10 July 2018

Technology | Technology

Not Rated

Jackspeed

Leather Production To Double With New Capacity

Target Price:	NA
Price:	SGD0.19
Market Cap:	USD41.2m
Bloomberg Ticker:	JSP SP

Jackspeed has doubled its upholstery leather kits production capacity to 32,000 kits a year, due to increased demand from existing and new customers. Its recently-awarded 2-year renewable contract from a European OEM supplier to car manufacturers and importers should see production capacity increasing by 12,000 kits pa, from 18,000 presently. It is also exploring opportunities in Asia, which could further boost profitability. With the ongoing advancements, this should be a good time to take a closer look at this stock.

Key European contract win to boost revenue. Jackspeed has been awarded a 2-year renewable contract by a European OEM supplier to car manufacturers and importers, which will see it supplying 12,000 more upholstery leather kits pa – a major increase from the current level of over 18,000 kits pa. It has also been awarded another 2-year contract with an OEM automotive manufacturer in Malaysia to supply 2,300 kits a year, on top of increased orders from existing customers. Thus, its leather kits production should double in FY19 (Feb), which will further boost its profitability.

Additional capacity from new factory site. With the surge in orders, the additional production capacity will come from a new 50,000-sq ft factory site in Kluang, Malaysia that it bought in 2H16. The new factory is scheduled to begin operating in 2Q. While it will increase the group's capacity by 12,000 upholstery kits pa, the effect is lessened by a smaller existing factory that it is giving up which produces 6,000 upholstery kits per year. With these, its present capacity of 26,000 upholstery kits pa should increase to 32,000 by 3Q18. Management is actively managing production and orders. Meanwhile, the new factory has unused land on which an additional production facility can be quickly built to meet future orders.

Attractive yield and sound B/S. Jackspeed has a net cash B/S with minimal debt, accompanied with an attractive dividend payout of SGD0.01/year, representing a historical FY18 yield of 5.2%. Management has also shared that it will be keen to reward shareholders with higher dividends, with a better PATMI performance.

Potential M&As. Management shared that it is keen to utilise its cash pile for yield-accretive M&As to further expand the company. Trading at just 6.7x ex-cash FY18 P/E, its valuation is also undemanding, accompanied by an attractive yield of 5.2%. It is also exploring opportunities in Asia that could further boost profitability. With the ongoing advancements, it may be worth to take a further look at this counter.

Key risks to its outlook include an economic recession

Forecasts and Valuations	Feb-14	Feb-15	Feb-16	Feb-17	Feb-18
Total turnover (SGDm)	34.0	40.1	65.7	67.7	52.4
Reported net profit (SGDm)	0.54	2.31	7.35	4.37	5.57
Recurring net profit (SGDm)	0.54	2.31	7.35	4.37	5.57
Recurring net profit growth (%)		328.3	217.8	(40.6)	27.6
Recurring EPS (SGD)	0.00	0.01	0.03	0.02	0.02
DPS (SGD)	na	na	na	0.010	0.010
Recurring P/E (x)	86.5	20.2	6.4	10.7	8.4
P/B (x)	1.64	1.52	1.26	1.13	0.96
P/CF (x)	11.6	9.5	6.5	4.5	3.9
Dividend Yield (%)	na	na	na	5.4	5.4
EV/EBITDA (x)	13.8	6.6	3.6	3.7	2.3
Return on average equity (%)		7.8	21.7	11.2	12.4
Net debt to equity	net cash	net cash	net cash	net cash	net cash
Our vs consensus EPS (adjusted)					

Source: Company data, RHB

Share Data

Avg Daily Turnover (SGD/USD)	0.01m/0.01m
52-wk Price low/high (SGD)	0.16 - 0.21
Free Float (%)	31
Shares outstanding (m)	251
Estimated Return	%

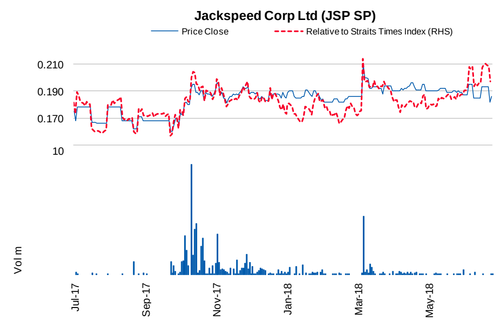
Shareholders (%)

Citibank Nominees Singapore	44.8
Aapico Investment	15.0
DBS Nominees	4.2

Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(1.1)	(2.1)	(4.1)	0.0	6.3
Relative	5.1	5.0	3.4	9.5	7.5

Source: Bloomberg



Source: Bloomberg

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Financial Exhibits

Financial model updated on : 2018-07-03.

