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## FY11 Results Review

# JCY International

### Runaway Share Price Unjustified

**SELL** ↔

Fair Value  
Previous  
Price

RM0.41  
RM0.31  
RM0.76

#### TECHNOLOGY

JCY is one of the world's largest precision engineering manufacturers of HDD components.

#### Stock Statistics

Bloomberg Ticker	JCYH MK
Share Capital (m)	2,044.9
Market Cap	1,554.1
52 week H   L Price	0.92   0.39
3mth Avg Vol (000)	12,566.3
YTD Returns	-5.6
Beta (x)	1.33

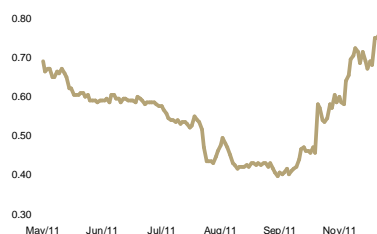
#### Major Shareholders (%)

YK Yong	74.1
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#### Share Performance (%)

Month	Absolute	Relative
1m	33.3	29.7
3m	81.0	81.3
6m	24.6	35.5
12m	-16.2	-12.7

#### 6-month Share Price Performance



JCY posted FY11 core earnings of RM29.9m which beat our previous forecast of RM3.3m by >100% on a better-than-expected 4QFY11 owing to a higher utilization rate, but fell behind at 72% of consensus' full-year estimate. Although it achieved some improvement in 4QFY11 with its core production facilities in Thailand unaffected by the recent floods, we are unconvinced by the recent share price run-up as we still believe that the production disruption at Western Digital (WD) would drag down total HDD production. Hence, we maintain SELL, at a revised FV of RM0.41, based on 0.9x FY12 P/NTA.

**Back into the black.** FY11 revenue stood at RM1.67bn, in line with our forecast of RM1.63bn but down 18% y-o-y due to lower average selling prices (ASPs), weaker shipments and unfavourable USD against RM. After netting off the one-off inventory writedown of RM15.3m, JCY's core earnings stood at RM29.9m, down over 83% y-o-y but trumping our forecast by >100%, as its operations swung back into the black in 4QFY11 on higher utilization. The 4QFY11 results marked a decent q-o-q improvement on higher production volume, but still pale in comparison with the 4QFY10 numbers given the continued pressure on ASP and weakness in USD against RM.

**Revising forecasts.** Although JCY fared better in 4QFY11 with core earnings of RM20.4m, we are not convinced by the recent share price run-up. While its core facilities in Thailand are unscathed by the recent floods, we are adamant that the production disruption at WD would drag down total HDD production volume. Meanwhile, the mitigating factors are a potential increase in orders from Seagate –another HDD giant – which escaped the Thai floods relatively unscathed, and a possible slight rise in component prices. However, we feel that both are unlikely to fully offset the production gap created by WD in the near term. Hence, we are tweaking our FY12 revenue lower by 4% on lower unit sales, while our EPS is revised higher by 20% on better unit margins given the low base. We are also introducing our FY13 numbers.

**SELL.** Although we believe JCY is in a better position compared with peers as its Thai facilities are running at full speed at this juncture, we think the company is unlikely to be shielded from the overall lower HDD volume. The stock's currently rich valuation at a FY12 PER of 17.4x following the recent share price run-up provides a good opportunity to cash out. Hence, we maintain SELL at a revised FV of RM0.41, based on 0.9x FY12 P/NTA (from 0.7x previously and at a 30% premium to its peers as its Thai production is intact).

FYE Sept (RMm)	FY09	FY10	FY11	FY12f	FY13f
Revenue	1758.1	2033.4	1671.4	1797.0	1853.2
Net Profit	207.3	173.8	14.6	89.3	104.6
% chq y-o-y	2.2	-16.2	-91.6	585.4	17.2
Consensus				95.1	126.8
EPS	10.1	8.5	0.7	4.4	5.1
DPS	0.0	4.7	0.0	1.7	2.0
Dividend yield (%)	0.0	6.1	0.0	2.3	2.7
ROE (%)	25.8	19.9	1.6	9.6	10.5
ROA (%)	14.2	11.8	1.1	6.2	7.4
PER (x)	7.5	8.9	106.8	17.4	14.9
BV/share	0.39	0.43	0.43	0.46	0.49
P/BV (x)	1.9	1.8	1.8	1.7	1.6
EV/EBITDA (x)	5.1	6.3	14.1	7.7	6.7

**Results Table (RMm)**

FYE Sept	4Q11	3Q11	Q-o-Q chg	YTD FY11	YTD FY10	Y-o-Y chg	Comments
Revenue	439.9	395.2	11.3%	1671.4	2044.6	-18.3%	FY11 numbers contracted sharply y-o-y due to weaker demand for PCs and notebooks amid uncertainty on the global economic front
EBIT	27.2	-30.8	-188.3%	19.2	192.0	-90.0%	
Net interest expense	-0.7	-1.0	-26.0%	-4.5	-7.7	-42.0%	
Associates	0.0	0.0	-	0.0	0.0	-	
PBT	26.4	-31.8	-183.2%	14.7	184.3	-92.0%	On a quarterly basis, 4QFY11 numbers swung back into the black from being in the red in 3QFY11 as its utilization rate most likely improved in our view
Tax	0.0	-0.1	-100.0%	-0.2	-7.9	-97.8%	
MI	0.0	0.0	-	0.0	0.0	-	
Net profit	26.4	-31.9	-183.0%	14.6	176.4	-91.7%	
Core net profit	26.4	-16.5	-260.0%	29.9	176.4	-83.1%	Inventory write-down of RM15.3m recorded in 3QFY11
Core EPS	1.3	-0.8		1.5	8.6		
DPS	0.0	0.0		0.0	4.7		
EBIT margin	6.2%	-7.8%		1.1%	9.4%		
NTA/Share	0.43	0.42		0.43	0.43		

**EARNINGS FORECAST**

<b>FYE Sept (RMm)</b>	<b>FY09</b>	<b>FY10</b>	<b>FY11</b>	<b>FY12f</b>	<b>FY13f</b>
Turnover	1758.1	2033.4	1671.4	1797.0	1853.2
EBITDA	295.7	282.2	119.6	209.7	231.0
PBT	205.9	180.6	14.7	92.5	108.4
Net Profit	207.3	173.8	14.6	89.3	104.6
EPS	10.1	8.5	0.7	4.4	5.1
DPS	0.0	4.7	0.0	1.7	2.0
Margin					
EBITDA (%)	16.8	13.9	7.2	11.7	12.5
PBT (%)	11.7	8.9	0.9	5.1	5.9
Net Profit (%)	11.8	8.5	0.9	5.0	5.6
ROE (%)	25.8	19.9	1.6	9.6	10.5
ROA (%)	14.2	11.8	1.1	6.2	7.4
Balance Sheet					
Fixed Assets	663.0	773.1	722.8	708.2	689.9
Current Assets	798.1	696.5	658.8	724.7	715.1
Total Assets	1461.1	1469.6	1381.6	1432.9	1404.9
Current Liabilities	652.9	507.3	483.2	409.3	318.5
Net Current Assets	145.2	189.2	175.6	315.4	396.5
LT Liabilities	5.5	89.0	11.9	89.0	89.0
Shareholders Funds	802.7	873.2	886.5	934.6	997.4
Net Gearing (%)	Net cash	24.2	14.8	6.0	Net cash

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