

**JCY International (SELL ↓, EPS ↓)**

**INDUSTRY: NEUTRAL**

**EARNINGS EVALUATION**

**23 August 2011**

**Price Target: RM0.380 (↓)**

**Share Price: RM0.47**

**9MFY11 Wiped Out By 3Q Losses**

**Results**

- JCY reported 3QFY11 net loss of RM31.9m, wiping out all profits in 1HFY11 and took 9MFY11 net loss to RM11.9m vs. HLIB and consensus net profit forecasts.

**Deviations**

- Lower than expected revenue and margins.
- Higher than expected costs of raw materials and labour.

**Dividends**

- No dividend was proposed for the quarter.

**Highlights**

- Almost everything that could go wrong at the top line when against the company with lower ASP, volume and US\$ (vs. RM exchange rate). These were compounded by higher raw material prices, inventory provision (for depreciation of US\$ and slow moving stocks as well as shortage of labour (resulting in double whammy of lower production or economies of scale and higher labour costs).
- It will continue to intensifying its efforts to improve operational efficiency and cost management to counter the headwinds.

**Risks**

- Weak consumer demand for HDDs;
- Higher raw material costs would lead to lower margins and earnings; and
- RM appreciation vs US\$ would translate to lower revenues and earnings.

**Forecasts**

- FY11-13 forecasts cut by 70-88% to reflect lower volume as well as higher costs.

**Rating**

**SELL (↓)**

- Positives:
  - Share prices of Malaysian HDD companies have plunged, probably reflecting most of the negative news.
- Negatives:
  - Still high inventory levels at HDD brand manufacturers.
  - Appreciation of RM will result in lower revenue.
  - Declining ASP.

**Valuation**

- Following the cut in earnings forecasts, target price has been cut from RM0.70 to RM0.38 based on 20% discount to the 2-year P/E average of US HDD brand manufacturers due to the company's position further down the value chain and exposure to Forex risks.

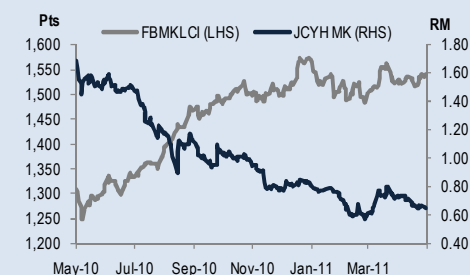
**Low Yee Huap, CFA**

**yhlow@hlib.hongleong.com.my**

**(603) 2168 1072**

KLCI	1,472.2
Expected share price return	-19.1%
Expected dividend return	0.0%
Expected total return	-19.1%

**Share Price**



**Information**

Bloomberg Ticker	JCYH MK
Bursa Code	5161
Issued Shares (m)	2,045
Market cap (RM m)	1,329.3
3-mth avg. volume ('000)	5,522.7

Price Performance	1M	3M	12M
Absolute	(11.6)	(7.8)	(61.5)
Relative	(12.9)	(8.8)	(79.4)

**Major Shareholders**

YKY Investments	74.13
Free Float	25.9

**Summary Earnings Table**

FYE 30 Sept (RMm)	2010A	2011E	2012E	2013E
Revenue	2,045	1,704	1,851	1,998
EBITDA	295	121	181	208
Pre-tax Profit	184	9	74	95
Reported Profit	176	9	74	94
Adjusted Profit	191	15	74	94
Rep. EPS sen	8.63	0.42	3.60	4.61
Adj. EPS sen	9.32	0.71	3.60	4.61
P/E (x)	5.4	112.6	13.1	10.2
Net DPS sen	4.7	0.0	1.8	2.3
Net DY (%)	9.9	0.0	3.8	4.9
P/BV (x)	1.09	1.10	1.02	0.97
EV/EBITDA (x)	4.0	9.8	6.5	5.8
Net Debt/Equity %	24.5	26.8	22.9	23.9
ROA %	12.93	0.98	4.69	5.73
ROE %	21.67	1.67	7.84	9.52