Asia
Singapore
Technology
Jackspeed
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Valuation basis

N/A

Key drivers

i. Aviation industry offers huge growth and margin uplift potential;
ii. Attractive dividend yield of 5.6%

Key risks

Economic slowdown

Company Profile

Jackspeed Corp produces custom-fitted automotive leather trim for car seats. The company also provides leather wrapping for other automotive interior products, such as steering wheels, consoles, gear shift knobs, and hand brakes.

Financial summary	Feb-14	Feb-15	Feb-16	Feb-17	Feb-18
Recurring EPS (SGD)	0.00	0.01	0.03	0.02	0.02
EPS (SGD)	0.00	0.01	0.03	0.02	0.02
DPS (SGD)	0.000	0.000	0.000	0.010	0.010
BVPS (SGD)	0.11	0.12	0.15	0.16	0.19
Weighted avg adjusted shares (m)	251	251	251	251	251

Valuation metrics	Feb-14	Feb-15	Feb-16	Feb-17	Feb-18
Recurring P/E (x)	86.5	20.2	6.4	10.7	8.4
P/E (x)	86.5	20.2	6.4	10.7	8.4
P/B (x)	1.64	1.52	1.26	1.13	0.96
FCF Yield (%)	4.8	2.7	13.0	19.2	21.4
Dividend Yield (%)	0.0	0.0	0.0	5.4	5.4
EV/EBITDA (x)	13.8	6.6	3.6	3.7	2.3
EV/EBIT (x)	43.9	10.9	4.5	5.0	2.8

Income statement (SGDm)	Feb-14	Feb-15	Feb-16	Feb-17	Feb-18
Total turnover	34.0	40.1	65.7	67.7	52.4
Gross profit	9.2	11.3	12.8	15.5	19.4
EBITDA	2.7	5.3	10.9	9.0	11.9
Depreciation and amortisation	(1.9)	(2.1)	(2.3)	(2.5)	(2.1)
Operating profit	0.9	3.2	8.6	6.6	9.9
Net interest	(0.1)	0.0	(0.1)	(0.3)	(2.0)
Income from associates & JVs	(0.1)	(0.0)	(0.0)	(0.0)	0.2
Pre-tax profit	0.7	3.2	8.5	6.3	8.1
Taxation	(0.1)	(0.6)	(0.6)	(1.0)	(1.7)
Minority interests	(0.1)	(0.3)	(0.5)	(0.9)	(0.8)
Recurring net profit	0.5	2.3	7.4	4.4	5.6

Cash flow (SGDm)	Feb-14	Feb-15	Feb-16	Feb-17	Feb-18
Change in working capital	1.3	0.4	1.4	2.1	1.9
Cash flow from operations	4.0	4.9	7.2	10.3	12.0
Capex	(1.8)	(3.7)	(1.1)	(1.3)	(2.0)
Cash flow from investing activities	(5.0)	(1.5)	(5.8)	(2.2)	(3.9)
Proceeds from issue of shares	0.0	0.0	0.0	0.0	5.7
Dividends paid	0.0	0.0	0.0	0.0	(4.5)
Cash flow from financing activities	(2.6)	(1.5)	(3.9)	(3.9)	(2.8)
Cash at beginning of period	13.0	9.1	11.2	8.4	12.7
Net change in cash	(3.6)	1.9	(2.5)	4.1	5.3
Ending balance cash	9.2	11.2	8.4	12.7	18.2

