

# JCY International

(RM2.00 JCYH MK)

**Non-rated**

## Valuations not compelling

## TECHNOLOGY

- We believe upside is limited**

JCY's IPO involves an offering of 530.2m existing shares in total, comprising 470.3m to institutions at a price to be determined via bookbuilding and 59.9m shares to retail investors at RM2.00. The final retail price will be the lower of RM2.00 or 95% of the institutional price. At the retail price of RM2.00, we believe JCY's valuations are not compelling, suggesting limited upside.

At RM2.00 per share, JCY's IPO valuation look very expensive at a historical PE multiple of 19.7x. In contrast, a smaller comparable peer, Notion VTEC (Notion) is trading at a historical PE multiple of only 11.8x.

Looking into FY10, JCY's prospective PE multiple does not look cheap at 12x even if we assume the group can sustain its encouraging performance so far for 2MFY10. As no profit forecasts was provided in the prospectus, we have annualised FY10 figures to derive FY10 EPS of 16.6 sen, but we urge caution as technology companies experience seasonally strong numbers in the Oct-Dec quarter. Hence, annualising 2MFY10 figures may not be reflective of JCY's FY10 performance.

Despite the strong prospective FY10 EPS growth of 64% based on annualised figures, JCY's valuation is still not very compelling at a relatively fair PE multiple of 12x. In contrast, assuming Notion achieves its profit guidance for FY10, we estimate Notion's FY10 PE multiple will be 32% cheaper at only 8.2x.

While JCY's RM4.09bn market cap dwarfs that of Notion's RM465m, we think it is difficult to justify JCY's premium valuations. Besides that, JCY's FY10 PEG is merely on par with Notion's at 0.2x.

JCY plans to adopt a progressive dividend policy of up to 50% of PAT. Based on annualised FY10 figures, dividend yields may go as high as 4.2% assuming the maximum 50% payout. However, as JCY has highlighted it will adopt a progressive dividend policy, we conservatively assume that JCY may pay out 20% of its FY10 earnings as dividends, implying FY10 DPS of 2.2 sen or dividend yields of 1.7%.

### Key Data

Market Cap (RM m)	4,090
Issued Shares (m)	2,045

### Major Shareholders

	%
Yong Yoon Kiong	67.5

### Balance Sheet Highlights (RM m)

(@ 30.09.2009) (performance indicator's annualised)

Total Assets	1,461
Total Liabilities	658
Total Debt (Gross)	186
Shareholders' Equity	803

Return on Assets (%)	14.2
Return on Equity (%)	25.8
Net Cash / Share (RM)	0.03

Debt/Equity (x)	0.2
Interest Cover (x)	28.8

### Lim Tee Yang, CFA

tylim@ecmlibra.com  
+603 2178 1202

FYE 30 Sep RM m	2007	2008	2009	2M10
Revenue	1,657.8	1,843.9	1,758.0	356.8
EBITDA	238.4	284.4	295.7	71.5
Net profit	173.9	202.8	207.3	56.6
EPS (sen)	8.5	9.9	10.1	2.8
EPS growth (%)	NA	16.6	2.2	n/a
P/E (x)	23.5	20.2	19.7	n/a
DPS (sen)	-	-	-	-
Dividend yield (%)	-	-	-	-
BVPS (RM)	0.39	0.40	0.39	0.42
P/BV (x)	5.1	5.0	5.1	4.8

Source: Prospectus

## Investment Positives

JCY stands to benefit from growth in the hard disk drive (HDD) market by virtue of its established relationships with two key customers, Western Digital (WD) and Seagate which held a combined market share of 58.3% in unit shipments for 2008. Seagate was the leading HDD supplier with a market share of 31.5%, followed by WD at 26.8%.

**HDD market to grow at CAGR of 11.6% from CY09-12**

JCY is targeting to add another 472,500 sq ft of factory space in 1H10 upon establishing new manufacturing facilities mainly in China to boost total factory space to 1,628,875 sq ft. JCY's total factory space stood at 1,156,375 sq ft as at 30 Sep 2009 with manufacturing facilities located in Johor, Penang and Malacca in Malaysia, and in Saraburi, Thailand.

