

29 February 2024

Technology | Technology

JHM Consolidation (JHMC MK)

Buy (Maintained)

Commendable Results Despite Adversities; BUY

- **Keep BUY and MYR0.85 TP, 22% upside, c.1% yield.** FY23 core earnings beat our estimates but missed Street's due to JHM Consolidation's stronger-than-expected industrial segment. Slower revenue and loss of economies of scale, coupled with higher input costs dragged FY23 profitability. Current below-mean valuation vis-à-vis a potentially better FY24 makes JHM a BUY, given the potential rebound from the industrial segment's recovery – amid the bottoming out of the semiconductor sector – and contributions from new major customers in the automotive segment.
- **Above our expectations but below consensus.** FY23 revenue of MYR310.7m (-12.7% YoY) and core profit of MYR14.1m (-35.0% YoY) exceeded our forecasts at 123.3% but was at only 70% of Street's. The outperformance vs our estimate was mainly due to a better performance from JHM's industrial segment and favourable FX rates. Overall FY23 profitability was undermined by weakness in the industrial segment amid the chip sector's downturn, compounded by a slowdown in the automotive segment. This was in addition to higher labour and utility costs, coupled with the loss of economies scale.
- **Weak 4Q.** 4Q23 revenue fell 41.5% QoQ and 52.3% YoY on the slowdown in automotive orders and 6-week United Auto Workers (UAW) strike that began in mid-Sep 2023. This was partially cushioned by the industrial unit's stronger profitability, on the back of stringent cost controls. MYR3.8m core profit was down 63% YoY and 43% QoQ post adjustments for unrealised FX losses/gains.
- **Slow start to FY24.** The overall lacklustre E&E sector and disruptions from the 2023 UAW strike should continue to impact 1Q24 orders in the automotive segment. The industrial segment is still seeing low utilisation rates with a more significant pick-up only expected in 2H24 due to the prolonged global slowdown, as the semiconductor sector has showed signs of bottoming out. Maiden contributions from its new major automotive customers have been pushed out to 2Q/3Q and we should see better earnings trajectory thereafter.
- **Project updates.** The operation set-up for JHM-Dekai Auto Lighting is now completed and should go into light assembly in the coming quarter, with an initial revenue contribution of MYR8-10m pa – it is expected to reach MYR30-40m in 1-2 years. The utilisation rate at the machining side remains subpar, while the hermetic glass seals project is pending customers' loadings. Note that JHM has exited the 30% JV with Mass Precision to consolidate its resources to grow its organic business.
- **Forecasts and ratings.** Maintain our earnings forecasts, aside from a minor model-up keeping exercise. Our MYR0.85 TP is based on an unchanged 18x FY24F P/E (mean level), inclusive of a 2% ESG premium. Note that we lowered JHM's ESG score to 3.1 (from 3.2) for the non-disclosure of its emissions data.
- **Risks:** Lower demand, cost escalations, a stronger MYR, and delays in new project execution.

Target Price (Return):

MYR0.85 (22.1%)

Price (Market Cap):

MYR0.70 (USD88.3m)

ESG score:

3.1 (out of 4)

Avg Daily Turnover (MYR/USD)

0.89m/0.19m

Analyst

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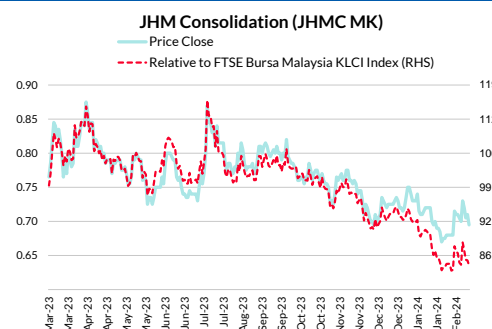
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Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(3.5)	(0.7)	(4.8)	(9.8)	(8.0)
Relative	(9.8)	(3.3)	(11.5)	(16.8)	(14.3)
52-wk Price low/high (MYR)				0.67	-0.88



Source: Bloomberg

Overall ESG Score: 3.1 (out of 4)