Balance sheet (SGDm)	Feb-14	Feb-15	Feb-16	Feb-17	Feb-18
Total cash and equivalents	10.4	13.5	9.6	12.7	18.4
Tangible fixed assets	7.7	8.7	9.7	9.8	10.7
Intangible assets	1.5	1.2	0.9	0.9	0.9
Total investments	1.3	1.2	1.1	4.5	4.7
Total other assets	5.3	6.5	21.7	30.4	40.1
Total assets	45.4	51.9	66.6	85.6	119.9
Other liabilities	0.1	0.2	0.0	2.5	2.1
Total liabilities	14.1	18.4	26.3	40.8	67.4
Shareholders' equity	28.4	30.7	37.1	41.2	48.5
Minority interests	2.8	2.9	3.1	3.6	4.0
Total equity	31.2	33.6	40.2	44.8	52.5
Net debt	(10.4)	(13.5)	(9.6)	(12.7)	(18.4)
Total liabilities & equity	45.4	51.9	66.6	85.6	119.9

Key metrics	Feb-14	Feb-15	Feb-16	Feb-17	Feb-18
Revenue growth (%)		17.8	63.8	3.0	(22.5)
Recurrent EPS growth (%)		328.3	217.8	(40.6)	27.6
Gross margin (%)	27.1	28.1	19.5	23.0	36.9
Operating EBITDA margin (%)	8.0	13.2	16.6	13.3	22.8
Net profit margin (%)	1.6	5.8	11.2	6.5	10.6
Capex/sales (%)	5.3	9.1	1.7	1.9	3.8
Interest cover (x)	2.12	8.77	19.22	9.27	4.96

Source: Company data, RHB

Company Background

Jackspeed was listed on the Main Board of the Singapore Exchange in 2003. Established in 1993, it is a specialist manufacturer of custom-fitted leather trim for automotive and aviation seats, and a supplier of leather wrapping for interior parts such as steering wheels, consoles and shift knobs.

Headquartered in Singapore, it has a sales office in Australia, a JV for the Japanese market and manufacturing facilities in Malaysia and Thailand.

In Feb 2012, the company expanded its footprint downstream, engaging in the business of selling, leasing and renting commercial and private motor vehicles.

Currently, the group serves the following industries:

i. Automotive;

ii. Aviation

Automotive

Jackspeed manufactures and provides installation services for car interiors, eg upholstery for automotive seats, console box, door panel, door handle, steering wheel, gear gaiter and roof lining. The group also supplies accessories like roof bars, rear bumpers, canopies, scuff plates, muffler covers and sunroofs.

Figure 1: Automotive products and services

Source: Company data

Services

In FY12, the group expanded downstream by acquiring an automotive division. The following is a list of services that Jackspeed provides under its automotive (non-accessories) business segment:

i. Trading of commercial and passenger vehicles (new and used)

ii. Rental of commercial and passenger vehicles

iii. Auto-financing

iv. Motor and other insurances

Aviation

Jackspeed's aviation division is a professional solutions provider for various operators and hangars in the region for aircraft cabins. The group was certified by the Civil Aviation Authority of Singapore (CAAS) and Civil Aviation Administration of Vietnam (CAAV) as an approved maintenance organisation, and by Federal Aviation Administrative (FAA) as an approved repair station for aircraft seat assemblies, flooring, sidewalls etc. under Part 145.

The company has also qualified itself under various major airlines operators and repair facilities in the region as a certified approved vendor.

Its capabilities include aircraft seat upholstery maintenance, overhaul and retrofitting for private jets, commercial planes and helicopters as well as marine upholstery for pleasure crafts.

Figure 2: Key appointments

Key appointments

Name	Appointment	Role
Mr Chin Yew Choong David	Independent Non-Executive Chairman	Mr Chin was appointed as the Independent Non-Executive Chairman for the Group on 24 January 2014. He has served as an Independent Director for the Group since 31 May 2011. He is the Chairman of the Remuneration Committee and is also a Member of the Audit Committee and Nominating Committee.
Mr Yap Kian Peng	Executive Deputy Chairman	Mr Yap was appointed as the Executive Deputy Chairman on 24 January 2014 and Chief Executive Officer for the Group on 2 December 2011. He has served as Executive Chairman for the Group between 16 December 2010 to 24 January 2014. He is responsible for charting and reviewing our corporate direction and business strategies
Mr Lo Yew Seng	Independent Director	Mr Lo was appointed as the Independent Director of the Company on 7 July 2010. He is the Chairman of the Audit Committee and is also a Member of the Remuneration Committee and Nominating Committee.
Mr Toh Tiong San	Independent Director	Mr Toh was appointed as the Independent Director of the Company on 21 September 2015. He is the Chairman of the Nominating Committee and is also a Member of the Audit Committee and Remuneration Committee.
Ms Chua Sze Chyi	Executive Director	Ms Chua was appointed as the Executive Director of the Company on 26 April 2012. She is responsible for overseeing and supervising the Finance Department as well as monitoring the performance of the subsidiaries.