HLIB

**Figure #1: Quarterly Results**

Rm	Actual 3Q10	Actual 2Q11	Actual 3Q11	% chg yoy	% chg qoq	Comments
Revenue	480.8	397.4	395.2	-17.8%	-0.6%	YoY: Due to lower ASP, lesser volume of shipments and depreciating US\$ against RM. QoQ: Due mainly to lower ASP and weaker US\$.
EBITDA	84.9	44.1	-5.1	NM	NM	YoY: Due to: (1) Higher raw material prices; (2) Inventory provisioning arising from weaker US\$ and slow moving stocks; (3) Higher direct labour costs; and (4) Labour shortages that affected output. QoQ: Margin squeeze arising from: (1) Lower ASP; (2) Higher raw material prices; (3) weaker US\$; and (4) Inventory provisioning that.
EBITDA Margin %	17.7%	11.1%	-1.3%			
EBIT	60.0	15.2	-31.4	NM	NM	Filtered down from EBITDA.
PBT	55.9	12.5	-31.8	NM	NM	Filtered down from EBIT.
Reported PAT	55.6	12.5	-31.9	NM	NM	Filtered down from PBT.
PATAMI	55.6	12.5	-31.9	NM	NM	
Normalised PATAMI	59.3	15.8	-31.6	NM	NM	
Reported EPS (sen)	2.7	0.6	-1.6	NM	NM	
Adjusted EPS (sen)	2.9	0.8	-1.5	NM	NM	

**Figure #2: 9M11 Results Comparison**

Rm	9MFY10	9MFY11	% chg yoy	Comments
Revenue	1,558.7	1,231.5	-21.0%	Due to depreciating US\$ and lower volume sold (which, in turn was due mainly due the weak global demand for HDD).
EBITDA	277.2	74.7	-73.0%	Hit further by rising raw material (such as aluminium and stainless steel) and labour costs.
EBITDA Margin %	17.8%	6.1%	-65.9%	
EBIT	208.1	-5.5	NM	
PBT	200.0	-11.7	NM	
Reported PAT	198.9	-11.9	NM	
PATAMI	198.9	-11.9	NM	Higher costs filtered down to the bottom line.
Normalised PATAMI	206.3	-5.9	NM	
Reported EPS (sen)	9.7	-0.6	NM	
Adjusted EPS (sen)	10.1	-0.3	NM	

**Figure #3: FY11 Results vs HLIB & Consensus**

Rm	Actual 9M11	FY11 Consensus	% of FY10 Consensus	FY11 HLIB Est.	% of FY10 HLIB Est.	Comments
Revenue	1,231.5	1,856.3	66.3%	1,959.5	62.8%	
EBITDA	74.7	212.0	35.3%	228.7	32.7%	
EBITDA Margin %	6.1%	11.4%		11.7%		
EBIT	-5.5	114.9	-4.8%	126.7	-4.3%	
PBT	-11.7	71.7	-16.3%	123.2	-9.5%	
Reported PAT	-11.9	73.2	-16.2%	122.6	-9.7%	
PATAMI	-11.9	73.2	-16.2%	122.6	-9.7%	
Normalised PATAMI	-5.9	73.2	-8.1%	124.9	-4.7%	
Reported EPS (sen)	-0.6	4.7	-12.4%	6.0	-9.7%	
Adjusted EPS (sen)	-0.3	4.7	-6.2%	6.1	-4.7%	

## JCY International Berhad (TP: RM0.38, CP: RM0.47)

### Income Statement

FYE 30 Sept (RMm)	2009A	2010A	2011E	2012E	2013E
Revenue	1,758.0	2,044.6	1,704.4	1,851.0	1,997.6
COGS	-1,462.3	-1,749.5	-1,583.1	-1,669.9	-1,790.0
<b>EBITDA</b>	<b>295.7</b>	<b>295.1</b>	<b>121.3</b>	<b>181.1</b>	<b>207.6</b>
D&A	-81.9	-94.3	-106.1	-102.5	-103.3
EBIT	213.8	200.8	15.2	78.7	104.3
Net Interest Income	-7.9	-2.3	-0.5	-0.4	-0.1
Associates	0.0	0.0	0.0	0.0	0.0
Exceptionals	0.0	-14.2	-6.0	0.0	0.0
<b>PBT</b>	<b>205.9</b>	<b>184.3</b>	<b>8.8</b>	<b>78.3</b>	<b>104.3</b>
Tax	1.4	-7.9	-0.3	-0.4	-0.5
Net Profit	207.3	176.4	8.5	77.9	103.8
Minority Interests	0.0	0.0	0.0	0.0	0.0
<b>Reported Earnings</b>	<b>207.3</b>	<b>176.4</b>	<b>8.5</b>	<b>77.9</b>	<b>103.8</b>
<b>Adjusted Earnings</b>	<b>207.3</b>	<b>190.6</b>	<b>14.5</b>	<b>77.9</b>	<b>103.8</b>
Basic Shares (m)	2,044.9	2,044.9	2,044.9	2,044.9	2,044.9
Rep. EPS sen	10.1	8.6	0.4	3.8	5.1
Adj. EPS sen	10.1	9.3	0.7	3.8	5.1
Adj. FD EPS sen	10.1	9.3	0.7	3.8	5.1