E: EXCELLENT

All of JHM's manufacturing factories are certified as an ISO 14001 organisation holder by an international body and is in compliance with the Environmental Quality Act 1994. By nature, the group does not release any harmful emission into the air or discharge any dangerous waste into the wastage system. Moreover, the group aims to minimise metal scraps (by-products) to achieve greater production efficiency

S: GOOD

The group complies to the requirements of Occupation Safety and Health 1994 to ensure the safety and health practices of its employees. An interim safety officer is appointed to manage matters relating to safety and health while adequate safety training are provided to its employees

G: EXCELLENT

JHM has applied and adopted majority of the best practices of the Malaysian Code on Corporate Governance. Half of its board are independent directors and none have served more than nine years

Forecasts and Valuation	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
Total turnover (MYRm)	356	311	390	429	482
Recurring net profit (MYRm)	21	14	28	39	43
Recurring net profit growth (%)	(18.3)	(33.7)	98.2	37.7	11.7
Recurring P/E (x)	19.77	29.80	15.04	10.92	9.77
P/B (x)	1.4	1.3	1.2	1.1	1.0
P/CF (x)	202.78	7.39	31.36	11.39	10.46
Dividend Yield (%)	na	na	1.4	2.9	na
EV/EBITDA (x)	8.46	10.16	7.04	5.66	4.88
Return on average equity (%)	7.7	4.5	8.5	10.9	11.0
Net debt to equity (%)	7.5	net cash	net cash	1.3	net cash

Source: Company data, RHB

Note:

Small cap stocks are defined as companies with a market capitalisation of less than USD0.5bn.

Financial Exhibits

Asia	Financial summary (MYR)	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
Malaysia	Recurring EPS	0.04	0.02	0.05	0.06	0.07
Technology	DPS	-	-	0.01	0.02	-
JHM Consolidation	BVPS	0.51	0.53	0.56	0.61	0.68
JHMC MK	Return on average equity (%)	7.7	4.5	8.5	10.9	11.0
Buy						
	Valuation metrics	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
Valuation basis	Recurring P/E (x)	19.77	29.80	15.04	10.92	9.77
18x 2024F P/E	P/B (x)	1.4	1.3	1.2	1.1	1.0
	FCF Yield (%)	(5.5)	12.6	(1.6)	1.7	4.8
Key drivers	Dividend Yield (%)	-	-	1.4	2.9	-
i. New project wins;	EV/EBITDA (x)	8.46	10.16	7.04	5.66	4.88
ii. Larger orders;	EV/EBIT (x)	13.04	18.70	10.48	7.91	6.74
iii. MYR weakening against USD.						
	Income statement (MYRm)	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
Key risks	Total turnover	356	311	390	429	482
i. Lower-than-expected demand;	Gross profit	59	39	67	84	95
ii. Stronger-than-expected MYR.	EBITDA	53	40	60	76	84
iii. Delay in new project execution	Depreciation and amortisation	(18)	(18)	(20)	(21)	(23)
	Operating profit	34	22	40	54	61
	Net interest	(3)	(2)	(3)	(3)	(3)
	Pre-tax profit	30	20	38	51	57
	Taxation	(10)	(6)	(9)	(12)	(13)
	Reported net profit	21	14	28	39	43
	Recurring net profit	21	14	28	39	43
Company Profile						
JHM designs, manufactures and assembles high brightness light-emitting diodes (HB LED), direct current (DC) micro-motor components, ODM of LED components, pitch connector pins, precision miniature engineering metal parts and components and electronic components using surface-mount technology.						
	Cash flow (MYRm)	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
	Change in working capital	(39.5)	30.8	(35.2)	(24.0)	(27.2)
	Cash flow from operations	2.1	57.0	13.4	37.0	40.3
	Capex	(25.3)	(4.0)	(20.0)	(30.0)	(20.0)
	Cash flow from investing activities	(24.8)	(1.2)	(20.0)	(30.0)	(20.0)
	Dividends paid	0.0	0.0	(6.1)	(12.1)	0.0
	Cash flow from financing activities	41.3	(27.2)	(0.1)	(2.1)	6.0
	Cash at beginning of period	46.6	61.9	78.6	72.0	76.9
	Net change in cash	18.6	28.5	(6.6)	4.9	26.3
	Ending balance cash	66.2	90.4	72.0	76.9	103.1
	Balance sheet (MYRm)	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
	Total cash and equivalents	62	79	72	77	103
	Tangible fixed assets	146	149	149	158	155
	Total assets	492	468	504	543	599
	Short-term debt	54	32	50	57	61
	Total long-term debt	31	34	22	25	26
	Total liabilities	186	148	160	172	183
	Total equity	306	321	344	371	415
	Total liabilities & equity	492	468	504	543	599
	Key metrics	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
	Revenue growth (%)	20.0	(12.7)	25.4	10.2	12.2
	Recurrent EPS growth (%)	(24.8)	(33.7)	98.2	37.7	11.7
	Gross margin (%)	16.7	12.4	17.3	19.6	19.8
	Operating EBITDA margin (%)	14.8	12.9	15.4	17.6	17.4
	Net profit margin (%)	6.0	4.5	7.2	9.0	8.9
	Dividend payout ratio (%)	0.0	0.0	21.6	31.4	0.0
	Capex/sales (%)	7.1	1.3	5.1	7.0	4.2
	Interest cover (x)	11.8	9.7	14.9	18.9	18.5