Source: Company data

Figure 3: Company structure

Source: Company data

Business Analysis

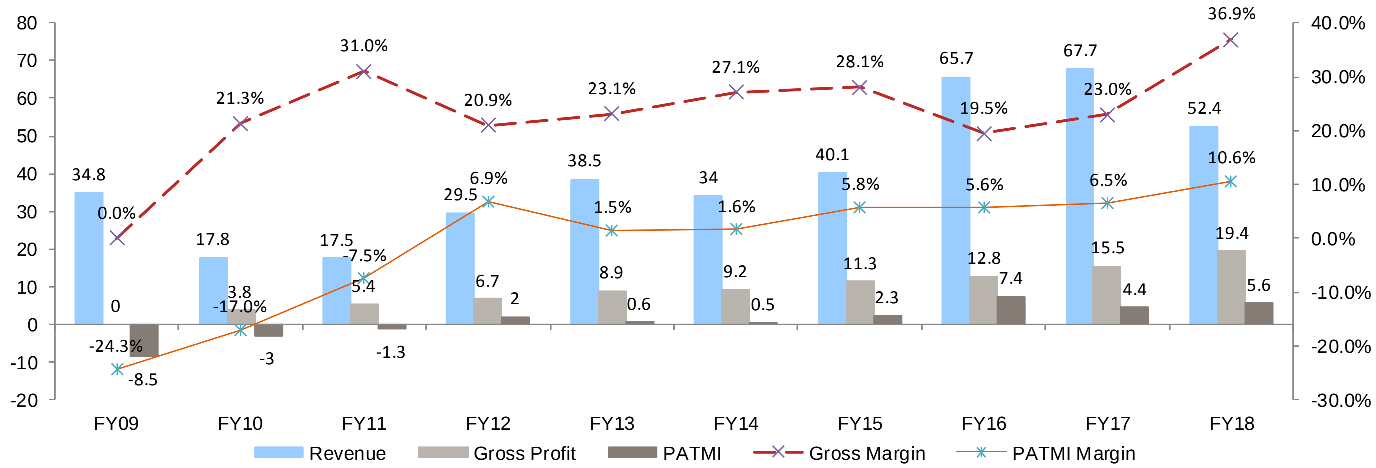
Jackspeed went through a major business rationalisation since the new management team took over the business. The group managed to become profitable under the new leadership in FY12, booking a net profit of SGD1.67m for the first time after three consecutive years of losses. The turnaround in FY12 was the effect of the new automotive segment (SGD14.41m revenue in FY12), divestment of a property and two subsidiaries.

The automotive segment yields a lower gross margin, ie it narrowed to 20.9% in FY12, from 31% FY11. However, in absolute term, the gross profit increased by SGD1.3m. FY13 revenue shows the full-year impact of the new automotive segment.

Meanwhile, revenue jumped by 63.8% YoY to SGD65.7m, from SGD 40.1m in FY15. This is mainly driven by an increase of the number of used motor vehicles sold and a higher proportion of relatively new vehicles sold under the automotive segment. Net profit increased by SGD5.1m to SGD7.4m in FY16, from SGD2.3m in FY15. This came on the back of a gain of SGD4.6m from the disposal of a leasehold property in Singapore.

Excluding the one-off gain of SGD4.6m in FY16, FY17 net profit attributable to shareholders increased 57% to SGD4.4m, vs SGD2.8m in FY16. In FY18, it jumped 27% YoY to SGD5.6m on the back of higher profit margins.