### Balance Sheet

FYE 30 Sept (RMm)	2009A	2010A	2011E	2012E	2013E
Cash	238.7	124.9	107.3	180.3	195.2
Receivables	345.3	366.8	315.3	334.5	362.0
Inventories	185.3	209.4	236.8	242.3	263.3
Investments	0.0	0.0	0.0	0.0	0.0
Fixed Assets	643.4	754.4	807.1	797.2	813.8
Intangibles	0.0	0.0	0.0	0.0	0.0
Other Assets	19.6	19.3	19.0	19.0	19.0
<b>Ttl Assets</b>	<b>1,432.3</b>	<b>1,474.8</b>	<b>1,485.5</b>	<b>1,573.2</b>	<b>1,653.2</b>
Payables	0.0	241.3	262.7	278.7	301.6
Short Term Debt	0.0	262.9	262.9	262.9	262.9
Long Term Debt	0.0	77.1	77.1	77.1	77.1
Other Liabilities	658.4	13.9	12.5	12.5	12.5
<b>Ttl Liab</b>	<b>658.4</b>	<b>595.3</b>	<b>615.2</b>	<b>631.3</b>	<b>654.2</b>
Shareholders' Funds	802.7	879.6	870.2	942.0	999.0
Minority Interests	0.0	0.0	0.0	0.0	0.0
Total S/H Equity	802.7	879.6	870.2	942.0	999.0
<b>Ttl Liab&amp;S/H Funds</b>	<b>1,461.1</b>	<b>1,474.8</b>	<b>1,485.5</b>	<b>1,573.2</b>	<b>1,653.2</b>

### Cashflow Analysis

FYE 30 Sept (RMm)	2009A	2010A	2011E	2012E	2013E
EBITDA	295.7	295.1	121.3	181.1	207.6
Net Interest	-7.9	-2.3	-0.5	-0.4	-0.1
Tax Paid	-0.2	-7.0	-0.5	-0.4	-0.5
Working Capital Chgs	-8.0	195.8	45.4	-8.6	-25.6
Other	-4.6	-468.7	-13.3	0.0	0.0
<b>Operating CF</b>	<b>275.0</b>	<b>12.9</b>	<b>152.5</b>	<b>171.7</b>	<b>181.5</b>
<b>FCF</b>	<b>133.6</b>	<b>-212.8</b>	<b>76.5</b>	<b>79.2</b>	<b>61.6</b>
CAPEX	-141.4	-225.8	-76.0	-92.5	-119.9
Asset Sales	4.3	29.0	0.0	0.0	0.0
Acquisitions	0.0	0.0	0.0	0.0	0.0
Other	-3.4	1.7	0.6	0.0	0.0
<b>Investing CF</b>	<b>-140.6</b>	<b>-195.1</b>	<b>-75.4</b>	<b>-92.5</b>	<b>-119.9</b>
Dividends	-60.0	-80.0	-15.3	-6.2	-46.7
Debt Chgs	0.0	154.0	25.3	0.0	0.0
Other	18.7	0.0	-109.9	0.0	0.0
<b>Financing CF</b>	<b>-41.3</b>	<b>74.0</b>	<b>-99.9</b>	<b>-6.2</b>	<b>-46.7</b>
<b>Net Cashflow</b>	<b>93.2</b>	<b>-108.1</b>	<b>-22.8</b>	<b>73.0</b>	<b>14.9</b>