**Boosting factory space by 41% to cater for growth**

JCY is expected to pay very minimal tax until Mar 2016 thanks to full income tax exemption by MIDA, as the bulk of revenue is derived from Malaysia. Also, its Thai subsidiary has secured income tax exemptions. Besides that, its Chinese subsidiary enjoys a tax-free benefit until Dec 2012, and a 50% tax deduction for the next three years thereafter.

**Bulk of earnings are tax free until 2016**

## Investment Risks

JCY is exposed to concentration risk as all of its revenue is directly or indirectly derived from WD and Seagate. Consequently, JCY's performance is highly dependent on the performance of its key customers. We note however that JCY is currently in qualification with 2 new customers, Samsung and Hitachi which when secured will help diversify JCY's future revenue.

**Revenue entirely dependent on key customers**

Earnings visibility is quite short as customers typically provide advance guidance of their requirements only for the next quarter. Actual quantity sold may vary depending on the actual purchase order.

**Short earnings visibility**

JCY faces risks to operating margins due to fluctuating costs of raw materials, in particular stainless steel and aluminium. Due to the large bargaining power of its key customers, we believe JCY faces high difficulty in passing on increased costs via the pricing of its products.

**Exposed to fluctuating costs of raw materials**

## Background

JCY International Bhd (JCY) was incorporated as JCY International Sdn Bhd in Malaysia on 21 October 2005 and converted into a public company on 25 January 2006. JCY is one of the largest global precision engineering manufacturers of HDD mechanical components for base plates, top cover assembly, actuator pivot flex assembly (APFA) and antidisks. JCY jointly develops these components with and manufacture them for its customers, which then assemble these components into completed HDDs, primarily 3.5 inch and 2.5 inch HDDs.

**JCY is one of the largest global HDD components manufacturers**

**Figure 1 : Summary of production facilities as at 30 Sep 2009**

Location	Plant	Components Manufactured / Process	Gross Factory Floor Area (sq ft)
Malaysia:			
Johor	Tebrau	Base plates, top cover, actuators	667,312
	Pasir Gudang	Plating	30,699
	Kulai	Base plates, actuators	92,368
Malacca	Jasin	Base plates	64,036
Penang	Prai 1 & 2	Actuators	126,600
Thailand	Saraburi P1 & P2	Base plates	96,783
China	Suzhou P1	Machining	78,577
<b>Total</b>			<b>1,156,375</b>

Source: Prospectus

**Figure 2 : Summary of production facilities to be completed in 1H10**

Location	Plant	Components Manufactured / Process	Gross Factory Floor Area (sq ft)
Malaysia: Penang	Prai	Actuator assembly	100,200
China	Suzhou	Actuators (machining)	215,500
	Guangzhou	Actuators (machining)	156,700
<b>Total</b>			<b>472,500</b>

Source: Prospectus

**Figure 3 : Indicative timetable of IPO**

Events	Date
Opening of the Institutional Offering	27 Jan 2010
Opening of the Retail Offering	1 Feb 2010
Closing of the Retail Offering	8 Feb 2010
Closing of the Institutional Offering	10 Feb 2010
Price determination date	10 Feb 2010
Balloting of applications for the offer shares offered under the Retail Offering	11 Feb 2010
Transfer of offer shares to successful applicants	24 Feb 2010
Listing	25 Feb 2010

Source: Prospectus

**Key to stock recommendations:**

- Buy** = Share price is expected to appreciate by >10% over the next 12 months
- Hold** = Share price is expected to move by less than +/-10% over the next 12 months
- Sell** = Share price is expected to decline by >10% over the next 12 months

**Key to sector recommendations:**

- Overweight** = Industry expected to outperform the market over the next 12 months
- Neutral** = Industry expected to perform in-line with the market over the next 12 months
- Underweight** = Industry expected to underperform the market over the next 12 months

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Published & printed by:

**ECM Libra Capital Sdn Bhd (579116-A)**

8A Floor, Wisma Genting  
 Jalan Sultan Ismail  
 50250 Kuala Lumpur  
 Tel: (603) 2178 1888  
 Fax: (603) 2161 8818

For ECM Libra Capital Sdn Bhd (579116-A) (PP 13693/04/2010(023879))