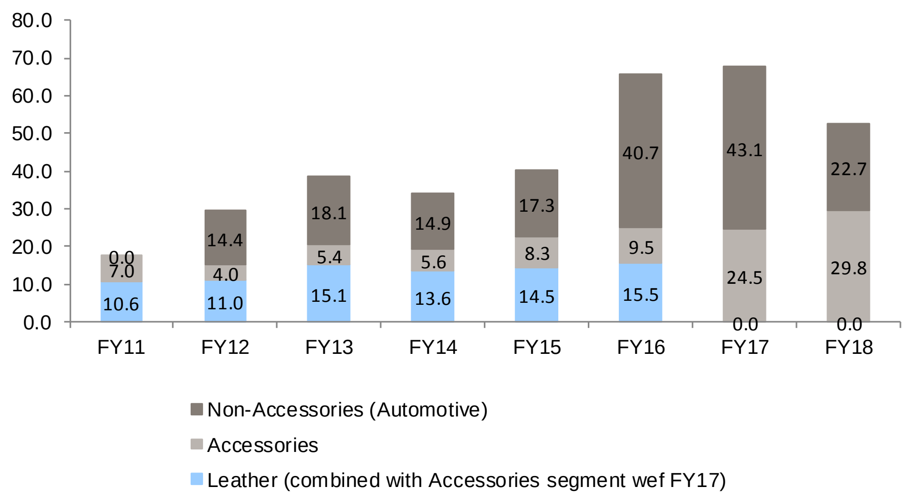
Figure 4: Financial performance



Source: Company data

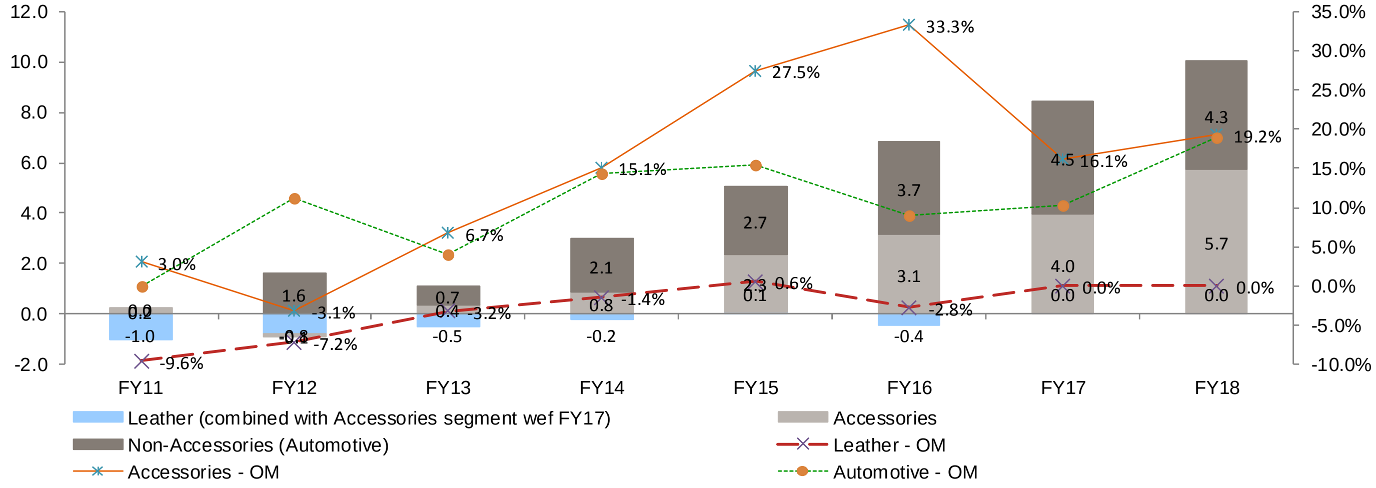
In FY17, the group's operating businesses were re-grouped into the accessories and non-accessories segments.

Figure 5: Revenue by segment



Source: Company data

Figure 6: Segmental operating margins



Source: Company data

Non-accessories (automotive) segment

The group acquired the automotive business back in FY12, and immediately saw a contribution of SGD14.4m to the topline. Subsequently, this segment recorded lower revenue by SGD3.2 million or -18% YoY, ie to SGD14.9 million in FY14 from SGD18.1 million in FY13. This was mainly due to the impact of curbs on vehicle loans, which affected its business.

