

28 May 2024

JHM Consolidation

In the Red

By Samuel Tan / samueltan@kenanga.com.my

JHM's 1QFY24 results disappointed. It dipped into the red on a 46% plunge in turnover, worsening the problem of its under-utilised floor space. It guided for a challenging outlook, weighed down by under-utilised new assets. We cut our FY24-25F net profit forecasts by 28% and 21%, respectively, reduce our TP by 13% to RM0.61 (from RM0.70) but maintain our MARKET PERFORM call.

JHM disappointed with a 1QFY24 core net loss of RM5.1m (vs RM1.9m profit in 1QFY23). The variance against our forecast came largely from a sharp plunge in sales, leading to low plant utilisation and hence loss of operating scale.

YoY, JHM's 1QFY24 top line fell by 46.1% due to weakness in: (i) its industrial segment (-6.7%), and (ii) its core automotive segment (-63.5%) amidst the end-of-life cycle of certain automotive LED projects and the postponement of new LED projects. It dipped into a loss at the net level, weighed down by unabsorbed overheads from under-utilised floor space. More specifically, its industrial segment reported its fifth consecutive quarterly loss since 1QFY23.

QoQ, its 1QFY24 revenue inched up by 7.7% but it reported a core net loss of RM5.1m (compared to a RM3.9m profit in 4QFY23), weighed down by overheads from expanded capacity (for new automotive LED projects of which production ramp-up did not materialise on requests for postponement by customers).

Outlook. It guided for challenging outlook ahead, particularly for its industrial segment due to the weak demand for sheet metal fabrication and CNC machining. Not helping either, is the inconsistent order flow at its core automotive segment, resulting in poor cost absorption due to under-utilised expanded capacity. This includes: (i) the hermetic glass seal business, (ii) the collaboration with Jiangsu Dekai Auto Parts Company Ltd for headlamp assembly, and (iii) the joint venture with Mass Precision Inc for front-end equipment fabrication

Forecasts. We cut our FY24-25F earnings forecasts by 28% and 21%, respectively.

Valuations. Consequently, we reduce our TP by 13% to **RM0.61** (from RM0.70) based on an unchanged PER of 15x, pegged to a rolled-forward earnings base of FY25F. Our valuation represents a c.15% discount to the average forward of its peers such as **NATGATE (OP; TP: RM1.58)**, **PIE (OP; TP: RM6.75)** and **CNERGEN (Not Rated)** to reflect its longer lead time to ramp up new projects. There is no adjustment to our TP based on ESG given a 3-star rating as appraised by us (see Page 4).

Investment case. We like JHM for: (i) its presence in 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 remain unexciting in the immediate term owing to under-utilisation of its new assets. Maintain **MARKET PERFORM**.

Risks to our call include: (i) further deterioration of the global economic outlook, hurting demand for components from the semiconductor and automotive sectors, (ii) rising production cost, and (iii) new products fail to hit mass production sooner.

MARKET PERFORM ↔

Price: **RM0.67**
Target Price: **RM0.61** ↓



KLCI	1,618.3
YTD KLCI chg	11.2%
YTD stock price chg	-7.6%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	JHMC MK Equity
Market Cap (RM m)	403.0
Shares Outstanding	606.0
52-week range (H)	0.90
52-week range (L)	0.67
3-mth avg daily vol:	3,259,720
Free Float	45.2%
Beta	1.3

Major Shareholders

Tan King Seng	31.7%
Noble Matters Sdn Bhd	11.3%
EPF	2.3%

Summary Earnings Table

FY Dec (RM m)	2023A	2024F	2025F
Turnover	310.7	326.3	358.9
EBITDA	39.6	47.8	56.9
PBT	20.0	28.0	34.3
Net Profit (NP)	14.5	20.3	24.7
Consensus (NP)	-	37.2	47.6
Earnings Revision	-	-28%	-21%
EPS (sen)	2.4	3.3	4.1
EPS growth (%)	-37.0	39.8	22.0
NDPS (sen)	0.5	0.5	0.5
BVPS (RM)	0.53	0.56	0.59
Price/BV (x)	1.3	1.2	1.1
PER (x)	28.0	20.0	16.4
Gearing (x)	0.2	0.2	0.2
ROA (%)	3.1	4.3	5.1
ROE (%)	4.5	6.0	6.9
Dividend Yield (%)	0.7	0.7	0.7

