.2%	34.5%	31.1	23.1	3.4	12.7%		1.3%

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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