In FY16, Jackspeed's revenue rose to SGD23.4m YoY, mainly due to an increase in the number of used motor vehicles and a higher proportion of relatively new vehicles sold. This could be due to a higher certificate of entitlement (COE) quota and easing of rules by the Monetary Authority of Singapore (MAS) on motor vehicle financing.

Similarly, the increase in both the revenue and the operating profit in FY17 could be driven by higher car sales, ahead of the implementation of a zero vehicle growth rate by the Government from February onwards.

In FY18, this segment recorded lower revenue of SGD22.7m (-47% YoY) due to a lower volume of motor vehicles traded. Despite the lower revenue, operating profit remained consistent at SGD4.3m in FY18 (FY17: 4.5m).

Accessories segment

Revenue for the accessories segment decreased by SGD2.91m in FY12, as it fielded lesser orders as a result of the floods in Thailand, while it ended a project during the financial year.

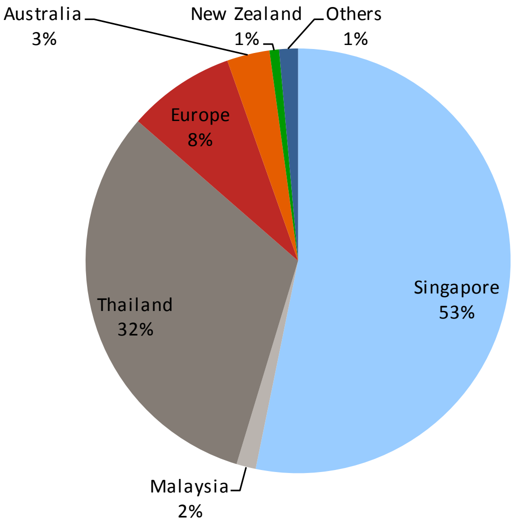
The leather segment boosted the group's revenue by SGD4.03m (+37%YoY) in FY13, on the back of a newly-acquired Australian entity. At the same time, the accessories business went back on track after being affected by the floods in Thailand the year before.

In FY14, Jackspeed divested its interest in Jackspeed Aviation in an effort to rationalise the business. As a result, coupled with a lower trading volume of automotive spare parts, revenue for the leather business dropped by SGD1.5m. This was partially offset by the increase in revenue contributed by Ultimate Vehicle Pty Ltd, a wholly-owned subsidiary acquired in 3QFY13.

In FY16, the leather business took a turn and went into red (operating loss: SGD0.4m) from an operating profit of SGD84,000 in FY15 due to higher raw material costs. Contrary to the leather segment, the accessories segment recorded higher revenue and better operating profit on the back of greater sales demand and improved gross profit margins that resulted from managing its procurement process more effectively.

Revenue in this segment grew by SGD5.3m (+21% YoY), to SGD29.8m in FY18 from SGD24.5m in FY17. Correspondingly, operating profit increased by SGD1.8m to SGD5.78m in FY18.

Figure 7: Revenue contributions by geography



Source: Company data

The majority of the revenue for FY18 came from Singapore (53%). However, turnover dropped to SGD27.9m in FY18, from SGD45.9m in FY17 as a result of lower revenue recorded by the non-accessories segment. This could be due to a lower volume of motor vehicles traded.