### Quarterly Financial Summary

FYE 30 Sept (RMm)	3Q10	4Q10	1Q11	2Q11	3Q11
Revenue	480.79	485.97	438.90	397.43	395.17
COGS	-395.90	-468.00	-403.17	-353.35	-400.24
<b>EBITDA</b>	<b>84.89</b>	<b>17.98</b>	<b>35.73</b>	<b>44.08</b>	<b>-5.07</b>
D&A	-24.89	-25.21	-25.11	-28.85	-26.29
EBIT	60.01	-7.24	10.62	15.23	-31.36
Net Interest Income	-0.40	-1.52	-0.72	0.67	-0.18
Associates	0.00	0.00	0.00	0.00	0.00
Exceptionals	-3.66	-6.91	-2.35	-3.38	-0.25
<b>PBT</b>	<b>55.95</b>	<b>-15.67</b>	<b>7.56</b>	<b>12.52</b>	<b>-31.79</b>
Tax	-0.35	-6.88	-0.04	-0.06	-0.06
Net Profit	55.60	-22.56	7.51	12.46	-31.86
Minority Interests	0.00	0.00	0.00	0.00	0.00
<b>Reported Earnings</b>	<b>55.60</b>	<b>-22.56</b>	<b>7.51</b>	<b>12.46</b>	<b>-31.86</b>
<b>Adjusted Earnings</b>	<b>59.26</b>	<b>-15.64</b>	<b>9.86</b>	<b>15.84</b>	<b>-31.61</b>
Basic Shares (m)	2,044.9	2,044.9	2,044.9	2,044.9	2,044.9
Rep. EPS sen	2.72	-1.10	0.37	0.61	-1.56
Adj. EPS sen	2.90	-0.76	0.48	0.77	-1.55
Adj. FD EPS sen	2.90	-0.76	0.48	0.77	-1.55

### Valuation Ratios

FYE 30 Sept (RMm)	2009A	2010A	2011E	2012E	2013E
PER (x)	4.6	5.4	112.6	12.3	9.3
Adj. PER (x)	4.6	5.0	66.2	12.3	9.3
FD PER (x)	4.6	5.0	66.2	12.3	9.3
Gross DPS sen	0.0	4.7	0.0	1.9	2.5
Gross DY (%)	0.0	9.9	0.0	4.1	5.4
Book/share sen	39.25	43.01	42.56	46.06	48.86
P/Book (x)	1.20	1.09	1.10	1.02	0.96
FCF/share sen	6.5	-10.4	3.7	3.9	3.0
FCF yield (%)	13.9	-22.1	8.0	8.2	6.4
Mkt Cap	961	961	961	961	961
Net Cash/(Debt)	239	-215	-233	-160	-145
EV	722	1,176	1,194	1,121	1,106
EV/EBITDA (x)	2.4	4.0	9.8	6.2	5.3
ROE (%)	25.8	21.7	1.7	8.3	10.4
Current Ratio (x)	1.2	1.4	1.3	1.4	1.5
Quick Ratio (x)	0.9	1.0	0.8	0.9	1.0
Interest Cover (x)	N/A	26.1	2.5	8.3	11.0

### Other Ratios

FYE 30 Sept (RMm)	2009A	2010A	2011E	2012E	2013E
Sales Growth (%)	-4.2	16.3	-16.6	8.6	7.9
EBITDA Growth (%)	4.0	-0.2	-58.9	49.3	14.6
EBIT Growth (%)	0.0	-6.1	-92.4	416.3	32.6
PBT Growth (%)	-1.9	-10.5	-95.2	788.7	33.2
Net Profit Growth (%)	2.2	-14.9	-95.2	812.4	33.2
EBITDA Margin (%)	16.8	14.4	7.1	9.8	10.4
EBIT Margin (%)	12.2	9.8	0.9	4.3	5.2
PBT Margin (%)	11.7	9.0	0.5	4.2	5.2
Net Profit Margin (%)	11.8	8.6	0.5	4.2	5.2
Net Debt/Equity (%)	NetCash	24.5	26.8	17.0	14.5
CAPEX/Sales (%)	8.0	11.0	4.5	5.0	6.0

## Disclaimer

The information contained in this report is based on data obtained from sources believed to be reliable. However, the data and/or sources have not been independently verified and as such, no representation, express or implied, is made as to the accuracy, adequacy, completeness or reliability of the info or opinions in the report.