Source: Company data, RHB

Results At a Glance

Figure 1: FY23 results review

FYE Dec (MYRm)	4Q22	3Q23	4Q23	QoQ (%)	YoY (%)	FY22	FY23	YoY (%)	Comments
Revenue	86.8	80.1	45.1	(43.7)	(48.1)	355.8	310.7	(12.7)	Impacted by sector-wide slowdown.
Automotive	42.7	52.4	25.0	(52.3)	(41.5)	211.9	210.7	(0.5)	4Q23: Significant drop due the labour strike in the US.
Industrial	43.9	27.7	20.0	(27.7)	(54.3)	143.7	99.8	(30.6)	
Others	0.0	0.0	0.0	(30.0)	(41.7)	0.0	0.1	57.4	
Investment hold.	0.2	0.0	0.0	(6.7)	(82.6)	0.2	0.2	(2.2)	
EBITDA	17.3	13.1	8.9	(32.3)	(48.6)	49.6	39.3	(20.8)	
EBITDA margin (%)	20.0	16.4	19.7			13.9	12.6		YoY margin declines were due to loss of economies of scale.
Depreciation & amortisation	(4.0)	(4.1)	(5.0)	(21.4)	(24.1)	(15.5)	(17.4)	(12.3)	Higher depreciation charges for the new machines.
EBIT	13.3	9.1	3.9	(56.6)	(70.5)	34.1	21.9	(35.8)	
EBIT margin (%)	15.4	11.3	8.7			9.6	7.0		
Automotive	2.8	8.1	(1.9)	(123.8)	(169.8)	31.9	23.3	(26.8)	
Industrial	2.7	(0.5)	2.9	(658.5)	9.7	9.8	(0.4)	Nm	
Others	(0.0)	(0.0)	(0.1)	(1240.0)	(204.5)	(0.1)	(0.2)	(167.1)	
Investment hold.	(0.1)	0.2	(0.2)	Nm	(134.8)	(1.2)	(0.6)	(51.9)	
Interest expense	(0.9)	(0.4)	(0.5)	(9.4)	45.0	(3.0)	(2.3)	24.7	
Associates	0.0	0.0	0.0	Nm	Nm	(1.2)	0.0	Nm	
El/others	(8.5)	(1.3)	(3.1)	(142.3)	63.1	6.0	0.4	93.9	FX gain/loss, gain on disposal, and recognition of profit guaranteed shortfall.
Pre-tax profit	4.0	7.3	0.3	(95.6)	(92.0)	35.9	20.0	(44.3)	
Pre-tax margin (%)	4.6	9.1	0.7			10.1	6.4		
Tax	(2.3)	(1.9)	0.3	Nm	Nm	(8.8)	(5.7)	35.5	
Effective tax rate (%)	58.4	26.5	(101.6)			24.5	28.4		
Minority interest	0.1	0.0	0.0	Nm	(100.0)	0.6	0.2	(68.0)	
Net profit	1.7	5.4	0.6	(88.1)	(62.8)	27.7	14.5	(47.7)	
Core profit	10.2	6.7	3.8	(43.4)	(63.0)	21.7	14.1	(35.0)	Above our expectation.
Net margin (%)	11.8	8.3	8.4			6.1	4.5		