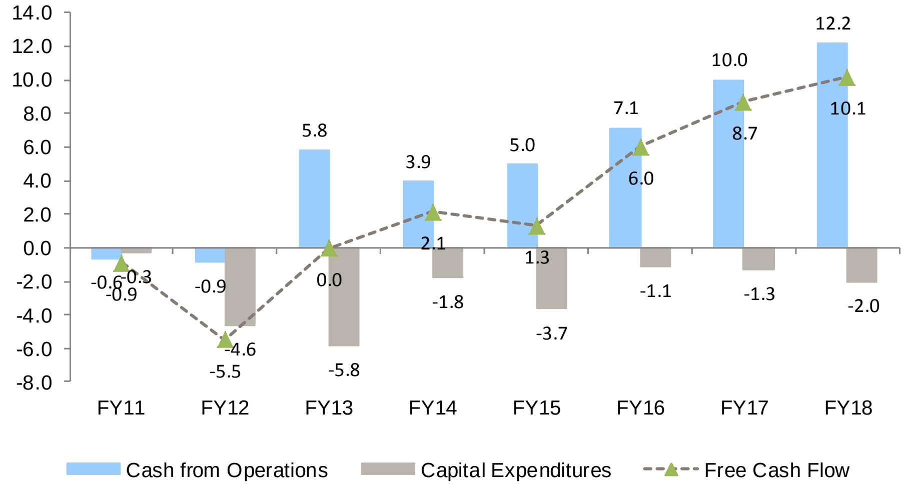
Excluding the non-accessories segment, the largest contributor was from the group of customers based in Thailand, where Jackspeed has a factory that produces spare parts.

Jackspeed also has a sales operation in Europe to serve customers in the automotive industry. In March, it announced the award of 2-year renewable contract by a European OEM supplier to supply more than 12,000 upholstery leather kits pa. This is a significant increase from the current production level of 18,000 upholstery leather kits pa.

Separately, Jackspeed has also been awarded a 2-year contract with an OEM automotive manufacturer in Malaysia to supply 2,300 vehicle upholstery kits pa.

To meet new orders as well as diversify into the aviation sector, the new factory that it procured in 2H16 will kick off operations in 2Q18. The new plant – situated in Kluang, Malaysia – will add another 50,000 sq ft to its capacity.

Figure 8: Free cash flow (SGDm)



Source: Company data, RHB

Management also turned its negative operating cash flow of SGD0.6m in FY11 to positive in FY13 (SGD5.8m). Cash flow rose steadily in FY14-17. It reached a record of SGD 10.0m in FY17. Total capex incurred for FY12 and FY13 were SGD4.6m and SGD5.8m, of which SGD4.3m and SGD4.8m were used to fund the purchase of investment properties. At the same time, two investment properties were hived off, with a gain on disposal of SGD0.8m in FY13.

Jackspeed's cash and cash equivalents stood at SGD18.4m in FY18 as a result of positive cash flow from operations of SGD12.2m and net proceeds from the issuance of ordinary shares worth SGD5.7m. This was partially offset by capex of SGD2m, dividend payments of SGD4.5m and other financing activities that amounted to SGD5.7m.

Dividends. The rationalisation has improved its operating and free cash flow tremendously over the years. This has allowed Jackspeed to declare a first and final DPS of 1 cent (SGD) in FY16. It also declared an interim DPS of 0.5 cents (SGD) and another final DPS of 0.5 cents (SGD) for FY18. The dividend payout is equivalent to slightly below 50% of profit. The company last declared a dividend in 2008.

Key Risks

Technological disruption in the automotive industry. The rise of tech companies has pushed the world towards a sharing economy. The likes of Uber and Grab have inevitably become essential modes of commuting. Ride-sharing technology has also given commuters a new mode of transportation. We expect car sales to drop in the near term, as the number of families and individuals that need to own a vehicle is significantly reduced.