Accordingly, neither Hong Leong Investment Bank Berhad nor any of its related companies and associates nor person connected to it accept any liability whatsoever for any direct, indirect or consequential losses (including loss of profits) or damages that may arise from the use or reliance on the info or opinions in this publication.

Any information, opinions or recommendations contained herein are subject to change at any time without prior notice. Hong Leong Investment Bank Berhad has no obligation to update its opinion or the information in this report.

Investors are advised to make their own independent evaluation of the info contained in this report and seek independent financial, legal or other advice regarding the appropriateness of investing in any securities or the investment strategies discussed or recommended in this report. Nothing in this report constitutes investment, legal, accounting or tax advice or a representation that any investment or strategy is suitable or appropriate to your individual circumstances or otherwise represent a personal recommendation to you.

Under no circumstances should this report be considered as an offer to sell or a solicitation of any offer to buy any securities referred to herein.

Hong Leong Investment Bank Berhad and its related companies, their associates, directors, connected parties and/or employees may, from time to time, own, have positions or be materially interested in any securities mentioned herein or any securities related thereto, and may further act as market maker or have assumed underwriting commitment or deal with such securities and provide advisory, investment or other services for or do business with any companies or entities mentioned in this report. In reviewing the report, investors should be aware that any or all of the foregoing among other things, may give rise to real or potential conflict of interests.

This research report is being supplied to you on a strictly confidential basis solely for your information and is made strictly on the basis that it will remain confidential. All materials presented in this report, unless specifically indicated otherwise, is under copyright to Hong Leong Investment Bank Berhad. This research report and its contents may not be reproduced, stored in a retrieval system, redistributed, transmitted or passed on, directly or indirectly, to any person or published in whole or in part, or altered in any way, for any purpose.

This report may provide the addresses of, or contain hyperlinks to, websites. Hong Leong Investment Bank Berhad takes no responsibility for the content contained therein. Such addresses or hyperlinks (including addresses or hyperlinks to Hong Leong Investment Bank Berhad own website material) are provided solely for your convenience. The information and the content of the linked site do not in any way form part of this report. Accessing such website or following such link through the report or Hong Leong Investment Bank Berhad website shall be at your own risk.

1. As of 23 August 2011, Hong Leong Investment Bank Berhad has proprietary interest in the following securities covered in this report:

(a) -.

2. As of 23 August 2011, the analyst, Low Yee Huap who prepared this report, has interest in the following securities covered in this report:

(a) -.

Published & Printed by  
**Hong Leong Investment Bank Berhad (43526-P)**  
 Level 8, Menara HLA  
 No. 3, Jalan Kia Peng  
 50450 Kuala Lumpur  
 Tel 603 2168 1168 / 603 2710 1168  
 Fax 603 2161 3880

## Equity rating definitions

<b>BUY</b>	Positive recommendation of stock under coverage. Expected absolute return of more than +10% over 12-months, with low risk of sustained downside.
<b>TRADING BUY</b>	Positive recommendation of stock not under coverage. Expected absolute return of more than +10% over 6-months. Situational or arbitrage trading opportunity.
<b>HOLD</b>	Neutral recommendation of stock under coverage. Expected absolute return between -10% and +10% over 12-months, with low risk of sustained downside.
<b>TRADING SELL</b>	Negative recommendation of stock not under coverage. Expected absolute return of less than -10% over 6-months. Situational or arbitrage trading opportunity.
<b>SELL</b>	Negative recommendation of stock under coverage. High risk of negative absolute return of more than -10% over 12-months.
<b>NOT RATED</b>	No research coverage, and report is intended purely for informational purposes.

## Industry rating definitions

<b>OVERWEIGHT</b>	The sector, based on weighted market capitalization, is expected to have absolute return of more than +5% over 12-months.
<b>NEUTRAL</b>	The sector, based on weighted market capitalization, is expected to have absolute return between -5% and +5% over 12-months.
<b>UNDERWEIGHT</b>	The sector, based on weighted market capitalization, is expected to have absolute return of less than -5% over 12-months.