Source: Company data, RHB

Emissions And ESG

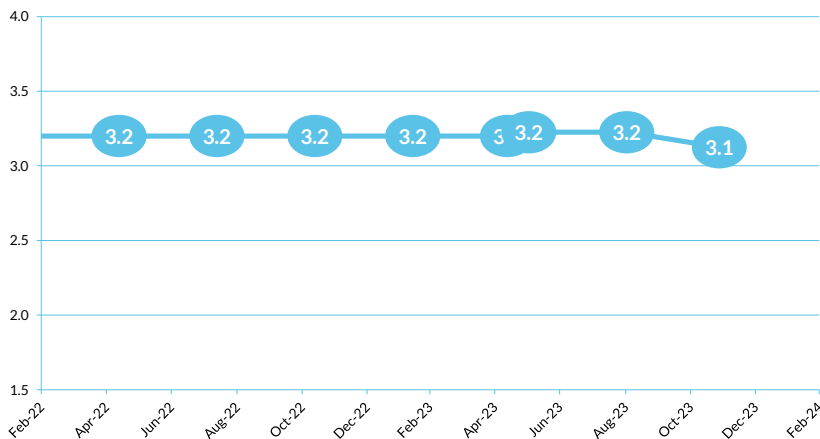
Trend analysis	Emissions (tCO2e)	Dec-21	Dec-22	Dec-23
NA	Scope 1	na	na	-
	Scope 2	na	na	-
	Scope 3	-	-	-
	Total emissions	na	na	na

Source: Company data, RHB

Latest ESG-Related Developments

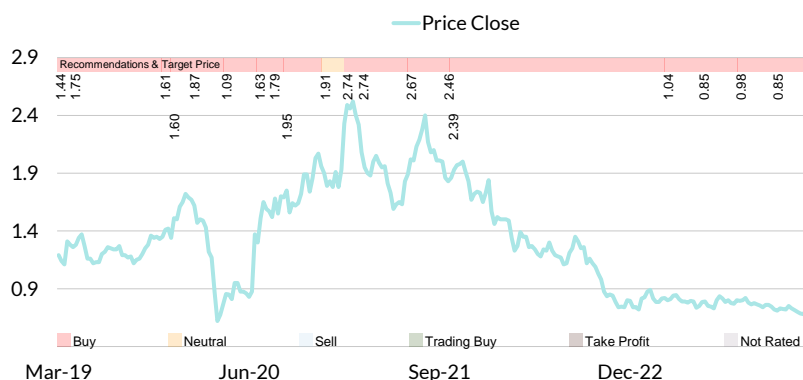
- The group tracks the wastage and scraps per tonnage of goods produced and the numbers are on a declining trend since FY20.
- However, on electricity consumption, there has been an increasing trend due to the upgrading of the production facility and expansion of warehouse.
- This is a natural phenomenon given that the manufacturing process involves the use of machines and equipment that are powered by electricity.

ESG Rating History



Source: RHB

Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2023-11-27	Buy	0.85	0.75
2023-08-29	Buy	0.98	0.79
2023-06-01	Buy	0.85	0.75
2023-03-07	Buy	1.04	0.84
2021-11-29	Buy	2.39	1.71
2021-10-05	Buy	2.39	1.80
2021-09-23	Buy	2.46	1.96
2021-06-25	Buy	2.67	1.89
2021-06-22	Buy	2.74	1.85
2021-02-28	Buy	2.74	2.32
2021-01-21	Buy	2.74	2.26
2020-11-27	Neutral	1.91	1.96
2020-08-27	Buy	1.95	1.64
2020-07-27	Buy	1.79	1.50
2020-06-22	Buy	1.63	1.32

Source: RHB, Bloomberg

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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
Take Profit:	Target price has been attained. Look to accumulate at lower levels
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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