28 May 2024

Result Highlight								
	1Q	4Q	QoQ	1Q	YoY	3M	3M	YoY
FYE: Dec (RM m)	FY24	FY23	Chg	FY23	Chg	FY24	FY23	Chg
Revenue	48.5	45.1	7.7%	90.1	-46.1%	48.5	90.1	-46.1%
EBIT	-3.7	4.5	-182.9%	3.8	-198.1%	-3.7	3.8	-198.1%
Interest Expense	-0.8	-0.9	11.0%	-0.9	19.0%	-0.8	-0.9	19.0%
EI	-0.4	3.3		0.2		-0.4	0.2	
PBT	-4.1	0.3	-1374.6%	2.8	-243.0%	-4.1	2.8	-243.0%
Taxation	-0.6	0.3	-296.9%	-1.2	48.8%	-0.6	-1.2	48.8%
Net Profit (NP)	-4.7	0.6	-831.6%	1.8	-368.3%	-4.7	1.8	-368.3%
Core NP	-5.1	3.9	-229.6%	1.9	-367.0%	-5.1	1.9	-367.0%
EPS (sen)	-0.9	0.7	-229.6%	0.3	-367.0%	-0.9	0.3	-367.0%
DPS (sen)	0.0	0.0		0.0		0.0	0.0	
GP margin	10.7%	11.5%		9.9%		79.7%	65.8%	
EBIT margin	-7.7%	9.9%		4.2%		-7.7%	4.2%	
Pretax margin	-8.4%	0.7%		3.2%		-8.4%	3.2%	
CNP margin	-10.5%	8.8%		2.1%		-10.5%	2.1%	
Effective tax rate	15.7%	101.6%		-43.8%		15.7%	-43.8%	

Source: Kenanga Research

This section is intentionally left blank

28 May 2024

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.	1-Yr. Fwd.	1-Yr. Fwd.
D&O GREEN TECHNOLOGIES BHD	MP	3.71	3.60	-3.0%	4,594.1	Y	12/2024	8.5	12.0	133.7%	41.6%	43.9	31.0	4.6	10.8%	1.4	0.4%		
GHL SYSTEMS BHD	OP	1.01	0.880	-12.9%	1,152.9	Y	12/2024	2.4	2.8	-3.5%	15.8%	42.3	36.6	2.1	5.2%	0.0	0.0%		
INARI AMERTRON BHD	OP	3.41	4.00	17.3%	12,828.1	Y	06/2024	9.4	11.8	8.6%	25.8%	36.2	28.8	4.9	13.4%	8.9	2.6%		
JHM CONSOLIDATION BHD	MP	0.670	0.610	-9.0%	403.0	Y	12/2024	3.3	4.1	40.0%	21.7%	20.1	16.4	1.2	6.2%	0.5	0.7%		
KELINGTON GROUP BHD	OP	3.09	4.10	32.7%	2,065.3	Y	12/2024	16.1	19.4	1.0%	20.5%	19.2	15.9	4.8	27.7%	4.5	1.5%		
KESM INDUSTRIES BHD	MP	6.43	7.06	9.8%	276.6	Y	07/2024	6.2	10.3	-46.2%	67.2%	104.0	62.2	0.8	0.7%	0.0	0.0%		
LGMS BHD	OP	1.48	1.16	-21.6%	674.9	Y	12/2024	4.6	5.6	88.4%	21.8%	32.0	26.2	6.5	22.2%	0.9	0.6%		
MALAYSIAN PACIFIC INDUSTRIES	OP	38.56	46.84	21.5%	7,670.7	Y	06/2024	74.5	138.0	141.8%	85.2%	51.7	27.9	3.7	7.2%	35.0	0.9%		
NATIONGATE HOLDINGS BHD	OP	1.88	1.58	-16.0%	3,899.0	Y	12/2024	6.3	6.9	114.8%	9.6%	29.8	27.2	7.3	27.4%	1.0	0.5%		
OPPSTAR BHD	OP	1.46	1.72	17.8%	934.8	Y	03/2024	3.4	5.7	3.3%	66.7%	42.4	25.4	6.1	15.1%	0.9	0.6%		
PIE INDUSTRIAL BHD	OP	5.90	6.75	14.4%	2,265.8	Y	12/2023	22.2	28.7	15.7%	29.3%	26.6	20.6	3.4	13.4%	7.0	1.2%		
SKP RESOURCES BHD	MP	1.12	0.850	-24.1%	1,749.8	Y	03/2024	5.7	6.4	-38.4%	13.1%	19.6	17.5	2.0	10.3%	2.8	2.5%		
UNISEM (M) BHD	MP	4.14	3.70	-10.6%	6,678.1	Y	12/2024	10.2	12.7	100.1%	24.9%	40.7	32.6	2.7	6.8%	6.0	1.4%		
Simple Average										31.8%	31.6%	35.6	27.0	3.9	12.8%		1.0%		

Source: Kenanga Research

This section is intentionally left blank

28 May 2024

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.**

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. Kenanga Investment Bank Berhad being a full-service investment bank offers investment banking products and services and acts as issuer and liquidity provider with respect to a security that may also fall under its research coverage.

Published 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