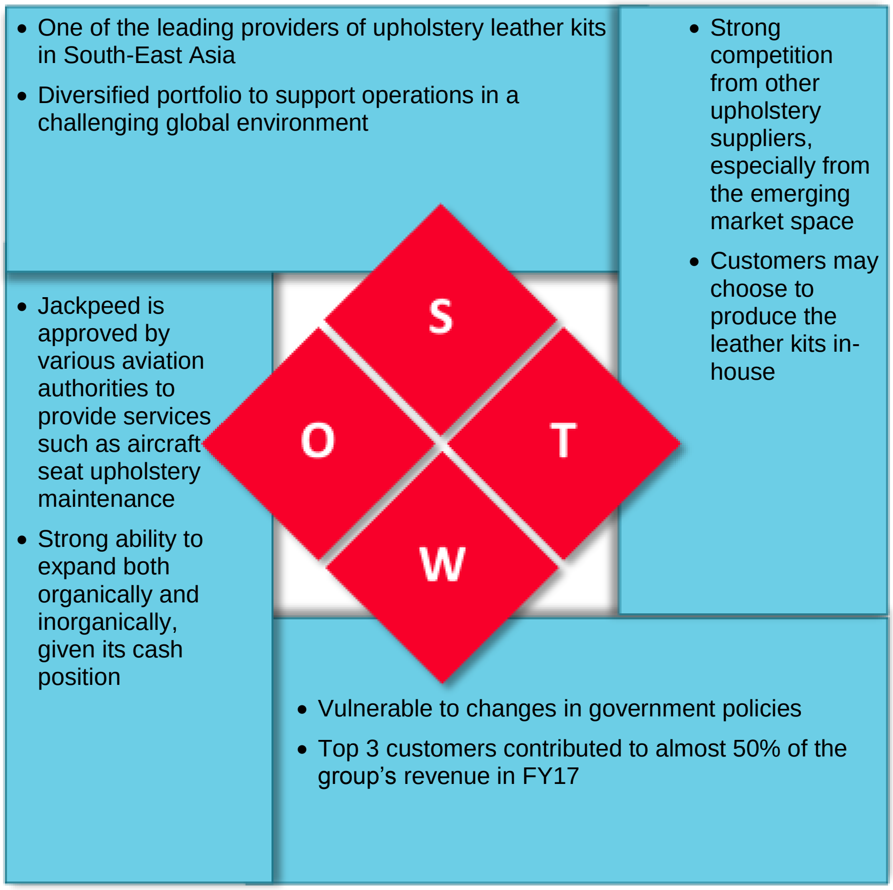
Government policy risk. Changes in rules and regulations will have a direct impact on the auto industry. In Singapore, the auto sector is highly regulated. For example, the recent announcement made by the Land Transport Authority of Singapore to cut the vehicle growth rate to zero from 0.25% (from February onwards) will directly impact car dealers as the number of cars allowed on the road will be capped.

Intense competition. Car dealing is one of the most competitive businesses in the world, especially in Singapore. With the constraint on the number of vehicles allowed on the road, the pie size is fixed. Hence, car traders have to lower their margins to beat the competition.

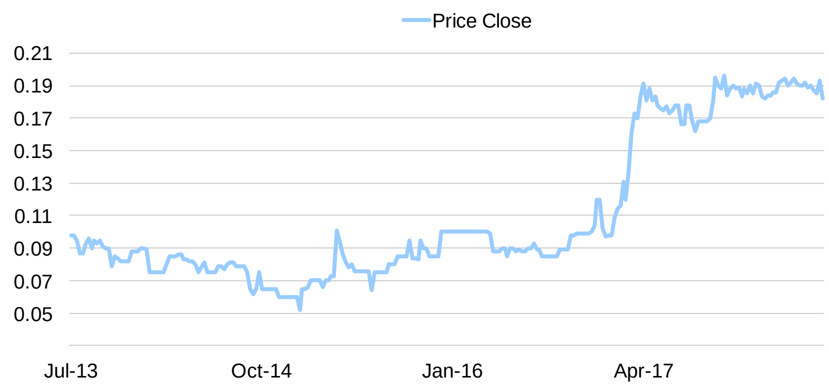
Rising interest rate risk. The financial burden on car owners will increases in a rising interest rate environment. Hire-purchase customers will find it more difficult to service their car loans – which increases the risk of non-performing loans for the company.

Market transition into EV and connected cars. Demand for EVs and driverless cars is set to grow in the years to come. The key to staying competitive in the auto industry is for the players to manage the transition well, by introducing new models. The risk here is that the demand for certain car components may be reduced drastically or become obsolete. Auto suppliers have to step up and innovate to meet demand from car manufacturers in terms of its innovation capability, the quality of its products and production capacity.

SWOT Analysis



Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2018-07-09			

Source: RHB, Bloomberg

RHB Guide to Investment Ratings

Buy: Share price may exceed 10% over the next 12 months
Trading Buy: Share price may exceed 15% over the next 3 months, however longer-term outlook remains uncertain
Neutral: Share price may fall within the range of +/- 10% over the next 12 months
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Sell: Share price may fall by more than 10% over the next 12 months
Not Rated: Stock is not within regular research coverage

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